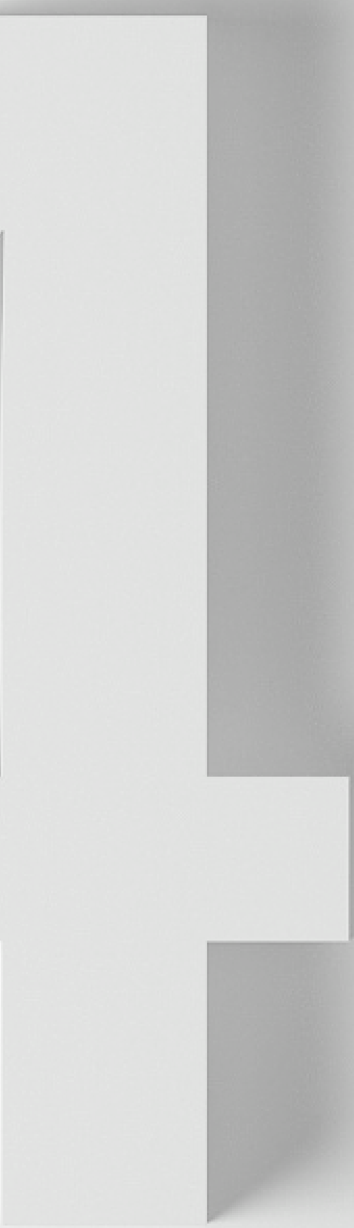
bancoctt

Annual
Report
2020

Highlighted Values



4 years raising our values

4 years is more than a milestone. It is a period of time grounded in transparency and innovation. A consistent path designed with simplicity and based on core values. These are the beliefs that give expression to our results. Numbers that define our story of delivery and daily commitment, raising to the expectations of our clients, partners and shareholders, who place in Banco CTT their greatest value. Trust.

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: € 296,400,000.00
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bancoctt.pt
(hereinafter "Bank", "Banco CTT" or "Company")

Table of Contents

João
Moreira Rato

Chairman of the Board
of Directors

Chairman's Statement

On 13 September 2019, the Board of Directors of Banco CTT, which I have the honour of chairing, was sworn in. In these fifteen months we have witnessed a deepening of the relationship between its members and an increase in efficiency in the way it operates.

This Board of Directors, which is distinguished by its independence, is a vigilant Board and has approached its role with a critical but always constructive spirit.

We have been monitoring the implementation of the strategic plan approved for the three-year period 2020-22 and we welcome the fact that the Bank has reached break even in 2020. The integration of 321 Crédito within Banco CTT also merited, as in the previous year, special attention from this Board. The year 2020 was the first full year of this integration, which is pursuing its path with great success. Last year, the Bank continued to accumulate customers at a good pace, having closed 2020 with around 560,000 accounts, 60,000 more than the previous year. Deposits from customer increased by more than 30%.

These accomplishments were achieved under difficult and unexpected circumstances. The spread since January of the Covid-19 virus outside China, with the first confirmed case in Thailand, having been elevated to pandemic status by the WHO on 11 March, caused an unprecedented interruption of much of Portuguese economic activity. It was in March that the authorities declared the first compulsory confinement in Portugal.

In this context, the Board of Directors closely monitored the establishment and subsequent accumulation of public and private credit moratoria, the latter covering motor vehicle credit in particular. Credit risk assessment, both in and out of moratoria, has therefore received increased attention from the Board.

The Board of Directors has also monitored the transition to a situation where a large part of the Bank's activities are now conducted remotely. We would therefore like to take this opportunity to thank the Executive Committee and all the Bank's teams for their efforts in adapting the Bank to the new circumstances so that it can continue to serve its customers, while always maintaining a concern for the safety of its employees.

In 2020, the composition of the Executive Committee was also altered with the appointment of a Chief Risk Officer, taking over the purviews of the Risk, Compliance and Data Protection Departments. The appointment of Mr. Luís Paúl, a very competent and experienced professional, endowed Banco CTT with a strong leadership in these crucial areas. There was also a change of leadership in the Compliance Department, which the Board has followed closely.

The Board of Directors continued to follow with due care the implementation of Banco CTT's risk control system and the Bank's internal policies.

The Board of Directors enters this new phase, in which the bank crosses the break even threshold, fully committed, underlining its full confidence in the Executive Committee's execution capacity, as well as in that of all Banco CTT Group employees, in continuing to boost the bank's growth, whether by attracting new clients, launching new products or developing new business areas in the context of well-defined strategic objectives.

João Moreira Rato
Chairman of the Board of Directors

15 March 2021

Luís
Pereira Coutinho

Chairman of the Executive Committee

CEO's Statement

A year without precedence

The year 2020 was a year without precedence in our lives. The global pandemic has brought fundamental changes to the functioning of institutions and to people's daily lives.

It is in this context that we are proud of the role played by Banco CTT, organising itself in the face of circumstances, always remaining available for customers, making service channels, in person and remote, available at all times, even during the most austere peaks of the health crisis.

To this commitment, and before completing 5 years of life, we also add a historic milestone achieved in 2020: **the first full year of break even in net income**.

Banco CTT thus enters a new era. We are now a driver of value creation for the CTT Group and for the ecosystem in which we operate.

Sustained results in all business areas

Banco CTT organises its business model in 3 areas: (i) retail banking, (ii) specialised credit, under the 321 Crédito brand and (iii) payments, under the Payshop brand.

All business areas evolved in a sustained manner in 2020.

In retail banking we focused on deepening the relationships established, increasing the penetration of credit and savings products, seeking to be, more and more, the "main bank" of our customers.

We are particularly proud to highlight the fact that we remain at the top of customer preferences, with recommendation rates on a par with the best practices in the sector.

We believe that this dynamic will allow us to generate additional value from a customer base that continues to grow, maintaining the "value proposition" based on simple products and accessible pricing.

Still in retail, we took our first steps in the business segment, entering products associated with treasury management - factoring and bond insurance - in partnership with benchmark institutions in the segment. We believe in this new platform and its synergistic value with existing assets.

In specialised credit, 321 Crédito achieved a production share corresponding to 11% of the domestic market, reinforcing its presence in a segment which combines significant yields with moderate risk costs.

With a new technological platform and a rejuvenated sales team, we believe we can further expand our presence.

In payments, Payshop showed resilience in a context with a significant impact on its core business and on the operation of its network, which despite the constraints grew in line with the objectives, having reached 5,000 agents. In 2020, we maintained our commitment to our partners, strengthening communication and introducing payments for new services.

Financial solidity and credit quality

Banco CTT was born from a legacy based on CTT's assets, namely its brand and retail network, but with an agility and transparency only possible for those "starting from scratch".

With conservative credit policies and in-depth customer knowledge, we believe we are especially well prepared for possible adverse contexts arising from the pandemic.

True to its principles, Banco CTT, in its various business areas, has monitored its customers' credit capacity, fully complying with the rules of public moratoria. This is how we have, at the end of 2020, only 4% of the loan portfolio in moratorium, a figure around 4 times lower than the average for the system.

In addition to the care taken in monitoring customers, particularly those who have adhered to moratoria on their loans, we have also used appropriate prudence in setting aside provisions, with coverage adjusted to the overdue loans in each segment.

A future far beyond break even

Banco CTT's future is focused on the profitability of the created franchise.

In retail, we will continue to deepen acquired relationships, penetrating additional products and extracting value. We will place increased importance on products with low capital requirements, notably off-balance sheet savings and insurance placement. In this way, we want to continue to grow revenue substantially.

Also in retail, we will accelerate in the consumer finance segment, with an expanded digital presence, based on simple and fast processes for those who are already our customers.

At 321 Crédito, we also believe that we will continue to grow at a faster pace than the market. Now based on a latest generation core system, with agile credit workflows, closer to our partners.

Finally, ***at Payshop***, we are close to launching a new transactional system, which will enable the complete transformation of the business. We will provide an integrated payments service to institutional customers, reinforcing the services and means of payment available through our network of agents.

In summary, the coming years promise continued but balanced growth and a renewed capacity to cope with a predictably challenging context.

I conclude with a very special thanks, in this year of pandemic, to the work and dedication of all Banco CTT Group employees. I also extend my gratitude to our CTT shareholder, the Corporate Bodies, to all our partners, credit intermediaries, Payshop agents, 321 Crédito partners and all other service providers. You are all part of Banco CTT.

I would also like to leave a word of acknowledgement to the Supervision Authorities, in particular to Banco de Portugal which has overseen the Bank's development very closely and rigorously.

The year 2020 was a difficult and peculiar year. Banco CTT proved that it is capable.

Luís Pereira Coutinho
Chairman of the Executive Committee

15 March 2021

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Annual
Report
2020

Management Report

Management Report

INFORMATION ON THE BANCO CTT GROUP

With proximity
and simplicity,
Banco CTT raised
its community trust.

1.1 Banco CTT Group

History

2013	August	On 5 August 2013, CTT submitted request to Banco de Portugal to grant a concession for creation of the postal bank.
	November	On 27 November 2013, Banco de Portugal issued authorisation for the creation of the postal bank.
2015	February	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	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	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.
2016	March	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	Share capital increase of 26 million euros, to 60 million euros.
	July	Banco CTT opened its one hundredth branch on 22 July.
	October	Share capital increase of 25 million euros, to 85 million euros.
	December	Banco CTT achieves a presence of 202 branches.
2017	January	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	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.
2018	January	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	Share capital increase of 25 million euros, to 156.4 million euros.
	July	Banco CTT agreed to purchase 321 Crédito, a specialised consumer credit institution (used motor vehicles in the retail market), which has expanded the business portfolio of Banco CTT.
	October	Introduction of off-balance sheet saving products with the launch of the offer of PPR (Retirement Savings Plans).
2019	April	Share capital increase of 110 million euros, to 266.4 million euros.
	May	On 2 May, Banco CTT completed the acquisition of the entirety of the share capital of 321 Crédito, a company granting loans for used motor vehicles to individuals. Banco CTT reached 1,000 million euros of customer deposits.
	December	Share capital increase of 20 million euros, to 286.4 million euros.
2020	September	Banco CTT enters the Business and Companies segment. Banco CTT created a simple, transparent and competitive commercial offer geared to the needs of SMEs and micro-enterprises, thus announcing its entry into a new Business and Companies segment. In this start-up phase, this new business area of Banco CTT will be supported by a complete offer of factoring solutions, to be later gradually and progressively extended to other products and services. For the implementation of this offer, Banco CTT entered into a partnership agreement with BNP Paribas Factor (a company of the BNP Paribas group).
	December	Banco CTT achieves break even, with a consolidated net income of 233,326 euros.

Corporate Governance

Banco CTT endorses the Anglo-Saxon governance model, with the members of its corporate bodies in office on the present date having been appointed at the General Meeting for the term of office corresponding to the three-year period 2019-2021.

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 is also a Selection and Salary Committee, elected by the General Meeting, with powers related to the selection and assessment of the adequacy of the members of the corporate bodies and holders of key positions, pursuant to the policy on selection and assessment of the adequacy of the members of the management and supervisory bodies and the holders of key positions (available on the Bank's website at www.bancoctt.pt) and with powers to establish the remuneration of the members of the Board of the General Meeting, the Board of Directors, the Audit Committee and the Statutory Auditor.

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

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

Thus, the Bank's Board of Directors, in office as at 31 December 2020, was composed of 12 Directors, with 7 Non-Executive Directors (including the Chairman of The Board of Directors and 3 independent Members) and 5 Executive Directors (including the Chairman of the Executive Committee), having the following management organisation:

Board of Directors

João de Almada Moreira Rato
Luís Maria França de Castro Pereira Coutinho
João Maria de Magalhães Barros de Mello Franco
Pedro Rui Fontela Coimbra
Nuno Carlos Dias dos Santos Fórneas
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
João Manuel de Matos Loureiro
Susana Maria Morgado Gomez Smith
Luís Jorge de Sousa Uva Patrício Paúl

Executive Committee

CEO
Luís Pereira Coutinho

CFO
Pedro Coimbra

CCO
João Mello Franco

CIO
Nuno Fórneas

CRO
Luís Paúl

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

Since it is part of the CTT Group and because CTT– Correios de Portugal, S.A. ("CTT"), as an issuer of shared admitted to trading on regulated markets, has adopted a significant series of recommendations in the Corporate Governance Code issued by the Portuguese 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 and Internal Committees [1]

Board of the General Meeting

Chairman:
Rui Afonso Galvão Mexia de Almeida Fernandes

Board of Directors

Chairman:
João de Almada Moreira Rato

Members:
Luís Maria França de Castro Pereira Coutinho
João Maria de Magalhães Barros de Mello Franco
Pedro Rui Fontela Coimbra
Nuno Carlos Dias dos Santos Fórneas
Luís Jorge de Sousa Uva Patrício Paúl
João Manuel de Matos Loureiro
Clementina Maria Dâmaso de Jesus Silva Barroso
Susana Maria Morgado Gomez Smith
António Pedro Ferreira Vaz da Silva
Guy Patrick Guimarães de Goyri Pacheco
António Emídio Pessoa Corrêa d'Oliveira

Executive Committee

Chairman:
Luís Maria França de Castro Pereira Coutinho (CEO)

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

Audit Committee

Chairman:
João Manuel de Matos Loureiro

Members:
Clementina Maria Dâmaso de Jesus Silva Barroso
Susana Maria Morgado Gomez Smith

Selection and Salary Committee

Chairman:
Raúl Catarino Galamba de Oliveira

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

Remuneration Committee

Chairman:
João de Almada Moreira Rato

Members:
Clementina Maria Dâmaso de Jesus Silva Barroso
Susana Maria Morgado Gomez Smith

Statutory Auditor [2]

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

Alternate Statutory Auditor:
Maria Cristina Santos Ferreira

Company Secretary

Permanent:
Catarina Morais Bastos Gonçalves de Oliveira

Alternate:
Maria Filipa Rebelo Pereira de Matos Alves Torgo

[1] The members of the corporate bodies and internal committees in office on the present date and as at 31 December 2020 are indicated herein.
[2] After the end of the 2020 financial year, he took office as **STATUTORY AUDITOR** for the term of office 2021-2023
Statutory Auditor (ROC): Ernst & Young Audit & Associados - SROC, S.A., represented by Sílvia Maria Teixeira da Silva
Alternate Statutory Auditor: Ana Rosa Ribeiro Salcedas Montes Pinto.

Nuno Fórneas
CIO

Pedro Coimbra
CFO

Luís Pereira Coutinho
CEO

João Mello Franco
CCO

Luís Paúl
CRO

Brief Summary of the Year and Main Highlights

The year 2020 will be indelibly marked as the year of the Covid-19 outbreak. Classified as a pandemic by the World Health Organisation on 11 March 2020, this outbreak, caused by the new SARS-CoV-2 coronavirus, has severely impacted the world economy and radically changed the way we relate to each other, both in a family and social context, as well as in a professional context.

Banco CTT, through its corporate bodies and employees, showed a remarkable capacity to respond and adapt to the new context, always focused on two main objectives:

- The **protection of the health of employees** and their families, through the implementation of additional protection measures, and in the adoption of remote work in central services;
- The **continuity, without any disruption of essential financial services**, through:
    - the provision of banking services through the **212 Banco CTT branches**, as well as remote channels, which allowed us to continue to meet our customers' needs;
    - the provision of payment services through the **network of Payshop agents**; and
    - the relationship of collaboration and partnership with **321 Crédito credit intermediaries**, which allowed them, within the existing constraints, to continue doing business.

Through the Portuguese Banking Association (APB), Banco CTT participated in the purchase of 100 ventilators for the National Health Service.

For Banco CTT in particular, 2020 was also a historical year. Despite the difficulties imposed by the whole pandemic context, **Banco CTT fulfilled the objective it had set itself at the start of the year: "achieving the first year of positive net income"**.

Thus, Banco CTT posted a positive consolidated net income for the first time of 233,326 euros, which compares with a negative net income of 8,011,087 euros in 2019.

The evolution in the Bank's results is particularly remarkable when achieved in this rather adverse context and was achieved fundamentally through strict cost controls which managed to absorb the impacts on the revenue side and in the reinforcement of impairments. Cost-to-income decreased from 114% in 2019 to 84% in 2020.

In addition to affecting the profit and loss account, the effects of the pandemic were also reflected in the evolution of the Bank's balance sheet. At the same time that measures restricting the mobility of persons limited the capacity to originate credit, the economic and social context contributed to a reduction in household consumption, which resulted in an increase in household savings. This, together with the growth in the customer base, contributed to the increase in customer deposits by 405 million euros, while the loan portfolio (net) increased by 207 million euros, with the loan-to-deposit ratio falling from 69% in 2019 to 65% in 2020.

On 22 June 2020, Luís Jorge de Sousa Uva Patrício Paúl joined the Board of Directors and the Executive Committee as Chief Risk Officer.

Also on 30 July 2020, Ernst & Young Audit & Associados - SROC, S.A., Audit Company No. 178, represented by Sílvia Maria Teixeira da Silva, Statutory Auditor No. 1636, and Ana Rosa Ribeiro Salcedas Montes Pinto, Statutory Auditor No. 1230, as the Bank's Deputy Statutory Auditor, was elected for the new mandate corresponding to 2021-2023 (resolution which took effect on 1 January 2021) as the Bank's Statutory Auditor.

The election of the Statutory Auditor for the new term of office was preceded by a selection process, initiated in 2019, by the Audit Committee and detailed in the Corporate Governance Report. The quality of the proposals received was analysed and assessed and, as a result, the corresponding proposal was submitted to the sole shareholder, under its powers.

March 2020

Intensification of tests aimed at the widespread adoption of teleworking.

On 11 March, the World Health Organisation classified the outbreak caused by the new SARS-CoV-2 coronavirus as a pandemic.

On 15 March the Executive Committee activated the Business Continuity Plan and teleworking was adopted for all functions.

On 18 March, the President of the Republic declared a state of emergency in Portugal due to the exceptional public health situation worldwide and the proliferation of reported cases of Covid-19 infection.

The Government decrees teleworking as compulsory - when the functions in question allow it - as from 22 March.

June 2020

Banco CTT was considered the No. 1 Bank in Customer Satisfaction, with a score of 8.01 (on a scale of 1 to 10), and of the nine dimensions assessed by ECSI (image, Customer expectation, perceived quality, perceived value, satisfaction, complaints, trust, loyalty and digital presence) we lead in almost all, with a score of 8.19 and 8.11 respectively for the indicators considered a priority - Image and Perceived Quality.

Best ever month in terms of taking of deposits (+63 million euros); customer deposits reached 1.5 billion euros.

Luís Jorge de Sousa Uva Patrício Paúl joined the Board of Directors and the Executive Committee as Chief Risk Officer.

Election of Ernst & Young Audit & Associados - SROC, S.A. as the Group's Statutory Auditor for the three-year period 2021-2023.

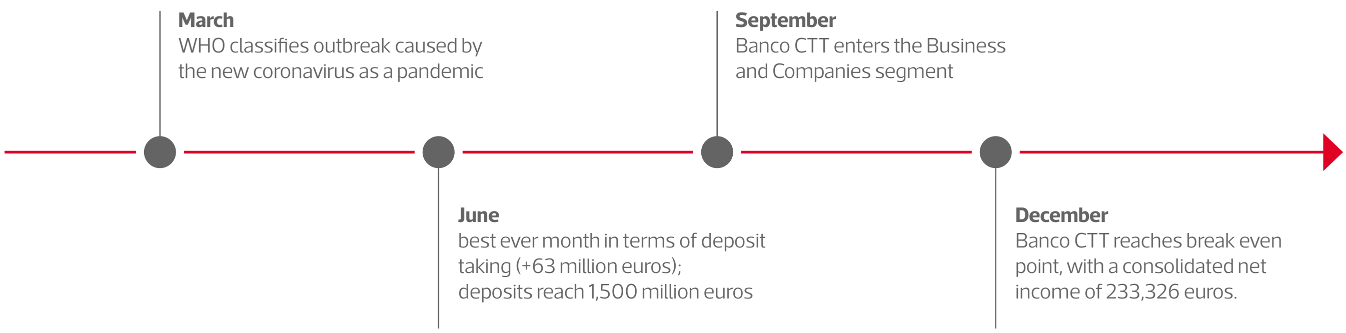
September 2020

Banco CTT enters the Business and Companies segment.

In this start-up phase, this new business area of Banco CTT will be supported by a complete offer of factoring solutions through a partnership agreement with BNP Paribas Factor (a company of the BNP Paribas Group).

December 2020

Banco CTT achieves break even, with a consolidated net income of 233,326 euros.



1.2 Awards and Recognitions

Throughout 2020, Banco CTT received the distinction and recognition of the excellence of its products and services awarded by different independent and renowned entities. Awards that make us very proud, due to the repeated preference and trust of the Portuguese in the proposal presented by Banco CTT.

ECSI Award 2020

Banco CTT was once again distinguished as the No. 1 Bank in Customer Satisfaction by the ECSI Portugal Award (National Customer Satisfaction Index) in the Banking sector.

This award is the result of an internationally recognised study conducted in Portugal by Universidade Nova, which assesses the degree of customer satisfaction regarding goods and services provided in different sectors.

In its four years of existence, Banco CTT has already been elected twice as the leading Bank in customer satisfaction.

Deco Proteste Right Choice

The Banco CTT Account once again received the "Right Choice" award, for presenting the best quality-price ratio. The Banco CTT Account has no maintenance fee, a distinctive factor that has attracted and led many Portuguese to choose Banco CTT.

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.

Five Stars 2020 Award, in the Mortgage Lending category

For the second consecutive year, Banco CTT's Mortgage Lending received the Five Star distinction (attributed by U-Scoot, Lda.), having been considered by consumers as an extraordinary product in the criteria that influence the purchase decision: Satisfaction-Experimentation, Price-Quality, Intended Recommendation, Innovation, and particularly Trust in the Brand.

These awards are the sole responsibility of the entities that awarded them.

1.3 Vision, Mission, Principles and Values of The Bank

Vision

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

Its operating strategy is driven by the principles of solidity, transparency, trustworthiness, 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.

Principles

› **Customer Orientation**

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

› **Enthusiasm**

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

› **Trust**

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

› **Excellence**

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

› **Innovation**

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

Values

› **Simplicity**

› **Efficiency**

› **Proximity**

› **Trust**

› **Solidity**

1.4 Key Figures

Consolidated Results

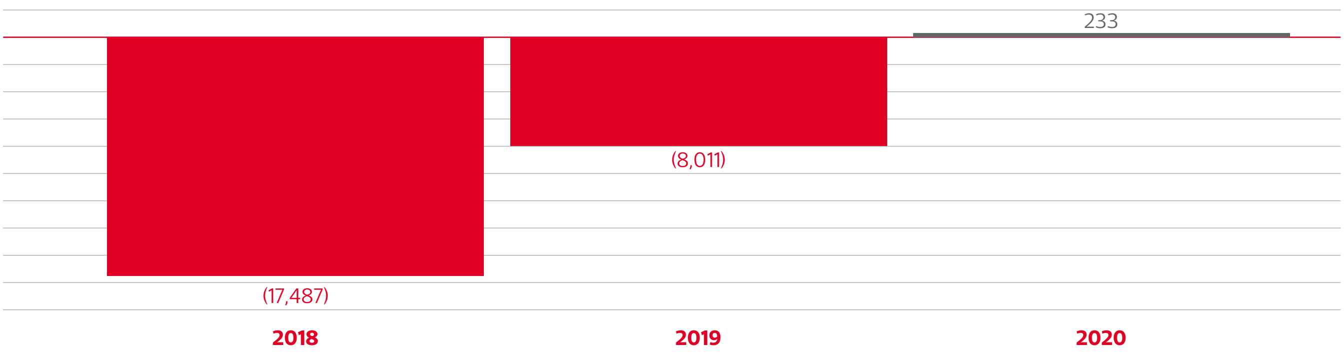
Net Income

The year 2020 represents an historical milestone for Banco CTT to the extent that for the first time a positive consolidated profit is achieved, a fact that is especially noteworthy in a year with such a special and adverse context as 2020.

Thus, in 2020 Banco CTT achieved a consolidated net income of 233 thousand euros which compares to a negative net income of 8,011 thousand euros in 2019, an improvement of over 8 million euros.

Consolidated Net Income

(amounts in thousand euros)

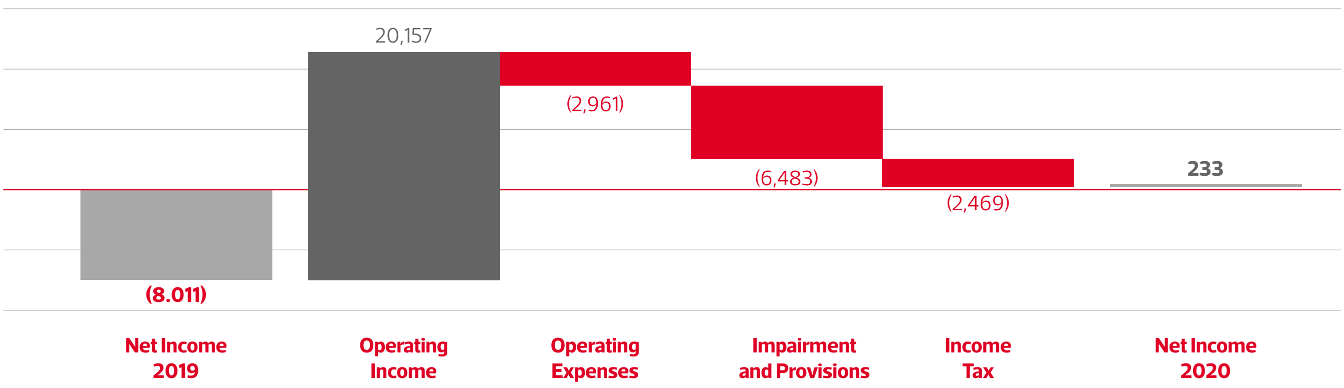


The 2019 results incorporated, for the first time, the contribution of 8 months of activity of 321 Crédito - Instituição Financeira de Crédito, S.A., which became part of Banco CTT's consolidation perimeter following its acquisition in May 2019. 321 Crédito contributed with 9,057 thousand euros (2019: 7,029 thousand euros) to the consolidated profit.

The change in consolidated net income from 2019 to 2020, by main components of the income statement, is presented as follows:

Change in Net Income

(amounts in thousand euros)



Operating Income

Operating Income reached 65,973 thousand euros (2019: 45,819 thousand euros), representing an increase of 20,154 thousand euros (+44%) in relation to 2019.

The increase in Operating Income stems mainly from:

Net Interest Income

› Net Interest Income reached 44,572 thousand euros (2019: 29,260 thousand euros), which represents an increase of 15,312 thousand euros (+52%).

› **Interest on car credit** amounted to 33,311 thousand euros (2019: 19,620 thousand euros), representing an increase of 13,691 thousand euros.

› **Interest on mortgage lending** reached 4,156 thousand euros (2019: 3,317 thousand euros), representing an increase of 839 thousand euros.

› **Interest on debt securities** amounted to 7,695 thousand euros (2019: 7,121 thousand euros), representing an increase of 574 thousand euros.

Net Fee and Commission Income

› Net commissions reached 20,204 thousand euros (2019: 15,455 thousand euros), which represents an increase of 4,749 thousand euros (+31%).

› **Commissions on payment operations**, amounting to 9,554 thousand euros (2019: 10.697 thousand euros) fell 1,143 thousand euros, which is explained by the reduction in the activity of Payshop agents and the decrease in mobility resulting from the confinement actions due to the pandemic situation.

› **Commissions on banking services provided** reached 10,450 thousand euros (2019: 6.467 thousand euros) which represents an increase of 3,983 thousand euros, mainly justified by:

› The extension of the debit card commission to the first card in 2020 (+ 2.6 million euros)

› Increase in transactional / interbank fees explained by the gradual increase in customer involvement with Banco CTT and, consequently, the greater use of the Banco CTT account for day-to-day management (+1 million euros)

› Increase in the contribution of commissions charged in the specialised credit business at the point of sale through 321 Crédito (+1.2 million euros)

› **Commissions on credit intermediation services** reached 1,748 thousand euros (2019: 2,310 thousand euros), representing a decrease of 562 thousand euros in relation to 2019.

› **Commissions on insurance mediation services** reached 1,748 thousand euros (2019: 2,310 thousand euros).

Other operating income/(expenses)

› Other operating income/(expenses) reached 1,004 thousand euros (2019: 1,070 thousand euros), representing a decrease of 66 thousand euros.

› The heading "Other operating income", which records expenses charged to customers on account of costs incurred, namely administrative expenses, expenses related to lawsuits, dossier expenses and postage costs, came to 2,497 thousand euros (2019: 1,479 thousand euros).

› The heading "Credit recovery", which refers to values recovered, via judicial or other means, of contracts written off from the assets, and which came to 1,297 thousand euros (2019: 1,272 thousand euros) was negatively impacted by the deterioration of the economic situation of households due to the pandemic situation.

› The heading "Other operating expenses", which essentially records expenses related to registry offices, ownership reservations and change of motor vehicle registration, came to 1,827 thousand euros (2019: 1,052 thousand euros).

Operating Costs

Operating costs amounted to 55,409 thousand euros (2019: 52,451 thousand euros), an increase of 6%, resulting in a cost-to-income of 84% which compares to 114% in 2019, thus reflecting a remarkable capacity for increased efficiency and economies of scale.

Staff costs

› Staff costs reached 21,806 thousand euros (2019: 19,428 thousand euros), representing an increase of 2,378 thousand euros.

› The increase is mainly explained by the additional contribution of 4 months of 321 Crédito in 2020, since 321 Crédito joined the consolidation perimeter in May 2019.

General Administrative Expenses

› General administrative expenses reached 27,152 thousand euros (2019: 27,498 thousand euros), representing a decrease of 346 thousand euros.

› Excluding 321 Crédito's contribution of 4,378 thousand euros (2019: 2.875 thousand euros), the reduction in general administrative expenses came to 1,849 thousand euros.

Amortisation and depreciation for the year

› Amortisation of intangible assets for the year came to 4,700 thousand euros (2019: 3,876 thousand euros).

› **Depreciation of other tangible assets for the year** amounted to 1,752 thousand euros (2019: 1,649 thousand euros).

Impairment and Provisions

Credit Impairment

› The net allocation of impairments in 2020 came to 10,028 thousand euros (2019: 3,054 thousand euros), representing an increase of 6,974 thousand euros.

› This increase stems from i) the organic increase in the credit portfolio, ii) the fact that 321 Crédito contributed only 8 months in 2019 and iii) the effects arising from the Covid-19 pandemic situation.

Other Impairments

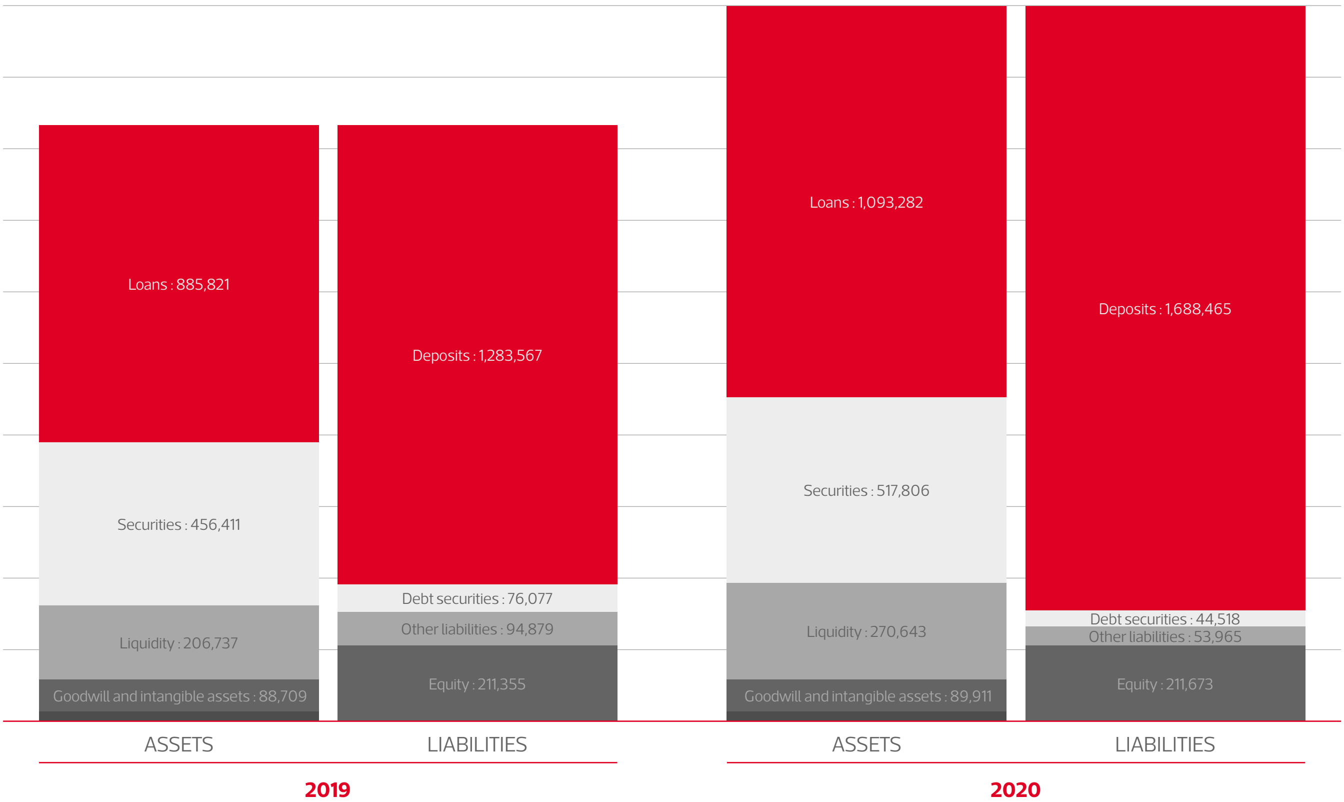
› In **impairments of other financial assets** there was a net reversal of 171 thousand euros (2019: net reversal of 257 thousand euros).

› In **impairments for other assets** there was a net reversal of 833 thousand euros, compared to a net allocation of 297 thousand euros in 2018.

Consolidated Balance Sheet

Consolidated Balance Sheet

(amounts in thousand euros)



As at 31 December 2020, the Bank's assets amounted to 1,999,879 thousand euros (2019: 1,665,878 thousand euros), with 211,673 thousand euros funded by equity (2019: 211,355 thousand euros) and 1,786,948 thousand euros by borrowed capital (2019: 1,454,523 thousand euros).

Loans and advances to customers

Loans and advances to customers (gross) stood at 1,109,948 thousand euros as at 31 December 2020 (2019: 889,799 thousand euros), representing an increase of 220,149 thousand euros (+25%), of which 119,915 thousand euros are from mortgage lending and 102,001 thousand euros are from car credit. The 25% growth in the portfolio was achieved in a particularly difficult context as a result of the restrictions on movements and confinement that occurred in 2020.

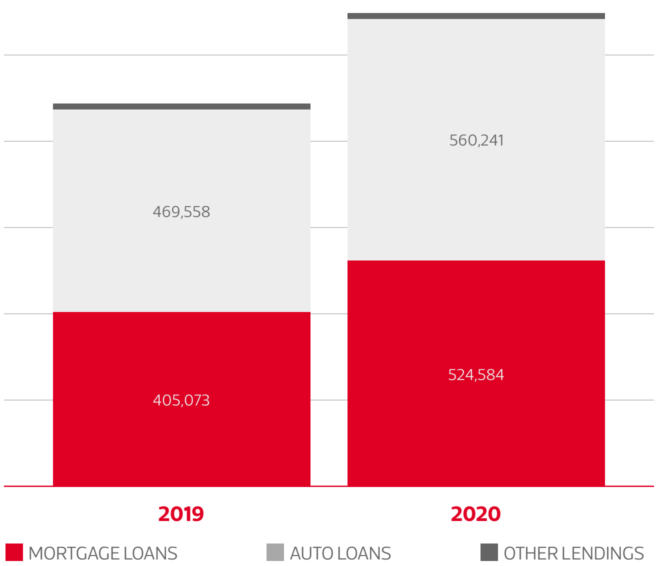
The Bank's loan portfolio is almost equally divided between car credit (51.2% of the portfolio, in net terms) and mortgage lending (48.0% of the portfolio, in net terms).

The Loan-to-Deposit Ratio fell from 69% in 2019 to 65% in 2020, as a result of higher growth of deposits (Δ: + 405 million euros) than of loans (Δ: + 207 million euros). This situation reflects the effect that restrictions and confinements had on credit origination capacity and the increase in households' savings, which in 2020 continued to increasingly rely on Banco CTT to deposit their savings.

During 2020, in order to address the foreseeable future deterioration of the economic situation as a result of the pandemic situation, the portfolio's provisioning levels were reinforced. The portfolio impairment ratio as at 31 December 2020 was 1.50% (2019: 0.45%).

Loans and Advances to Customers (net)

(amounts in thousand euros)



Under the public moratoria, the Banco CTT Group has, as at 31 December 2020, 724 active moratoria corresponding to 40,390 thousand euros and representing 3.6% of the loans and advances to customers (gross) portfolio, essentially mortgage lending. There are, as at 31 December 2020, no active private moratoria.

Investment in securities

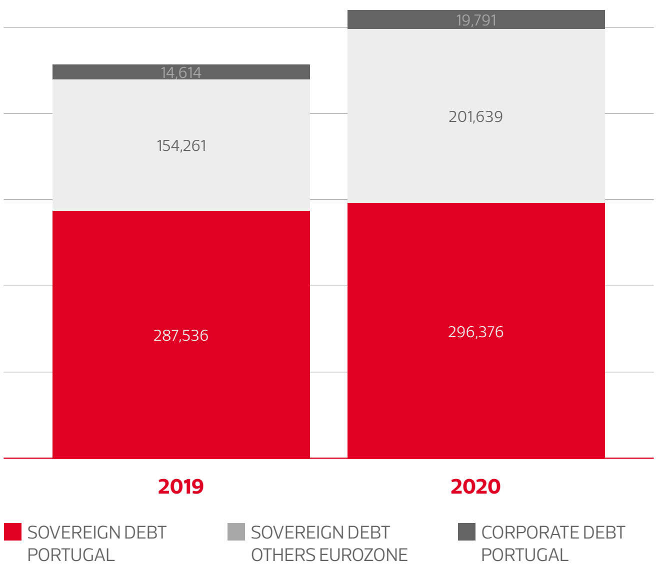
The portfolio of investment in securities had a net value of 517,806 thousand euros as at 31 December 2020 (2019: 456,411 thousand euros), of which around 96% are sovereign debt securities of the Eurozone.

Almost all (96%) of the Bank's securities investment portfolio is carried at amortised cost.

The securities investment portfolio had a fair value of 562,871 thousand euros as at 31 December 2020 (a positive difference of 45 million euros).

Investment in Securities

(amounts in thousand euros)



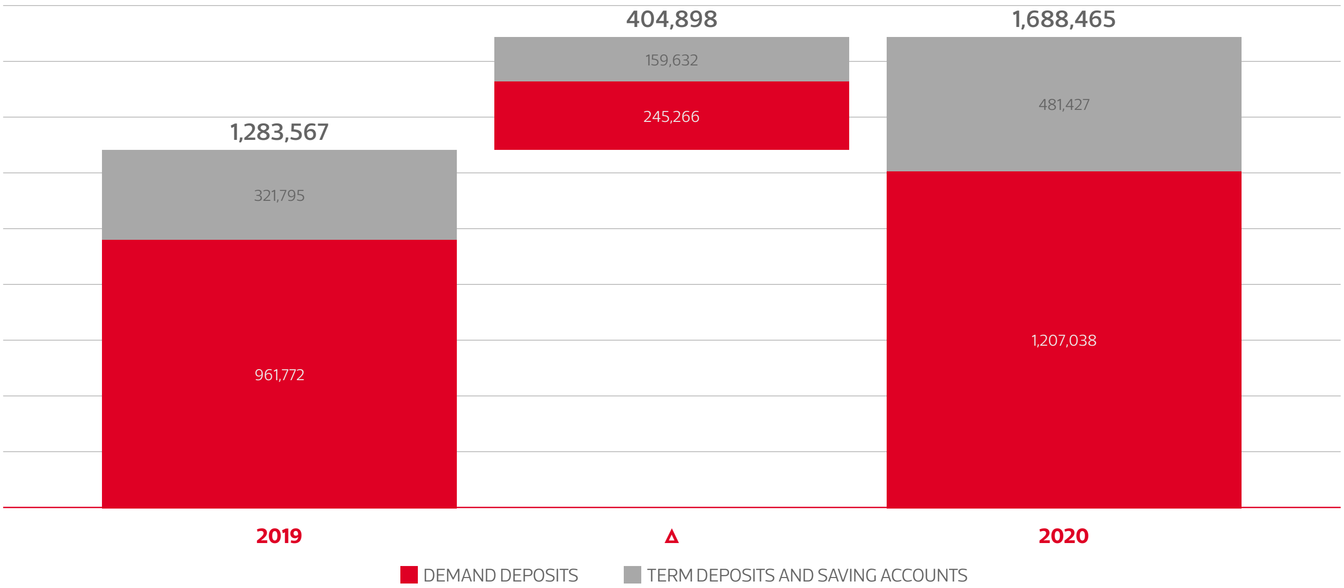
Deposits from customers

Deposits from customers reached, as at 31 December 2020, 1,688,465 thousand euros (2019: 1,283,567 thousand euros) representing an increase of 404,898 thousand euros (Δ: +32%) year-on-year, which reflects the increase in households' savings, which in 2020 continued to increasingly rely on Banco CTT to deposit their savings.

It should be noted in particular that the increase in funds raised are fundamentally demand deposits, demonstrating the confidence entrusted in the Bank by its customers, and that it is increasingly customers' first bank.

Deposits from Customers

(amounts in thousand euros)



Consolidated Indicators

(amounts in thousand euros)

		2020	2019	Δ Abs,	Δ %
Results	Net Interest Income	44,572	29,260	15,312	52%
	Operating Income	65,973	45,819	20,154	44%
	Operating Costs	(55,409)	(52,451)	(2,958)	6%
	Impairment and Provisions	(9,352)	(2,869)	(6,483)	226%
	Taxes	(979)	1,490	(2,469)	-166%
	Net Income	233	(8,011)	8,244	-103%
Balance Sheet	Total Assets	1,999,879	1,665,878	334,001	20%
	Deposits and Investments at Credit Institutions	75,279	151,313	(76,034)	-50%
	Investment in securities	517,806	456,411	61,395	13%
	Loans and Advances to Customers	1,093,282	885,821	207,461	23%
	Intangible Assets	28,826	27,624	1,202	4%
	Total Liabilities	1,788,206	1,454,523	333,683	23%
	Deposits from Customers	1,688,465	1,283,567	404,898	32%
	Total Equity	211,673	211,355	318	0%
Retail Banking for Individuals	Number Branches opened	212	212	-	0%
	Number of Accounts	517,431	461,271	56,160	12%
	Mortgage Loan Production	159,636	189,406	(29,770)	-16%
	Mortgage Loan Stock (gross)	525,084	405,168	119,916	30%
	Stock of savings products (mediation)	428,799	356,557	72,242	20%
	Personal Credit Production (intermediation)	32,283	43,902	(11,619)	-26%
	Customer funds (*pro forma*)*	2,117,264	1,640,124	477,140	29%
Point of Sale Specialised Credit Business	No. of agents	1,365	1,103	262	24%
	Auto Loans Production **	193,800	143,104	50,696	35%
	Auto Loans Stock (gross)	574,897	447,708	127,189	28%
Payments Business	No. of Payshop agents	5,133	4,821	312	6%
	No. of payments processed - thousand	28,248	31,636	(3,388)	-11%
Profitability and Efficiency	Loan-to-Deposit Ratio	65%	69%	-4%	-6%
	Cost-to-Income	84%	114%	-30%	-27%
	Return on Assets (ROA)	0%	0%	0%	-102%
	Return on Equity (ROE)	0%	-4%	4%	-103%
Funding and Liquidity	Own Funds	130,416	122,645	7,771	6%
	Risk-Weighted Assets (RWA)	779,672	646,266	133,406	21%
	Common Equity Tier 1 Ratio (transitional)	16.78%	19.16%	-2.38%	-12%
	Leverage ratio (transitional)	6.67%	7.66%	-0.99%	-13%
	Liquidity Coverage Ratio (LCR)	1,066%	1,896%	-829.73%	-44%

** Includes deposits from customers and customer funds captured via mediation of savings products.*
*** 8 months of activity in 2019.*

1.5 Macroeconomic Environment

International Economy

The world economy suffered a historic contraction in 2020 with the effects of the Covid-19 pandemic. The first signs of a contagious disease appeared at the very start of the year and progressed sharply, with the World Health Organisation declaring a pandemic on 11 March 2020. In order to control the contagion, most countries enacted confinement measures that greatly affected economic activity. The pandemic had an asymmetric impact on economic activity, being more negative in countries where productive structures are more based on sectors where it is not possible to maintain social distancing.

Banco de Portugal[1] estimates world GDP to have shrunk by 3.5% in 2020, following 2.7% growth in 2019. The first half of 2020 was marked by a contraction of 9.4% compared to 2019, with economic activity recovering in the summer months. In the third quarter GDP grew by 7.3% quarter-on-quarter, but the resurgence of contagion in the last quarter of 2020, particularly in developed economies, point to a further contraction in economic activity.

In the Eurozone[2], economic activity is expected to have contracted by 7.3% in 2020, a development marked by a 15% fall in the first half and a 12.5% recovery in the 3rd quarter with the lifting of some confinement restrictions. In the context of the European Union's Recovery and Resilience Plan, 2020 will be marked by the agreement at the European Council of the Next Generation EU, a 750 billion euros instrument (about 5% of the European Union's 2019 GDP) to stimulate economic recovery from 2021 onwards and financed by the European Commission's own debt issuance.

The Eurozone consumer price index is expected to have risen by only 0.2%, reflecting the impact of falling oil prices and lower VAT in Germany. The European Central Bank estimates a rise to 1% in 2021, still below its inflation target.

The labour market was supported by public support measures, particularly lay-off schemes, with an estimated unemployment rate of 8% in the Eurozone.

In 2020, the fiscal measures adopted to mitigate the effects of the crisis will have increased the aggregate public deficit of the Eurozone to 8% of GDP and raised the public debt ratio to 98.4% of GDP.

In order to minimise the impacts of the crisis, monetary policy in the Eurozone remained significantly expansionary. Reference should be made to the European Central Bank's Pandemic Asset Purchase Programme, with an envelope of 1,850 billion euros up to 2022, which helped to reduce sovereign debt risk premiums. Conditions on the Targeted Long Term Refinancing Operations (TLTRO-III) were also improved, with a reduction and extension of the subsidised interest rate up to June 2022, thus maintaining the incentives for financial institutions to lend to the economy.

The year 2021 is expected to be a year of recovery, although not enough to return to the levels of activity recorded in 2019. Future economic developments will be dependent on the impact of new confinement measures and the successful implementation of a vaccination programme to mitigate health risks.

[1] Economic Bulletin December 2020 - Banco de Portugal
[2] *Eurosystem staff macroeconomic projections for the euro area, December 2020*

National Economy

In 2020 Portuguese GDP contracted by 7.6% in volume (2.5% growth in 2019), reflecting the markedly adverse effects of the Covid-19 pandemic on economic activity. For this change in GDP, domestic demand had a significant negative contribution (-4.6 p.p. compared to +2.8 p.p. in 2019), mainly due to the contraction of private consumption. The negative contribution of net external demand increased in 2020, reflecting the unprecedented decrease in tourism exports[1].

In the first half of 2020, economic activity contracted by 17.3% year-on-year in cumulative terms compared to the end of 2019, as a result of the widespread confinement in March and April. In the third quarter, following the gradual lifting of the confinement measures, there was a rapid and marked recovery in activity, with GDP up by 13.3% over the previous quarter. This higher-than-expected recovery benefited from the deferred expenditure during the confinement period and the recovery of most production activities. The recovery trajectory was reversed in the fourth quarter with the implementation of new pandemic confinement measures in Portugal and in its main trading partners.

Private consumption, the main component of aggregate demand, fell by 5.9% in 2020. The confinement measures significantly altered household consumption, with a 15.4% decrease in the first half of the year, with an increase in consumption of essential goods and a reduction in spending on durable goods and services, especially those involving social interaction. With the reduction of the confinement measures in the 3rd quarter, private consumption increased by 12.8% quarter-on-quarter, with durable goods consumption rebounding to pre-crisis levels. This behaviour was reflected in the household savings rate, which reached 14.3% of disposable income in the first half of the year, with a partial reversal in the second half of 2020.

Employment fell 2.0% in 2020, which is a smaller decrease than would be expected given the fall in output. Support measures for companies, in particular the simplified lay-off scheme and support for the self-employed, contributed to the resilience in the unemployment rate, which increased from 6.5% in 2019 to 6.8% in 2020. Around 750,000 workers, almost 15% of the labour force, benefited from such forms of support at the peak of the crisis[2].

Inflation as measured by the Consumer Price Index was -0.2% in 2020. The pandemic created a combination of supply and demand shocks in opposite directions, with the negative effects prevailing and the fall in oil prices contributing to lower energy costs, lowering the inflation rate. Even so, it is estimated that, excluding energy goods, the inflation rate was 0.3%. It is important to mention the slowdown in service prices and the more pronounced fall in non-energy industrial goods prices, in contrast to the rise in food prices[1].

The Covid-19 pandemic penalised public finances, with the 2020 budget deficit estimated at 7.3%[2] of GDP, reversing the surplus recorded in 2019. In addition to the effect of automatic stabilisers, supporting fiscal policies, such as strengthening the health system, social support, employment and business support are estimated to have a direct cost of 3% of GDP.

At the same time, the public debt ratio worsened to 135% of GDP, reflecting the unexpected rise in the budget deficit and the impact of the fall in the ratio's denominator.

[1] National Institute of Statistics
[2] *European Economic Forecast Autumn 2020 - European Commission*

Financial Markets[1]

The year 2020 was marked by great volatility. The impact of the pandemic led to sharp flight-to-quality movements out of risky assets at the end of February and during March, with recovery in the rest of the year. Investor confidence was boosted by the speed of the largest intervention ever by Central Banks, ensuring liquidity and access to credit. The liquidity injected by the Federal Reserve, European Central Bank, Bank of England and Bank of Japan is estimated to have been 5 times greater than the liquidity injected in the period of the 2008-09 Financial Crisis.

The equity market, looking at the FTSE Global All Cap Total Return Index, which encompasses developed and emerging markets, had the steepest depreciation ever during the first quarter by contracting 34% in just 33 days. Recovery was also very fast. After the record low on 23 March, it took just 5 months for equity markets to return to record highs. The FTSE Global All Cap Total Return Index, despite the challenging environment, appreciated by 16.8% in 2020.

The 10-year interest rate in Germany continued its downward trend. After starting the year at negative values of -0.19%, it reached an all-time low of -0.85% on 9 March, having subsequently recorded a sharp rise of 66 basis points in just 8 days. It ended 2020 at -0.58%. In the United States, the 10-year interest rate decreased significantly, from 1.92% at the beginning of the year to 0.91% at the end of 2020. Of note is the robust manner in which the FED cut FED Funds rates, from 1.75% to 1.25% on 3 March in the first unscheduled decision since 2008, and reducing it again by 1 percentage point to 0.25% on 16 March.

The credit *spread* on European sovereign debt widened significantly at the beginning of March. The announcement of the ECB's Pandemic Purchase Programme on 18 March brought risk levels down in a timely manner. The Portuguese 10-year spread vis-à-vis Germany began the year at 62 bps, having reached 170 bps on 17 March, ending the year at 59 bps. The Italian spread reached 278 bps, ending the year at 111 bps, down from 160 bps at the start of 2020.

Corporate credit spreads registered a movement identical to that of sovereign debt. The 5-year CDS Markit iTraxx Europe Senior index reached 139 basis points in March, ending 2020 at 48 basis points, up slightly from 44 basis points at the end of 2019. The iTraxx Crossover 5Y index hit 712 basis points, ending the year at 241 basis points, which is still higher than the 206 basis points registered at the end of 2019.

The oil market also registered an odd performance in 2020. On 20 April, the Crude futures contract for May delivery traded at negative values (-37 USD per barrel). Although this was a phenomenon of a technical nature, as a result of difficulties in physical settlement due to a lack of storage capacity, fundamentally the lack of demand caused the average price for the year to be USD 39, compared to USD 57 for 2019.

The volatility experienced during 2020 can be summarized in the behaviour of the VIX index, which represents the implied volatility in the S&P 500 options market, often considered as a barometer of investor fear. In 2019, the average value was 15 points. In 2020 it was almost double that, with an average of 29 points. It should be noted that on 16 March it reached an all-time high of 83 points, surpassing the values recorded at the peak of the 2008 Financial Crisis.

In the foreign exchange market, the Euro devalued by 5.4% in relation to the 19 currencies of the main trading partners of the Eurozone[2]. It appreciated 8.9% against the US dollar and 5.78% against the Pound sterling.

[1] Source: Bloomberg
[2] *ECB Daily Nominal EER-19 Euro Effective Exchange Rate*

Portuguese Banking System[1]

The analysis of the data[2] of the first 9 months of 2020, when compared with those of the same period of 2019, reveal a decrease in net interest income of 4.6%, resulting from a reduction in interest received greater than the reduction in interest paid, explained by the price effect of the interest rate differential. Interest received decreased more significantly in loans granted to individuals and NFCs and in public debt securities. The volume effect (change in interest earning assets or liabilities) was positive, albeit reduced. Net commissions declined 5.9%, reflecting the lower volume of transactions and the reduction of financial intermediation activity in some segments. Operating income decreased by 6.9%. Staff costs decreased by 5% and the cost-to-income ratio decreased to 58.4%.

In the same period, total assets of the Portuguese banking system increased by 5.4%. The loan-to-deposit ratio decreased to 85.2% from 87.1% in 2019, as a result of an increase in deposits exceeding that of net loans (3.8% vs. 1.5%). It should be noted, however, that between March and September 2020, new loan operations to companies increased 15% when compared with the same period of the previous year, with around 38% of the new loans granted having a public guarantee[3].

The stock of mortgage loans increased gradually over the first half year, as a result of the growth of new operations, in comparison to the same period of the previous year, and the reduction of repayments, reflecting the effects of the moratorium. In the consumer credit segment, there was a reduction in the annual rates of change, reflecting the sharp drop in new operations.

Funding from central banks rose 3.4% in the first 9 months of the year, representing 7.8% of assets, reflecting the European Central Bank's Targeted Long-Term Refinancing Operations, which banks drew substantially on in June 2020.

The ratio of non-performing loans net of impairments decreased from 6.2% at the end of 2019 to 5.3% in September 2020. At the end of the quarter, the NPL ratio of NFCs stood at 10.6%. In the case of individuals it stood at 3.5%. The NPL impairment coverage ratio increased by 4.4% to 55.9%. The cost of credit risk increased to 1% in the first 9 months of 2020, doubling compared to 2019, resulting from the economic and pandemic context, but still below the values reached during the sovereign debt crisis (1.5% to 2%)

In September 2020, the total own funds and common equity tier 1 (CET1) ratios increased by 0.6%, standing at 17.6% and 14.9% respectively. This evolution reflected the decrease in the average risk weight of assets from 53.3% in 2019 to 49% in September, reflecting the improvement in capital ratios. The increase in exposure to public debt securities, investments in central banks, public guaranteed loans and the impact of the CRR (Quick fix) measures also made a positive contribution to the CET1 own funds ratio.

Leverage increased compared to the end of 2019, with the ratio decreasing from 7.9% to 7.6% in September 2020, a level above the minimum benchmark defined by the Basel Committee on Banking Supervision (3%), which will become a mandatory compliance requirement from the date of application of the new CRR (28 June 2021).

Data known up to the 3rd quarter point to a decrease in return on assets to 0.15%, which compares to 0.45% for 2019. Return on equity decreased from 4.9% to 1.7% in the first 9 months of the year. This decrease mainly reflects the significant increase in credit impairments, given the challenging macroeconomic environment.

[1] Portuguese Banking System: recent developments 3rd Quarter 2020– Banco de Portugal
[2] BPStat - Domain: Information on the banking system - Banco de Portugal
[3] Financial Stability Report December 2020 - Banco de Portugal

Regulatory Framework

The European and national regulatory agenda was dominated in the year 2020 by the Covid-19 pandemic crisis. Alongside the concern to guarantee funding for families and companies, there was also a special concern to ensure operational continuity, from technological resources, with growing concerns about security and privacy, to organisational and human resources.

Motivated by the pandemic crisis, at national level the moratorium regime was published through Decree-Law 10-J/2020 of 26 March which introduced exceptional measures to protect the credit of families, businesses, private charities and other entities of the local economy, and also provided for a special scheme of personal guarantees of the State, in the context of the Covid-19 disease pandemic. This scheme applies to mortgage loan agreements and leasing agreements for residential property concluded with consumers, consumer credit agreements for educational purposes, including for academic and vocational training, and credit agreements concluded with companies, sole proprietors, private charities, non-profit associations and other social economy entities. Target of successive updates, the public moratorium regime is in force (i) until 30 September 2021 for contracts that benefited from these measures on 1 October 2020, and (ii) until 31 December 2021 for the adhesions communicated between 1 January 2021 and 31 March 2021, where the total period of the benefit cannot exceed 9 months.

At European level, the European Banking Authority (EBA) also published the Guidelines on public and private moratoria on credit operations in the context of the Covid-19 pandemic, in April 2020, which were incorporated by Banco de Portugal in Circular Letter CC/2020/00000022. These Guidelines set out the terms and conditions that the extension of payment periods inherent to credit operations, associated with public or private moratoria created in the context of the Covid-19 pandemic, must comply with in order not to lead to the occurrence of a default of the debtor, nor to the verification of the concept of a restructuring measure, pursuant to and for the purposes of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 ("CRR") and the EBA Guidelines on, in particular, the application of the definition of default under Article 178 of the CRR.

IFRS 9 - Financial Instruments, which replaced IAS 39 - Financial Instruments: Recognition and Measurement - adopted by the European Union in November 2016 and effective for periods beginning on or after 1 January 2018 - established new rules for accounting for financial instruments, with significant changes especially with regard to impairment requirements. Considering that the application of IFRS 9 could result in a sudden and significant increase in impairment and, consequently, a decrease in Common Equity Tier 1, Regulation (EU) 2017/2395 of the European Parliament and of the Council (December 2017), amending Regulation (EU) 575/2013 of the European Parliament and of the Council (June 2013), introduced a regime that establishes transitional provisions. These amendments aim to mitigate the effect of the possible negative impact arising from the accounting of expected credit losses, allowing a progressive introduction of the impact of the impairment requirements of IFRS 9 on regulatory capital and leverage ratios, for a period of 5 years. With implementation planned for the end of 2022, the proportion of the impairment increase, included in CET1 capital (as an offsetting effect) would progressively decrease over time. Considering that the economic contraction caused by theCovid-19 pandemic could lead to a sudden and significant increase in impairment and in order to limit the possible volatility of regulatory capital, the transitional regime was extended for 2 years, until the end of 2024.

In December 2020 and as a consequence of the digitalisation of the banking sector, the European Commission Delegated Regulation (EU) No 2020/2176 entered into force, amending Delegated Regulation (EU) No 241/2014, regarding the deduction of software assets from Common Equity Tier 1 items, implementing a prudential regime for their depreciation over a 3-year period.

In order to promote the banking system's capacity to adequately perform this function, and cumulatively with monetary policy measures, the financial regulatory and supervisory authorities introduced a wide range of measures. These measures included the relaxation of a wide range of requirements usually required of institutions. In the case of the banking system, the European Central Bank and Banco de Portugal allowed the institutions directly supervised by them to operate temporarily with a level below the own funds guidance and the combined own funds buffer, and with liquidity levels below the liquidity coverage requirement.

The year 2020 was also marked by the publication of Banco de Portugal Notice 3/2020 in July, which regulated the governance and internal control systems and defined the minimum standards on which the organisational culture of the entities subject to supervision by Banco de Portugal must be based. This notice is associated with Banco de Portugal Instruction 18/2020, which regulates the reporting duties regarding organisational conduct and culture and governance and internal control systems. Of these regulations, the main changes include (i) a broadening of the range of matters addressed compared to the previous Notice, (ii) greater accountability for the supervisory body, management body and internal control functions, (iii) a need to align all parts of the financial and non-financial risk management system, including the risk appetite framework (RAF), the *risk appetite statement* (RAS), the overall risk management policy, specific risk management policies, the internal capital adequacy self-assessment process (ICAAP), the internal liquidity adequacy self-assessment process (ILAAP), the recovery plan, and remuneration policies and practices, (iv) the introduction of rules aimed at enabling the supervisory body to have the necessary conditions to effectively perform its duties, including the obligation to assess the internal control functions, and (v) the obligation of the supervisory body to ensure the reliability, completeness and consistency of all the information produced by the institution, including the information of the prudential and financial reports to be made to the respective supervisory authorities.

In terms of bank commissioning, the publication of Law 53/2020 of 26 August and Law 57/2020 of 28 August, with an effective date of 1 January 2021, stands out. The first diploma introduced limits to the charging of commissions for the use of payment applications operated by third parties, such as MBWay. Commissions associated with the withdrawal of funds, payment of services or transfers are not chargeable, within the limits imposed therein. The second diploma established new limits, namely regarding the charging of commissions for the analysis of the renegotiation of credit conditions and the charging of commissions within the scope of the credit agreement contracted with the consumer, as well as the issuing of debt statement documents.

Banco de Portugal has placed a draft notice on branches and branch extensions on public consultation to regulate and clarify the regulatory framework applicable to these types of institutions, whose entry into force will revoke Banco de Portugal Instruction 100/96. This Draft Notice defines the rules applicable to the sharing of spaces by institutions, such as (i) a public service area that is distinct and separate from the areas assigned to other institutions, (ii) the existence of their own and exclusive technical, material, human and advertising resources, and (iii) the exploitation or use of the same public service area by different institutions within the same space is prohibited. These rules apply to institutions in a situation of space sharing with entities that develop non-financial activity, as is the case of Banco CTT.

With regard to the prevention of money laundering and financing terrorism, 2020 was also marked by the transposition of Directive (EU) 2018/843 of the European Parliament and of the Council of 30 May 2018 and Directive (EU) 2018/1673 of the European Parliament and of the Council of 23 October 2018 on combating money laundering by means of criminal law. Through Law 58/2020 of 31 August, some of the definitions present in the Anti-Money Laundering Law were amended, such as the very definition of "money laundering", "close family members", as well as "legal arrangements". Of the main changes introduced by this law, there is essentially greater transparency in terms of the Central Register of the Actual Beneficiary (RCBE), since it now stipulates the need to update the information contained in the RCBE or confirm that it is up to date so that the obliged entity can be voluntarily dissolved.

Regarding insurance activity, special note should be made of the publication by ASF (Insurance and Pension Funds Supervisory Authority) of the Information Note of 17 January 2020, indicating that all insurance or reinsurance intermediaries, members of the management body responsible for the activity of insurance or reinsurance distribution and persons directly involved in the activity of insurance or reinsurance distribution (PDEADS), which carried over from Decree-Law 144/2006 of 31 July, must attend a compliance course with the appropriate qualification requirements provided for in the legal framework for insurance and reinsurance distribution (RJDSR), approved by Law 7/2019, of 16 January and Regulatory Standard 6/2019-R, of 3 September.

The year 2020 ended with the publication of Regulatory Standard 13/2020-R of 30 December, which came into force on 25 February 2021, regulating the legal framework for insurance and reinsurance distribution, approved in an annex to Law 7/2019 of 16 January. This standard of the Insurance and Pension Funds Supervisory Authority established the requirements applicable to the new category of insurance intermediaries on an ancillary basis, the revision of the procedures applicable to the suitability assessment and control of qualifying holdings and the implementation of the duties applicable to the policy on treatment of policyholders, insured parties, beneficiaries and injured third parties and complaint management.

1.6 Business Model

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Retail Banking for Individuals

Offer

Maintaining its focus on providing a simple and adequate offer to the needs of most Portuguese households, Banco CTT provides everyday solutions, which include Demand Deposit Accounts and Debit Cards with contactless technology, Savings Solutions, such as the Free Savings Account or Financial Insurance and Credit Solutions, in the areas of Mortgage Loans, Personal Loans and Credit Cards.

In 2020, and given the context of greater relevance of individual protection solutions, the offer of products was strengthened with an expanded offer of Personal Accident Insurance and Health Insurance, which raised considerable interest and uptake by the Bank's Customers.

In terms of Savings, seeking to meet Clients' diversification needs in a context of the low attractiveness of traditional products, Banco CTT continued to expand the offer of new savings and investment solutions, launching new Capitalisation Insurance products at the end of the year, in partnership with the insurance company Fidelidade.

The year 2020 will also be marked by Banco CTT's entry into the Corporate segment, with the introduction of a Factoring solutions offer, aimed at the short-term financing needs and treasury support of SMEs and Micro-enterprises. For the implementation of this offer, Banco CTT entered into a partnership agreement with BNP Paribas Factor, a company of the BNP Paribas Group and a reference institution in the domestic and international factoring market.

Banco CTT Website

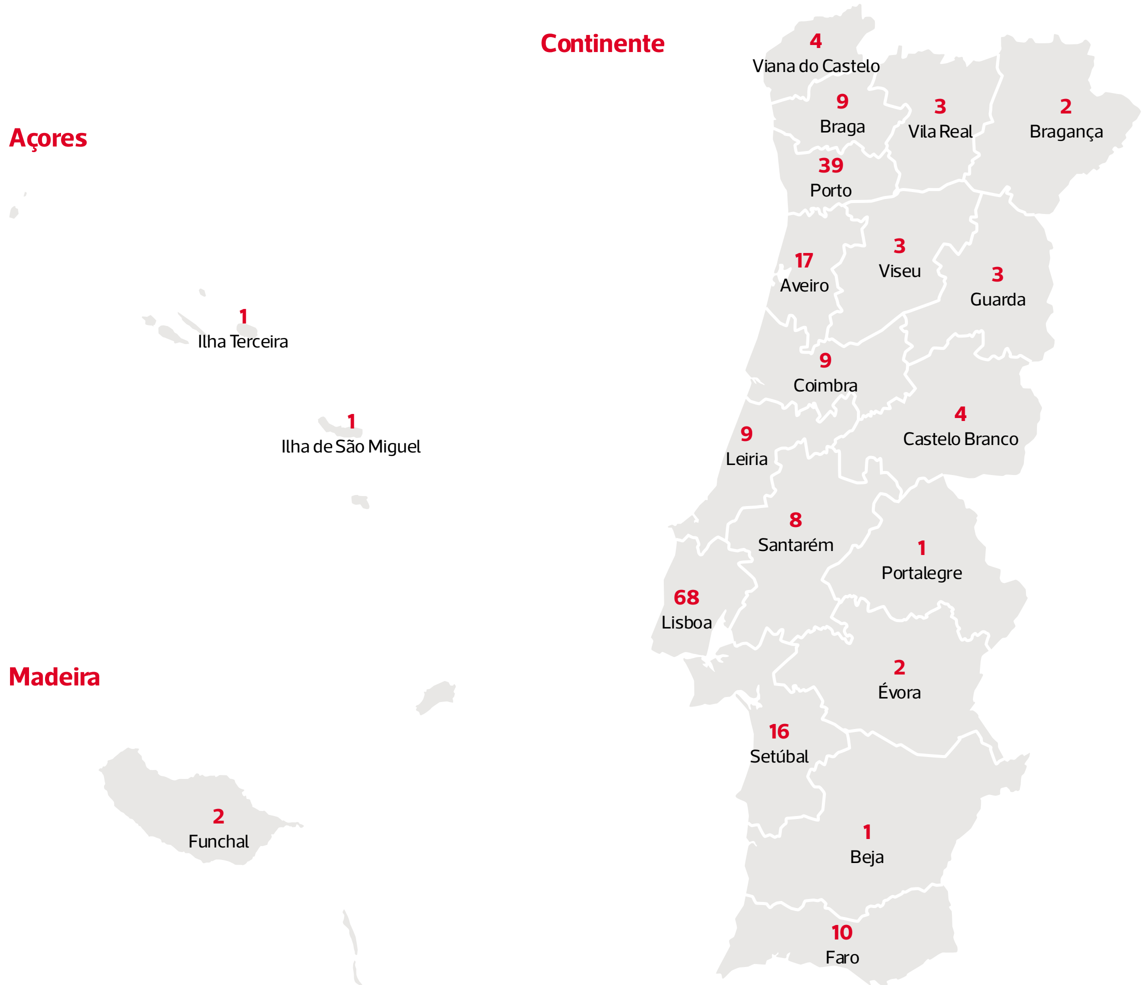
Presential Channel

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

Given the pandemic context, the year 2020 was particularly challenging in terms of ensuring the normal operation of Banco CTT's retail network. Even so, it was possible for the Bank to keep all its branches operating throughout the year, with minimum disturbance, and complying with all the defined health rules.

It should also be mentioned that Banco CTT has an ongoing programme to optimise and dematerialise store processes in order to increase efficiency and improve the customer experience. For a very wide range of applications, such as account opening and maintenance, card applications, etc, it is already possible to complete the entire process at the branch extremely quickly and without the need for paper.

Network of Branches



Digital Channels

Digital channels are one of the key elements of the service proposition of Banco CTT. Through the digital channels, Banco CTT customers can access the Bank at any time of the day or night, whether through their mobile app, available for iOS and Android, or through Home Banking, optimised for personal computers and tablets. Additionally, Banco CTT customers also have access to the MBway service.

The use of the channels at Banco CTT has a very significant expression in the customer base - around 75% are adherents and 50% regular users. It is important to highlight that use through mobile devices is increasingly significant, representing almost 90% of accesses.

At the end of 2020, Banco CTT completed the development of its new digital channel architecture, which will allow for a very significant evolution in interfaces and user experience, as well as the expansion of the ever-widening range of functionalities. The new "customer journey" began with debit card management (PIN recovery, temporary blocking, replacement request, etc.), which was developed by taking advantage of this new architecture.

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

Payments

The payments business of the Banco CTT Group is divided between daily life products associated to the retail business, and Payshop, a subsidiary of Banco CTT, that owns a national payment acceptance network.

Payshop offers a wide range of collection services in a multi-channel logic (banking and face-to-face) and multi-payment means (card, wallet, transfer, direct debit, and cash). It is especially prominent in offering a face-to-face service, with cash payments, allowing payments (invoices, tolls, taxes, online shopping), top-ups (mobile phones, public transportation tickets), and purchases (vouchers and other pre-paid) in a vast Network that exceeds the 7,000 Payshop Payment Points mark, including more than 5,000 Payshop Agents, as well as CTT Stores and many Post Offices.

In 2020, the payment services supported by Payshop (own and CTT's) processed close to 45 million transactions, moving more than 1,100 million euros. The Covid-19 health crisis and the various confinement regimes imposed, had a significant impact on the transactional volumes processed - accelerating trends towards migration to digital and reducing upstream demand for services (namely in business lines such as mobility - tolls and transport tickets - where the reduction in traffic volumes had a strong repercussion on the volume of ticket sales and collections).

In 2020, new products were introduced following the diversification strategy followed by Payshop.

The roll-out to the entire network of agents of the Multibanco reference payment service was completed, the pre-paid school account service was launched (a wallet for the payment of meals and other school expenses, in various municipalities of the country) and the number of pre-paid voucher services was expanded.

Payshop has a simple, safe and reliable technological platform that is available 24 hours a day and 365 days a year. In 2020 the technological transformation process continued (started in 2019), with the start of implementation of a new unified platform for central processing and operational support of financial payment transactions. These actions aim at building the capacity of Payshop for the new challenges of the market, namely in the areas of digitisation and omni-channels.

Payshop Website

Specialised Credit at the Point of Sale

321 Crédito is one of the biggest national players in the credit market for the purchase of used cars, specialising in operations originated by the credit intermediary channel, namely in used, semi-new or classic car dealerships.

The business model is based on an approach that values proximity, simplicity and agility, and is developed through partnerships with more than 1,000 credit intermediaries, reflecting a significant national coverage.

In 2020, notwithstanding the impacts arising from the pandemic situation and confinements, a loan production of 193 million euros was achieved (slightly below 2019). This production reflects a strengthening of market share to 10.9% (Bank of Portugal data for used car financing) compared to the 2019 position (9.7%).

Within the referred context, it should also be noted the public and private moratoria implemented by the authorities and/or by the sector, to which 321 Crédito adhered, with the private moratorium ending at the end of the 3rd quarter of 2020 and the public moratorium, with little relevance, remaining in force, as well as the intense work of monitoring the loan portfolio and its clients, mostly individuals.

The year 2020 will also be marked by the start of the use of the new IT platform called Accipiens to support the car credit activity. The new platform, benefiting from digitalisation, will allow a new level of excellence and speed of response in the processes of credit and information to partners and customers. Given the relevance and potentiality, 321 Crédito developed several training actions for internal teams in this new *core* system of the company, as well as a careful roll-out process with its credit intermediaries.

321 Crédito Website

Outlook for 2021

The year 2020 is marked by the resilience of Banco CTT's business model to the crisis context, as reflected in the results obtained.

In 2021 Banco CTT will complete only its fifth year of life, bringing renewed ambitions to its business areas:

- **In retail banking,** continuation of the deepening of the banking relations that have already been achieved, promoting the positioning of Banco CTT as the "first Bank" of its customers, thus boosting the profitability of the created franchise;

- **In the payments business**, the implementation of a new transaction system is underway, which shall serve all the CTT Group's payment businesses, and shall enable strengthening the provision of integrated payment solutions to institutional customers, as well as the launch of digital channels and the introduction of payments by debit card of the services offered in the Network of Agents;

- **In specialised credit at the point of sale**, sustained growth is expected in the operation, now based on a new technological platform and a strengthened sales force, taking advantage of the anticipated economic recovery.

1.7 People

The year 2020 was, without a doubt, a year of enormous challenges in terms of Human Resources. Organisations were urged to rethink their way of working, forcing them to be more creative and innovative, bringing increased opportunities and challenges, particularly in themes such as Training and Culture. However, it was also a year that allowed the implementation of projects that reinforced the spirit of belonging to the Banco CTT Group and strengthened values such as teamwork and fair access to mobility opportunities and professional career development.

Assess and Recognise

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

The Banco CTT Group's growth ambition is based on a Performance Management methodology that seeks to extract the best and most effective performance from its Employees. Therefore, one of the challenges in 2020 was to standardise and align the Remuneration Policies in all Group companies, defining a single Policy for Banco CTT that was adopted by its subsidiaries. The adaptation of this Policy to the reality of each company is materialised in a performance assessment model specific to that company.

These performance assessment models are based on a process of building individual development plans, providing opportunities for feedback throughout the year between hierarchies and their employees, and encouraging a culture of personal accountability for the development of their careers. On the other hand, they also value and encourage a culture of performance and meritocracy through a consistent and transparent way of assessing and differentiating performance, translated into ambitious, realistic, measurable and specific individual goals that represent the objectives of the Group and of each company and in the behaviours and skills that define how to achieve these goals.

As Employees are one of the Banco CTT Group's strategic pillars, their level of satisfaction with the service provided by the different internal areas is an important indicator of the perceived effectiveness and efficiency of each Department.

Internal Customer satisfaction was therefore assessed by department (not all 321 Crédito departments have received this indicator yet) with the contribution of all employees who interact with other areas to perform their duties, in order to identify opportunities to improve and optimise processes and procedures. Given the importance that Banco CTT Group attributes to this topic, this survey is one of the objectives for each Employee.

Benefits

The Banco CTT Group provides a set of social benefits to Employees that go beyond what is established in the applicable legislation. In the area of health, Banco CTT and Payshop Employees have access to free health insurance for themselves and with the possibility of including their family members. 321 Crédito employees have a complementary health care system - SAMS (Medical and Social Assistance Services), extended to their families, foreseen in the Company Agreement.

In 2020, access to the "Employee Benefits" initiative was extended to 321 Crédito Employees, in which Employees have privileged access and special conditions in CTT group products and services and in establishments and services of CTT group partners. This initiative, highly valued by Employees given its scope and number of partners, consists of two programmes::

- CTT group discount programme - this programme grants discounts to all Employees of the CTT group on CTT and Banco CTT products and services, including access to mortgage lending or contracting insurance with more advantageous conditions;
- "I am CTT" - CTT has established a set of partnerships whereby any Employee has access to discounts on products and services at stores, gyms, hotels, banks, telecommunications companies, and health services, among many others.

Training

The Banco CTT Group considers that respect for the mission and values of the organisation, as well as compliance with the approved strategy, depends, first and foremost, on each Employee, and therefore fosters a culture of rigour and responsibility supported by mechanisms for the disclosure of information, training and monitoring, which ensure, at all times, strict compliance with the established rules of conduct.

It is in this context that, in 2020, one of the concerns was to continue to provide specific training of a regulatory nature, namely concerning the Personal Data Protection Regulation, the Marketing of Mortgage Lending or Consumer Credit of Credit Intermediation, training of Persons Directly Involved in the Activity of Insurance Agents, in the Code of Conduct and Ethics, in the Prevention of Money Laundering and Terrorist Financing, in Ethics and Fraud Awareness, in Information Security Awareness, Conflicts of Interest and Related-Party Transactions, Selection and Appointment of the Statutory Auditor/Audit Company and contracting of non-prohibited services, among others.

On the other hand, the context that took place in 2020 encouraged Banco CTT Group to rethink the way talent management was dealt with. It is important to mention the development of skills in the Bank's Information System Department Team with two programmes launched during the year:

- Training on Banking with the objective of providing the participants with essential knowledge about the different areas of banking activity regarding the main products marketed, namely on Banking and Financial Products, Credit to companies and individuals as well as the identification of which is the accounting treatment of the main banking operations that reflect the specificity of its activity emphasizing the importance of Accounting as an information and management system;

- One-year access to an international distance training platform that allows employees to take technical and behavioural training courses in a flexible manner, with the major advantage that each employee can define his or her own training path.

The development of skills in the area of data analysis was also a project that took place in 2020, having provided several training courses in SQL and Power BI to Employees from different areas of Banco CTT.

Payshop focused on the development of commercial skills, having therefore developed a specific training for the entire Network Manager Team. The training started in a face-to-face and gamification format, having had to be readjusted to an online model, due to the pandemic and inherent restrictions, whose techniques were developed and improved based on the Department's reality.

At 321 Crédito, the main concern was to train employees in the new IT system - Accipiens - in order to provide them with new technical knowledge and skills, so as to ensure an adequate system transition and continued efficiency in the different business processes.

Also noteworthy is the training provided across the board on the topics of remote working and preventive measures within the scope of Covid-19.

Concerning the training of the CTT Retail Network, the Banco CTT team maintained intense collaboration both in designing and ministering various training actions focused on banking topics.

A total of 8,678 hours of training were given to the Employees of the Banco CTT Group, 46% more than in the previous year.

Internal Recruitment and Mobility

The Banco CTT Group is concerned with ensuring efficient and transparent human resource management and providing its Employees with development opportunities, namely through internal mobility. Therefore, in 2020, internal mobility opportunities began to be more systematically advertised, thus constituting an added value and a motivational factor for Employees. This year was therefore marked by significant internal mobility, both between Group companies and within each company, constituting a form of horizontal progression and promotion. There were 9 cases of mobility within the CTT universe and 24 within each company of the Banco CTT Group.

The attention paid to issues of fairness in terms of opportunities is also enhanced by the flexible structure, adaptable to new realities and challenges, which is fertile ground for promoting the mobilisation of resources in such a way as to constitute an opportunity both for the employee and for the organisation.

In 2020, with the atypical context promoted by the global pandemic, the business needs underwent changes that required a reallocation of human resources, promoting efficient workload management that allowed for a greater focus on the activities with more pressing needs at this stage.

The Banco CTT Group's workforce on 31 December 2020, excluding employees with multiple employers in the Retail Network, had 421 Employees, 6% more than in the previous year. The hiring of 51 new Employees was conducted for the different areas, maintaining high qualification standards, different levels of seniority and "expertise, and always observing diversity criteria, namely gender criteria.

The Integration Plan for new Employees also underwent adaptations taking into consideration the atypical context promoted by the global pandemic, making it more robust and personalised so as to allow a faster assimilation of the new employee into the Banco CTT Group, facilitating his/her integration with the employees and other areas of the Group and allowing the construction of networking relationships, often in a telework context.

Community Support

Within the scope of the Corporate Volunteering project, Banco CTT maintained the protocol with Crevide - Creche Popular de Moscavide, a non-profit association. Despite the atypical circumstances of the year 2020, it was possible to maintain the initiative that has been developed since the beginning of the protocol, the offering of food baskets at Christmas time to families supported by Crevide. The Bank maintained its contribution, also offering a basket for each basket offered by Banco CTT and Payshop Employees. This year it was possible to support 50 families, double the number of families supported in the previous year.

Culture / Internal Communication

Regarding culture, and considering the atypical year that took place during 2020 in a context of Pandemic, the Banco CTT Group sought to maintain proximity with its Employees, taking into account that telework became predominant, and in these circumstances it was fundamental to preserve team spirit, boost motivation levels and keep all Employees informed.

In addition to the General Meeting that was held in person in February, before the pandemic broke out, throughout the year, online meetings were promoted with the Executive Committee and all Employees, to share the Banco CTT Group's results and projects, in order to keep people informed about the Bank's evolution and the teams aligned around the main goals. These digital meetings also served to convey messages of confidence, encouragement and to keep employees united and motivated.

In order to reinforce the connection, interaction and dedication even when they are far away from each other, playful and relaxed challenges were launched to employees whose participation resulted in videos in which colleagues saw themselves in a fun environment. The first video was unveiled in April, and revealed employees singing the tune for the Mortgage Lending campaign (blah, blah, blah) launched in 2019. The second video was released in June, when the return to the office required some adaptations and behaviour to face the new reality. Thus, through short films sent by employees doing a workout with a Personal Trainer, a fun video was created demonstrating attitudes and movements adapted to a safe return to the office.

The Banco CTT Webtalks are another example of an internal initiative that seeks to make known the projects being developed and implemented in Banco CTT Group companies so that everyone can be aware of them, thus contributing to maintain proximity between teams and employees. The Webtalks take the form of an informal interview/conversation with colleagues and are later shared on Banco CTT's internal channels. The following topics were addressed in 2020: "Banco CTT's digital channels and their transformation"; "Banco CTT's entry into the Business and Companies Segment"; "Feedback is a Gift" and "The path to success for Banco CTT Savings Products".

Persisting with the need to keep the culture of the Banco CTT Group alive, the company increased the frequency of the Newsletter - Beat News - from fortnightly to weekly and with an adaptation of the contents to the context of the pandemic and the limitations brought about by the current situation. The purpose of this newsletter is to show a more intimate side of the Bank and its people, sharing recommendations for recipes, books, films and others, as well as publicising internal initiatives.

To make up for the impossibility of gathering employees in a Christmas event as in previous years, a Christmas video was made with the participation of employees and their families, where messages of Season's Greetings were transmitted with much creativity. This video, released on Christmas Eve, allowed the Christmas spirit, characteristic of the season, to be felt by all despite the physical distance.

Staff[1]

In 2020, the Banco CTT Group's structure continues to present a marked gender equality, with a distribution close to 50% for each gender.

Gender	2020	2019
Female	50%	50%
Male	50%	50%

In terms of age, 67% of the Banco CTT Group's Employees are less than 45 years old, with an average age of 41.

Age Group	2020	2019
< 30 years	9%	10%
30 – 34 years	15%	16%
35 – 44 years	43%	45%
≥ 45 years	33%	29%

More than 60% of Employees have an academic degree or higher.

Level of Qualification	2020	2019
Elementary Education	3%	2%
Secondary Education	32%	32%
Bachelors	3%	4%
Licentiate Degree	43%	44%
Postgraduation / Masters	19%	18%

[1] Not considering employees with a multiple employer arrangement

Management Report

LIQUIDITY AND CAPITAL MANAGEMENT

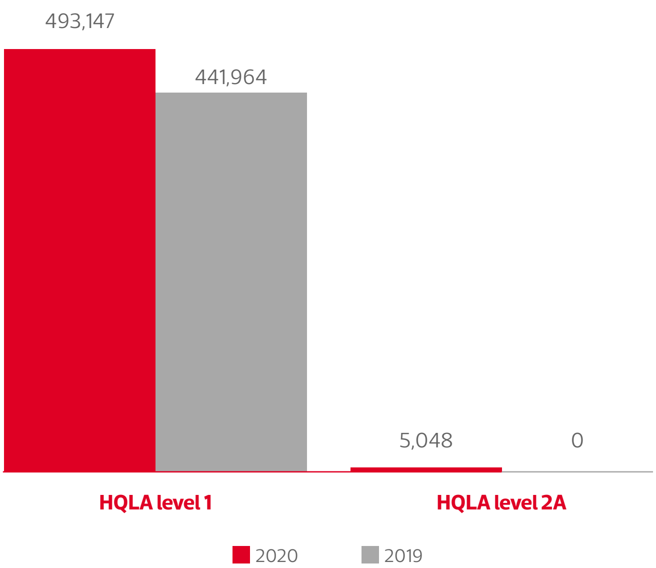
With a common vision,
Banco CTT raised
team ambition
and service excellence.

2.1 Liquidity and Funding

One of the main components of liquidity management is the investment and financing policy, which prioritises diversification by country and sector. Thus, the investment policy in 2020 enabled the creation of a portfolio of eligible assets for the Eurosystem amounting to close to 493,147 million euros as at 31 December 2020 (2019: 441,964 thousand euros).

Eurosystem-eligible securities
(by HQLA level)

(amounts in thousand euros)



The liquidity indicator, Liquidity Coverage Ratio (LCR) reached a comfortable figure of 1.066% (1.896% at the end of 2019), significantly higher than the minimum requirements and reflecting the Bank's investment policy.

In view of the high liquidity, during 2020, the Group prioritised the funding of its assets through Customer deposits which amounted to around 1,688 million euros as at 31 December 2020 (2019: 1,284 million euros). Despite not having experienced the need to use the funding line established by the ECB, Banco CTT occasionally tests its access to these liquidity sources.

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

Liquidity risk management is conducted considering:

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

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

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

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

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

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

The Capital and Risk Committee, which held 13 meetings in 2020, 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.

2.2 Securitisation Activities

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

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

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

As an investor, the Group does not hold significant positions in credit securitisation operations originated by third parties or in securities arising from re-securitisation operations originated by third parties.

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

As investor

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

As originator

As at 31 December 2020, the Group had 3 asset securitisation operations originated by 321 Crédito in progress:

<u>Ulisses Finance No.1:</u>

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

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

The assets underlying the Ulisses Finance No.1 operation were not derecognised from the balance sheet as the Group substantially kept the risks and benefits associated to holding them.

<u>Chaves Funding No.8:</u>

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

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

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

Fénix 1

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

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

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

As at 31 December 2020, there are no credit portfolios pending securitisation.

As servicer

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

The tables below, with reference to 31 December 2020 and 2019, present a description of the key features of each asset securitisation operation originated by the Group, namely its level of involvement, the existence or not of a significant transfer of the credit risk, the values initially securitised and in debt, the start date, legal maturity and revolving period:

(amounts in thousand euros)

	2020		
	Chaves Funding No.8	**Ulisses Finance No.1**	**Fenix**
Securitisation operation	**Chaves Funding No. 8**	**Ulisses Finance No.1**	**Fenix**
Objective of the Securitisation Operation	Obtain Funding	Obtain Funding	Obtain Funding
Type of Securitisation Operation	Traditional securitisation	Traditional securitisation	Traditional securitisation
Sponsors	Tagus (Issuer) Deutsche Bank (Transaction Manager, Paying Agent and Transaction Accounts Bank)	Sagres (Issuer) Citibank (Transaction Manager, Paying Agent and Transaction Accounts Bank) Law Debenture (Common Representative), Servdebt (Backup Servicer)	Gamma (Issuer) Banco Efisa (Arranger, Transaction Manager and Paying Agent) Santander (Transaction Accounts Bank)
Information on the Securitisation:			
Start Date	28/11/2019	10/07/2017	12/12/2014
Legal Maturity	01/11/2034	10/07/2033	30/06/2037
Step-up Date			
Revolving Period (years)	2	1	-
Securitised Assets (initial)	310,500	141,300	75,052
Value in Debt (closing of 2020)	454,955	52,172	38,823
Value in Debt of the Securities			
Class A / Single Class	437,904	30,402	38,823
Class B	24,451	7,000	n.a.
Class C	n.a.	7,100	n.a.
Class D	n.a.	7,100	n.a.
Class E	n.a.	3,500	n.a.
Existence of situations of "implicit support" pursuant to Art. 449 (r) of the CRR	No	No	No
Percentage of assets assigned	0%	81%	100%
Value of first loss positions reacquired	16,025	3,500	-

(amounts in thousand euros)

	2019		
	Chaves Funding No.8	**Ulisses Finance No.1**	**Fenix**
Securitisation operation	**Chaves Funding No. 8**	**Ulisses Finance No.1**	**Fenix**
Objective of the Securitisation Operation	Obtain Funding	Obtain Funding	Obtain Funding
Type of Securitisation Operation	Traditional securitisation	Traditional securitisation	Traditional securitisation
Sponsors	Tagus (Issuer) Deutsche Bank (Transaction Manager, Paying Agent and Transaction Accounts Bank)	Sagres (Issuer) Citibank (Transaction Manager, Paying Agent and Transaction Accounts Bank) Law Debenture (Common Representative), Servdebt (Backup Servicer)	Gamma (Issuer) Banco Efisa (Arranger, Transaction Manager and Paying Agent) Santander (Transaction Accounts Bank)
Information on the Securitisation:			
Start Date	28/11/2019	10/07/2017	12/12/2014
Legal Maturity	01/11/2034	10/07/2033	30/06/2037
Step-up Date			
Revolving Period (years)	2	1	-
Securitised Assets (initial)	310,500	141,300	75,052
Value in Debt (closing of 2019)	323,048	86,638	40,401
Value in Debt of the Securities			
Class A / Single Class	312,588	120,100	40,401
Class B	16,952	7,000	n.a.
Class C	n.a.	7,100	n.a.
Class D	n.a.	7,100	n.a.
Class E	n.a.	3,500	n.a.
Existence of situations of "implicit support" pursuant to Art. 449 (r) of the CRR	No	No	No
Percentage of assets assigned	0%	93%	100%
Value of first loss positions reacquired	16,025	3,500	-

During 2020, there were no relevant events related to securitisation operations.

During 2019, the main events related to securitisation operations were as follows:

Chaves Funding No.7

This securitisation operation was issued by Tagus, Sociedade de Titularização de Créditos, S.A. in July 2017 on a Consumer Credit and Finance Lease portfolio originated by 321 Crédito. The assembly of the operation was carried out with the collaboration of Citibank and Deutsche Bank. The structure of the operation included a Tranche A and a Tranche B in the notes issued, with Tranche A being held in equal portions by the banks that assembled the operation, and Tranche B withheld.

Following the acquisition of the equity of 321 Crédito by Banco CTT, in May 2019, the early redemption of the Chaves Funding No.7 operation was carried in July 2019, substituting the liabilities associated to this operation by intra-group funding. At the time of its redemption, the securitised credit portfolio had a nominal value of 197,200,000 euros.

Chaves Funding No.8:

Subsequently, and after in-house strategic analysis, the Group decided to carry out a new private securitisation operation, Chaves Funding No.8, in November 2019, under the conditions referred to above.

Risks underlying the securitisation operations

As an investor, the Group takes on the following risks:

- Liquidity risk, in any impossibility of trading the assets due to market conditions;
- Market risks, related to the possibility of incurring losses due to unexpected price variations of the assets or interest rates applied by the market at any given time;
- Regulatory risks, related to dynamics in the regulations, legislation and legal framework applicable to the positions held;
- Risk of "prepayment", related to the possibility of the early redemptions being different from the expected, leading to the redemption rate being different from that projected;
- Credit risk, associated to the potential variation of the value of the assets due to the deterioration of the risk quality of the issuer or collateral of the operation.

With respect to agreements for additional funding of the operations, as established in article 449, subparagraph j) vi) of the CRR, the Group has deposited 1,842 thousand euros in cash reserve accounts at the Transaction Managers. This sum may be used to pay interest of the transactions in the event of insufficient funds. This agreement is reflected in the Group's balance sheet, and there are no other agreements to provide financial support to the operations.

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

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

During 2020, the group did not act in securitisations, in compliance with the Capital Requirements Regulation (CRR), as an investor.

For the positions, as an investor in the securitisation operations originated by 321 Crédito, at an individual level, the Bank, as there is no attributed external rating, which has detailed knowledge of the underlying credit portfolio, made the look-through, treating them in accordance with the provisions defined in Article 253(1) of the CRR. As at 31 December 2020, these positions amounted to 445,914 thousand euros.

Regarding the securitisation operations in which the Group acts as the originator, it is concluded that, with the exception of the Fénix operation, they do not comply with the criteria for derecognition established in article 243 of the CRR hence, for prudential effects., the positions at risk consist of securitised credit. This treatment arises from the fact that the Group holds the residual tranches, thus being subject to the main risks and benefits. Therefore, capital requirements are not calculated for the securitisation positions held in the form of notes, but rather on the underlying credit portfolios.

2.3 Capital Management

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

ICAAP

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

The Group carries out an annual self-assessment exercise to determine the adequate capital levels given the business model. This process is regulated by Banco de Portugal Instruction 3/2019 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 the Group 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 Group calculates internal capital by using the regulatory models, where its internal capital is composed up of its regulatory own funds.

Concerning risk analysis, the Group 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	Basic Indicator Approach
IT Risk*	
Compliance Risk	
Reputation Risk*	
Credit Risk	Internal Models
Market Risk	VaR Model
Interest Rate Risk	Instruction 34/2018
Exchange Rate Risk	n/a

* These risks are treated together with Operational Risk

Regulatory Capital

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 Notices 6/2013 and 10/2017 that regulate the transitory regime provided for in the Regulation on own funds.

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

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

As at 31 December 2020 and 31 December 2019, own funds and consolidated capital ratios are as follows:

(amounts in thousand euros)

	2020		2019	
	CRR Phasing in	CRR Fully Implemented	CRR Phasing in	CRR Fully Implemented
OWN FUNDS				
Share capital	**286,400**	**286,400**	**286,400**	**286,400**
Retained earnings	**(74,159)**	**(74,159)**	**(66,148)**	**(66,148)**
Other Reserves	**(190)**	**(190)**	**(207)**	**(207)**
Prudential Filters	**64**	**64**	**15**	**15**
Fair value reserves [1]	83	83	16	16
Additional Valuation Adjustment (AVA) [2]	(19)	(19)	(1)	(1)
Deductions to common equity tier 1	**(81,213)**	**(81,699)**	**(96,825)**	**(97,415)**
Losses for the period	-	-	(8,011)	(8,011)
Intangible assets	(19,919)	(19,919)	(27,624)	(27,624)
Goodwill	(61,085)	(61,085)	(61,085)	(61,085)
Adoption of IFRS 9	(209)	(695)	(104)	(695)
Items not deducted from Equity pursuant to article 437 of the CRR	**1,929**	**1,929**	**2,094**	**2,094**
Deferred tax assets	1,929	1,929	2,094	2,094
Holdings in financial entities	-	-	-	-
Common Equity Tier 1	**130,902**	**130,416**	**123,236**	**122,656**
Tier 1 Capital	**130,902**	**130,416**	**123,236**	**122,645**
Total Own Funds	**130,902**	**130,416**	**123,236**	**122,645**
RWA	**780,104**	**779,672**	**646,601**	**646,266**
Credit Risk	695,218	695,218	600,298	600,298
Operational Risk	84,768	84,768	45,816	45,816
Market Risk	118	118	487	487
IFRS 9 adjustments	-	(432)	-	(335)
CAPITAL RATIOS				
Common Equity Tier 1	16.78%	16.73%	19.06%	18.98%
Tier 1 Ratio	16.78%	16.73%	19.06%	18.98%
Total Capital Ratio	16.78%	16.73%	19.06%	18.98%
REGULATORY MINIMUM RATIOS [3]				
Common Equity Tier 1	7.00%	7.00%	7.00%	7.00%
Tier 1 Ratio	8.50%	8.50%	8.50%	8.50%
Total Capital Ratio	10.50%	10.50%	10.50%	10.50%

(1) 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.
(3) The figures do not take into account the effects of quick-fix measures in the context oi the Covid-19 pandemic.

As regards core Tier 1 own funds, reference should be made to the positive contribution, in 2020, of the reduction in the amount of deduction of intangible assets (reflecting the effect of the change in the value to be deducted of 19,920 thousand euros compared to the book value of 28,826 thousand euros) and the absence of losses for the period. Concerning capital requirements, we highlight the increase of the value of the risk-weighted assets of exposures with credit risk.

As at 31 December 2020, the risk-weighted assets amounted to 780,104 thousand euros (31 December 2019: 646,601 thousand euros) of which 695,218 thousand euros (31 December 2019: 600,298 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 2020, the Banco CTT Group has no relevant exposure to geographic regions whose countercyclical buffer is different from zero.

(amounts in thousand euros)

Exposures	2020	2019
Portugal	662,160	536,158

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

(amounts in thousand euros)

Risk Headings	2020			
	Original Risk Position	Risk-weighted Assets (1)	Risk Weight (2)	Capital Requirement (2)
Central Authorities or Central Banks	660,449	-	0%	-
Regional governments or local authorities	5,043	1,009	20%	81
Other Credit Institutions	100,726	23,042	23%	1,843
Companies	25,888	17,929	69%	1,434
Retail customers	546,933	398,914	73%	31,913
Loans secured by immovable assets	537,977	191,315	36%	15,305
Non-performing loans	16,986	18,754	110%	1,500
Other items	69,223	44,255	64%	3,540
Total	**1,963,225**	**695,218**	**35%**	**55,616**

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

(amounts in thousand euros)

Risk headings	2019			
	Original risk position	Risk-weighted assets (1)	Risk weight (2)	Capital Requirement (2)
Central Authorities or Central Banks	471,363	-	0%	-
Other Credit Institutions	166,395	53,193	32%	4,255
Companies	18,044	10,534	58%	843
Retail customers	467,489	340,773	73%	27,262
Loans secured by immovable assets	421,795	150,487	36%	12,039
Non-performing loans	7,487	11,024	147%	882
Other items	57,072	34,287	60%	2,743
Total	**1,609,645**	**600,298**	**37%**	**48,024**

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

Use of External Ratings

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

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

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

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

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

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

(amounts in thousand euros)

Degree of Credit Quality	2020			2019		
	Institutions, Residual Maturity >3m	Companies	Sovereign Debt	Institutions, Residual Maturity >3m	Companies	Sovereign Debt
1	10,000	-	6,435	-	-	6,493
2	19,419	15,485	99,988	-	14,620	60,605
3	9,300	-	386,727	4,350	-	374,866
4	-	-	5,048	-	-	-
5	-	-	-	-	-	-
6	-	-	-	-	-	-
No rating	210	4,315	-	30,480	-	-

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 its total and continuous compliance in its strategic planning.

As at 31 December 2020, the leverage ratio stood at 6.7% (31 December 2019: 7.7%), significantly above the minimum benchmark defined by the Basel Committee on Banking Supervision (3%), which will become a mandatory compliance requirement as from the date of application of the new CRR (28 June 2021). The ratio is calculated using Tier 1 Capital.

The exposures used to calculate the leverage ratio, as at 31 December 2020 and 31 December 2019, are presented in the table below:

(amounts in thousand euros)

Summary of the reconciliation of the book value and the exposures of the leverage ratio	2020	2019
Total assets recorded in the financial statements	**1,999,879**	**1,665,878**
Intangible assets deducted from own funds	(81,005)	(88,709)
Adjustment for derivative financial instruments	378	1,414
Revaluation reserves	(83)	(16)
Adjustment for securities financing transactions (SFT)	-	-
Adjustment for off-balance sheet items	43,623	30,620
Other adjustments	432	457
Total exposure to the leverage ratio - transitional	**1,963,224**	**1,609,644**

(amounts in thousand euros)

Leverage Ratio	2020	2019
Value of positions at risk		
Off-balance sheet exposures pursuant to Article 429(10) of the CRR	43,623	30,620
Other assets pursuant to Article 429(5) of the CRR	1,919,601	1,579,024
Value of the deducted assets - Tier 1 capital - full implemented	(432)	(457)
Total exposure to the leverage ratio - fully implemented	**1,962,792**	**1,609,187**
Total exposure to the leverage ratio - transitional	**1,963,224**	**1,609,644**
Capital and regulatory adjustments		
Tier 1 capital - fully phased-in definition	130,416	122,646
Tier 1 capital - transitional definition	130,902	123,236
Leverage ratio - fully implemented tier 1 capital	**6.6%**	**7.6%**
Leverage ratio - transitional tier 1 capital	**6.7%**	**7.7%**

In 2020 the transitional leverage ratio decreased by 1.0 percentage points, explained by the growth of assets.

Management Report

INTERN
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SYSTEM

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With transparency
and reliability,
Banco CTT raised confidence
and solid performance.

3.1 Goals

The Group'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. The Audit Committee, in turn, supervises the independence, adequacy and effectiveness of the internal control system as a whole.

In fact, these policies, processes and procedures are associated with a set of controls that aims to ensure the medium and long-term sustainability of the Bank and its subsidiaries and the prudent exercise of their activity, through the objectives illustrated in the figure below:

GOALS

Performance and Operational	Information and Reporting	Compliance
• Compliance with the objectives defined in the strategic plan • Efficient performance of operations • Efficient use of resources • Safeguarding assets • Risk identification, assessment, monitoring and control	• Existence of complete, relevant, reliable and timely **financial and non-financial information** • Adoption of solid accounting procedures	• Respect for the legal and regulatory provisions and guidelines applicable to the activity • Compliance with internal regulations • Respect for professional and deontological rules and uses, Code of Conduct and other rules of relationship with clients

3.2 Governance Model

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

GOVERNANCE MODEL

Board of Directors	Ensures the independence and autonomy of internal control functions (Risk, Compliance and Internal Audit) and that these have the needed status to significantly influence the institution's analysis and decision-making process.
Audit Committee	Direct reporting lines with internal control functions, in order for you to have regular access to the information needed for the execution of your supervisory responsibilities.
Remuneration Committee	It assesses the definition and implementation of the remuneration policies and supervises the definition and application of the remuneration of those responsible for risk-taking and control functions.
Internal Control Committee	Monitors the evolution of Internal Control deficiencies detected by following up on the progress of the defined Action Plans.
Internal Audit *3rd Defence Line*	Ensures that all the other functions within the institution function as expected. You must perform your duties in a completely independent way.
Risk and Compliance *2nd Defence Line*	Develop policies and methodologies for risk management. They must have a significant intervention in the analysis and decision on risk-taking and the definition of the risk profile for the institution. They perform efficiency evaluation of 1st line controls.
Other Areas Process Owners *1st Defence Line*	The business lines are the ones who, on a daily basis, expose the Bank to a set of risks, and it is up to them to defend the institution from the unwanted risk-taking, carrying out the defined controls and procedures and reporting to the 2nd line of defence of any identified faults.

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

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

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

The **Internal Control Committee** is the body responsible for defining the criteria and implementation of the non-financial risk management instruments and for the monitoring and continuous assessment of the efficacy of the internal control system, namely by following-up on any detected flaws. In 2020 the Committee held monthly meetings.

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

A **first line of defence**, entrusted with risk and control management, composed of the Retail Network Department — with front office duties responsible for carrying out level one controls — and the Operations Department (with back office duties responsible for a second check ("4-eyes check") of most processes that are essentially initiated by 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. The second line of defence consists of Compliance and Risk, responsible for the monitoring process, carrying out periodic tests on the effectiveness of the first-line controls, as well as the areas of Planning and Control, Security and Data Protection, Legal and Human Resources.

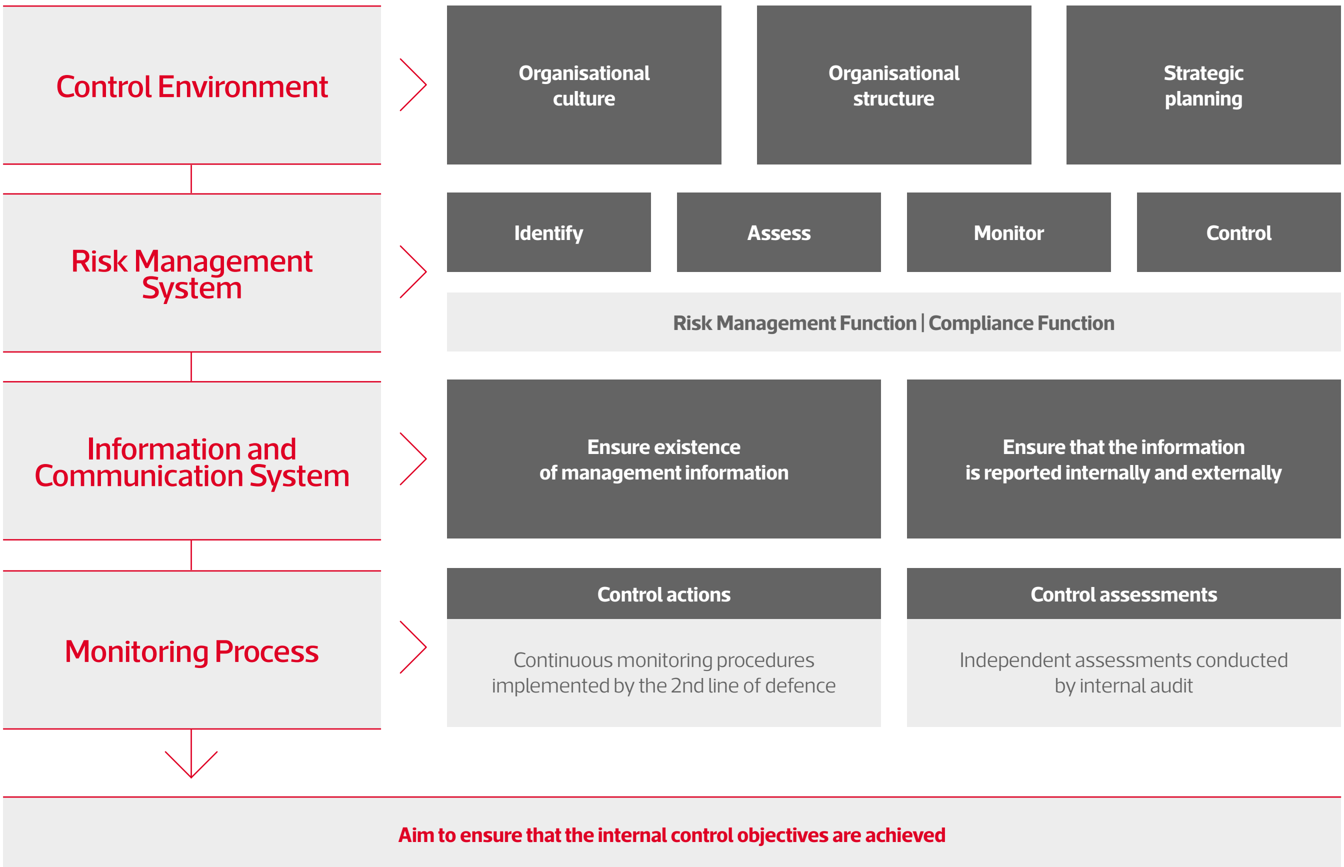
A **third line of defence**, ensured by Internal Audit, which is responsible for independently examining and assessing the adequacy and effectiveness of policies, processes and procedures that support the internal control system, namely by carrying out effectiveness tests on implemented controls.

3.3 Framework

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

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

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



Internal Governance

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

On the other hand, the Group's Organisational Structure, which is defined in an integrated, objective, transparent and perceptible manner in the organisation and structure manual, supports the development of the Group's activity and the implementation of its internal control system, ensuring that the management and control of operations are carried out in a prudent manner. The Group's organisational structure is based on a coherent, clear and objective definition of the lines of reporting and authority, of the powers and responsibilities of each body, structure unit and function, as well as the degree and scope of cooperation between them and includes an adequate segregation of duties, ensuring that any situations of potential conflict of interest are identified in advance, minimised and subject to careful and independent monitoring and is based on a sufficient number of members of the top management and middle management, as well as other employees, to carry out the defined responsibilities and duties.

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

Risk Management Model

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

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

Definition of the risk strategy > Risk identification and assessment > Risk response > Risk monitoring, control and reporting

In this regard, it should be noted that in 2020 the taxonomy of risks adopted by the Group was revised, in the light of the provisions of Annex I of Bank of Portugal Instruction 18/2020, taking into consideration the adaptation of the subcategories to the activity of the Bank and its subsidiaries.

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

Information and Communication System

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

The Group's information and communication is governed by the principles of substance, timeliness, comprehensibility, consistency, punctuality and reliability and ensures a complete and integral vision of its financial situation, the development of its activities, the execution of its strategy and the fulfilment of the objectives defined, its overall risk profile, and the behaviour, evolution and risk profile of the market in which the Bank and its subsidiaries operate.

With regard to communication, the Group has formal, transparent, relevant processes which are adjusted to its needs, ensuring effective communication throughout the organisation and facilitating the decision-making process.

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

In compliance with Article 5 of Bank of Portugal Instruction 18/2020, the Group must now send to the Bank of Portugal, by the end of December each year, its annual self-assessment report, as provided for in Article 4, as well as an individual report for the Bank and each of its subsidiaries covered by Bank of Portugal Notice 3/2020. The process of implementation of this Notice was triggered in 2020 and included the preparation of the Report, to be submitted (exceptionally in this first year) to Banco de Portugal by 1 March 2021.

Monitoring

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

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

The information that results from the continuous monitoring of the Internal Control System is materialised in the deficiencies resulting from the internal control system, which, particularly those with a material impact on the Bank and its subsidiaries, are recorded, documented and communicated to senior management, ensuring their effective treatment and the timely implementation of immediate corrective measures. In this regard, we would highlight the methodology for assessing these deficiencies, which was reviewed in 2020, in the light of the provisions of Annex II of Banco de Portugal Instruction 18/2020.

3.4 Implementation of Notice 3/2020

The project to implement Notice 3/2020 involved an in-depth analysis of the Group's internal control and risk management system. This process was coordinated by the Bank's Compliance Department, in close cooperation with other areas of the Group, in particular the Internal Control Functions (Risk Department, Internal Audit Department), the Internal Control Area of 321 Crédito and the Legal Services Department and General Secretariat of the Bank, and was very closely monitored by the Management and Supervisory Bodies of the Bank and its subsidiaries, in order to ensure consistency of the Group's internal control and corporate governance systems.

The work undertaken in relation to the adoption of the Notice included the following main activities:

› Gap Analysis exercise

Following the methodology previously adopted by the Bank, the Gap Analysis exercise was performed to assess the Group's compliance with the requirements of Banco de Portugal Notice 3/2020 and Instruction 18/2020. The 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 the results of the gap analysis exercise show a high degree of alignment of the Banco CTT Group's internal control system and governance model with most of the requirements already contained in previous regulations (Notice 5/2008 and EBA GL 11), with the main gaps having been identified in the areas that the new Notice has changed in greater depth.

In fact, for the requirements for which gaps were identified in relation to the new regulations, initiatives were defined with a view to compliance, as well as the respective activities, deadlines and persons responsible for implementation, which will also allow some aspects of the Group's internal governance model to be improved.

› Review of organisational structure and responsibilities

The organisational structure was revised in order to ensure compliance with the additional requirements imposed by BdP Notice 3/2020.

Considering the increased responsibilities of the collegiate bodies and the control functions in the matters set out in the Notice, the process of reviewing their Regulations was also triggered, in order to ensure compliance with the new regulations.

› Review of internal regulations

The updating of a set of internal Policies and Procedures was also triggered, whose matters underwent significant changes with the entry into force of these regulations. Special reference should be made to the review of the General Policy on Internal Control and Risk Management, which included updating the taxonomy of Risks and defining a new classification model for internal control deficiencies, to be applied across the board by the Group's Control Functions within the scope of their activities, in the light of the provisions of Banco de Portugal Instruction 18/2020.

› Quality of information

Finally, with a view to strengthening the processes of producing, collecting and processing data and information circuits that ensure the quality of the information supporting the Group's internal decisions and information disclosed to the public and the information submitted to the supervisor (as provided for in Articles 29 and 30 of the Notice), the survey of the processes in question, which include not only the production and processing of financial and accounting information, but also information relating to risks and, where applicable, non-financial information, was initiated.

This process, being transversal and progressive, insofar as it must accompany the evolution of the Group's activity, includes not only the survey of these information flows and their formalisation, but also the definition of control mechanisms that allow the mitigation of the risks underlying the treatment of these data, ensuring that the information produced is reliable, complete, consistent, complete, current, timely, accessible and granular.

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Management Report

RISK MANAGEMENT

4

With new digital solutions,
Banco CTT raised convenience
and quality of interaction.

4.1 Risk Management

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

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

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

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

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

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

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

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

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

Governance of Risk Management

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

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

In order to make the control of the Board of Directors' strategic decisions more efficient, as well as the preparation of those decisions, specific committees have been created, with recurring meetings for risk management purposes which, in line with the Board of Directors' decisions, perform an important role in the management and control of financial and non-financial risks.

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

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

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

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

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

In addition, the Compliance Department prevents the Group's involvement in criminal money laundering and the financing of terrorism, by monitoring the customer acceptance policy and the transactions performed by the customers, always notifying the competent authorities whenever there is cause for suspicion.

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

Credit Risk

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

As the Group's main activity is commercial banking, with special emphasis on the retail segment, the Bank offers simple credit products – mortgage lending and overdraft facilities associated to current bank accounts with salary/pension domiciliation - and specialised credit at the point of sale through the activity of 321 Crédito.

Furthermore, the Group is also currently exposed to credit risk from other activities, namely its direct exposure to credit risk from investments and deposits in other credit institutions, Eurozone public debt securities, debt instruments from other issuers (credit institutions and companies) 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.

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

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

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

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

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

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

The following table presents information on the Group's exposures to credit risk (net of impairment and including off-balance sheet exposures) as at 31 December 2020 and 31 December 2019:

(amounts in thousand euros)

	2020	2019
Central Authorities or Central Banks	660,475	471,295
Regional governments or local authorities	5,043	-
Credit institutions	100,724	166,289
Companies	25,886	18,041
Retail customers	546,768	467,468
Loans secured by immovable assets	537,959	421,748
Non-performing loans	16,690	7,291
Other items	69,223	57,072
Risk Headings	**1,962,768**	**1,609,204**

The Banco CTT Group, according to its national matrix, has a predominance of exposures with credit risk in Portugal, and at the reference date presented the following exposures by country:

(amounts in thousand euros)

	2020								
	Central Authorities or Central Banks	Regional Governments or Local Authorities	Credit Institutions	Companies	Retail Customers	Loans Secured by Immovable Assets	Non-Performing Loans	Other Items	Total
Portugal	458,836	5,043	78,626	25,886	546,768	537,959	16,690	69,223	1,739,031
Spain	94,407	-	-	-	-	-	-	-	94,407
France	6,434	-	9,029	-	-	-	-	-	15,463
Italy	95,233	-	-	-	-	-	-	-	95,233
Austria	-	-	9,986	-	-	-	-	-	9,986
Luxembourg	-	-	-	-	-	-	-	-	-
Ireland	5,565	-	-	-	-	-	-	-	5,565
Netherlands	-	-	-	-	-	-	-	-	-
United Kingdom	-	-	2,738	-	-	-	-	-	2,738
Germany	-	-	345	-	-	-	-	-	345
Total	**660,475**	**5,043**	**100,724**	**25,886**	**546,768**	**537,959**	**16,690**	**69,223**	**1,962,768**

(amounts in thousand euros)

	2019							
	Central Authorities or Central Banks	Credit Institutions	Companies	Retail Customers	Loans Secured by Immovable Assets	Non-Performing Loans	Other Items	Total
Portugal	317,036	114,240	18,041	467,468	421,748	7,291	57,072	1,402,896
Spain	54,924	47,374	-	-	-	-	-	102,298
France	6,492	29	-	-	-	-	-	6,522
Italy	87,172	-	-	-	-	-	-	87,172
Ireland	5,671	-	-	-	-	-	-	5,671
United Kingdom	-	3,230	-	-	-	-	-	3,230
Germany	-	1,416	-	-	-	-	-	1,416
Total	**471,295**	**166,289**	**18,041**	**467,468**	**421,748**	**7,291**	**57,072**	**1,609,294**

The exposures by activity sector are as follows:

(amounts in thousand euros)

	2020					
	Companies		SME		Individuals	
	Performing Loans	Non-Performing Loans	Performing Loans	Non - Performing Loans	Performing Loans	Non - Performing Loans
Companies						
Construction	631	846	5,361	562	-	-
Wholesale/retail trade, rep. of autom., motoc., personal and domest. goods	248	2,525	4,645	59	-	-
Transport, storage and communications	235	897	1,174	78	-	-
Accommodation and catering (restaurants and similar)	192	66	1,375	63	-	-
Real estate activities	237	25	1,102	-	-	-
Textile industry	14	41	1,533	267	-	-
Agriculture, animal husbandry, hunting, forestry and fisheries	76	-	985	61	-	-
Health and social welfare	71	4	627	-	-	-
Education	46	4	530	-	-	-
Unspecified manufacturing industries	28	182	395	3	-	-
Heavy metalworking industries and metal products	20	136	314	15	-	-
Paper pulp, cardboard, publishing and printing industries	20	40	252	-	-	-
Food, beverage and tobacco industries	30	96	194	74	-	-
Electricity, water and gas production and distribution	-	103	144	-	-	-
Leather and leather product industry	1	6	218	50	-	-
Mining industries except for energy products	-	-	149	-	-	-
Financial intermediation auxiliary activities	13	12	158	3	-	-
Work, cork and derived work industries	24	22	75	-	-	-
Manufacture of other non-metallic mineral products	-	21	39	-	-	-
Manufacture of electrical and optical equipment	-	-	7	-	-	-
Manufacture of machinery and equipment	-	4	21	-	-	-
Manufacture of rubber articles and plastics	-	5	12	-	-	-
Manufacture of transport material	-	9	-	-	-	-
Financial intermediation excluding insurance and pension funds	64,574	-	-	-	-	-
Manufacture of chemical products and synthetic or artificial fibres	-	27	-	-	-	-
Manufacture of coke, petroleum and refined products and nuclear fuel	-	-	-	-	-	-
Insurance, pension funds and social welfare complementary activities	-	-	-	-	-	-
Public administration, defence and mandatory social security:	-	-	-	-	-	-
Other	4,953	1,328	21,544	472	-	-
Individuals						
Mortgage	-	-	-	-	525,083	-
Consumer	-	-	-	-	524,150	18,154
	71,413	**6,399**	**40,854**	**1,707**	**1,049,233**	**18,154**

(amounts in thousand euros)

	2019					
	Companies		SME		Individuals	
	Performing Loans	Non-Performing Loans	Performing Loans	Non-Performing Loans	Performing Loans	Non-Performing Loans
Companies						
Construction	778	846	7,418	761	-	-
Wholesale/retail trade, rep. of autom., motoc., personal and domest. goods	251	2,523	5,384	318	-	-
Transport, storage and communications	251	914	1,333	12	-	-
Accommodation and catering (restaurants and similar)	199	67	1,785	46	-	-
Real estate activities	263	25	1,531	-	-	-
Textile industry	16	41	1,657	24	-	-
Agriculture, animal husbandry, hunting, forestry and fisheries	88	43	832	198	-	-
Health and social welfare	84	4	681	-	-	-
Education	53	4	605	-	-	-
Unspecified manufacturing industries	19	194	375	3	-	-
Heavy metalworking industries and metal products	23	132	372	-	-	-
Paper pulp, cardboard, publishing and printing industries	20	40	284	-	-	-
Food, beverage and tobacco industries	-	97	167	73	-	-
Electricity, water and gas production and distribution	-	103	194	-	-	-
Leather and leather product industry	4	40	162	58	-	-
Mining industries except for energy products	-	231	26	-	-	-
Financial intermediation auxiliary activities	29	12	144	-	-	-
Work, cork and derived work industries	29	22	96	-	-	-
Manufacture of other non-metallic mineral products	-	22	52	-	-	-
Manufacture of electrical and optical equipment	-	-	66	-	-	-
Manufacture of machinery and equipment	-	4	27	-	-	-
Manufacture of rubber articles and plastics	-	5	12	-	-	-
Manufacture of transport material	7	9	-	-	-	-
Financial intermediation excluding insurance and pension funds	144,803	-	2	-	-	-
Manufacture of chemical products and synthetic or artificial fibres	-	1	-	-	-	-
Manufacture of coke, petroleum and refined products and nuclear fuel	-	-	-	-	-	-
Insurance, pension funds and social welfare complementary activities	-	-	-	-	-	-
Public administration, defence and mandatory social security:	-	-	-	-	-	-
Other	1,660	1,094	16,010	122	-	-
Individuals						
Mortgage	-	-	-	-	405,168	-
Consumer	-	-	-	-	437,362	12,704
	148,577	**6,473**	**39,217**	**1,615**	**842,530**	**12,704**

The Bank's exposures have the following maturity profiles:

(amounts in thousand euros)

Residual Maturity	2020 Central Authorities or Central Banks	Regional Governments or Local Authorities	Credit Institutions	Companies	Retail Customers	Loans Secured by Immovable Assets	Non-Performing Loans	Other Items	Total
Up to 1 year	203,125	-	73,016	11,554	539,895	-	-	-	827,590
1 to 5 years	152,308	-	2,608	14,012	-	-	-	-	168,928
More than 5 years	305,042	5,043	-	-	-	526,629	-	-	836,714
Undetermined*	-	-	25,100	320	6,873	11,330	16,690	69,223	129,536
Total	**660,475**	**5,043**	**100,724**	**25,886**	**546,768**	**537,959**	**16,690**	**69,223**	**1,962,768**

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

(amounts in thousand euros)

Residual Maturity	2019 Central Authorities or Central Banks	Regional Governments or Local Authorities	Credit Institutions	Companies	Retail Customers	Loans Secured by Immovable Assets	Non-Performing Loans	Other Items	Total
Up to 1 year	29,505	-	134,013	3,427	461,839	-	-	-	628,784
1 to 5 years	204,688	-	18,716	14,614	-	-	-	-	238,018
More than 5 years	237,102	-	-	-	-	410,568	-	-	647,670
Undetermined*	-	-	13,560	-	5,629	11,180	7,291	57,072	94,732
Total	**471,295**	**-**	**166,289**	**18,041**	**467,468**	**421,748**	**7,291**	**57,072**	**1,609,204**

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

Impairment Model

During the year 2020, the Group used an impairment model based on IFRS 9 requirements and the respective benchmark criteria of Banco de Portugal defined in Circular Letter 62/2018. Moreover, the model also takes into account definitions and criteria that that have been published by the EBA.

The year 2020 was deeply marked by the pandemic caused by Covid-19 with great impact on economic activity. This unexpected and rapidly spreading emergence of Covid-19 required the implementation of measures and the adjustment of priorities, changing the focus on growth to a focus on defence and consequently on the reinforcement of preventive impairments to deal with expected adversities.

In addition to the legislative measures to support the economy already in force in Portugal, namely those provided for in Decree-Laws 10-J/2020, 26/2020 and 78-A/2020 of 26 March, 16 June and 29 September, respectively, which introduced an exceptional moratorium regime, adjustments were made to the impairment model in order to incorporate this potentially prolonged effect in time.

The recognition of impairment should be based on historical information. However, due to the absence of a historical record for some segments, namely mortgage loans, the Group bases its calculations on benchmarks of the 'Probability of Default' (PD) and 'Loss Given Default' (LGD) parameters of other national banks or rating agencies. Nevertheless, when existing, historical data will be used in the estimates of the model parameters.

The use of benchmarks has some pertinent implications:

- Banco CTT assumes that the data obtained at portfolio level for conversion of the parameters by stage of impairment assume distributions that it considers to be its expected mature portfolio;

- Potential particularities of Banco CTT, negative or positive, are not captured by these benchmarks;

- Banco CTT transforms annual PDs and LGDs into Lifetime Expected Losses using a survival rate methodology. The PD for each period of the instrument's life is multiplied by the Loss Given Default (LGD), which in turn is a function of the expected exposure in each period and the collateral existing in the operation. Finally, the Bank updates the expected value of all the periods considered.

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

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

- Probability of Default (PD):

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

- Loss Given Default (LGD):

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

  - Collateral LGD, which estimates recoveries via foreclosure on collateral;
  - Cash LGD, which estimates recoveries via other means (e.g. payments made by the debtor).

- Exposure at Default (EAD):

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

The Group considers the following main segments in the calculation of impairment:

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

For segments whose lack of historical records implied the use of benchmarks, the reference parameters considered for calculation of impairment at the various stages, on the reporting date, are:

		2020				2019			
		Mortgage Loans		Overdrafts		Mortgage Loans		Overdrafts	
Stage		PD	LGD	PD	LGD	PD	LGD	PD	LGD
1	*Performing*	0.3%	29%	4.0%	53%	0.5%	18%	1.1%	35%
	With indications	1.1%	29%	12.0%	53%	4.0%	18%	5.0%	35%
2	31-60 days	30.0%	29%	75.0%	53%	30.0%	18%	55.0%	35%
	61-90 days	65.0%	29%	80.0%	53%	65.0%	18%	75.0%	35%
	Non-default average PD	0.3%		4.9%		1.1%		2.6%	
3	*Default*	100.0%	29%	100.0%	58%	100.0%	23%	100.0%	50%

Rating	Expected Loss			
	2020		2019	
	Corporate	Sovereign Debt	Corporate	Sovereign Debt
AAA	0.030%	0.015%	0.019%	0.005%
AA+	0.035%	0.018%	0.025%	0.006%
AA	0.040%	0.020%	0.031%	0.008%
AA-	0.047%	0.023%	0.035%	0.009%
A+	0.053%	0.027%	0.039%	0.010%
A	0.060%	0.030%	0.043%	0.011%
A-	0.100%	0.050%	0.074%	0.019%
BBB+	0.140%	0.070%	0.105%	0.027%
BBB	0.180%	0.090%	0.136%	0.035%
BBB-	0.350%	0.200%	0.256%	0.118%
BB+	0.520%	0.310%	0.376%	0.202%
BB	0.690%	0.420%	0.496%	0.285%
BB-	1.387%	0.840%	0.986%	0.403%
B+	2.083%	1.260%	1.476%	0.522%
B	2.780%	1.680%	1.965%	0.640%
B-	11.620%	9.845%	7.778%	2.795%
CCC/C	20.460%	18.010%	13.590%	4.950%
S/ Rating	1.387%	0.840%	0.986%	0.403%

For segments that use benchmarks based on historical data, the average parameters considered for calculation of impairment at the various stages, on the reporting date, are:

	2020				2019			
	Auto Loans		Outros		Auto Loans		Outros	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Stage 1	3.1%	40.5%	2.0%	40.5%	1.9%	35.4%	1.8%	35.4%
Stage 2	9.6%	40.5%	2.0%	40.5%	18.0%	35.4%	8.0%	35.4%
Stage 3	100.0%	51.1%	100.0%	98.3%	100.0%	49.8%	100.0%	98.6%

The Banco CTT Group, as at the reference date, presents the following breakdown of its exposures with credit risk and impairment amounts:

(amounts in thousand euros)

		2020							
					Credit Portfolio				
		Central Authorities or Central Banks	Financial Institutions	Other Titles	Mortgage Loans	Overdrafts	Auto Loans	Other	Total
Stage 1	**Gross exposure**	665,669	71,732	19,793	517,065	935	502,336	5,978	1,783,508
	Impairment losses	(182)	(28)	(9)	(445)	(164)	(3,500)	(52)	(4,380)
	Net exposure	**665,487**	**71,704**	**19,784**	**516,620**	**771**	**498,836**	**5,926**	**1,779,128**
Stage 2	**Gross exposure**	–	–	–	3,764	195	47,748	338	52,045
	Impairment losses	–	–	–	(44)	(43)	(2,077)	(61)	(2,225)
	Net exposure	–	–	–	**3,720**	**152**	**45,671**	**277**	**49,820**
Stage 3	**Gross exposure**	–	–	–	34	1,063	20,935	96	22,128
	Impairment losses	–	–	–	(10)	(898)	(8,422)	(27)	(9,357)
	Net exposure	–	–	–	**24**	**165**	**12,513**	**69**	**12,771**
POCI (Stage 3)	**Gross exposure**	–	–	–	–	–	3,878	1,361	5,239
	Impairment losses	–	–	–	–	–	(658)	(264)	(922)
	Net exposure	–	–	–	–	–	**3,220**	**1,097**	**4,317**
Total	**Gross exposure**	665,669	71,732	19,793	520,863	2,193	574,897	7,773	1,862,920
	Impairment losses	(182)	(28)	(9)	(499)	(1,105)	(14,657)	(404)	(16,884)
	Net exposure	**665,487**	**71,704**	**19,784**	**520,364**	**1,088**	**560,240**	**7,369**	**1,846,036**

The Group 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)

2020	Impairment					Impairment with Shock					Impact
	Stage 1	Stage 2	Stage 3		Total	Stage 1	Stage 2	Stage 3		Total	
			Stage 3	POCI				Stage 3	POCI		
Sovereign debt	182	–	–	–	182	201	–	–	–	201	19
Financial institutions	28	–	–	–	28	31	–	–	–	31	3
Corporate	9	–	–	–	9	10	–	–	–	10	1
Retail	4,161	2,225	9,357	922	16,665	4,560	2,394	9,356	922	17,232	567
Mortgage Loans	445	44	10	–	499	489	48	10	–	547	48
Overdrafts	164	43	898	–	1,105	181	47	898	–	1,126	21
Auto Loans	3,500	2,077	8,422	658	14,657	3,833	2,232	8,421	658	15,144	487
Other	52	61	27	264	404	57	67	27	264	415	11
Total	**4,380**	**2,225**	**9,357**	**922**	**16,884**	**4,802**	**2,394**	**9,356**	**922**	**17,474**	**590**

(amounts in thousand euros)

2019	Impairment					Impairment with Shock					Impact
	Stage 1	Stage 2	Stage 3		Total	Stage 1	Stage 2	Stage 3		Total	
			Stage 3	POCI				Stage 3	POCI		
Sovereign debt	167	-	-	-	167	184	-	-	-	184	17
Financial institutions	216	-	-	-	216	238	-	-	-	238	22
Corporate	1	-	-	-	1	1	-	-	-	1	-
Retail	2,063	871	2,337	(1,293)	3,978	2,292	978	2,337	(1,293)	4,314	336
Mortgage Loans	51	44	-	-	95	56	47	-	-	103	8
Overdrafts	4	37	393	-	434	5	41	393	-	439	5
Auto Loans	1,950	788	1,932	(1,332)	3,338	2,167	888	1,932	(1,332)	3,655	317
Other	58	2	12	39	111	64	2	12	39	117	6
Total	**2,447**	**871**	**2,337**	**(1,293)**	**4,362**	**2,715**	**978**	**2,337**	**(1,293)**	**4,737**	**375**

Moratoria

Decree-Law 10-J/2020 of 26 March established exceptional measures to protect the credit of families, businesses, private charities and other social economy entities, as well as a special scheme of personal guarantees from the State, within the scope of the Covid-19 pandemic.

In the course of 2020, the said regulation was amended by Law 8/2020 of 10 April, Decree-Law 26/2020 of 16 June, Law 27-A/2020 of 24 July and Decree-Law 78-A/2020 of 29 September.

With the various legislative changes, the end of the moratorium period, initially scheduled for September 2020, was extended until September 2021. The legislative changes also allowed for the extension of the deadline for customers to formalise moratorium requests. The conditions of access and the types of credits covered have also been changed. The measures provided for in the legislation described above - Public Moratoria -, materialise in the granting of a grace period for principal or principal and interest to debtors of credit agreements.

In addition to the Public Moratorium, ASFAC - Association of Specialised Credit Institutions - created the ASFAC Private Moratorium, which established exceptional measures to support and protect families resulting from the financial impacts of the pandemic caused by Covid-19, similar to those provided for in the Public Moratorium and applicable to 321 Crédito's motor vehicle credit portfolio.

In accordance with the EBA Guidelines on reporting and disclosure of exposures subject to measures implemented in response to the Covid-19 crisis (EBA/GL/2020/07), the following presents - as at 31 December 2020 - the gross exposures and impairment of contracts with moratoria in place:

(amounts in thousand euros)

	GROSS CARRYING AMOUNT							
		PRODUCTIVE			NON-PRODUCTIVE			
			Of which: exposures subject to restructuring measures	Of which: instruments with significant increased credit risk (*)		Of which: exposures subject to restructuring measures	Of which: low probability of payment that is either not due or past due for ≤ 90 days	Entries for non-productive exposures
Loans and advances subject to a moratorium	40,390	40,041	-	821	349	-	304	276
of which: households	31,118	31,118	-	-	-	-	-	-
of which: secured by residential property	31,112	31,112	-	-	-	-	-	-
of which: non-financial corporations	9,271	8,922	-	821	349	-	304	276
of which: small and medium-sized enterprises	8,115	7,809	-	701	307	-	272	276
of which: secured by commercial real estate	2,794	2,705	-	-	88	-	88	88

(*) since initial recognition but without credit impairment (Stage 2)

(amounts in thousand euros)

	ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE FAIR VALUE CHANGES RESULTING FROM CREDIT RISK	PRODUCTIVE			NON-PRODUCTIVE		
			Of which: exposures subject to restructuring measures	Of which: instruments with significant increased credit risk (*)		Of which: exposures subject to restructuring measures	Of which: low probability of payment that is either not due or past due for ≤ 90 days
Loans and advances subject to a moratorium	(394)	(246)	-	(30)	(148)	-	(128)
of which: households	(68)	(68)	-	-	-	-	-
of which: secured by residential property	(68)	(68)	-	-	-	-	-
of which: non-financial corporations	(326)	(178)	-	(30)	(148)	-	(128)
of which: small and medium-sized enterprises	(196)	(76)	-	(27)	(120)	-	(106)
of which: secured by commercial real estate	(131)	(105)	-	-	(25)	-	(25)

(*) since initial recognition but without credit impairment (Stage 2)

The total number of moratorium requests, moratoriums granted (excluding waivers) and moratoriums in force at the end of December 2020 are shown below:

(amounts in thousand euros)

	Number of Debtors	GROSS CARRYING AMOUNT			Residual maturity of moratoria				
			Of which: legislative moratoria	Of which: expired	≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
Loans and advances which have been offered a moratorium	7,018	103,470							
Loans and advances subject to a moratorium (applied)	4,364	82,151	54,213	41,761	9,423	389	30,578	-	-
of which: households		71,837	44,356	40,719	152	389	30,578	-	-
of which: secured by residential property		44,335	44,335	13,223	146	389	30,578	-	-
of which: non-financial corporations		10,313	9,857	1,042	9,271	-	-	-	-
of which: small and medium-sized enterprises		9,131	8,674	1,015	8,115	-	-	-	-
of which: secured by commercial real estate		2,958	2,958	165	2,794	-	-	-	-

Operational Risk

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

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

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

The goal of controlling and managing operational risk is geared towards detecting, assessing, reporting and monitoring this risk.

Governance of operational risk management

The operational risk management framework is based on a model of 3 lines of defence where the first line of defence, composed of all the Bank's employees and Process Owners, is primarily responsible for daily risk management, in conformity with the policies, procedures and controls that are defined.

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

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

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.

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

In the 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). These procedures enable the detection, assessment, monitoring and mitigation of 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 recording of operational risk events is the instrument used to quantitatively measure the historical exposure to operational risk events, and to underpin subsequent analysis to the real efficacy of the existing controls.

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

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

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

The Risk Department is responsible for 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

Operational risk includes events or risks related to fraud, for which a fraud risk management policy has also been approved. This policy formalizes the way in which fraud is addressed concerning its prevention, detection and investigation. Fraud can materialise through different channels, both via products and services and through the different entities with which the Group interacts. In this regard, the main types of fraud are considered to be fraud in the contracting of credit products, accounting fraud, online fraud, card fraud, fraud related to operations, fraud on the part of suppliers or service providers, and fraud of partners.

The defined fraud management model covers various stages, namely prevention, detection, investigation and monitoring. This approach to fraud management, at an initial stage primarily focuses on prevention and detection, in terms of definition of 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

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

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

To guide and formalise the management of this risk, the Bank, as the parent company, has defined a Policy and a Procedures Manual, which stipulate the fundamental principles of compliance, the objectives, players and responsibilities in the field of compliance control and the principles that must be respected by its employees.

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

> **Risk strategy definition:** Considering that the (residual) compliance risk to which the Group is exposed should be low, avoiding the application of serious or very serious administrative offences, the management of this risk follows the following principles: Existence of an independent Compliance Function; Offer of products and services subject to a prior analysis of compliance risk; Variable remuneration/incentive models that reduce conflicts of interest; Implementation of control actions in the areas of greatest inherent risk; Mandatory initial training of employees on compliance and PBCFT issues; Conservative client acceptance policy and with enhanced levels of diligence on clients and operations with a high risk of BCFT;

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

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

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

Compliance risk management involves continuous monitoring of the regulatory initiatives with the greatest impact on the Group, with emphasis, in 2020, on the regulatory projects associated with the implementation of the new legislation on the prevention of money laundering (Law 58/2020), as well as the new regulatory framework for governance systems, internal control and organisational culture, through Notice 3/2020 and Instruction 18/2020.

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

The management of compliance monitoring actions and testing of first line controls completes the compliance risk management cycle. In this regard, particular note should be made of the monitoring, in 2020, of the process of approval of new products and services, of the procedures of control of transactions with related parties, and of the remuneration policies.

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 Group does not have a trading portfolio, with the exception of a derivative with a residual valuation that was acquired by one of the securitisations included in the consolidation perimeter, and almost all of its investment portfolio is recorded as financial assets at amortised cost and residually as financial assets at fair value through other comprehensive income, with the main risk arising from its investments being credit risk rather than market risk.

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

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 timeframes (maturity dates or first interest rate review dates when the interest rate is indexed, or behavioural when appropriate), from which a potential impact on the Group's financial margin and economic value, resulting from interest rate variations, is calculated and for which the Group has defined specific tolerance limits.

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

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

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

Management Practices

The Banco CTT Group has established a liquidity risk management structure with clearly identified responsibilities and processes in order to ensure that all participants in liquidity risk management are perfectly coordinated and that the management controls are effective. Overall, the liquidity risk management strategy is entrusted to the Board of Directors, which delegates it to the Executive Committee, and is carried out by the Treasury Department, based on constant vigilance of exposure indicators, being closely monitored by the Capital and Risk Committee.

The Capital and Risk Committee is responsible for controlling liquidity risk exposure, by analysing liquidity positions and assessing their conformity with the applicable regulatory rules and limitations, as well as with the goals and guidelines defined by the Group.

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

The Risk Department is responsible for identifying, assessing, controlling and monitoring the Group's liquidity risk, ensuring its management within the risk appetite defined by the Board of Directors, supporting the definition of liquidity limits, ensuring the ongoing monitoring of its compliance, supporting the Capital and Risk Committee in the definition of key risk indicators (KRIs), and monitoring their evolution.

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

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

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

The LCR 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 enable greater control over the liquidity mismatch, taking into account the contracted outflow and inflows, and also enable knowing the concentration of counterbalancing capacity.

Analysis of Liquidity Risk

The Liquidity Coverage Ratio (LCR) reached a comfortable figure of 1.066% (1.896% at the end of 2019), significantly higher than the minimum requirements, reflecting the Group's liquidity management, namely its investments, during 2020.

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

As at 31 December 2020, the ALMM shows a positive liquidity mismatch (difference between contracted outflows and inflows) of 170,407 thousand euros.

Additionally, this positive liquidity mismatch is reinforced by financial assets and reserves at the Central Bank of close to 1,020,108 thousand euros.

Strategy Risk

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

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

IT Risk

Information systems risk refers to the probability of the occurrence of negative impacts on results or capital, as a result of the information systems' inadequacy in adapting to new needs, their inability to prevent unauthorised access, to guarantee data integrity or to ensure business continuity in cases of failure, as well as due to the pursuit of an inadequate strategy in this area.

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

Additionally, the Banco CTT Group has implemented a business continuity plan, periodically tested, reviewed and improved, based on risk analysis and in compliance with legal and regulatory requirements.

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

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

In addition, the Technology and Operational Efficiency Committee monitors the levels of service response and resolution of both the internal teams and the main suppliers and partners, and the level of availability of the main systems.

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

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

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

Lisbon, 15 March 2021

The Board of Directors

João de Almada Moreira Rato	João Manuel de Matos Loureiro
Luís Maria França de Castro Pereira Coutinho	Clementina Maria Dâmaso de Jesus Silva Barroso
João Maria de Magalhães Barros de Mello Franco	Susana Maria Morgado Gomez Smith
Pedro Rui Fontela Coimbra	António Pedro Ferreira Vaz da Silva
Nuno Carlos Dias dos Santos Fórneas	Guy Patrick Guimarães de Goyri Pacheco
Luís Jorge de Sousa Uva Patrício Paúl	António Emídio Pessoa Corrêa d'Oliveira

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

Concise risk appetite statement:

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

The risk tolerance levels are defined in the Risk Appetite Statement (RAS) of the Group, with this instrument being used in the Bank's management and decision-making process in its consolidated activity. The first and foremost objective of the RAS is to lead the Group, in general, and its governing bodies, in particular, to reflect on the Bank's risk positioning. Accordingly, the RAS is reflected in a continuous and ever present concern in the different strategic planning and business cycles, being one of the core components for the definition of the Group's growth and profitability goals, and defines the main qualitative principles and quantitative limits for the management of the different risks arising from the activity, thus conditioning the criteria on decision-making and management operatives of the different risks.

The RAS is divided into two main components: a) Governance Model that, based on the General Policy on Internal Control and Risk Management, assigns responsibilities to the different corporate bodies and structural units; and b) Risk Assessment and Indicators that include an assessment of the different risks, identification of the material risks and definition of their limits.

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

The 2021-23 version of the RAS, approved by the Board of Directors in December 2020, includes 18 indicators as limits that the Group considers essential for its sustainability in various aspects of its business: capital, liquidity risks, operational, credit, interest rate, reputational, compliance and information systems management.

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

	Dec/20	Dec/19
Common equity tier 1 ratio [CRR]	16.8%	19.1%
Total own funds ratio [CRR]	16.8%	19.1%
Leverage ratio [CRR]	6.7%	7.7%
Liquidity coverage ratio [CRR]	1,066%	1,896%
Net stable funding ratio [CRR]	170%	162%

Lisbon, 15 March 2021

The Board of Directors

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira


pág — 17

banco ctt

Management Report

SUPPLEMENTARY INFORMATION

With relevance
and clarity, Banco CTT
raised recognition.

5.1 Consolidated Financial Statements of 2020

Consolidated Income Statement for the year ended on 31 December 2020

(amounts in thousand euros)

	2020	2019
Interest and similar income calculated through the effective interest rate	45,963	30,964
Interest and similar expenses	(1,391)	(1,704)
Net Interest Income	**44,572**	**29,260**
Net fee and commission income	20,204	15,455
Net gains/(losses) of assets and liabilities at fair value through profit or loss	-	(8)
Net gains/(losses) of other financial assets at fair value through other comprehensive income	389	35
Gains / (losses) on derecognition of financial assets and liabilities at amortised cost	34	-
Net gains/(losses) from divestment of other assets	(230)	7
Other operating income/(expenses)	1,004	1,070
Operating Income	**65,973**	**45,819**
Staff costs	(21,806)	(19,428)
General administrative expenses	(27,152)	(27,498)
Depreciation and amortisation	(6,451)	(5,525)
Operating Costs	**(55,409)**	**(52,451)**
Operating Profit/(Loss) Before Provisions and Impairment	**10,564**	**(6,632)**
Loans impairment	(10,028)	(3,054)
Other financial assets impairment	171	258
Other assets impairment	833	(297)
Other provisions	(328)	224
Operating Profit/(Loss)	**1,212**	**(9,501)**
Profit/(Loss) Before Tax	**1,212**	**(9,501)**
Taxes		
Current	(766)	1,606
Deferred	(213)	(116)
Net Income for the Year	**233**	**(8,011)**
Earnings per share (in euros)		
Basic	0.00	(0.03)
Diluted	0.00	(0.03)

Consolidated Balance Sheet as at 31 December 2020

(amounts in thousand euros)

	2020	2019
Assets		
Cash and deposits at central banks	195,364	55,424
Deposits at other credit institutions	36,377	116,698
Financial assets at amortised cost		
Investments at credit institutions	38,902	34,615
Loans and advances to customers	1,093,282	885,821
Debt securities	498,251	455,869
Financial assets at fair value through profit or loss		
Financial assets held for trading	2	2
Financial assets at fair value through other comprehensive income		
Debt securities	19,555	542
Non-current assets held for sale	966	806
Other tangible assets	3,872	3,913
Goodwill and intangible assets	89,911	88,709
Current tax assets	-	70
Deferred tax assets	1,929	2,093
Other assets	21,468	21,316
Total Assets	**1,999,879**	**1,665,878**
Liabilities		
Financial liabilities at amortised cost		
Amounts owed to other credit institutions	-	37,851
Deposits from customers	1,688,465	1,283,567
Debt securities issued	44,518	76,077
Provisions	1,780	1,723
Current tax liabilities	1,363	4,118
Deferred tax liabilities	103	83
Other liabilities	51,977	51,104
Total Liabilities	**1,788,206**	**1,454,523**
Equity		
Share capital	286,400	286,400
Fair value reserves	83	16
Other reserves and retained earnings	(75,043)	(67,050)
Net income for the year	233	(8,011)
Total Equity	**211,673**	**211,355**

5.2 Individual Financial Statements of 2020

Individual Income Statement for the year ended on 31 December 2020

(amounts in thousand euros)

	2020	2019
Interest and similar income calculated through the effective interest rate	17,600	14,209
Interest and similar expenses	(861)	(861)
Net Interest Income	**16,739**	**13,348**
Net fee and commission income	10,871	5,717
Net gains/(losses) of other financial assets at fair value through other comprehensive income	389	35
Gains / (losses) on derecognition of financial assets and liabilities at amortised cost	34	-
Other operating income/(expenses)	(261)	(101)
Operating Income	**27,772**	**18,999**
Staff costs	(14,303)	(14,121)
General administrative expenses	(21,063)	(22,903)
Depreciation and amortisation	(5,520)	(4,942)
Operating Costs	**(40,886)**	**(41,966)**
Operating Profit/(Loss) Before Provisions and Impairment	**(13,114)**	**(22,967)**
Loans impairment	(1,075)	(72)
Other financial assets impairment	234	(33)
Other assets impairment	15	(122)
Other provisions	(151)	37
Operating Profit/(Loss)	**(14,091)**	**(23,157)**
Net gains/(losses) of investments in subsidiaries and associates	**11,292**	**10,130**
Profit/(Loss) Before Tax	**(2,799)**	**(13,027)**
Taxes		
Current	3,030	5,074
Deferred	54	(58)
Net Income for the Year	**285**	**(8,011)**
Earnings per share (in euros)		
Basic	0.00	(0.03)
Diluted	0.00	(0.03)

Individual Balance Sheet as at 31 December 2020

(amounts in thousand euros)

	2020	2019
Assets		
Cash and deposits at central banks	191,613	51,848
Deposits at other credit institutions	14,578	95,462
Financial assets at amortised cost		
Investments at credit institutions	52,999	56,957
Loans and advances to customers	525,672	406,322
Debt securities	936,089	768,273
Financial assets at fair value through other comprehensive income		
Debt securities	19,555	542
Other tangible assets	1,746	1,458
Intangible assets	24,236	25,165
Investments in subsidiaries and associates	144,692	135,782
Deferred tax assets	526	472
Other assets	18,514	18,580
Total Assets	**1,930,220**	**1,560,861**
Liabilities		
Financial liabilities at amortised cost		
Amounts owed to other credit institutions	34	38,135
Deposits from customers	1,689,110	1,283,567
Provisions	165	14
Deferred tax liabilities	20	-
Other liabilities	29,166	27,790
Total Liabilities	**1,718,495**	**1,349,506**
Equity		
Share capital	286,400	286,400
Fair value reserves	83	16
Other reserves and retained earnings	(75,043)	(67,050)
Net income for the year	285	(8,011)
Total Equity	**211,725**	**211,355**

5.3
Appropriation of Net Income

Whereas:

in the financial year of 2020, Banco CTT S.A. recorded a positive net income of 285,011.38 euros,

it is proposed,

under the terms of Article 66(5)(f) of number 5 of article 66 and for the purposes of Article 376(1)(b), both of the Companies Code:

- that 10% of the net income, in the amount of 28,501.14 euros, be transferred to legal reserves, in accordance with article 97(1) of the General Regime of Credit Institutions and Financial Companies; and

- that the remaining amount of 256,510.24 euros be transferred to Retained Earnings.

Lisbon, 15 March 2021

The Board of Directors

João de Almada Moreira Rato	João Manuel de Matos Loureiro
Luís Maria França de Castro Pereira Coutinho	Clementina Maria Dâmaso de Jesus Silva Barroso
João Maria de Magalhães Barros de Mello Franco	Susana Maria Morgado Gomez Smith
Pedro Rui Fontela Coimbra	António Pedro Ferreira Vaz da Silva
Nuno Carlos Dias dos Santos Fórneas	Guy Patrick Guimarães de Goyri Pacheco
Luís Jorge de Sousa Uva Patrício Paúl	António Emídio Pessoa Corrêa d'Oliveira

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With diversification,
Banco CTT raised new solutions
to its customers.

6.1
Financial Statements and Notes to the Consolidated Financial Statements 2020

Consolidated Financial Statements

Consolidated Income Statement for the year ended on 31 December 2020

(amounts in thousand euros)

	Notes	2020	2019
Interest and similar income calculated through the effective interest rate		45,963	30,964
Interest and similar expenses		(1,391)	(1,704)
Net Interest Income	**4**	**44,572**	**29,260**
Net fee and commission income	5	20,204	15,455
Net gains/(losses) of assets and liabilities at fair value through profit or loss		-	(8)
Net gains/(losses) of other financial assets at fair value through other comprehensive income	6	389	35
Gains / (losses) on derecognition of financial assets and liabilities at amortised cost		34	-
Net gains/(losses) from divestment of other assets		(230)	7
Other operating income/(expenses)	7	1,004	1,070
Operating Income		**65,973**	**45,819**
Staff costs	8	(21,806)	(19,428)
General administrative expenses	9	(27,152)	(27,498)
Depreciation and amortisation	18 and 19	(6,451)	(5,525)
Operating Costs		**(55,409)**	**(52,451)**
Operating Profit/(Loss) Before Provisions and Impairment		**10,564**	**(6,632)**
Loans impairment	14	(10,028)	(3,054)
Other financial assets impairment	13, 15 and 16	171	258
Other assets impairment	17 and 21	833	(297)
Other provisions	25	(328)	224
Operating Profit/(Loss)		**1,212**	**(9,501)**
Profit/(Loss) Before Tax		**1,212**	**(9,501)**
Taxes			
Current	20	(766)	1,606
Deferred	20	(213)	(116)
Net Income for the Year		**233**	**(8,011)**
Earnings per share (in euros)			
Basic	10	0.00	(0.03)
Diluted	10	0.00	(0.03)

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

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Consolidated Statement of Comprehensive Income for the year ended on 31 December 2020

(amounts in thousand euros)

	Notes	2020	2019
Items that may be reclassified to the income statement			
Fair value reserve	28	67	16
Items that shall not be reclassified to the income statement			
Actuarial gains/(losses) for the year			
Employee benefits	34	17	(145)
Comprehensive income recognized directly in Equity after taxes		**84**	**(129)**
Net Income for the Year		233	(8,011)
Total Comprehensive income for the year		**317**	**(8,140)**

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Consolidated Balance Sheet as at 31 December 2020

(amounts in thousand euros)

	Notes	2020	2019
Assets			
Cash and deposits at central banks	11	195,364	55,424
Deposits at other credit institutions	12	36,377	116,698
Financial assets at amortised cost			
Investments at credit institutions	13	38,902	34,615
Loans and advances to customers	14	1,093,282	885,821
Debt securities	15	498,251	455,869
Financial assets at fair value through profit or loss			
Financial assets held for trading		2	2
Financial assets at fair value through other comprehensive income			
Debt securities	16	19,555	542
Non-current assets held for sale	17	966	806
Other tangible assets	18	3,872	3,913
Goodwill and intangible assets	19	89,911	88,709
Current tax assets	20	-	70
Deferred tax assets	20	1,929	2,093
Other assets	21	21,468	21,316
Total Assets		**1,999,879**	**1,665,878**
Liabilities			
Financial liabilities at amortised cost			
Amounts owed to other credit institutions	22	-	37,851
Deposits from customers	23	1,688,465	1,283,567
Debt securities issued	24	44,518	76,077
Provisions	25	1,780	1,723
Current tax liabilities	20	1,363	4,118
Deferred tax liabilities	20	103	83
Other liabilities	26	51,977	51,104
Total Liabilities		**1,788,206**	**1,454,523**
Equity			
Share capital	27	286,400	286,400
Fair value reserves	28	83	16
Other reserves and retained earnings	28	(75,043)	(67,050)
Net income for the year		233	(8,011)
Total Equity		**211,673**	**211,355**

THE CHARTERED ACCOUNTANT

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Consolidated Statement of Changes in Equity for the year ended on 31 December 2020

(amounts in thousand euros)

	Share Capital	Fair Value Reserves	Other Reserves	Retained Earnings	Net Income for the Year	Total Equity
Balance on 31 December 2018 (restated)	**156,400**	**-**	**(756)**	**(48,661)**	**(17,487)**	**89,496**
Share capital increase	130,000	-	-	-	-	130,000
Fair value reserves	-	16	-	-	-	16
Other	-	-	(1)	-	-	(1)
Actuarial gains/(losses)	-	-	(145)	-	-	(145)
Retained earnings	-	-	-	(17,487)	17,487	-
Net income for the year	-	-	-	-	(8,011)	(8,011)
Balance on 31 December 2019	**286,400**	**16**	**(902)**	**(66,148)**	**(8,011)**	**211,355**
Share capital increase	-	-	-	-	-	-
Fair value reserves	-	67	-	-	-	67
Other	-	-	1	-	-	1
Actuarial gains/(losses)	-	-	17	-	-	17
Retained earnings	-	-	-	(8,011)	8,011	-
Net income for the year	-	-	-	-	233	233
Balance on 31 December 2020	**286,400**	**83**	**(884)**	**(74,159)**	**233**	**211,673**

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Consolidated Cash Flow Statement for the year ended on 31 December 2020

(amounts in thousand euros)

	Notes	2020	2019
Cash flow from operating activities		**204,490**	**171,782**
Interest and commissions received		60,507	38,484
Interest and commissions paid		(5,144)	(6,204)
Payments to employees		(21,180)	(18,208)
Other payments and revenues		(29,896)	(14,887)
Variation in operational assets and liabilities		200,203	172,597
Other operational assets and liabilities		*3,155*	*6,128*
Loans and advances to customers		*(208,132)*	*(232,864)*
Deposits from customers		*405,180*	*399,333*
Cash flow from investment activities		**(65,157)**	**(61,676)**
Deposits at Banco de Portugal		10,128	(19,707)
Investment in securities		(65,699)	(9,555)
Investments at credit institutions		(4,110)	84,665
Acquisitions of tangible fixed assets and intangible assets		(5,476)	(6,297)
Acquisitions of subsidiaries and associates		-	(110,782)
Cash flow from financing activities		**(70,935)**	**(105,413)**
Share capital increases		-	130,000
Amounts owed to other credit institutions		(37,881)	18,881
Debt securities issued		(31,536)	(222,288)
Other loans raised		-	(30,621)
Leases		(1,518)	(1,385)
Cash and cash equivalents at the beginning of the year		**143,973**	**132,456**
Change of the consolidation perimeter		**-**	**6,824**
Net changes in cash and cash equivalents		**68,398**	**4,693**
Cash and cash equivalents at the end of the year		**212,371**	**143,973**
Cash and cash equivalents cover:		212,371	143,973
Cash	11	27,862	25,926
Demand deposits at Banco de Portugal	11	151,707	3,574
Deposits at credit institutions	12	32,802	114,473

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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 Banco de Portugal Notice 5/2015, the financial statements of Banco

CTT are prepared in accordance with the International Reporting Financial Standards (IFRS), as endorsed in the European Union (EU) on the reporting date.

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.

Banco CTT, S.A. (hereinafter referred to as "Banco CTT" or "Bank") is a credit institution with registered office at Avenida D. João II, nº 13, Edifício Báltico, Piso 11º, 1999-001 Lisboa, controlled by CTT – Correios de Portugal, S.A., having been incorporated in August 2015.

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

The consolidated financial statements presented herein reflect the results of the operations of the Bank and all its subsidiaries, Payshop (Portugal), S.A. and 321 Crédito – Instituição Financeira de Crédito, S.A. (together referred to as "Group"), the latter from 2 May 2019 onwards.

The Banco CTT Group is composed of the following subsidiaries:

	2020		2019	
	Holding (%)	Voting Rights (%)	Holding (%)	Voting Rights (%)
Payshop (Portugal), S.A.	100%	100%	100%	100%
321 Crédito - Instituição Financeira de Crédito, S.A.	100%	100%	100%	100%

The figures for 2019 include the entry of 321 Crédito in the consolidation perimeter.

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

	Year of Incorporation	Place of Issue	% Economic Interest	Consolidation Method
Ulisses Finance No.1 (*)	2017	Portugal	19.2%	Integral
Chaves Funding No.8 (*)	2019	Portugal	100%	Integral

(*) Entities incorporated under securitisation operations, recorded in the consolidated financial statements according to the Group's continued involvement, determined based on the percentage held in the residual interests (equity piece) of the respective vehicles (see Note 35 – Asset securitisation).

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

(amounts in thousand euros)

	2020	2019
Cash and deposits at credit institutions	9,896	7,730
Financial liabilities at amortised cost – Debt securities issued (see Note 24)	44,518	76,077

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 2020, having been prepared in accordance with current IFRS as endorsed in the European Union by 31 December 2020.

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 available for sale.

The preparation of financial statements in conformity with IFRS requires the Group to make judgments 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 the meeting held on 15 March 2021.

Note 2 – Main Accounting Policies

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

2.1 Basis of consolidation

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

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

2.1.1 Financial stakes in subsidiaries

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

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

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

2.1.2 Financial investments in associates

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

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

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

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

As at 31 December 2020 and 2019, 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 through 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 Group's functional currency) are recorded at the exchange rates in force on the transaction date. At each reporting date, the book values of the monetary items in foreign currency are updated at the exchange rates on that date. The book values of non-monetary items recorded at historical cost in foreign currency are not updated.

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

2.3 Financial Instruments – IFRS 9

2.3.1 Financial Assets

Classification, initial recognition and subsequent measurement

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

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

The classification takes into account the following aspects:

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

Assessment of the Business Model

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

- the policies and objectives established for the portfolio and the practical 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.

Reclassifications between financial instruments categories

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

2.3.1.1 Financial assets at amortised cost

Classification

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

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

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

Initial recognition and subsequent measurement

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

Financial assets at amortised cost are initially recognised at their fair value, plus transaction costs, and are subsequently measured at amortised cost. Furthermore, after their initial recognition, they are subject to the estimation of impairment losses due to expected loan losses, which are recorded against the heading "Impairment of other financial assets 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 2.11.

Gains or losses generated at the time of their derecognition are recorded in the heading "Net gains/(losses) from 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 through other comprehensive income and, at the time of their divestment, the respective accumulated gains or losses in other comprehensive income are reclassified to a specific income statement heading named "Net gains/(losses) of other financial assets at fair value through other comprehensive income".

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

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

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

Impairment is not recognised for equity instruments at fair value through other comprehensive income, with the corresponding accumulated gains or losses recorded under fair value variations being transferred to Retained earnings upon their derecognition.

2.3.1.3 Financial assets at fair value through profit or loss

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

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

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

2.3.1.4 Derecognition of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

2.3.1.6 Impairment losses

The Group determines the expected loan losses of each operation according to the deterioration of the credit risk observed since its initial recognition. For this purpose, 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. Operations acquired or originated in situations of impairment (Purchased or Originated Credit-Impaired – POCI) are also classified under stage 3.*

<u>Forward Looking Information</u>

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

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

<u>Significant increase of credit risk (SICR)</u>

Significant increase of credit risk (SICR) is mainly determined according to quantitative criteria but also according to qualitative criteria, with a view to detecting significant increases of the Probability of Default (PD), supplemented with other type of information, in particular the behaviour of customers to entities of the financial system. However, regardless of the observation of a significant increase of credit risk in an exposure, it is classified under Stage 2 when any of the following conditions are met:

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

<u>Definition of financial assets in default and in a situation of impairment</u>

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;
- Restructured loans due to financial difficulties;
- Loans in default quarantine;
- Loans over involving suspected fraud or confirmed fraud.

<u>Estimated expected loan losses – Individual analysis</u>

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

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

<u>Estimated expected loan losses – Individual analysis</u>

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

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

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

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

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

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

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

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

The Group 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 LGD parameters based on benchmarks and the historical recovery records, for the segments where they exist. 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.

2.3.1.7 Modification of financial assets

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

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

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

2.3.2 Financial Liabilities

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

Non-derivatives financial liabilities essentially include deposits from customers.

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

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

2.4 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 income/(expenses)".

2.7 Intangible Assets

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

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

Intangible assets are amortised through the straight-line method, as of the month when they are available for use, during their expected useful life, which is situated in a period varying between 3 and 6 years. In the specific case of the base operational system, after analysis of the expected period of its use, it was decided that its amortisation should take place over a period of 15 years.

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

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

2.8 Leases

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

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

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

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

2.8.1 As lessee

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

Subsequently, the right-of-use asset is depreciated using the straight-line method from the starting date to the end of the useful life of the right-of-use asset or to the end of the lease period, according to what ends first. The useful life of right-of-use assets is determined by following the same principles as those applicable to Tangible Assets. Furthermore, the right-of-use asset is periodically deducted impairment losses, if any, and adjusted for particular remunerations of the lease liability.

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

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

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

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

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

Short-term leases and low-value leases

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

2.8.2 As lessor

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

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

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

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

2.9 Income Tax

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

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

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

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

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

The Bank and its subsidiaries – more than 75% held directly or indirectly, and for more than 1 year by the parent company CTT – are covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 90% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC). In this regard, Banco CTT and its subsidiaries, eligible to application of the RETGS, receive from CTT the value relative to the tax loss which they contribute to the consolidated corporate income tax of the CTT Group and, likewise, pay to CTT the value relative to their positive contribution to the consolidated corporate income tax of the CTT Group.

2.10 Provisions

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

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

2.11 Recognition of Interest

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

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

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

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

2.12 Recognition of Income of Services, Fees and Commissions

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

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

2.13 Earnings per Share

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

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

2.14 Cash and Cash Equivalents

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

Cash and cash equivalents exclude restricted balances with central banks.

2.15 Provision of Insurance Mediation Services

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

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

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

2.16 Employee Benefits

Career Bonus

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

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

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

Allowance due to Death Arising from a Work Accident

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

Post-Retirement Medical Care (SAMS)

The Group, through its subsidiary 321 Crédito, is liable for the payment of the medical care costs of all the employees of 321 Crédito, S.A. as well as those who move into a situation of retirement, and for the costs related to survivors' pensions. This medical care is provided by the Social Medical Assistance Service (SAMS) whose post-retirement costs to the member are defined are Clause 92 of the collective bargaining agreement of the banking sector published in Boletim do Trabalho e Emprego (BTE) number 38/2017 of 15 October. The Group is liable for the payment of the aforesaid costs for all its employees as soon as they move into a situation of retirement and for the costs related to survivors' pensions. The calculation of these costs is based on the figures of Annex III of the collective bargaining agreement, considering the growth rate of the salary table, with the date of seniority in the Group being considered for the counting of time of service.

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

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

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

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

Variable remunerations of the employees

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

2.17 Non-Current Assets held for Sale

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

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

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

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

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

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

2.18 Securitisation operations

The Group has two consumer credit securitisation operations in course (Ulisses Finance No.1 and Chaves Funding No.8) and a financial leasing securitisation operation (Fénix 1), having maintained control over the assets and liabilities of Ulisses Finance No.1 and Chaves Funding No.8 as it acquired their residual tranches. These entities are consolidated in the Group's financial statements in accordance with accounting policy 2.1.

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

The IFRS establish a series of accounting treatments and require the Board of Directors to make the necessary judgments and estimates in deciding which treatment is most appropriate. The main accounting estimates and judgements used in 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 historical data, benchmarks or using market data.

Loss given default

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

3.2 Provisions

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

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

3.3 Goodwill impairment

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

3.4 Evolution of the SARS-COV-2 (Covid-19) situation

Due to a new general confinement, as of the second half of January 2021, a negative economic and social impact is anticipated, which will affect society in general and the Group's business, which may impact the current estimates prepared by the Group. However, management will continue to monitor the threat and its implications on the business and provide all necessary information to its stakeholders and act in accordance with the recommendations issued by the World Health Organisation and public health authorities.

Note 4 – Net Interest Income

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Interest and similar income calculated through the effective interest rate	**45,963**	**30,964**
Interest on deposits at Central Banks and credit institutions	-	3
Interest on financial assets at amortised cost		
Investments at credit institutions	417	570
Loans and advances to customers	37,853	23,271
Debt securities	7,520	7,110
Interest on financial assets at fair value through other comprehensive income		
Debt securities	175	11
Other interest	(2)	(1)
Interest and similar expenses	**1,391**	**1,704**
Interest on financial liabilities at amortised cost		
Amounts owed to other credit institutions	2	(102)
Deposits from customers	863	974
Debt securities issued	460	766
Other interest	66	66
Net Interest Income	**44,572**	**29,260**

The heading "Interest and similar income" for the year ended 31 December 2020 presents a total of 1,365 thousand euros related to financial assets with impairment (Stage 3) at the reference date.

The heading "Interest on loans and advances to customers" includes the amount of -7,394 thousand euros (2019: -3,738 thousand euros) related to commissions and other expenses and income recorded according to the effective interest method, as referred in the accounting policy described in Note 2.11.

In 2019, the heading "Interest on loans and advances to customers" includes only 8 months of activity of 321 Crédito - Instituição Financeira de Crédito, S.A., which became part of Banco CTT's consolidation perimeter following its acquisition in May 2019.

The interest of amounts owed to other credit institutions of the value of -102 thousand euros refers mainly to sale and repurchase agreements (repos), contracted at market rates.

Note 5 – Net Fee and Commission Income

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Fees and commissions received	**26,055**	**21,402**
Due to payment operations	9,554	10,697
Due to banking services provided	10,450	6,467
Due to credit intermediation services	1,748	2,310
Due to insurance mediation services	4,304	1,902
Other fees and commissions received	(1)	26
Fees and commissions paid	**5,851**	**5,947**
Due to banking services provided by third parties	3,391	3,392
Due to payment operations	2,302	2,455
Dues to operations with securities	108	65
Other fees and commissions paid	50	35
Net Fee and Commission Income	**20,204**	**15,455**

The heading "Fees and commissions received – Due to payment operations" refers to commissions related to the payment acceptance activity of the payment entity Payshop.

The heading "Fees and commissions paid – Due to payment operations" refers to commissions paid by the payment acceptance activity of the payment entity Payshop.

Note 6 – Net Gains/(Losses) of Other Financial Assets at Fair Value Through Other Comprehensive Income

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Profits in operations with Other Financial Assets at Fair Value Through Other Comprehensive Income	**389**	**35**
Bonds	389	35
Net Gains/(Losses) of Other Financial Assets at Fair Value Through Other Comprehensive Income	**389**	**35**

Note 7 – Other Operating Income/(Expenses)

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Operating income	**3,794**	**2,751**
Credit recovery	1,297	1,272
Other operating income	2,497	1,479
Operating expenses	**2,790**	**1,681**
Royalties	238	299
Levies and donations	68	87
Contribution of the banking sector	304	79
Contribution to the Single Resolution Fund	82	77
Contribution to the Resolution Fund	128	19
Annual supervisory fees (SSM)	-	10
Taxes	138	56
Annual supervisory fees (ASF)	2	-
Contribution to the Deposit Guarantee Fund	3	2
Other operating expenses	1,827	1,052
Other Operating Income/(Expenses)	**1,004**	**1,070**

The heading "Credit recovery" refers to values recovered, via judicial or other means, of contracts written off from the assets.

The heading "Other operating income" refers to expenses charged to customers on account of costs incurred by the Group, namely administrative expenses, expenses related to lawsuits, dossier expenses and postage costs.

The heading "Royalties" records the amounts payable to CTT Contacto, S.A. for use of the Payshop brand.

The "Contribution of the banking sector" is calculated in accordance with the provisions in Law 55-A/2010, with the amount determined based on: (i) the annual average liability stated on the balance sheet, minus core own funds (Tier 1 Capital) and supplementary own funds (Tier 2 Capital) and the deposits covered by the Deposit Guarantee Fund; and (ii) the notional value of the derivative financial instruments.

The heading "Contribution to the Single Resolution Fund" refers to the ex-ante contribution to the Single Resolution Fund, under the Single Resolution Mechanism and pursuant to number 2 of article 70 of Regulation (EU) 806/2014 of the European Parliament and of the Council, of 15 July 2014.

The heading "Contribution to the Resolution Fund" corresponds to mandatory periodic contributions to the Fund, pursuant to Decree-Law 24/2013. The periodic contributions are calculated according to a basic rate applicable every year, determined by Banco de Portugal, by instruction, which can be adjusted according to the institution's risk profile, on the objective basis of assessment of these contributions. The periodic contributions are incident on the liabilities of the institutions participating in the Fund, defined under the terms of article 10 of the aforesaid Decree-Law, minus the liability items that are part of the of the core own funds (Tier 1 Capital), supplementary own funds (Tier 2 Capital) and deposits covered by the Deposit Guarantee Fund.

The Single Supervisory Mechanism (SSM) is one of the three pillars of the Banking Union (the Single Supervisory Mechanism, the Single Resolution Mechanism and a Common System for Deposit Protection). The SSM model distinguishes between significant credit institutions (under direct supervision of the ECB) and less significant credit institutions (under indirect supervision of the ECB and direct supervision of the competent national authorities, with articulation and reporting to the ECB), based on quantitative and qualitative criteria. Banco CTT is classified as a Less Significant Entity (LSE).

The heading "Other operating expenses" essentially records expenses related to registry offices, ownership reservations and change of motor vehicle registration.

Note 8 – Staff Costs

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Remuneration	14,301	12,679
Social charges on remunerations	3,435	2,985
Employees with a multiple employer arrangement	1,843	2,004
Incentives and performance bonuses	1,624	1,314
Occupational accident and disease insurance	378	277
Other costs	225	169
Staff Costs	**21,806**	**19,428**

The total amount of fixed remunerations attributed to the Management and Supervisory Bodies of Banco CTT, during 2020, recorded in the heading "Remunerations", reached 1,501 thousand euros (2019: 1,226 thousand euros). During 2020, costs related to Social Security contributions of the Management and Supervisory Bodies were also paid of the value of 353 thousand euros (2019: 289 thousand euros). As at 31 December 2020, the heading "Incentives and performance bonuses" includes 133 thousand euros of bonuses attributable to the Management Bodies (2019: 406 thousand euros). In 2020, the Bank recorded under the heading "Other costs" 35 thousand euros of costs related to retirement savings plans attributed to Management Bodies (2019: 35 thousand euros).

The employees of the retail network are under a multiple employer arrangement, as established in article 101 of the Labour Code, accumulating positions with the CTT postal service. In 2020 the cost related to these employees shared with CTT amounted to 1,843 thousand euros (2019: 2,004 thousand euros).

In 2020 the Management Bodies were paid 202 thousand euros of variable remuneration (2019: 242 thousand euros).

On the date of the end of 2020 and 2019, the permanent staff, excluding employees under the multiple employer arrangement, distributed by major professional category, was as follows:

	2020	2019
Administration	12	11
Executive	*5*	*4*
Non-executive	*7*	*7*
of which: Audit Committee	*3*	*3*
Directors (subsidiaries)	2	2
Heads of functional areas	38	33
Technical and secretarial staff	369	351
	421	**397**

The heading Other costs includes, at 31 December 2020, 113 thousand euros (2019: 37 thousand euros) relative to defined benefit plans, as referred to in Note 34.

Note 9 – General Administrative Expenses

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Water, electricity and fuel	212	228
Consumables	172	175
Hygiene and cleaning supplies	27	5
Rental and hire charges	360	317
Communications	2,012	1,763
Travel, hotel and representation costs	429	198
Advertising	1,371	3,878
Maintenance and related services	34	59
Training costs	97	92
Insurance	140	376
IT	9,279	8,261
Consulting and advisory services	2,232	3,607
Other specialised services	3,083	2,819
Other supplies and services	7,704	5,720
General Administrative Expenses	**27,152**	**27,498**

The heading "IT" records the costs incurred with the implementation and maintenance of information technology systems and infrastructure.

The heading "Advertising" records the costs incurred with advertising and communication of the brand and products.

The heading "Other specialised services" records the costs incurred with the banking and transaction operative.

The heading "Other supplies and services" records, among others, costs related to the use of the CTT Retail Network, servicing of banking operations and use of payments networks. The cost of using the physical and technical resources of the CTT Post Office Network amounted to 2,745 thousand euros (2019: 1,747 thousand euros).

The costs incurred with audit and legal review of accounts services provided by the Statutory Auditor are as follows:

(amounts in thousand euros)

	2020	2019
Review of accounts services	285	301
Reliability assurance services	260	169
Services other than review of accounts	83	15
	628	**485**

Note 10 – Earnings per Share

Earnings per share are calculated as follows:

	2020	2019
Net income for the year (thousand euros)	233	(8,011)
Average number of shares	286,400,000	232,235,616
Basic earnings per share (euros)	0.00	(0.03)
Diluted earnings per share (euros)	0.00	(0.03)

The Bank's share capital stands at 286,400,000 euros, represented by 286,400,000 ordinary shares without nominal value, and is fully paid-up.

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

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

As at 31 December 2020 and 2019, the Bank did not hold potential dilutive ordinary shares: hence, the diluted earnings per share are the same as the basic earnings per share.

Note 11 – Cash and Deposits at Central Banks

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Cash	27,862	25,926
Demand deposits at Banco de Portugal	167,502	29,498
Cash and Deposits at Central Banks	**195,364**	**55,424**

The heading "Cash" is represented by notes and coins denominated in euros.

The heading "Demand deposits at Banco de Portugal" includes mandatory deposits with a view to meeting the minimum cash reserve requirements. As at 31 December 2020, the amount of the minimum cash reserves was 15,796 thousand euros.

Pursuant to Regulation (EU) 1358/2011 of the European Central Bank, of 14 December 2011, the minimum cash requirements kept as demand deposits at Banco de Portugal correspond to 1% of the deposits and other liabilities.

Note 12 – Deposits at Other Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Credit institutions in Portugal	22,906	106,743
Credit institutions abroad	9,896	7,730
Cheques for collection	3,575	2,226
Impairment for deposits at other credit institutions	-	(1)
Deposits at Other Credit Institutions	**36,377**	**116,698**

The heading "Cheques for collection" represents drawn by third parties at other credit institutions, which are pending collection.

Note 13 – Financial Assets at Amortised Cost – Investments at Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Investments at credit institutions in Portugal	10,000	4,351
Loans to credit institutions in Portugal	18,929	30,480
Investments at credit institutions abroad	10,000	-
Impairment for investments in credit institutions	(27)	(216)
Investments at Credit Institutions	**38,902**	**34,615**

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

	2020	2019
Up to 3 months	12,871	3,368
3 to 12 months	14,633	12,535
1 to 3 years	10,463	13,689
More than 3 years	962	5,239
Investments at Credit Institutions	**38,929**	**34,831**

The heading "Investments at credit institutions" showed an annual average rate of 1.179% in 2019 (2019: 0.781%).

Impairment of investments in credit institutions for the Bank is analysed as follows:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**216**	**422**
Movement for the period:		
Financial assets originated or acquired	23	53
Variations due to change in exposure or risk parameters	(162)	(69)
Derecognised financial assets excluding write-offs	(50)	(190)
Impairment of investments in credit institutions	**27**	**216**

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**216**	**422**
Movement for the period:		
Variations in the expected credit loss of the Portfolio	(189)	(206)
Impairment of investments in credit institutions	**27**	**216**

Note 14 – Financial Assets at Amortised Cost – Loans and Advances to Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Mortgage loans	525,083	405,168
Auto loans	568,273	469,776
Finance leases	6,937	8,977
Overdrafts	1,148	1,002
Outstanding loans	**1,101,441**	**884,923**
Overdue loans - less than 90 days	1,009	741
Overdue loans - more than 90 days	7,497	4,135
Overdue loans	**8,506**	**4,876**
Impairment for credit risk	**(16,665)**	**(3,978)**
Loans and Advances to Customers	**1,093,282**	**885,821**

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

	2020						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Overdue loans	Total
Mortgage loans	–	3,679	10,650	29,886	480,869	–	525,084
Auto loans	–	24,671	62,937	163,220	317,445	6,624	574,897
Finance leases	–	365	1,390	3,068	2,113	210	7,146
Other loans	–	–	–	–	–	627	627
Overdrafts	1,148	–	–	–	–	1,045	2,193
Loans and Advances to Customers	**1,148**	**28,715**	**74,977**	**196,174**	**800,427**	**8,506**	**1,109,947**

(amounts in thousand euros)

	2019						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Overdue loans	Total
Mortgage loans	–	2,963	8,424	22,801	370,980	–	405,168
Auto loans	–	21,509	53,448	138,181	256,638	3,121	472,897
Finance leases	–	672	1,843	3,962	2,500	445	9,422
Other loans	–	–	–	–	–	629	629
Overdrafts	1,002	–	–	–	–	681	1,683
Loans and Advances to Customers	**1,002**	**25,144**	**63,715**	**164,944**	**630,118**	**4,876**	**889,799**

The distribution of this heading by type of rate is presented as follows:

(amounts in thousand euros)

	2020	2019
Fixed rate	528,331	427,176
Variable rate	581,616	462,623
Loans and Advances to Customers	**1,109,947**	**889,799**

The analysis of this heading by type of collateral is presented as follows:

(amounts in thousand euros)

	2020				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Asset-backed loans	531,955	924	532,879	(1,513)	531,366
Personal guaranteed loans	562,615	3,768	566,383	(10,184)	556,199
Unsecured loans	6,871	3,814	10,685	(4,968)	5,717
	1,101,441	**8,506**	**1,109,947**	**(16,665)**	**1,093,282**

(amounts in thousand euros)

	2019				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Asset-backed loans	414,132	733	414,865	(410)	414,455
Personal guaranteed loans	463,692	1,652	465,344	(1,939)	463,405
Unsecured loans	7,099	2,491	9,590	(1,629)	7,961
	884,923	**4,876**	**889,799**	**(3,978)**	**885,821**

The analysis of this heading by type of loan is presented as follows:

(amounts in thousand euros)

	2020				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Mortgage loans	525,083	-	525,083	(499)	524,584
Auto loans	568,273	6,624	574,897	(14,657)	560,240
Finance leases	6,937	210	7,147	(282)	6,865
Other loans	-	627	627	(122)	505
Overdrafts	1,148	1,045	2,193	(1,105)	1,088
	1,101,441	**8,506**	**1,109,947**	**(16,665)**	**1,093,282**

(amounts in thousand euros)

	2019				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Mortgage loans	405,168	-	405,168	(95)	405,073
Auto loans	469,776	3,121	472,897	(3,339)	469,558
Finance leases	8,977	445	9,422	(100)	9,322
Other loans	-	629	629	(10)	619
Overdrafts	1,002	681	1,683	(434)	1,249
	884,923	**4,876**	**889,799**	**(3,978)**	**885,821**

The analysis of this heading by activity sector is presented as follows:

(amounts in thousand euros)

	2020				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Companies					
Agriculture, forestry, animal husbandry and fisheries	1,571	20	1,591	(47)	1,544
Mining industry	257	-	257	(5)	252
Manufacturing industries	3,048	94	3,142	(105)	3,037
Water	144	6	150	(6)	144
Construction	6,186	325	6,511	(292)	6,219
Wholesale and retail trade	4,781	471	5,252	(253)	4,999
Transport and storage	1,325	56	1,381	(80)	1,301
Restaurants and hotels	1,639	23	1,662	(67)	1,595
Information and communication	252	2	254	(3)	251
Financial and insurance sector	171	2	173	(3)	170
Real estate activities	1,354	11	1,365	(17)	1,348
Professional, scientific and technical activities	885	5	890	(32)	858
Administrative and support services	1,408	294	1,702	(95)	1,607
Education	573	1	574	(9)	565
Health services and social assistance	806	15	821	(34)	787
Artistic, sports and recreational activities	411	31	442	(37)	405
Other services	23,392	121	23,513	(453)	23,060
Individuals					
Mortgage	525,083	-	525,083	(499)	524,584
Consumer	528,155	7,029	535,184	(14,628)	520,556
	1,101,441	**8,506**	**1,109,947**	**(16,665)**	**1,093,282**

(amounts in thousand euros)

	2019				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Companies					
Agriculture, forestry, animal husbandry and fisheries	1,111	9	1,120	(20)	1,100
Mining industry	23	-	23	-	23
Manufacturing industries	3,414	83	3,497	(53)	3,444
Water	193	6	199	(6)	193
Construction	8,289	198	8,487	(46)	8,441
Wholesale and retail trade	5,371	655	6,026	(41)	5,985
Transport and storage	1,459	27	1,486	(35)	1,451
Restaurants and hotels	1,969	16	1,985	(41)	1,944
Information and communication	347	1	348	(3)	345
Financial and insurance sector	168	1	169	(3)	166
Real estate activities	1,789	11	1,800	(12)	1,788
Professional, scientific and technical activities	1,107	7	1,114	(12)	1,102
Administrative and support services	1,612	289	1,901	(20)	1,881
Education	648	1	649	(5)	644
Health services and social assistance	876	1	877	(15)	862
Artistic, sports and recreational activities	479	2	481	(9)	472
Other services	14,039	35	14,074	(107)	13,967
Individuals					
Mortgage	405,168	-	405,168	(95)	405,073
Consumer	436,861	3,534	440,395	(3,455)	436,940
	884,923	**4,876**	**889,799**	**(3,978)**	**885,821**

The movement of credit impairment in the period is detailed as follows:

(amounts in thousand euros)

	2020			
	Stage 1	Stage 2	Stage 3	Total
Opening balance	**2,063**	**871**	**1,044**	**3,978**
Movement for the period:				
Financial assets originated or acquired	1,555	654	725	2,934
Variations due to change in exposure or risk parameters	558	(308)	7,606	7,856
Derecognised financial assets excluding write-offs	(226)	(50)	(486)	(762)
Write-offs	-	-	(752)	(752)
Transfers to:				
Stage 1	450	(177)	(273)	-
Stage 2	(252)	934	(682)	-
Stage 3	(234)	(116)	350	-
Other movements	247	417	2,747	3,411
Credit impairment	**4,161**	**2,225**	**10,279**	**16,665**
Of which: POCI	-	-	*922*	*922*

(amounts in thousand euros)

	2019			
	Stage 1	Stage 2	Stage 3	Total
Opening balance	**185**	**67**	**206**	**458**
Movement for the period:				
Financial assets originated or acquired	2,554	306	231	3,091
Variations due to change in exposure or risk parameters	(843)	1,470	(49)	578
Derecognised financial assets excluding write-offs	(140)	(65)	(410)	(615)
Write-offs	-	-	(1,175)	(1,175)
Transfers to:				
Stage 1	404	(374)	(30)	-
Stage 2	(83)	122	(39)	-
Stage 3	(14)	(718)	732	-
Other movements	-	63	1,578	1,641
Credit impairment	**2,063**	**871**	**1,044**	**3,978**
Of which: POCI	-	-	*(1,293)*	*(1,293)*

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros

	2020			
	Stage 1	Stage 2	Stage 3	Total
Opening balance	**2,063**	**871**	**1,044**	**3,978**
Movement for the period:				
Variations in the expected credit loss of the credit portfolio	1,887	296	7,845	10,028
Transfers of Stage (net)	(36)	641	(605)	-
Write-offs	-	-	(752)	(752)
Other movements	247	417	2,747	3,411
Credit impairment	**4,161**	**2,225**	**10,279**	**16,665**

(amounts in thousand euros

	2019			
	Stage 1	Stage 2	Stage 3	Total
Opening balance	**185**	**67**	**206**	**458**
Movement for the period:				
Variations in the expected credit loss of the credit portfolio	1,571	1,711	(228)	3,054
Transfers of Stage (net)	307	(970)	663	-
Write-offs	-	-	(1,175)	(1,175)
Other movements	-	63	1,578	1,641
Credit impairment	**2,063**	**871**	**1,044**	**3,978**

The credit portfolio detailed by stage as defined in IFRS 9 is presented as follows:

(amounts in thousand euros

	2020	2019
Stage 1	**1,026,605**	**834,895**
Gross Value	1,030,766	836,958
Impairment	(4,161)	(2,063)
Stage 2	**49,989**	**39,337**
Gross Value	52,214	40,208
Impairment	(2,225)	(871)
Stage 3	**16,688**	**11,589**
Gross Value	26,967	12,633
Impairment	(10,279)	(1,044)
	1,093,282	**885,821**

The heading "Loans and advances to customers" includes the effect of traditional securitisation transactions, carried out through securitisation vehicles, consolidated pursuant to IFRS 10 in accordance with accounting policy 2.1.

Moratoria

Decree-Law 10-J/2020 of 26 March established exceptional measures to protect the credit of families, businesses, private charities and other social economy entities, as well as a special scheme of personal guarantees from the State, within the scope of the Covid-19 pandemic.

In the course of 2020, the said regulation was amended by Law 8/2020 of 10 April, Decree-Law 26/2020 of 16 June, Law 27-A/2020 of 24 July and Decree-Law 78-A/2020 of 29 September.

With the various legislative changes, the end of the moratorium period, initially scheduled for September 2020, was extended until September 2021. The legislative changes also allowed for the extension of the deadline for customers to formalise moratorium requests. The conditions of access and the types of credits covered have also been changed. The measures provided for in the legislation described above - Public Moratoria -, materialise in the granting of a grace period for principal or principal and interest to debtors of credit agreements.

In addition to the Public Moratorium, ASFAC - Association of Specialised Credit Institutions - created the ASFAC Private Moratorium, which established exceptional measures to support and protect families resulting from the financial impacts of the pandemic caused by Covid-19, similar to those provided for in the Public Moratorium and applicable to 321 Crédito's motor vehicle credit portfolio.

In accordance with the EBA Guidelines on reporting and disclosure of exposures subject to measures implemented in response to the Covid-19 crisis (EBA/GL/2020/07), the following presents - as at 31 December 2020 - the gross exposures and impairment of contracts with moratoria in place:

(amounts in thousand euros

	GROSS CARRYING AMOUNT							
		PRODUCTIVE			NON-PRODUCTIVE			
			Of which: exposures subject to restructuring measures	Of which: instruments with significant increased credit risk (*)		Of which: exposures subject to restructuring measures	Of which: low probability of payment that is either not due or past due for ≤ 90 days	Entries for non-productive exposures
Loans and advances subject to a moratorium	40,390	40,041	-	821	349	-	304	276
of which: households	31,118	31,118	-	-	-	-	-	-
of which: secured by residential property	31,112	31,112	-	-	-	-	-	-
of which: non-financial corporations	9,271	8,922	-	821	349	-	304	276
of which: small and medium-sized enterprises	8,115	7,809	-	701	307	-	272	276
of which: secured by commercial real estate	2,794	2,705	-	-	88	-	88	88

(*) since initial recognition but without credit impairment (Stage 2)

(amounts in thousand euros

	ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE FAIR VALUE CHANGES RESULTING FROM CREDIT RISK						
		PRODUCTIVE			NON-PRODUCTIVE		
			Of which: exposures subject to restructuring measures	Of which: instruments with significant increased credit risk (*)		Of which: exposures subject to restructuring measures	Of which: low probability of payment that is either not due or past due for ≤ 90 days
Loans and advances subject to a moratorium	(394)	(246)	-	(30)	(148)	-	(128)
of which: households	(68)	(68)	-	-	-	-	-
of which: secured by residential property	(68)	(68)	-	-	-	-	-
of which: non-financial corporations	(326)	(178)	-	(30)	(148)	-	(128)
of which: small and medium-sized enterprises	(196)	(76)	-	(27)	(120)	-	(106)
of which: secured by commercial real estate	(131)	(105)	-	-	(25)	-	(25)

(*) since initial recognition but without credit impairment (Stage 2)

The total number of moratorium requests, moratoriums granted (excluding waivers) and moratoriums in force at the end of December 2020 are shown below:

(amounts in thousand euros)

	Number of debtors	GROSS CARRYING AMOUNT							
			Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
Loans and advances which have been offered a moratorium	7,018	103,470							
Loans and advances subject to a moratorium (applied)	4,364	82,151	54,213	41,761	9,423	389	30,578	-	-
of which: households		71,837	44,356	40,719	152	389	30,578	-	-
of which: secured by residential property		44,335	44,335	13,223	146	389	30,578	-	-
of which: non-financial corporations		10,313	9,857	1,042	9,271	-	-	-	-
of which: small and medium-sized enterprises		9,131	8,674	1,015	8,115	-	-	-	-
of which: secured by commercial real estate		2,958	2,958	165	2,794	-	-	-	-

The loan portfolio with moratorium by stage is detailed as follows:

(amounts in thousand euros)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	39,220	821	349	40,390
Impairment	(216)	(30)	(148)	(394)
Net amount	**39,004**	**791**	**201**	**39,996**

The heading "Loans and advances to customers" includes the following amounts related to finance lease contracts:

(amounts in thousand euros)

	2020	2019
Value of future minimum payments	7,458	9,632
Interest not yet due	(521)	(655)
Present value	**6,937**	**8,977**

The value of the future minimum payments of finance lease contracts, by maturity period, is analysed as follows:

(amounts in thousand euros)

	2020	2019
Up to 1 year	1,763	2,533
1 to 5 years	4,602	5,835
More than 5 years	1,093	1,264
Value of future minimum payments	**7,458**	**9,632**

The analysis of the finance lease contracts by type of customer is presented as follows:

(amounts in thousand euros)

	2020	2019
Individuals	**773**	**1,096**
Mortgage	96	95
Other	677	1,001
Companies	**6,164**	**7,881**
Furniture	315	635
Real estate	5,849	7,246
	6,937	**8,977**

Note 15 – Financial Assets at Amortised Cost – Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Public debt securities		
Portuguese	288,879	287,118
Foreign	201,696	154,304
Bonds of other issuers		
Portuguese	7,858	14,620
Impairment	(182)	(173)
Financial Assets at Amortised Cost – Debt Securities	**498,251**	**455,869**

The analysis of investments in securities as at 31 December 2020 and 2019, by residual maturity, is as follows:

(amounts in thousand euros)

	2020				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	4,493	13,931	60,600	209,855	288,879
Foreign	993	20,556	24,543	155,604	201,696
Bonds of other issuers					
Portuguese	5,193	-	2,665	-	7,858
Financial Assets at Amortised Cost – Debt Securities	**10,679**	**34,487**	**87,808**	**365,459**	**498,433**

(amounts in thousand euros)

	2019				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	4,539	4,718	41,143	236,718	287,118
Foreign	752	21,527	34,646	97,379	154,304
Bonds of other issuers					
Portuguese	14	-	14,606	-	14,620
Financial assets at amortised cost – Debt securities	**5,305**	**26,245**	**90,395**	**334,097**	**456,042**

The movement of the impairment of debt securities at amortised cost is analysed as follows:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**173**	**183**
Movement for the period:		
Financial assets originated or acquired	11	13
Variations due to change in exposure or risk parameters	2	(4)
Derecognised financial assets excluding write-offs	(4)	(19)
Impairment of debt securities at amortised cost	**182**	**173**

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**173**	**183**
Movement for the period:		
Variations in the expected credit loss of the portfolio	9	(10)
Impairment of debt securities at amortised cost	**182**	**173**

Note 16 – Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities

This heading is analysed as follows

(amounts in thousand euros)

	2020	2019
Public debt securities		
Portuguese	7,621	542
Bonds of other issuers		
Portuguese	11,934	-
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	**19,555**	**542**

The analysis of investments in securities as at 31 December 2020 and 2019, by residual maturity, is as follows:

(amounts in thousand euros)

	2020				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	45	6,715	861	-	7,621
Bonds of other issuers					
Portuguese	521	-	11,413	-	11,934
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	**566**	**6,715**	**12,274**	**-**	**19,555**

(amounts in thousand euros)

	2019				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	14	-	528	-	542
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	**14**	**-**	**528**	**-**	**542**

The movement of the impairment of debt securities at fair value through other comprehensive income is analysed as follows:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**-**	**128**
Movement for the period:		
Financial assets originated or acquired	9	-
Derecognised financial assets excluding write-offs	-	(128)
Impairment of debt securities at fair value through other comprehensive income	**9**	**-**

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**–**	**128**
Movement for the period:		
Variations in the expected credit loss of the portfolio	9	(41)
Use of impairment	–	(87)
Impairment of debt securities at fair value through other comprehensive income	**9**	**–**

Note 17 – Non-Current Assets Held for Sale

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Assets	**1,249**	**991**
Real estate properties	1,248	990
Equipment	1	1
Impairment	(283)	(185)
Non-Current Assets Held for Sale	**966**	**806**

Non-current assets held for sale correspond to real estate properties and equipment recovered following the dissolution of finance and operating lease contracts, for which, in the applicable cases, impairment was recorded in conformity with accounting policy 2.18.

The movement during 2020 is presented as follows:

(amounts in thousand euros)

	2019							2020		
	Gross value	Accumulated impairment	Net value	Additions	Divestment and Write-off	Transfers	Impairment for the year	Gross value	Accumulated impairment	Net value
Real estate properties	990	(184)	806	258	–	–	(98)	1.248	(282)	966
Equipment	1	(1)	–	–	–	–	–	1	(1)	–
	991	**(185)**	**806**	**258**	**–**	**–**	**(98)**	**1.249**	**(283)**	**966**

The movement during 2019 is presented as follows:

(amounts in thousand euros)

	Change of the consolidation perimeter							2019		
	Gross value	Accumulated impairment	Net value	Additions	Divestment and Write-off	Transfers	Impairment for the year	Gross value	Accumulated impairment	Net value
Real estate properties	990	(187)	803	–	–	–	3	990	(184)	806
Equipment	1	(1)	–	–	–	–	–	1	(1)	–
	991	**(188)**	**803**	**–**	**–**	**–**	**3**	**991**	**(185)**	**806**

Note 18 – Other Tangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Acquisition Cost	**9,640**	**9,291**
Real estate properties		
Works in rented properties	522	522
Equipment		
Furniture	599	621
Machinery and tools	2,941	2,822
Computer equipment	1,003	868
Interior installations	14	14
Transport material	6	19
Security equipment	130	127
Other equipment	101	101
Rights of use		
Real estate properties	3,042	2,866
Motor vehicles	1,279	1,328
Other tangible assets	3	3
Accumulated Depreciation	**5,768**	**5,378**
Related to previous years	4,016	3,729
Related to the current year	1,752	1,649
Other Tangible Assets	**3,872**	**3,913**

As at 31 December 2019, this heading includes the net value of 1,798 thousand euros relative to the entrance of 321 Crédito into the consolidation perimeter.

The movement of the heading "Other Tangible Assets" during 2020 is analysed as follows:

(amounts in thousand euros)

	2020					
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Other variations	Balance on 31 December
Acquisition cost	**9,291**	**1,711**	**–**	**(1,362)**	**–**	**9,640**
Real estate properties						
Works in rented properties	522	–	–	–	–	522
Equipment						
Furniture	621	2	–	(24)	–	599
Machinery and tools	2,822	127	–	(8)	–	2,941
Computer equipment	868	139	–	(4)	–	1,003
Interior installations	14	–	–	–	–	14
Transport material	19	–	–	(13)	–	6
Security equipment	127	8	–	(5)	–	130
Other equipment	101	–	–	–	–	101
Rights of use						
Real estate properties	2,866	909	–	(733)	–	3,042
Motor vehicles	1,328	526	–	(575)	–	1,279
Other tangible assets	3	–	–	–	–	3
Accumulated depreciation	**5,378**	**1,752**	**–**	**(1,362)**	**–**	**5,768**
Real estate properties						
Works in rented properties	267	44	–	–	–	311
Equipment						
Furniture	544	16	–	(24)	–	536
Machinery and tools	2,263	151	–	(8)	–	2,406
Computer equipment	812	86	–	(5)	–	893
Interior installations	7	–	–	–	–	7
Transport material	19	–	–	(13)	–	6
Security equipment	90	8	–	(3)	–	95
Other equipment	71	–	–	–	–	71
Rights of use						
Real estate properties	562	1,096	–	(734)	–	924
Motor vehicles	742	351	–	(575)	–	518
Other tangible assets	1	–	–	–	–	1
Other Tangible Assets	**3,913**	**(41)**	**–**	**–**	**–**	**3,872**

The movement of the heading "Other Tangible Assets" during 2019 is analysed as follows:

(amounts in thousand euros)

	2019						
	Balance on 1 January	**Acquisitions / Allocations**	**Transfers**	**Divestment / Write-off**	**321 Crédito Acquisition**	**Other variations**	**Balance on 31 December**
Acquisition cost	**5,809**	**1,505**	**–**	**(860)**	**2,835**	**2**	**9,291**
Real estate properties							
Works in rented properties	98	4	–	–	420	–	522
Equipment							
Furniture	420	96	–	–	170	(65)	621
Machinery and tools	2,474	191	–	–	55	102	2,822
Computer equipment	273	114	–	(4)	523	(38)	868
Interior installations	4	–	–	–	10	–	14
Transport material	–	–	–	–	19	–	19
Security equipment	66	3	–	–	58	–	127
Other equipment	71	–	–	–	30	–	101
Rights of use							
Real estate properties	1,521	758	–	(832)	1,419	–	2,866
Motor vehicles	882	339	–	(24)	131	–	1,328
Other tangible assets	–	–	–	–	–	3	3
Accumulated depreciation	**3,467**	**1,649**	**–**	**(778)**	**1,040**	**–**	**5,378**
Real estate properties							
Works in rented properties	17	86	–	–	164	–	267
Equipment							
Furniture	366	16	–	–	162	–	544
Machinery and tools	2,025	197	–	–	41	–	2,263
Computer equipment	246	66	–	(4)	504	–	812
Interior installations	4	1	–	–	2	–	7
Transport material	–	–	–	–	19	–	19
Security equipment	25	7	–	–	58	–	90
Other equipment	71	–	–	–	–	–	71
Rights of use							
Real estate properties	238	1,018	–	(766)	72	–	562
Motor vehicles	475	258	–	(8)	17	–	742
Other tangible assets	–	–	–	–	1	–	1
Other Tangible Assets	**2,342**	**(144)**	**–**	**(82)**	**1,795**	**2**	**3,913**

Note 19 – Goodwill and Intangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Goodwill	**61,085**	**61,085**
Payshop (Portugal), S.A.	406	406
321 Crédito – Instituição Financeira de Crédito, S.A.	60,679	60,679
Intangible Assets	**28,826**	**27,624**
Acquisition Cost	**45,958**	**40,515**
Software in use	41,387	33,959
Other intangible assets	645	680
Software in progress	3,926	5,876
Accumulated Amortisation	**17,132**	**12,891**
Related to previous years	12,433	9,015
Related to the current year	4,699	3,876
Goodwill and Intangible Assets	**89,911**	**88,709**

The intangible assets essentially include expenses related to the acquisition and development of software, namely the core banking system, implementation projects and their customisation.

The movement of the headings "Goodwill" and "Intangible Assets" during 2020 is analysed as follows:

(amounts in thousand euros)

	2020				
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Goodwill	**61,085**	**–**	**–**	**–**	**61,085**
Consolidation and revaluation differences	61,085	–	–	–	61,085
Impairment	–	–	–	–	–
Intangible Assets	**27,624**	**1,283**	**–**	**(81)**	**28,826**
Acquisition Cost	**40,515**	**5,982**	**–**	**(539)**	**45,958**
Software in use	33,959	113	7,723	(408)	41,387
Other intangible assets	680	16	–	(51)	645
Software in progress	5,876	5,853	(7,723)	(80)	3,926
Accumulated amortisation	**12,891**	**4,699**	**–**	**(458)**	**17,132**
Software in use	12,272	4,668	–	(408)	16,532
Other intangible assets	619	31	–	(50)	600
Goodwill and Intangible Assets	**88,709**	**1,283**	**–**	**(81)**	**89,911**

The movement of the headings "Goodwill" and "Intangible Assets" during 2019 is analysed as follows:

(amounts in thousand euros)

	2019					
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	321 Crédito Acquisition	Balance on 31 December
Goodwill	**406**	**–**	**–**	**–**	**60,679**	**61,085**
Consolidation and revaluation differences	406	–	–	–	60,679	61,085
Impairment	–	–	–	–	–	–
Intangible Assets	**24,981**	**2,157**	**–**	**–**	**486**	**27,624**
Acquisition Cost	**32,714**	**6,033**	**–**	**–**	**1,768**	**40,515**
Software in use	28,599	861	3,407	–	1,092	33,959
Other intangible assets	424	43	–	–	213	680
Software in progress	3,691	5,129	(3,407)	–	463	5,876
Accumulated amortisation	**7,733**	**3,876**	**–**	**–**	**1,282**	**12,891**
Software in use	7,319	3,870	–	–	1,083	12,272
Other intangible assets	414	6	–	–	199	619
Goodwill and Intangible Assets	**25,387**	**2,157**	**–**	**–**	**61,165**	**88,709**

Goodwill

The recoverable amount of Goodwill is assessed annually or whenever there is indication of a possible loss of value. The recoverable amount is determined based on the value in use of the assets, computed using calculation methodologies supported by discounted cash flow techniques, considering the market conditions, the time value and business risks.

In order to determine the recoverable amount of its investments, impairment tests were carried out, as at 31 December 2020 and 31 December 2019, based on the following assumptions:

	2020			
Corporate Name	Basis of determination of recoverable amount	Explicit period for cash flows	Discount rate	Growth rate in perpetuity
Payshop (Portugal), S.A.	Equity Value / DCF	10 years	10.0%	1.5%
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	10 years	10.0%	1.5%

	2019			
Corporate Name	Basis of determination of recoverable amount	Explicit period for cash flows	Discount rate	Growth rate in perpetuity
Payshop (Portugal), S.A.	Equity Value / DCF	10 years	10.0%	2.0%
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	10 years	10.0%	2.0%

Based on this analysis and on the outlook on future evolution, it is concluded that there are no indications of impairment in relation to the goodwill allocated to these holdings.

Sensitivity analyses were performed on the results of these impairment tests, namely regarding the following key assumptions: (i) reduction of 50 basis points in the growth rate in perpetuity and (ii) increase of 50 basis points in the different discount rates used. The results of the sensitivity analyses do not determine the existence of indicators of Goodwill impairment.

Note 20 – Income Tax

The Group is subject to Corporate Income Tax (IRC) and corresponding Surcharge.

Income tax (current or deferred is reflected in the net income for the year, except in cases in which the transactions that originated this tax have been reflected in other equity headings. In these situations, the corresponding tax is likewise reflected through equity, not affecting the net income for the year.

The calculation of the current tax for 2020 and 2019 was based on a nominal corporate income tax rate of 21% pursuant to Law 107-B/2003, of 31 December, and Law 2/2007, of 15 January.

Deferred tax is calculated based on the tax rates that are expected to be applicable on the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved on the reporting date.

As mentioned in Note 2.9, the Group is covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 90% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC).

The reconciliation of the tax rate, in the portion relative to the amount recognised through profit or loss, may be analysed as follows:

(amounts in thousand euros)

	2020	2019
Profit/(Loss) before tax	1,212	(9,501)
Current tax rate	21%	21%
Expected income tax	**255**	**(1,995)**
Surcharges	656	659
Total Expected Tax	**911**	**(1,336)**
Net asset variations	-	(32)
Accruals/(deductions) for calculation purposes	(104)	(197)
Autonomous tax	72	87
Other adjustments	(7)	-
Recorded current tax for the year	**872**	**(1,479)**
Recorded deferred tax	**213**	**116**
Recorded total tax	**1,085**	**(1,363)**
Effective rate	**89.5%**	**14.3%**
Corrections relative to previous years	**(106)**	**(127)**
Taxes	**979**	**(1,490)**

Current tax

Pursuant to the accounting policy described in Note 2.9, the tax of entities included in the special regime applicable to the taxation of groups of companies (RETGS) is recorded as a value receivable or payable by the shareholder CTT (see Notes 20 and 21).

As at 31 December 2020, as described in Note 2.9, 321 Crédito does not meet the requirements to be included under the RETGS.

The heading "Current tax liabilities", in the amount of 1,363 thousand euros (2019: 4,118 thousand euros), includes sums falling under IFRIC 23 as well as the estimated income tax of 321 Crédito.

Deferred tax

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

(amounts in thousand euros)

	2020	2019
Opening balance	**2,093**	**530**
Change of the consolidation perimeter	-	1,679
Recognised through profit or loss	(213)	(116)
Recognised through other reserves	49	-
Deferred Tax Assets	**1,929**	**2,093**

The value of deferred tax assets as at 31 December 2020 and 2019 primarily arises from temporary differences derived from impairments not deductible for tax purposes.

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

(amounts in thousand euros)

	2020	2019
Opening balance	**83**	**-**
Change of the consolidation perimeter	-	83
Recognised through other reserves	20	-
Deferred Tax Liabilities	**103**	**83**

New tax system for impairment losses

The Group exercised the option to definitively adopt the tax system applicable to the impairment losses of credit institutions and other financial institutions subject to the supervision of Banco de Portugal, established by articles 2 and 3 of Law 98/2019, of 4 September, under the terms stipulated in number 1 of article 4 of this same Law, taking effect from the tax period started on 1 January 2019 (inclusively).

SIFIDE

The Group's accounting policy recognises tax credit relative to the system of tax incentives for business research and development (SIFIDE) upon receiving the statement of the competent body formalising the eligibility of the expenses presented in the corresponding application.

During the economic year of 2019, the Group incurred R&D expenses of approximately 197,803 euros for which the Group is entitled to benefit from a tax credit in the context of Corporate Income Tax (IRC) of an estimated value of 158,900 euros.

As for the 2020 financial year, the Group is still identifying and quantifying the expenses incurred with R&D that will integrate the applications that will be submitted during 2021.

Note 21 – Other Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
IRC RETGS	13,651	10,621
Receivables due to payment operations	1,560	1,720
Operations to be cleared	1,953	1,477
Escrow accounts	320	2,052
Other receivables	6,139	8,645
Expenses with deferred charges	792	833
Administrative Public Sector	1,161	648
Receivables due to advances	106	53
Income receivable	52	56
Impairment of other assets	(4,266)	(4,789)
Other assets	**21,468**	**21,316**

The heading "Other Assets" includes the amount of 13,651 thousand euros (2019: 10,621 thousand euros) for corporate income tax as a result of the application of the special regime applicable to the taxation of groups of companies (RETGS), pursuant to point 2.9 of Note 2.

The heading "Receivables due to payment operations" primarily consists of amounts receivable from Payshop agents.

The heading "Other receivables" essentially records the amounts receivable due to credit intermediation and insurance mediation operations. This also includes overdue and uncollected amounts related to credit agreements granted to customers, namely, amounts for administrative expenses and Value Added Tax (VAT) on monthly finance lease payments totalling 3,262 thousand euros (2019: 4,211 thousand euros).

The movement of impairment of other assets is analysed as follows:

(amounts in thousand euros)

	2020	2019
Opening balance	**4,789**	**542**
Change of the consolidation perimeter	-	4,011
Allocation for the period	73	368
Reversal for the period	(1,004)	(68)
Usage for the period	(217)	(64)
Transfers	625	-
Impairment of other assets	**4,266**	**4,789**

Note 22 – Financial Liabilities at Amortised Cost – Amounts owed to Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Amounts owed to credit institutions abroad		
Sale and repurchase agreements (repos)	-	37,851
Financial liabilities at Amortised Cost – Amounts owed to Credit Institutions	**–**	**37,851**

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

	2020	2019
Up to 3 months	-	37,851
Financial liabilities at Amortised Cost – Amounts owed to Credit Institutions	**–**	**37,851**

Note 23 – Financial Liabilities at Amortised Cost – Deposits from Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Demand deposits	1,207,038	961,772
Term deposits	178,176	169,581
Saving accounts	303,251	152,214
Financial Liabilities at Amortised Cost –Deposits from Customers	**1,688,465**	**1,283,567**

The analysis of the heading "Deposits from customers", by contractual residual maturity, is as follows:

(amounts in thousand euros)

	2020	2019
Demand deposits and saving accounts	1,510,289	1,113,986
Term deposits		
Up to 3 months	81,534	53,165
3 to 12 months	96,642	116,416
Financial Liabilities at Amortised Cost – Deposits from Customers	**1,688,465**	**1,283,567**

Note 24 – Financial Liabilities at Amortised Cost – Debt Securities Issued

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Securitisations (see Note 35)	44,518	76,077
Financial Liabilities at Amortised Cost – Debt Securities Issued	**44,518**	**76,077**

As at 31 December 2020, the debt securities issued are analysed as follows:

(amounts in thousand euros)

2020					
Name	**Issue date**	**Redemption date**	**Remuneration**	**Nominal value**	**Book value**
Ulisses Finance No.1 – Class A	July 2017	July 2033	Euribor 1M + 85 bps	30,402	30,429
Ulisses Finance No.1 – Class B	July 2017	July 2033	Euribor 1M + 160 bps	7,000	6,992
Ulisses Finance No.1 – Class C	July 2017	July 2033	Euribor 1M + 375 bps	7,100	7,097
				44,502	**44,518**

As at 31 December 2019, the debt securities issued are analysed as follows:

(amounts in thousand euros)

2019					
Name	**Issue date**	**Redemption date**	**Remuneration**	**Nominal value**	**Book value**
Ulisses Finance No.1 – Class A	July 2017	July 2033	Euribor 1M + 85 bps	61,938	61,964
Ulisses Finance No.1 – Class B	July 2017	July 2033	Euribor 1M + 160 bps	7,000	7,004
Ulisses Finance No.1 – Class C	July 2017	July 2033	Euribor 1M + 375 bps	7,100	7,109
				76,038	**76,077**

The movement of this heading for 2020 is presented as follows:

(amounts in thousand euros)

2020						
Name	**Opening balance**	**Changes in the consolidation perimeter**	**Emissions**	**Redemptions**	**Other movements**	**Closing balance**
Ulisses Finance No.1	76,077	-	-	(31,148)	(411)	44,518
	76,077	**-**	**-**	**(31,148)**	**(411)**	**44,518**

The movement of this heading for 2019 is presented as follows:

(amounts in thousand euros)

	2019					
Name	**Opening balance**	**Changes in the consolidation perimeter**	**Emissions**	**Redemptions**	**Other movements**	**Closing balance**
Chaves Funding No.7	-	201,661	-	(201,600)	(61)	-
Ulisses Finance No.1	-	101,060	-	(25,008)	25	76,077
	-	**302,721**	**-**	**(226,608)**	**(36)**	**76,077**

In June 2019, the Group decided to carry out the early redemption of the securitisation operation Chaves Funding No.7. This operation included a motor vehicle credit and finance lease portfolio which had, at the time of its redemption, a nominal value of 197,200,000 euros.

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

	2020				
	Up to 3 months	**3 to 12 months**	**1 to 3 years**	**More than 3 years**	**Total**
Securitisations	11	-	-	44,507	44,518
	11	**-**	**-**	**44,507**	**44,518**

(amounts in thousand euros)

	2019				
	Up to 3 months	**3 to 12 months**	**1 to 3 years**	**More than 3 years**	**Total**
Securitisations	17	-	-	76,060	76,077
	17	**-**	**-**	**76,060**	**76,077**

Note 25 – Provisions

This heading is analysed as follows:

(amounts in thousand euros)

	2020	**2019**
Provisions for other risks and charges	1,780	1,723
Provisions	**1,780**	**1,723**

These provisions were constituted in order to meet contingencies related to the Group's activity, the payment of which is considered likely.

On each reporting date, the Group revalues the amounts recorded under this heading, so as to ensure that it reflects the best estimate of amount and probability of occurrence.

The movement of the heading "Provisions" in the period is detailed as follows:

(amounts in thousand euros)

	2020	2019
Opening balance	**1,723**	**51**
Change of the consolidation perimeter	-	1,896
Allocation for the period	1,084	190
Reversal for the period	(756)	(414)
Transfers	(271)	-
Provisions	**1,780**	**1,723**

The transfer of 271 thousand euros is a reclassification to the heading impairment of other assets relating to values recorded under the heading of administrative public sector (note 21).

Note 26 – Other Liabilities

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Payables		
Suppliers	12,076	12,554
Related parties	1,066	2,031
Other payables	2,114	1,907
Staff costs	6,201	6,222
Operations to be cleared	21,475	17,971
Revenue with deferred charge	428	395
Payables due to payment operations	3,736	4,982
IRC RETGS	74	282
Administrative Public Sector	1,635	1,619
Escrow accounts	263	239
Lease liabilities	2,909	2,902
Other Liabilities	**51,977**	**51,104**

The heading "Operations to be cleared" primarily records the balance of banking operations pending financial settlement.

The heading "Payables due to payment operations" records the values pending settlement with customers of the payment business of the company Payshop.

The heading "Escrow accounts" records the value of sureties received from Payshop agents.

The heading "Other Liabilities" includes the amount of 74 thousand euros (2019: 282 thousand euros) for corporate income tax as a result of the application of the special regime applicable to the taxation of groups of companies (RETGS), pursuant to point 2.9 of Note 2.

The heading "Lease liabilities" corresponds to the lease liabilities recognised under IFRS 16, as described in accounting policy 2.8.

Note 27 – Share Capital

The share capital stands at 286,400,000 euros, represented by 286,400,000 ordinary shares without nominal value, and is fully underwritten and paid-up.

An increase of the Company's share capital was carried out on 26 April 2019 from 156.400.000 euros (one hundred and fifty-six million and four hundred thousand mil euros) to 266.400.000 euros (two hundred and sixty-six million and four hundred thousand euros), via a new cash entry by the Sole Shareholder (CTT – Correios de Portugal, S.A.), of the value of 110,000,000 euros (one hundred and ten million euros) giving rise to the issue of 110,000,000 new ordinary, registered shares without nominal value with the issue value of 1 euro each.

An increase of the Company's share capital was carried out on 23 December 2019 from 266.400.000 euros (two hundred and sixty-six million and four hundred thousand euros) to 286.400.000 euros (two hundred and eighty-six million and four hundred thousand euros), via a new cash entry by the Sole Shareholder (CTT – Correios de Portugal, S.A.), of the value of 20,000,000 euros (twenty million euros) giving rise to the issue of 20,000,000 new ordinary, registered shares without nominal value with the issue value of 1 euro each.

As at 31 December 2020, the Bank's share capital is 100% held by CTT – Correios de Portugal, S.A. (public company).

Note 28 – Fair Value Reserves, Other Reserves and Retained Earnings

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Fair Value Reserves		
Other financial assets at fair value through other comprehensive income	83	16
Other reserves	(884)	(902)
Retained earnings	(74,159)	(66,148)
Reserves and Retained Earnings	**(74,960)**	**(67,034)**

Note 29 – Guarantees and Other Commitments

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Guarantees Provided	17,050	15,344
Guarantees Received	1,533,342	1,226,911
Commitments to third parties		
Revocable commitments		
Credit lines	32,294	19,440
Irrevocable commitments		
Credit lines	11,330	11,180
Commitments from third parties		
Revocable commitments		
Credit lines	12,690	10,119
Irrevocable commitments		
Other	-	279
Liabilities due to services rendered		
Assets under custody	-	40

The amount recorded as Guarantees Provided primarily includes securities given as collateral to secure the settlement of interbank operations.

The amount recorded as Guarantees Received basically includes sureties and mortgages on properties for collateralization of operations mortgage loans.

The revocable and irrevocable commitments present contractual agreements for granting credit to the Group's customers (for example unused credit lines) which, generally speaking, are contracted for fixed periods or with other expiry requirements. Substantially all the credit granting commitments in force require the customers to maintain certain requirements observed at the time the loans were granted.

Notwithstanding the particularities of these commitments, the appraisal of these operations follows the same basic principles of any other commercial operation, namely the principle of the customer's solvency, where the Group requires that these operations should be duly collateralised when necessary. As it is expected that some of them shall expire without having been used, the indicated amounts do not necessarily represent future cash needs.

Note 30 – Transactions with Related Parties

All the business and operations carried out by the Group with related parties in controlling or group relations are cumulatively concluded under normal market conditions for similar operations and are part of the Group's current activity.

As at 31 December 2020 the list of related parties was as follows:

Shareholder Structure / Qualifying Holdings
CTT – Correios de Portugal, S.A. (Public Company).
Manuel Champalimaud, SGPS, S.A. (1)
Global Portfolio Investments, S.L. (2)

(1) Qualifying holding in the sole shareholder, CTT – Correios de Portugal, S.A. (Public Company). Manuel Champalimaud, SGPS, S.A. holds 19,246,815 shares corresponding to 12.83% of CTT's share capital and respective voting rights and is a company controlled by Manuel Carlos de Mello Champalimaud. The referred voting rights, together with the 0.55% of voting rights inherent to the shares held in CTT by the members of the Board of Directors of Manuel Champalimaud, SGPS, S.A. are attributable to Manuel Carlos de Mello Champalimaud who, in turn, directly holds 353,185 shares corresponding to 0.24% of CTT's share capital and respective voting rights. Therefore, 13.12% of the voting rights in CTT are attributable to Manuel Champalimaud.

(2) Qualifying holding in the sole shareholder, CTT. Global Portfolio Investments, S.L. holds 15,057,937 shares corresponding to 10.04% of CTT's share capital and respective voting rights. Said voting rights are attributable to Indumenta Pueri, S.L..

Corporate Bodies 1	Board of Directors	Executive Committee	Audit Committee	Board of the General Meeting	Statutory Auditor
João de Almada Moreira Rato	Chairman	–	–	–	–
Luís Maria França de Castro Pereira Coutinho	Member	Chairman (CEO)	–	–	–
João Maria de Magalhães Barros de Mello Franco	Member	Member (CCO)	–	–	–
Pedro Rui Fontela Coimbra	Member	Member (CFO)	–	–	–
Nuno Carlos Dias dos Santos Fórneas	Member	Member (CIO)	–	–	–
Luís Jorge de Sousa Uva Patrício Paúl	Member	Member (CRO)	–	–	–
João Manuel de Matos Loureiro	Member	–	Chairman	–	–
Clementina Maria Dâmaso de Jesus Silva Barroso	Member	–	Member	–	–
Susana Maria Morgado Gomez Smith	Member	–	Member	–	–
António Pedro Ferreira Vaz da Silva	Member	–	–	–	–
Guy Patrick Guimarães de Goyri Pacheco	Member	–	–	–	–
António Emídio Pessoa Corrêa d'Oliveira	Member	–	–	–	–
Rui Afonso Galvão Mexia de Almeida Fernandes	–	–	–	Chairman	–
KPMG & Associados SROC, S.A.	–	–	–	–	Permanent
Vítor Manuel da Cunha Ribeirinho	–	–	–	–	Representative
Maria Cristina Santos Ferreira	–	–	–	–	Alternate

1 The members of the corporate bodies in office on the present date and as at 31 December 2020 are indicated herein.

Other related parties
CTT Expresso – Serviços Postais e Logística, S.A.
CTT Contacto, S.A.
Correio Expresso de Moçambique, S.A.
CTT Soluções Empresariais, S.A.
Mktplace - Comércio Eletrónico, S.A.
NEWPOST - Atividades e Serviços de Telecomunicações, de Linha de Apoio e de Administração e Operação de Sistemas, A.C.E.
Fundo Inovação TechTree

As at 31 December 2020, the value of the Group's transactions with related parties, as well as the respective costs and income recognised for the year, were as follows:

(amounts in thousand euros)

	2020			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Operating expenses	Operating income
CTT – Correios de Portugal, S.A.	14,372	1,724	5,279	2,694
CTT Expresso – Serviços Postais e Logística, S.A.	1	12	113	41
CTT Contacto, S.A.	-	18	238	-
	14,373	**1,754**	**5,630**	**2,735**

As at 31 December 2019, the value of the Group's transactions with related parties, as well as the respective costs and income recognised for the year, were as follows:

(amounts in thousand euros)

	2019			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Operating expenses	Operating income
CTT – Correios de Portugal, S.A.	11,023	2,765	4,194	3,616
CTT Expresso – Serviços Postais e Logística, S.A.	4	37	181	20
CTT Contacto, S.A.	-	32	299	-
	11,027	**2,834**	**4,674**	**3,636**

As at 31 December 2020, the value of the deposits placed by the members of the Corporate Bodies at the Group amounted to 150 thousand euros (2019: 142 thousand euros).

Note 31 – Fair Value

The fair value of the financial assets and liabilities, as at 31 December 2020, is analysed as follows:

(amounts in thousand euros)

	2020				
	At fair value through profit or loss	At fair value through reserves	Amortised Cost	Book Value	Fair Value
Cash and deposits at central banks	-	-	195,364	195,364	195,364
Deposits at other credit institutions	-	-	36,377	36,377	36,377
Financial assets at amortised cost					
Investments at credit institutions	-	-	38,902	38,902	38,902
Loans and advances to customers	-	-	1,093,282	1,093,282	1,098,652
Debt securities	-	-	498,251	498,251	543,316
Bonds issued by public entities	-	-	*490,394*	*490,394*	*535,452*
Bonds of other issuers	-	-	*7,856*	*7,856*	*7,865*
Financial assets at fair value through profit or loss					
Financial assets held for trading	2	-	-	2	2
Financial assets at fair value through other comprehensive income					
Debt securities	-	19,555	-	19,555	19,555
Bonds issued by public entities	-	*7,621*	-	*7,621*	*7,620*
Bonds of other issuers	-	*11,934*	-	*11,934*	*11,934*
Non-current assets held for sale	-	-	966	966	966
Financial Assets	**2**	**19,555**	**1,863,142**	**1,882,699**	**1,933,134**
Financial liabilities at amortised cost					
Deposits from customers	-	-	1,688,465	1,688,465	1,688,465
Debt securities issued	-	-	44,518	44,518	44,518
Financial liabilities	**-**	**-**	**1,732,983**	**1,732,983**	**1,732,983**

The fair value of the financial assets and liabilities, as at 31 December 2019, is analysed as follows:

(amounts in thousand euros)

	2019				
	At fair value through profit or loss	At fair value through reserves	Amortised Cost	Book Value	Fair Value
Cash and deposits at central banks	-	-	55,424	55,424	55,424
Deposits at other credit institutions	-	-	116,698	116,698	116,698
Financial assets at amortised cost					
Investments at credit institutions	-	-	34,615	34,615	34,615
Loans and advances to customers	-	-	885,821	885,821	892,175
Debt securities	-	-	455,869	455,869	490,963
Bonds issued by public entities	-	-	*441,255*	*441,255*	*476,238*
Bonds of other issuers	-	-	*14,614*	*14,614*	*14,725*
Financial assets at fair value through profit or loss					
Financial assets held for trading	2	-	-	2	2
Financial assets at fair value through other comprehensive income					
Debt securities	-	542	-	542	542
Bonds issued by public entities	-	*542*	-	*542*	*542*
Non-current assets held for sale	-	-	806	806	806
Financial Assets	**2**	**542**	**1,549,233**	**1,549,777**	**1,591,225**
Financial liabilities at amortised cost					
Amounts owed to other credit institutions	-	-	37,851	37,851	37,851
Deposits from customers	-	-	1,283,567	1,283,567	1,283,567
Debt securities issued	-	-	76,077	76,077	76,993
Financial liabilities	**-**	**-**	**1,397,495**	**1,397,495**	**1,398,411**

Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through internal models based on discounted cash flow methods. The generation of cash flow of the different instruments is based on their financial characteristics, and the discount rates used incorporate both the market interest rate curve and the current risk levels of the respective issuer.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model, which necessarily incorporate some degree of subjectivity, and exclusively reflects the value attributed to the different financial instruments.

The Bank uses the following fair value hierarchy, with three levels in the valuation of financial instruments (assets or liabilities), which reflect the level of judgement, the observability of the data, and the importance of the parameters applied in the determination of the assessment of the fair value of the financial instrument, pursuant to IFRS 13:

Level 1: Fair value is determined based on unadjusted listed prices, captured in transactions in active markets involving financial instruments similar to the instruments to be assessed. Where there is more than one active market for the same financial instrument, the relevant price is that prevailing in the main market of the instrument, or the most advantageous market to which there is access;

Level 2: Fair value is calculated through valuation techniques based on observable data in active markets, whether direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and valuation assumptions similar to those that a non-related party would use to estimate the fair value of the same financial instrument. This also includes instruments whose valuation is obtained through listed prices disclosed by independent entities, but whose markets show less liquidity; and,

Level 3: Fair value is determined based on data not observable in active markets, using techniques and assumptions that the market participants would use to assess the same instruments, including hypotheses about the inherent risks, the assessment method and inputs used, entailing process of review of the accuracy of the values obtained in this manner.

The Bank considers a market active for a particular financial instrument, on the measurement date, according to the turnover and liquidity of the operations carried out, the relative volatility of the listed prices, and the promptness and availability of the information, where the following minimum conditions must be met:

- Existence of frequent daily prices of trading in the last year;
- The prices mentioned above change regularly;
- Existence of enforceable prices of more than one entity.

A parameter used in the valuation method is considered to be observable market data if the following conditions are met:

- If its value is determined in an active market;
- If there is an OTC market and it is reasonable to assume that active market conditions are met, except for the condition of trading volumes; and,
- The value of the parameter can be obtained by the inverse calculation of the prices of the financial instruments and/or derivatives where all the other parameters required for the initial assessment are observable in a liquid market or OTC market that complies with the previous paragraphs.

The table below summarises, by valuation levels, the fair value of the financial assets and liabilities, as at 31 December 2020:

(amounts in thousand euros)

	2020			
	Valuation methods			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	**195,364**	**-**	**-**	**195,364**
Deposits at other credit institutions	**36,377**	**-**	**-**	**36,377**
Financial assets at amortised cost				
Investments at credit institutions	-	-	38,902	38,902
Loans and advances to customers	-	-	1,098,652	1,098,652
Debt securities	535,451	4,065	3,800	543,316
Bonds issued by public entities	*535,452*	*-*	*-*	*535,452*
Bonds of other issuers	*-*	*4,065*	*3,800*	*7,865*
Financial assets at fair value through profit or loss				
Financial assets held for trading	2	-	-	2
Financial assets at fair value through other comprehensive income				
Debt securities	8,135	11,420	-	19,555
Bonds issued by public entities	*7,620*	*-*	*-*	*7,620*
Bonds of other issuers	*515*	*11,419*	*-*	*11,934*
Non-current assets held for sale	**-**	**966**	**-**	**966**
Financial Assets	**775,329**	**16,451**	**1,141,354**	**1,933,134**
Financial liabilities at amortised cost				
Deposits from customers	-	-	1,688,465	1,688,465
Debt securities issued	-	44,518	-	44,518
Financial liabilities	**-**	**44,518**	**1,688,465**	**1,732,983**

The table below summarises, by valuation levels, the fair value of the financial assets and liabilities, as at 31 December 2019:

(amounts in thousand euros)

	2019			
	Valuation methods			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	**55,424**	**-**	**-**	**55,424**
Deposits at other credit institutions	**116,698**	**-**	**-**	**116,698**
Financial assets at amortised cost				
Investments at credit institutions	-	-	34,615	34,615
Loans and advances to customers	-	-	892,175	892,175
Debt securities	476,238	14,725	-	490,963
Bonds issued by public entities	*476,238*	*-*	*-*	*476,238*
Bonds of other issuers	*-*	*14,725*	*-*	*14,725*
Financial assets at fair value through profit or loss				
Financial assets held for trading	2	-	-	2
Financial assets at fair value through other comprehensive income				
Debt securities	542	-	-	542
Bonds issued by public entities	*542*	*-*	*-*	*542*
Non-current assets held for sale	**-**	**806**	**-**	**806**
Financial Assets	**648,904**	**15,531**	**926,79**	**1,591,225**
Financial liabilities at amortised cost				
Amounts owed to other credit institutions	-	-	37,851	37,851
Deposits from customers	-	-	1,283,567	1,283,567
Debt securities issued	-	76,993	-	76,993
Financial liabilities	**-**	**76,993**	**1,321,418**	**1,398,411**

The main methods and assumptions used to estimate the fair value of the financial assets and liabilities recorded in the balanced sheet at amortised cost are analysed as follows:

Cash and deposits at Central Banks, Deposits at other credit institutions and Investments at Central Banks and at other credit institutions

These assets are very short-term; hence, their book value is a reasonable estimate of their fair value.

Investment securities measured at amortised cost

The fair value of these financial instruments is based on market prices, when available. If market prices do not exist, their fair value is estimated based on the expected future principal and interest cash flows for these instruments.

Loans and Advances to Customers

Mortgage Loans

Fair value is calculated by discounting, at the average rates of the production of December, the expected cash flows throughout the life of the contracts considering the historical pre-payment rates.

Auto Loans

Fair value is calculated by discounting, at the average rates of the production of December, the expected cash flows throughout the life of the contracts considering the historical pre-payment rates.

Other

This type of credit is very short-term; hence, its book value is a reasonable estimate of its fair value.

Amounts Owed to Central Banks and Other Credit Institutions

These assets are very short-term; hence, their book value is a reasonable estimate of their fair value.

Deposits from Customers

The fair value of these financial instruments is estimated based on the discounted expected principal and interest cash flows. The discount rate used is that which reflects the rates applied for deposits with similar features on the reporting date. Considering that the applicable interest rates are renewed for periods less than one year, there are no materially relevant differences in their fair value.

Note 32 – Risk Management

The Group is exposed to various risks during the course of its business activity.

The Group's Policy on Risk Management and Internal Control aims to ensure the effective application of the risk management system, through the ongoing follow-up of its adequacy and efficacy, seeking to identify, assess, monitor and control all the materially relevant risks to which the institution is exposed, both internally and externally.

In this context, it is important to monitor and control the main types of financial risks – credit, liquidity, interest rate, market and operational – faced by the Group's activity.

Credit Risk

Credit risk reflects the degree of uncertainty of the expected returns, due to the inability either of the borrower, or of the counterpart of a contract, to comply with the respective obligations.

At the Group, credit risk management includes the identification, measurement, assessment and monitoring of the different credit exposures, ensuring risk management throughout the successive phases of the life of the credit process.

The monitoring and follow-up of credit risk, in particular with respect to the evolution of credit exposures and monitoring of losses, is regularly conducted by the Risk Department and by the Capital and Risk Committee.

As at 31 December 2020, the exposure of the mortgage loan product (net of impairment and including off-balance sheet exposures) is 537,956 thousand euros (421,748 euros as at 31 December 2019).

Credit in the retail segment, more specifically in motor vehicle credit at the point of sale, is 553,863 thousand euros of exposure (net of impairment and including off-balance sheet exposures) which compares to 467,469 thousand euros in 2019.

The Group is currently exposed to credit risk in other areas of its business activity. These necessarily include direct exposure to credit risk associated to investments and deposits at other credit institutions (counterpart risk), to public debt securities issues by eurozone countries (Portugal, Italy, Spain, France and Ireland), debt instruments of other issuers (credit institutions and companies), securitisation operations relative to the tariff deficit and other portfolios of 321 Crédito that are essentially at a run-off stage.

In order to mitigate credit risk, the mortgage lending operations have associated collateral, namely mortgages. Except in situations of default, the Bank, under its activity, does not have permission to sell or pledge this collateral. The fair value of this collateral is determined as at the date of the granting of the loan, with its value being checked periodically.

Motor vehicle credit operations are made with reservation of ownership, and the value of the vehicle is assessed at the time of granting the credit.

The acceptance of collateral to secure credit operations requires the need to define and implement techniques to mitigate the risks to which this collateral is exposed. Thus, and as an approach to this matter, the Group has stipulated a series of procedures applicable to collateral (namely real estate properties), that hedge, among others, the volatility of the value of the collateral.

The gross value of the loans and respective fair value of the collateral, limited to the value of the associated loan, are presented below:

(amounts in thousand euros)

	2020		2019	
	Loans and advances to customers	Fair value of the collateral	Loans and advances to customers	Fair value of the collateral
Mortgage loans	520,340	879,528	402,126	687,598
Auto loans	538,971	561,938	460,808	456,534
Other	50,636	27,384	26,865	33,488
	1,109,947	**1,468,850**	**889,799**	**1,177,620**

The following table presents information on the Group's exposures to credit risk (net of impairment and including off-balance sheet exposures) as at 31 December 2020 and 31 December 2019:

(amounts in thousand euros)

	2020	2019
Central Authorities or Central Banks	660,474	471,295
Regional governments or local authorities	5,043	-
Credit institutions	100,724	166,289
Companies	25,886	18,041
Retail customers	546,768	467,469
Loans secured by immovable assets	537,960	421,748
Non-performing loans	16,690	7,291
Other items	69,223	57,072
Risk Headings	**1,962,768**	**1,609,203**

The information on the risk headings (including off-balance sheet) as at 31 December 2020 and 31 December 2019 is detailed as follows:

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Demand deposits	167,502	-	167,502	29,498	-	29,498
Other financial assets at fair value through other comprehensive income	7,623	(2)	7,621	542	-	542
Investment securities measured at amortised cost	485,526	(175)	485,351	441,422	(167)	441,255
Central Authorities or Central Banks	**660,651**	**(177)**	**660,474**	**471,462**	**(167)**	**471,295**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Investment securities measured at amortised cost	5,048	(5)	5,043	-	-	-
Regional governments or local authorities	**5,048**	**(5)**	**5,043**	**-**	**-**	**-**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Demand deposits	36,411	(34)	36,377	116,699	-	116,699
Investments at financial institutions	64,030	(28)	64,002	48,391	(216)	48,175
Other	345	-	345	1,415	-	1,415
Credit institutions	**100,786**	**(62)**	**100,724**	**166,505**	**(216)**	**166,289**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Other financial assets at fair value through other comprehensive income	6,214	(46)	6,168	3,440	(13)	3,427
Investment securities measured at amortised cost	19,727	(9)	19,718	14,620	(7)	14,614
Companies	**25,941**	**(55)**	**25,886**	**18,060**	**(20)**	**18,041**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Loans and advances to customers	552,506	(5,738)	546,768	470,625	(3,156)	467,468
Retail customers	**552,506**	**(5,738)**	**546,768**	**470,625**	**(3,156)**	**467,468**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Loans and advances to customers	538,555	(595)	537,960	421,903	(155)	421,748
Loans secured by immovable assets	**538,555**	**(595)**	**537,960**	**421,903**	**(155)**	**421,748**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Loans and advances to customers	26,975	(10,285)	16,690	7,944	(653)	7,291
Non-performing loans	**26,975**	**(10,285)**	**16,690**	**7,944**	**(653)**	**7,291**

The exposure to public debt, net of impairment, of eurozone countries is detailed as follows:

(amounts in thousand euros)

	2020			2019		
	Other financial assets at fair value through other comprehensive income	Investment securities measured at amortised cost	Total	Other financial assets at fair value through other comprehensive income	Investment securities measured at amortised cost	Total
Portugal	7,620	288,754	296,374	542	286,995	287,537
Spain	–	94,407	94,407	–	54,924	54,924
Italy	–	95,233	95,233	–	87,172	87,172
France	–	6,434	6,434	–	6,492	6,492
Ireland	–	5,565	5,565	–	5,671	5,671
	7,620	**490,393**	**498,013**	**542**	**441,254**	**441,796**

The analysis of the portfolio of financial assets by stages is presented as follows:

(amounts in thousand euros)

	2020					2019				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Deposits at Central Banks and other credit institutions	203,879	–	–	–	203,879	146,197	–	–	–	146,197
Impairment losses	–	–	–	–	–	(1)	–	–	–	(1)
Net value	**203,879**	**–**	**–**	**–**	**203,879**	**146,196**	**–**	**–**	**–**	**146,196**
Investments at credit institutions	38,929	–	–	–	38,929	34,831	–	–	–	34,831
Impairment losses	(27)	–	–	–	(27)	(216)	–	–	–	(216)
Net value	**38,902**	**–**	**–**	**–**	**38,902**	**34,615**	**–**	**–**	**–**	**34,615**
Financial assets at fair value through other comprehensive income – Debt securities	19,564	–	–	–	19,564	542	–	–	–	542
Impairment losses	(9)	–	–	–	(9)	–	–	–	–	–
Net value	**19,555**	**–**	**–**	**–**	**19,555**	**542**	**–**	**–**	**–**	**542**
Financial assets at amortised cost – Debt securities	498,433	–	–	–	498,433	456,042	–	–	–	456,042
Impairment losses	(182)	–	–	–	(182)	(173)	–	–	–	(173)
Net value	**498,251**	**–**	**–**	**–**	**498,251**	**455,869**	**–**	**–**	**–**	**455,869**
Financial assets at amortised cost – Loans and advances to customers	1,030,766	52,214	26,967	5,239	1,109,947	836,958	40,208	7,199	5,434	889,799
Impairment losses	(4,161)	(2,225)	(10,279)	(922)	(16,665)	(2,063)	(871)	(2,337)	1,293	(3,978)
Net value	**1,026,605**	**49,989**	**16,688**	**4,317**	**1,093,282**	**834,895**	**39,337**	**4,862**	**6,727**	**885,821**

Liquidity Risk

Liquidity risk reflects the possibility of significant losses being incurred as a result of deterioration of funding conditions (funding risk) and/or sale of assets for less than their market value (market liquidity risk).

Overall, the liquidity risk management strategy is entrusted to the Board of Directors, which delegates it to the Executive Committee, and is carried out by the Treasury Department, based on constant vigilance of exposure indicators, being closely monitored by the Capital and Risk Committee.

The Capital and Risk Committee is responsible for controlling liquidity risk exposure, by analysing liquidity positions and assessing their conformity with the applicable regulatory rules and limitations, as well as with the goals and guidelines defined by the Group.

The Group's liquidity risk is assessed through regulatory indicators defined by the supervision authorities, as well as through other internal metrics.

As at 31 December 2020, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2020						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Undetermined maturity	Total
Assets							
Cash and deposits at central banks	195,364	-	-	-	-	-	**195,364**
Deposits at other credit institutions	36,377	-	-	-	-	-	**36,377**
Financial assets at amortised cost							
Investments at credit institutions	-	12,871	14,633	10,463	962	-	**38,929**
Loans and advances to customers	1,148	28,715	74,977	196,174	800,427	8,506	**1,109,947**
Debt securities	-	10,679	34,487	87,808	365,459	-	**498,433**
Financial assets at fair value through profit or loss							
Financial assets held for trading	-	-	-	-	2	-	**2**
Financial assets at fair value through other comprehensive income							
Debt securities	-	566	6,715	12,274	-	-	**19,555**
Total Assets	**232,889**	**52,831**	**130,812**	**306,719**	**1,166,850**	**8,506**	**1,898,607**
Liabilities							
Financial liabilities at amortised cost							
Deposits from customers	1,510,289	81,534	96,642	-	-	-	**1,688,465**
Debt securities issued	-	11	-	-	44,507	-	**44,518**
Total Liabilities	**1,510,289**	**81,545**	**96,642**	**-**	**44,507**	**-**	**1,732,983**
Gap (Assets-Liabilities)	**(1,277,400)**	**(28,714)**	**34,170**	**306,719**	**1,122,343**	**8,506**	**165,624**
Accumulated Gap	**(1,277,400)**	**(1,306,114)**	**(1,271,944)**	**(965,225)**	**157,118**	**165,624**	

As at 31 December 2019, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2019						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Undetermined maturity	Total
Assets							
Cash and deposits at central banks	55,424	–	–	–	–	–	**55,424**
Deposits at other credit institutions	116,699	–	–	–	–	–	**116,699**
Financial assets at amortised cost							
Investments at credit institutions	–	3,368	12,535	13,689	5,239	–	**34,831**
Loans and advances to customers	1,002	25,144	63,715	164,944	630,118	4,876	**889,799**
Debt securities	–	5,305	26,245	90,395	334,097	–	**456,042**
Financial assets at fair value through profit or loss							
Financial assets held for trading	–	–	–	–	2	–	**2**
Financial assets at fair value through other comprehensive income							
Debt securities	–	14	–	528	–	–	**542**
Total Assets	**173,125**	**33,831**	**102,495**	**269,556**	**969,456**	**4,876**	**1,553,339**
Liabilities							
Financial liabilities at amortised cost							
Amounts owed to other credit institutions	–	37,851	–	–	–	–	**37,851**
Deposits from customers	1,113,986	53,165	116,416	–	–	–	**1,283,567**
Debt securities issued	–	17	–	–	76,060	–	**76,077**
Total Liabilities	**1,113,986**	**91,033**	**116,416**	**–**	**76,060**	**–**	**1,397,495**
Gap (Assets-Liabilities)	**(940,861)**	**(57,202)**	**(13,921)**	**269,556**	**893,396**	**4,876**	**155,844**
Accumulated Gap	**(940,861)**	**(998,063)**	**(1,011,984)**	**(742,428)**	**150,968**	**155, 844**	

Furthermore, under the periodic monitoring of the liquidity situation, the Group calculates the liquidity mismatch, Additional Liquidity Monitoring Metrics (ALMM), pursuant to the addenda issued in 2018 to Regulation (EU) 680/2014 of the Commission.

ALMM takes into account all the contracted outflows and inflows and uses a maturity ladder which enables confirming the existence or not of the Group's liquidity mismatch, and also enables knowing its capacity to counterbalance any liquidity mismatch.

The liquidity mismatch is calculated for various timeframes, from overnight up to more than five years, taking into account the asset, liability and off-balance sheet positions with expected and estimated financial flows that are scheduled according to the corresponding residual maturities or inflow/outflow date of the monetary flow.

As at 31 December 2020, the ALMM shows a positive liquidity mismatch (difference between contracted outflows and inflows) of 169,411 thousand euros.

Interest Rate Risk

Interest Rate Risk refers to losses arising from the impact that interest rate fluctuations have on balance sheet or off-balance sheet items that are sensitive.

As at 31 December 2020, one of the main instruments in the monitoring of balance sheet interest rate risk is based on the recent Banco de Portugal Instruction 34/2018. This model groups variation-sensitive assets and liabilities into19 fixed timeframes (maturity dates or date of first review of interest rates, when indexed), from which a potential impact on economic value is calculated. Economic value is calculated by the sum of the net present value of the discounted cash flows. This discount is based on an interest rate curve not subject to any type of shock, in which, for discount purposes, the average periods of the timeframes are assumed. As presented in the table below, the two standard scenarios that correspond to a positive and negative shock of 200 basis points are applied to the baseline scenario.

As at 31 December 2020, the distribution of assets, liabilities and off-balance sheet items sensitive to the interest rate, according to the 19 timeframes and respective impact on economic value, are as follows:

(amounts in thousand euros)

2020						
Timeframe	**Assets**	**Liabilities**	**Off-Balance Sheet**	**Net Position**	**Economic Value Delta (+200 bps)**	**Economic Value Delta (-200 bps)**
At sight	306,048	294,927	(49,951)	(38,830)	2	(1)
At sight – 1 month	107,392	98,774	7,022	15,640	(14)	3
1 – 3 months	108,765	67,037	66	41,724	(139)	32
3 – 6 months	160,359	86,225	157	74,291	(554)	126
6 – 9 months	170,258	68,865	136	101,529	(1,260)	283
9 – 12 months	202,972	73,019	546	130,499	(2,265)	478
1 – 1.5 years	67,983	87,644	10,564	(9,097)	225	(47)
1.5 – 2 years	78,555	87,644	-	(9,089)	314	(65)
2 – 3 years	134,743	172,257	-	(37,514)	1,843	(372)
3 – 4 years	119,503	154,121	-	(34,618)	2,365	(468)
4 – 5 years	98,388	151,089	-	(52,701)	4,590	(944)
5 – 6 years	86,877	108,633	-	(21,756)	2,291	(510)
6 – 7 years	82,037	96,563	-	(14,526)	1,783	(448)
7 – 8 years	69,707	96,563	-	(26,856)	3,743	(1,056)
8 – 9 years	48,703	72,422	-	(23,719)	3,681	(1,156)
9 – 10 years	67,629	72,422	-	(4,793)	814	(287)
10 – 15 years	47	-	-	47	(10)	4
15 – 20 years	-	-	-	-	-	-
› 20 years	-	-	-	-	-	-
Total	**1,909,966**	**1,788,205**	**(31,460)**	**90,301**	**17,409**	**(4,428)**

As at 31 December 2019, the distribution of assets, liabilities and off-balance sheet items sensitive to the interest rate, according to the 19 timeframes and respective impact on economic value, are as follows:

(amounts in thousand euros)

2019						
Timeframe	**Assets**	**Liabilities**	**Off-Balance Sheet**	**Net Position**	**Economic Value Delta (+200 bps)**	**Economic Value Delta (-200 bps)**
At sight	236,498	229,709	(43,719)	(36,930)	2	(1)
At sight – 1 month	83,856	145,146	5,660	(55,630)	49	(17)
1 – 3 months	67,016	51,741	(312)	14,963	(49)	17
3 – 6 months	119,676	97,276	27	22,427	(167)	55
6 – 9 months	145,813	64,646	34	81,201	(1,004)	323
9 – 12 months	174,000	47,260	166	126,906	(2,194)	699
1 – 1.5 years	69,076	61,788	10,912	18,200	(448)	140
1.5 – 2 years	57,094	61,788	-	(4,694)	161	(49)
2 – 3 years	119,323	122,054	-	(2,731)	133	(41)
3 – 4 years	100,911	109,392	-	(8,481)	573	(193)
4 – 5 years	97,422	107,869	-	(10,448)	895	(335)
5 – 6 years	78,315	86,559	-	(8,245)	848	(356)
6 – 7 years	69,791	76,942	-	(7,151)	852	(403)
7 – 8 years	64,298	76,942	-	(12,644)	1,699	(904)
8 – 9 years	54,173	57,706	-	(3,533)	524	(312)
9 – 10 years	28,228	57,706	-	(29,479)	4,761	(3,082)
10 – 15 years	11,679	-	-	11,679	(2,290)	1,719
15 – 20 years	-	-	-	-	-	-
> 20 years	-	-	-	-	-	-
Total	**1,577,166**	**1,454,523**	**(27,233)**	**95,411**	**4,346**	**(2,740)**

In view of the interest rate gaps observed, as at 31 December 2020, the impact on the economic value of instantaneous and parallel shifts of the interest rates by -200 basis points is -4,428 thousand euros (2019: -2,740 thousand euros).

The main assumptions used in 2019 and 2020 in the Group's analyses are:

- For Demand Deposits: 15% at sight, 85% distributed non-linearly over 10 years, giving rise to a duration of 3.9 years;
- Saving Accounts: 18% at sight, 82% distributed non-linearly over 5 years, giving rise to a duration of 1.9 years;
- Auto Loans: constant annual pre-payment rate of 10%

Market Risk

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 Group does not have a trading portfolio, with the exception of a derivative with a residual valuation (345 thousand euros) that was acquired by one of the securitisations included in the consolidation perimeter, 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 the Group's investments.

Operational Risk

The Group, in view of the nature of its activity, is exposed to potential losses or reputational risk, as a result of human errors, failures of systems and/or processing, unexpected stoppage of activity or failures on the part of third parties in terms of supplies, provisions or execution of services.

The approach to operational risk management is underpinned by the end-to-end structure, ensuring the effective adequacy of the controls involving functional units that intervene in the process. The Group identifies and assesses the risks and controls of the processes, ensuring their compliance with the requirements and principles of the Internal Control System.

Encumbered Assets

Pursuant to Banco de Portugal Instruction 28/2014, which addresses the guidance of the European Banking Authority relative to the disclosure of encumbered assets and unencumbered assets (EBA/GL/2014/3), and considering the recommendation issued by the European Systemic Risk Board, the following information is presented in relation to the assets and collateral:

(amounts in thousand euros)

	2020			
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Debt Securities	14,055	14,055	503,751	548,635
Other assets	498,647	n/a	983,426	n/a
	512,702		**1,487,177**	

(amounts in thousand euros)

	2019			
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Debt Securities	45,989	48,179	410,423	445,341
Other assets	405,543	n/a	803,923	n/a
	451,532		**1,214,346**	

(amounts in thousand euros)

	Fair value of the encumbered collateral received or own debt securities issued		Fair value of the encumbered collateral received or own debt securities issued and able to be encumbered	
	2020	2019	2020	2019
Collateral received	**527,266**	**416,645**	**969,000**	**794,938**
Debt securities	–	–	–	–
Other collateral received	527,266	416,645	969,000	794,938
Own Debt Securities Issued other than Covered Own Bonds or ABS	**–**	**–**	**–**	**–**

(amounts in thousand euros)

	Book value of the selected financial liabilities	
	2020	**2019**
Associated liabilities, contingent liabilities and loaned securities	-	-
Assets, collateral received and own debt securities issued other than covered own bonds or ABS that are encumbered	16,402	47,636

The encumbered assets are primarily related to the Group's funding operations in repos (Debt securities) and the value of securitised contracts under securitisation operations (Other Assets).

The encumbered collateral received essentially refers to the collateral of the securitised contracts under securitisation operations.

The collateral received that is able to be encumbered essentially refers to the collateral received in non-securitised credit operations, namely in mortgage loan and motor vehicle credit contracts.

Of the total unencumbered total assets of the value of 983,426 thousand euros (2019: 803,923 thousand euros), approximately 10% (2019: 12%) refer to items that cannot be encumbered (other tangible assets, intangible assets, current and deferred taxes).

Note 33 – Capital Management and Solvency Ratio

The main objective of capital management is to ensure compliance with the Group's strategic goals concerning capital adequacy, respecting and assuring compliance with the minimum requirements for own funds defined by the supervision entities.

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

The capital, calculated pursuant to Directive 2013/36/EU and Regulation (EU) 575/2013 approved by the European Parliament and the Council, and Banco de Portugal Notice 10/2017, includes core own funds (tier 1 capital) and supplementary own funds (tier 2 capital). Tier 1 includes core own funds (Common Equity Tier 1 – CET1) and tier 1 additional capital.

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

The legislation in force establishes a transition period between capital requirements pursuant to national legislation and that calculated pursuant to Community legislation in a phased fashion both for the non-inclusion/exclusion of items considered previously (phased-out) and the inclusion/deduction of new items (phased-in). At a prudential framework level, institutions should report Common Equity Tier 1, tier 1 and totals not below 7%, 8.5% and 10.5%, respectively, including a conservation buffer of 2.5% and a countercyclical buffer of 0%, in the case of the Bank, 0%.

In order to promote the banking system's capacity to adequately perform this function, and cumulatively with monetary policy measures, the financial regulatory and supervisory authorities introduced a wide range of measures. These measures included the relaxation of a wide range of requirements usually required of institutions. In the case of the banking system, the European Central Bank and Banco de Portugal allowed the institutions directly supervised by them to operate temporarily with a level below the own funds guidance and the combined own funds buffer, and with liquidity levels below the liquidity coverage requirement.

In the course of 2020, several measures were disclosed - by the national supervisor and the European Union - easing regulatory and supervisory requirements to alleviate the contingency situation arising from the Covid-19 outbreak, by reducing regulatory capital requirements, including macro-prudential capital buffers.

Banco de Portugal Notice 10/2017 regulates the transitional arrangement established in the CRR concerning own funds, namely with respect to deductions related to deferred taxes generated before 2014 and to subordinated debt and hybrid instruments that are not eligible, both non-applicable to Banco CTT.

With the introduction of IFRS9, the Bank opted for the phased recognition of the respective impacts of the static component pursuant to Article 473-A of the CRR.

As at 31 December 2020 and 31 December 2019, the Group presented the following capital ratios, calculated in accordance with the transitional provisions established in the CRR:

(amounts in thousand euros)

	2020		2019		
	CRR Phased-in	CRR Fully Implemented	CRR Phased-in	CRR Fully Implemented	Notes
OWN FUNDS					
Share capital	**286,400**	**286,400**	**286,400**	**286,400**	27
Retained earnings	**(74,159)**	**(74,159)**	**(66,148)**	**(66,148)**	28
Other Reserves	**(190)**	**(190)**	**(207)**	**(207)**	
Prudential Filters	**64**	**64**	**15**	**15**	28
Fair value reserves	83	83	16	16	
Additional Valuation Adjustment (AVA)	**(19)**	**(19)**	**(1)**	**(1)**	
Deductions to common equity tier 1	**(81,213)**	**(81,699)**	**(96,824)**	**(97,415)**	
Losses for the period	-	-	(8,011)	(8,011)	
Intangible assets	(19,919)	(19,919)	(27,624)	(27,624)	19
Goodwill	(61,085)	(61,085)	(61,085)	(61,085)	
Adoption of IFRS 9	(209)	(695)	(104)	(695)	
Items not deducted from Equity pursuant to article 437 of the CRR	**1,929**	**1,929**	**2,093**	**2,093**	
Deferred tax assets	1,929	1,929	2,093	2,093	20
Common Equity Tier 1	**130,902**	**130,416**	**123,236**	**122,645**	
Tier 1 Capital	**130,902**	**130,416**	**123,236**	**122,645**	
Total Own Funds	**130,902**	**130,416**	**123,236**	**122,645**	
RWA	**780,104**	**779,672**	**643,061**	**646,166**	
Credit Risk	695,218	695,218	600,298	600,298	
Operational Risk	84,768	84,768	45,816	45,816	
Market Risk	118	118	487	487	
IFRS 9 adjustments	-	(432)	-	(335)	
CAPITAL RATIOS					
Common Equity Tier 1	16.78%	16.73%	19.06%	18.98%	
Tier 1 Ratio	16.78%	16.73%	19.06%	18.98%	
Total Capital Ratio	16.78%	16.73%	19.06%	18.98%	

Note 34 – Employee Benefits

As mentioned in Note 2.16, pursuant to the collective bargaining agreement (ACT) of the banking sector, published in Boletim do Trabalho e Emprego (BTE) number 38/2017 of 15 October, the Group, at the company 321 Crédito undertook the following commitments in relation to the payment of benefits, which are described as follows:

Benefits

Career Bonus

The Career Bonus is established in Clause 69 of the collective bargaining agreement (ACT), where the content of numbers one state that on the date of moving into a situation of retirement, due to disability or old age, the employee shall be entitled to a bonus of the value equal to 1.5 times the effective monthly retribution earned on that date. In the event of death while actively employed, a bonus shall be paid calculated under the terms of number 1 and with reference to the effective monthly retribution that the deceased employee earned on the date of death.

Allowance due to Death Arising from a Work Accident

In the event of death of a Participant arising from a work accident, this shall give rise to the payment of a capital sum – death allowance – as defined in Clause 72 of the collective bargaining agreement referred to above.

Post-Retirement Medical Care (SAMS)

Medical care is provided by the Social Medical Assistance Service (SAMS) whose post-retirement costs to the Member are defined are Clause 92 of the collective bargaining agreement referred to above.

The calculation considers the figures of Annex III of the collective bargaining agreement, covering the growth rate of the salary table.

321 Crédito is liable for the payment of the aforesaid costs for all its employees as soon as they move into a situation of retirement and for the costs related to survivors' pensions.

The counting of time of service considered the seniority date in the Group.

Actuarial Assumptions

In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is performed by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered appropriate and reasonable, with an actuarial study having been conducted as at 31 December 2019.

The main actuarial assumptions used in the calculation of the liabilities are as follows:

	2020	2019
Financial assumptions		
Discount rate	1.30%	1.50%
Salary growth rate (considering progressions)	1.25%	1.25%
Medical inflation rate	1.00%	1.00%
Demographic assumptions		
Rate of death due to work accidents	0.000035	0.000035
Mortality table	Men: TV 88/90 Women: TV 88 / 90 (-1)	Men: TV 88/90 Women: TV 88 / 90 (-1)
Disability table	Swiss RE	Swiss RE
Retirement Age	66*	66*

** The normal retirement age is in line with the provisions in Decree-Law 167-E/2013, of 31 December and with the forecasts carried out in the study entitled "2014 Ageing Working Group pension projection exercise" produced by the Planning, Strategy, Assessment and International Relations Office (GPEARI) of the Ministry of Finance of Portugal*

The discount rate is estimated based on interest rates of private debt bonds with high credit rating ("AA" or equivalent) at the date of the balance sheet and with a duration equivalent to that of the liabilities with healthcare.

The discount rate is determined according to the Group's analysis of the evolution of the macroeconomic context and constant need to adjust the actuarial and financial assumptions to that context, which laid the grounds for the adjustment of the rate to 1.30% (2019: 1.50%).

The demographic assumptions are based on the mortality and disability tables considered appropriate for the actuarial assessment of this plan.

Liabilities

The evolution of the Group's liabilities related to healthcare and other post-employment benefits during the period ended on 31 December 2020 and 2019, is presented below:

(amounts in thousand euros)

	2020			2019		
	Healthcare – SAMS	Other post-employment benefits	Total	Healthcare – SAMS	Other post-employment benefits	Total
Opening balance	**1,286**	**198**	**1,484**	–	–	–
Change of the consolidation perimeter	–	–	–	1,101	178	1,279
Cost of the current service	97	16	113	34	3	37
Cost of interest (nota 4)	19	2	21	21	3	24
Benefits paid	(1)	–	(1)	(1)	–	(1)
Actuarial gains and losses for the year	31	–	31	131	14	145
Closing balance	**1,432**	**216**	**1,648**	**1,286**	**198**	**1,484**

The best estimate that the Group has at this date for expenses to be recognised in 2021 with employee benefits is about 126 thousand euros for Health Care (SAMS) and about 16 thousand euros with other post-employment benefits.

As at 31 December 2019, the best estimate the Group had at that date for employee benefit expenses to be recognized in the following annual period (2020) was about 116 thousand euros for Health Care (SAMS) and about 15 thousand euros with other post-employment benefits.

In the period ended on 31 December 2020 and 2019, the expenses related to employee benefits recognised in the consolidated income statement and the actuarial deviations recorded under the balance sheet heading "Other changes in equity" were as follows:

(amounts in thousand euros)

	2020	2019
Expenses recognised in the income statement		
Healthcare – SAMS	116	55
Other post-retirement benefits	18	6
	134	**61**
Actuarial deviations recorded under the balance sheet heading "Other changes in equity"		
Healthcare – SAMS	162	131
Other post-retirement benefits	14	14
	176	**145**

The average duration of the liabilities related to Healthcare (SAMS) and other employee benefits is approximately 24.75 years (2019: 25.1 years.

Sensitivity Analysis

The analysis of sensitivity to change in assumptions, pursuant to IAS 19, is as follows:

Discount rate:

(amounts in thousand euros)

2020	Discount rate		Δ	
	1.30%	1.55%	Value	%
Liabilities	1,648	1,551	(97)	-5.9%

(amounts in thousand euros)

2019	Discount rate		Δ	
	1.50%	1.75%	Value	%
Liabilities	1,484	1,395	(89)	-6.0%

Analysis of the table above enables us to conclude that an increase of 25 b.p. in the discount rate, ceteris paribus, could be reflected in a reduction of the liabilities due to past services by approximately 5.9% (2019: 6.0%).

Inversely, a reduction of 25 b.p. in the discount rate, could be reflected in an increase of the liabilities due to past services by approximately 6.3% (2019: 6.4%).

Mortality table

Sensitivity analysis was also carried out with a view to measuring the impact on liabilities of a variation of the mortality table in which mortality table TV 73/77 (-2) was considered for men and TV 88/90 (-3) for women. This change of the tables could be reflected in an increase of liabilities due to past services by approximately 2.3% (2019: 2.2%), increasing to 1,686 thousand euros (2019: 1,516 thousand euros).

(amounts in thousand euros)

2020	Mortality Table		Δ	
	Men: TV 88/90 Women: TV 88/90 (-1)	Men: TV 73/77 (-2) Women: TV 88/90 (-3)	Value	%
Liabilities	1,648	1,686	38	2.3%

(amounts in thousand euros)

2019	Mortality Table		Δ	
	Men: TV 88/90 Women: TV 88/90 (-1)	Men: TV 73/77 (-2) Women: TV 88/90 (-3)	Value	%
Liabilities	1,484	1,516	32	2.2%

Note 35 – Asset Securitisation

As at 31 December 2020, the Group had in progress the following securitisation operations not derecognised from the balance sheet:

(amounts in thousand euros)

2020						
Issue	**Securitised asset**	**Issue date**	**Redemption date**	**Initial value of the credit**	**Stake withheld**	**Current value of the credit**
Ulisses Finance No.1	Consumer credit	July 2017	July 2033	141,300	10,600	52,172
Chaves Funding No.8	Consumer credit	November 2019	November 2034	310,500	16,025	454,955
				451,800	**26,625**	**507,127**

(amounts in thousand euros)

2019						
Issue	**Securitised asset**	**Issue date**	**Redemption date**	**Initial value of the credit**	**Stake withheld**	**Current value of the credit**
Ulisses Finance No.1	Consumer credit	July 2017	July 2033	141,300	10,600	83,138
Chaves Funding No.8	Consumer credit	November 2019	November 2034	310,500	311,000	323,048
				451,800	**321,600**	**406,186**

The assets underlying the Ulisses Finance No.1 and Chaves Funding No.8 operations were not derecognised from the balance sheet as the Group substantially kept the risks and benefits associated to holding them.

In June 2019, the Group decided to carry out the early redemption of the securitisation operation Chaves Funding No.7. This operation included a consumer credit and finance lease portfolio which had, at the time of its redemption, a nominal value of 197,200,000 euros.

The main features of these operations, with reference to 31 December 2020 and 2019, are analysed as follows:

(amounts in thousand euros)

	2020											
	Nominal Value		**Redemption date**	**Remuneration**	**Initial Rating**				**Current Rating**			
	Initial	**Current**			**Fitch**	**Moody's**	**S&P**	**DBRS**	**Fitch**	**Moody's**	**S&P**	**DBRS**
Ulisses Finance No.1												
Class A	120,100	30,402	Mar 2033	Euribor 1M + 85 bps	-	A2	-	A	-	A1	-	AA
Class B	7,000	7,000	Mar 2033	Euribor 1M + 160 bps	-	Baa3	-	BBB	-	Aa3	-	A
Class C	7,100	7,100	Mar 2033	Euribor 1M + 375 bps	-	Ba2	-	BB(low)	-	A3	-	BBB
Class D	7,100	7,100	Mar 2033	Euribor 1M + 400 bps	-	-	-	-	-	-	-	-
Class E	3,500	3,500	Mar 2033	-	-	-	-	-	-	-	-	-
Chaves Funding No.8												
Class A	294,975	437,904	Nov 2034	Euribor 1M + 125 bps	-	-	-	-	-	-	-	-
Class B	16,025	24,451	Nov 2034	-	-	-	-	-	-	-	-	-
	455,800	**517,457**										

(amounts in thousand euros)

	2019											
	Nominal Value		Redemption date	Remuneration	Initial Rating				Current Rating			
	Initial	Current			Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Ulisses Finance No.1												
Class A	120,100	61,938	Mar 2033	Euribor 1M + 85 bps	-	A2	-	A	-	A1	-	AA
Class B	7,000	7,000	Mar 2033	Euribor 1M + 160 bps	-	Baa3	-	BBB	-	Baa1	-	A
Class C	7,100	7,100	Mar 2033	Euribor 1M + 375 bps	-	Ba2	-	BB(low)	-	Ba1	-	BBB
Class D	7,100	7,100	Mar 2033	Euribor 1M + 400 bps	-	-	-	-	-	-	-	-
Class E	3,500	3,500	Mar 2033	-	-	-	-	-	-	-	-	-
Chaves Funding No.8												
Class A	294,975	312,588	Nov 2034	Euribor 1M + 125 bps	-	-	-	-	-	-	-	-
Class B	16,025	16,952	Nov 2034	-	-	-	-	-	-	-	-	-
	455,800	**416,178**										

Ulisses Finance No.1 operation incorporates an interest rate swaps, which is a mechanisms to mitigate interest rate risk for the operations and their investors, among which the Group is included, but that were not contracted directly by the Group, but rather by the issuer of the securitisation operations (Sagres).

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

Furthermore, as at 31 December 2020, the Group, through 321 Crédito, maintained the Fénix operation as the only outstanding derecognised securitisation operation. The Group's only involvement in this operation was to provide serving for this operation.

Note 36 – Provision of Insurance or Reinsurance Mediation Services

As at 31 December 2020 and 2019, the remunerations derived from the provision of insurance and reinsurance mediation services were broken down as follows:

(amounts in thousand euros)

	2020	2019
Life Business	3,822	1,839
Non-Life Business	482	63
	4,304	**1,902**

The values receivable and payable associated to the insurance mediation activity are presented as follows:

(amounts in thousand euros)

	2020	2019
Values receivable	828	1,280
Values payable	899	638

Note 37 – Recent Pronoucements

The standards and amendments recently issued, already effective and adopted by the Group in the preparation of these financial statements, are as follows:

Amendments to References to the Conceptual Framework in IFRS Standards

In March 2018, the International Accounting Standards Board (Board) issued a comprehensive set of concepts for financial reporting, the revised Conceptual Framework for Financial Reporting (Conceptual Framework), which aim is to update, in existing Standards, references to, and quotes from, the existing version of the Conceptual Framework or the version that was replaced in 2010 so that they refer to the revised Conceptual Framework.

The revised Conceptual Framework has an effective date of 1 January 2020 for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction.

There were no significant effects on the Group's financial statements as of December 31, 2020 resulting from this change.

Definition of Material (amendments to IAS 1 and IAS 8)

On 31 October 2018, the International Accounting Standards Board has issued amendments to its definition of material to make it easier for companies to make materiality judgments.

The Amendments consist of (a) replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concepts of 'omitting' and 'misstating' information in the definition of material; (c) clarifying that the 'users' referred to are the primary users of general purpose financial statements referred to in the Conceptual Framework; and (d) aligning the definition of material across IFRS publications.

The amended definition of material therefore states that 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

There were no significant effects on the Group's financial statements as of December 31, 2020 resulting from this change.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

On 26 September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. Additionally, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The Amendments provide exceptions so that entities would apply hedge accounting requirements assuming that the interest rate benchmark on which the hedged risk or hedged cash flows of the hedged item or cash flows of the hedging instrument are based is not altered as a result of the IBOR reform. The proposed exceptions apply only to the hedge accounting requirements and the Amendments do not provide relief from any other consequences arising from interest rate benchmark reform.

The Amendments are limited in scope. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the Amendments, then discontinuation of hedge accounting is still required.

In addition, the Amendments clarify that if an entity designated interest rate benchmark-based cash flows as the hedged item in a cash flow hedge, the entity would not assume for the purpose of measuring hedge ineffectiveness that the expected replacement of the interest rate benchmark with an alternative benchmark rate will result in zero cash flows after the replacement. The hedging gain or loss should be measured using the interest rate benchmark-based cash flows when applying a present value technique, discounted at a market-based discount rate that reflects market participants' assumptions about the uncertainty arising from the reform.

The Amendments are mandatory to all hedging relationships to which the exceptions are applicable.

The amendments have an effective date of annual periods beginning on or after 1 January 2020. The amendments would be applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which the entity first applies the Amendments and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the Amendments (i.e. even if the reporting period is not an annual period).

There were no significant effects on the Group's financial statements as of December 31, 2020 resulting from this change.

Definition of a Business (amendments to IFRS 3 Business Combinations)

On 22 October 2018, the IASB issued the amendments to its definition of a business.

The Amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. They also clarify that a set of activities and assets can qualify as a business without including all of the inputs and processes needed to create outputs, or including the outputs themselves, by replacing the term 'ability to create outputs' with 'ability to contribute to the creation of outputs'.

It is no longer necessary to assess whether market participants are capable of replacing any missing inputs or processes (for example by integrating the acquired activities and assets) and continuing to produce outputs. The Amendments focus on whether acquired inputs and acquired substantive processes, together, significantly contribute to the ability to create outputs.

The Amendments shall be applied to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier application permitted. If entities apply the Amendments earlier, they shall disclose that fact.

There were no significant effects on the Group's financial statements as of December 31, 2020 resulting from this change.

Note 38 – 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 the European Union:

Covid-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the International Accounting Standards Board (Board) issued Covid-19-Related Rent Concessions, which amended IFRS 16 Leases.

If certain conditions are met, the Amendment would permit lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications. Instead, lessees that apply the practical expedient would account for those rent concessions as if they were not lease modifications, so that, for example, the amount of rent forgiven on or before 30 June 2021 is taken to income the same year that the concession is granted, instead of being allocated over the duration of the contract as would be the case were the practical expedient not allowed.

The Amendment shall be applied for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In August 2020, the IASB issued Interest Rate Benchmark Reform—Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

The objective of the Amendments is to assist entities with providing useful information to users of financial statements and to support preparers in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships, as a result of the transition from an IBOR benchmark rate to alternative benchmark rates, in the context of the ongoing risk-free rate reform ('IBOR reform').

The Amendments are the results of the second phase of the IASB project that deals with the accounting implications of the IBOR reform, which originated the Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) issued by the IASB on 26 September 2019. They complement the first phase of the project which dealt with pre-replacement accounting implications of the IBOR reform and which have been issued by the IASB in 2019.

The Amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2021, with earlier application permitted.

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

IASB has issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) ('the Amendments') on 25 June 2020.

The objective of the Amendments is to extend the expiry date of the temporary exemption from applying IFRS 9 by two years (i.e. from 2021 to 2023) in order to align the effective dates of IFRS 9 Financial Instruments with IFRS 17 Insurance Contracts.

Note 39 – Recently Issued Pronouncements That Are Not Yet Effective For The Group

Reference to the Conceptual Framework (Amendments to IFRS 3)

In May 2020 the IASB issued Reference to the Conceptual Framework, which made amendments to IFRS 3 Business Combinations.

The amendments updated IFRS 3 by replacing a reference to an old version of the Board's Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018.

The Amendments shall be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by Amendments to References to the Conceptual Framework in IFRS Standards, issued in March 2018.

Property, Plant and Equipment – Proceeds before Intended Use, Amendments to IAS 16 Property, Plant and Equipment

In May 2020, the IASB issued Property, Plant and Equipment—Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment.

The Amendments would prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in a manner intended by management. Instead, an entity would recognise those sales proceeds in profit or loss.

The Amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2022, with earlier application permitted.

Onerous Contracts - Cost of Fulfilling a Contract

In May 2020, the IASB issued Onerous Contracts—Cost of Fulfilling a Contract, which made amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The objective of the Amendments is to clarify the requirements of IAS 37 on onerous contracts regarding the assessment of whether, in a contract, the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The Amendments shall be applied for annual periods beginning on or after 1 January 2022, with earlier application permitted.

Annual Improvements to IFRS Standards 2018 – 2020

On 14 May 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020 containing the following amendments to IFRSs:

a) permit an entity that is a subsidiary, associate or joint venture, who becomes a first-time adopter later than its parent and elects to apply paragraph D16(a) of IFRS 1 First-time Adoption of International Financial Reporting Standards, to measure the cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs;

b) clarify that the reference to fees in the 10 per cent test includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf;

c) remove the potential confusion regarding the treatment of lease incentives applying IFRS 16 Leases as was illustrated in Illustrative Example 13 accompanying IFRS 16; and

d) remove the requirement in paragraph 22 of IAS 41 Agriculture for entities to exclude cash flows for taxation when measuring fair value applying IAS 41.

The Amendments shall be applied for annual periods beginning on or after 1 January 2022, with earlier application permitted.

Note 40 – Subsequent Events

In addition to the aspects disclosed in the remaining notes, the events that occurred after the date of the financial statements and up to the date of their approval were the following:

Banco CTT, S.A.'s share capital increase.

An increase of the Company's share capital was carried out on 25 January 2021 from 286.400.000 euros (two hundred and eighty-six million and four hundred thousand euros) to 296.400.000 euros (two hundred and ninety-six million and four hundred thousand euros), via a new cash entry by the Sole Shareholder (CTT – Correios de Portugal, S.A.), of the value of 10,000,000 euros (ten million euros) giving rise to the issue of 10,000,000 new ordinary, registered shares without nominal value with the issue value of 1 euro each.

6.2
Financial Statements and Notes to the Individual Financial Statements 2020

Individual Financial Statements

Individual Income Statement for the year ended on 31 December 2020

(amounts in thousand euros)

	Notes	2020	2019
Interest and similar income calculated through the effective interest rate		17,600	14,209
Interest and similar expenses		(861)	(861)
Net Interest Income	4	**16,739**	**13,348**
Net fee and commission income	5	10,871	5,717
Net gains/(losses) of other financial assets at fair value through other comprehensive income	6	389	35
Gains / (losses) on derecognition of financial assets and liabilities at amortised cost		34	-
Other operating income/(expenses)	7	(261)	(101)
Operating Income		**27,772**	**18,999**
Staff costs	8	(14,303)	(14,121)
General administrative expenses	9	(21,063)	(22,903)
Amortisation and depreciation for the year	17 and 18	(5,520)	(4,942)
Operating Costs		**(40,886)**	**(41,966)**
Operating Profit/(Loss) Before Provisions and Impairment		**(13,114)**	**(22,967)**
Loans impairment	14	(1,075)	(72)
Other financial assets impairment	13, 15 and 16	234	(33)
Other assets impairment	21	15	(122)
Other provisions	24	(151)	37
Operating Profit/(Loss)		**(14,091)**	**(23,157)**
Net gains/(losses) of investments in subsidiaries and associates		**11,292**	**10,130**
Profit/(Loss) Before Tax		**(2,799)**	**(13,027)**
Taxes			
Current	20	3,030	5,074
Deferred	20	54	(58)
Net Income for the Year		**285**	**(8,011)**
Earnings per share (in euros)			
Basic	10	0.00	(0.03)
Diluted	10	0.00	(0.03)

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

THE BOARD OF DIRECTORS

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira

Individual Statement of Comprehensive Income for the year ended on 31 December 2020

(amounts in thousand euros)

	Notes	2020	2019
Items that may be reclassified to the income statement			
Fair value reserve	27	67	16
Items that shall not be reclassified to the income statement			
Actuarial gains/(losses) for the year			
Employee benefits		17	(145)
Comprehensive income recognized directly in Equity after taxes		**84**	**(129)**
Net Income for the Year		285	(8,011)
Total Comprehensive income for the year		**369**	**(8,140)**

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

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António Emídio Pessoa Corrêa d'Oliveira

Individual Balance Sheet as at 31 December 2020

(amounts in thousand euros)

	Notes	2020	2019
Assets			
Cash and deposits at central banks	11	191,613	51,848
Deposits at other credit institutions	12	14,578	95,462
Financial assets at amortised cost			
Investments at credit institutions	13	52,999	56,957
Loans and advances to customers	14	525,672	406,322
Debt securities	15	936,089	768,273
Financial assets at fair value through other comprehensive income			
Debt securities	16	19,555	542
Other tangible assets	17	1,746	1,458
Intangible assets	18	24,236	25,165
Investments in subsidiaries and associates	19	144,692	135,782
Deferred tax assets	20	526	472
Other assets	21	18,514	18,580
Total Assets		**1,930,220**	**1,560,861**
Liabilities			
Financial liabilities at amortised cost			
Amounts owed to other credit institutions	22	34	38,135
Deposits from customers	23	1,689,110	1,283,567
Provisions	24	165	14
Deferred tax liabilities	20	20	-
Other liabilities	25	29,166	27,790
Total Liabilities		**1,718,495**	**1,349,506**
Equity			
Share capital	26	286,400	286,400
Fair value reserves	27	83	16
Other reserves and retained earnings	27	(75,043)	(67,050)
Net income for the year		285	(8,011)
Total Equity		**211,725**	**211,355**

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Individual Statement of Changes in Equity for the year ended on 31 December 2020

(amounts in thousand euros)

	Share Capital	Fair Value Reserves	Other Reserves	Retained Earnings	Net Income for the Year	Total Equity
Balance on 31 December 2018 (restated)	**156,400**	**-**	**(756)**	**(48,661)**	**(17,487)**	**89,496**
Share capital increase	130,000	-	-	-	-	130,000
Fair value reserves	-	16	-	-	-	16
Other	-	-	(1)	-	-	(1)
Actuarial gains/(losses)	-	-	(145)	-	-	(145)
Retained earnings	-	-	-	(17,487)	17,487	-
Net income for the year	-	-	-	-	(8,011)	(8,011)
Balance on 31 December 2019	**286,400**	**16**	**(902)**	**(66,148)**	**(8,011)**	**211,355**
Share capital increase	-	-	-	-	-	-
Fair value reserves	-	67	-	-	-	67
Other	-	-	1	-	-	1
Actuarial gains/(losses)	-	-	17	-	-	17
Retained earnings	-	-	-	(8,011)	8,011	-
Net income for the year	-	-	-	-	285	285
Balance on 31 December 2020	**286,400**	**83**	**(884)**	**(74,159)**	**285**	**211,725**

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Individual Cash Flow Statement for the year ended on 31 December 2020

(amounts in thousand euros)

	Notes	2020	2019
Cash flow from operating activities		**284,898**	**232,524**
Interest and commissions received		37,364	26,434
Interest and commissions paid		(4,472)	(3,929)
Payments to employees		(13,797)	(12,895)
Other payments and revenues		(23,931)	(22,617)
Variation in operational assets and liabilities		289,734	245,517
Other operational assets and liabilities		*3,021*	*2,879*
Loans and advances to customers		*(119,112)*	*(156,695)*
Deposits from customers		*405,825*	*399,333*
Cash flow from investment activities		**(178,060)**	**(408,564)**
Deposits at Banco de Portugal		10,128	(19,707)
Investment in securities		(191,014)	(322,143)
Investments at credit institutions		4,190	57,365
Acquisitions of tangible fixed assets and intangible assets		(3,764)	(5,266)
Acquisitions of subsidiaries and associates		-	(120,680)
Dividends received		2,400	1,867
Cash flow from financing activities		**(39,178)**	**(167,104)**
Share capital increases		-	130,000
Amounts owed to other credit institutions		(38,131)	38,165
Leases		(1,047)	(1,061)
Cash and cash equivalents at the beginning of the year		**119,160**	**128,096**
Net changes in cash and cash equivalents		**67,660**	**(8,936)**
Cash and cash equivalents at the end of the year		**186,220**	**119,160**
Cash and cash equivalents cover:		**186,820**	**119,160**
Cash	11	27,860	25,924
Demand deposits at Banco de Portugal	11	147,957	
Deposits at credit institutions	12	11,003	93,236

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Notes to the Individual Financial Statements

Note 1– Basis of Presentation

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

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.

Banco CTT, S.A. (hereinafter referred to as "Banco CTT" or "Bank") is a credit institution with registered office at Avenida D. João II, nº 13, Edifício Báltico, Piso 11º, 1999-001 Lisboa, controlled by CTT – Correios de Portugal, S.A., having been incorporated in August 2015.

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

The Bank's financial statements, presented herein, refer to the year ended on 31 December 2020, and were prepared in accordance with the current IFRS as endorsed in the European Union by 31 December 2020.

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 available 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 the meeting held on 15 March 2021.

Note 2 – Main Accounting Policies

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

2.1 Foreign Currency Transactions

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

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

2.2 Financial Instruments – IFRS 9

2.2.1 Financial Assets

Classification, initial recognition and subsequent measurement

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

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

The classification takes into account the following aspects:

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

Assessment of the Business Model

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

- the policies and objectives established for the portfolio and the practical 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 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 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.

Reclassifications between financial instruments categories

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

2.2.1.1 Financial assets at amortised cost

Classification

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

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

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

Initial recognition and subsequent measurement

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

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

Interest 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 2.10.

Gains or losses generated at the time of their derecognition are recorded in the heading "Net gains/(losses) from 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 Group can irrevocably decide to classify it in a category of "Financial assets at fair value through other comprehensive income" (FVOCI). This option is decided on a case-by-case basis for each investment and is only available for financial instruments that comply with the definition of equity instruments established in IAS 32, and cannot be used for financial instruments whose classification as an equity instrument in the sphere of the issuer is done under the exceptions foreseen in paragraphs 16A to 16D of IAS 32.

Initial recognition and subsequent measurement

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

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

The interest, premiums or discounts of financial assets at fair value through other comprehensive income are recognised under the heading "Interest and similar income calculated through the effective rate", based on the effective interest rate and pursuant to the criteria described in Note 2.10.

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

Impairment is not recognised for equity instruments at fair value through other comprehensive income, with the corresponding accumulated gains or losses recorded under fair value variations being transferred to Retained earnings upon their derecognition.

2.2.1.3 Financial assets at fair value through profit or loss

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

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

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

2.2.1.4 Derecognition of financial assets

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

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

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

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

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

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

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

› if the Bank substantially transfers all the risks and benefits arising from the ownership of the financial asset, it derecognises the financial asset and separately recognises, as assets or liabilities, any rights and obligations created or retained with the transfer;
› if the Bank substantially retains all the risks and benefits arising from the ownership of the financial asset, it will continue to recognise the financial asset.
› if the Bank does not substantially transfer or retains all the risks and benefits arising from the ownership of the financial asset, it should determine whether it retained control of the financial asset.

In this case:

› if the Bank did not retain control, it should derecognise the financial asset and separately recognise, as assets or liabilities, any rights and obligations created or retained with the transfer;
› if the Bank retained control, it should continue to recognise the financial asset in proportion to its continued involvement in the financial asset.

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

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

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

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

2.2.1.6 Impairment losses

The Bank determines the expected loan losses of each operation according to the deterioration of the credit risk observed since its initial recognition. For this purpose, 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. Operations acquired or originated in situations of impairment (Purchased or Originated Credit-Impaired – POCI) are also classified under stage 3.

Forward Looking Information

The Bank's impairment model is constructed so as to be able to use public and other confirmable information from other market participants, where there is no history of default that would allow it to build sophisticated statistical models.

In addition, the Bank follows, whenever applicable and relevant to its circumstances, the provisions of the applicable accounting standards, national and community legislation, the recommendations of the EBA and the provisions and guidelines of Banco de Portugal.

Significant increase of credit risk (SICR)

Significant increase of credit risk (SICR) is mainly determined according to quantitative criteria but also according to qualitative criteria, with a view to detecting significant increases of the Probability of Default (PD), supplemented with other type of information, in particular the behaviour of customers to entities of the financial system. However, regardless of the observation of a significant increase of credit risk in an exposure, it is classified under Stage 2 when any of the following conditions are met:

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

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;
- 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:

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

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

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

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

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

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

The 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 LGD parameters 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 based on the current exposure of the counterpart, and includes the loans that have not yet fallen due, periodic calculation of interest, overdue interest not annulled and overdue loans. For commitments, the EAD value considers both the value of credit used and the expected future potential value which could be used pursuant to the contract.

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

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

i) a probability of default 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.

2.2.1.7 Modification of financial assets

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

If the cash flows are substantially different, the contractual rights to the cash flows of the original financial asset are considered expired, with the principles described in Note 2.2.1.4 Derecognition of financial assets being applicable.

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

2.2.2 Financial Liabilities

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

Non-derivatives financial liabilities essentially include deposits from customers.

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

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

2.3 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 off-set the recognised amounts and the intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.4 Equity Instruments

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

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

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

2.5 Financial 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.

2.6 Tangible Assets

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

(i) the purchase price of the asset;

(ii) the expenses directly imputable to the purchase.

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

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

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

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

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

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

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

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

2.7 Intangible Assets

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

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

Intangible assets are amortised through the straight-line method, as of the month when they are available for use, during their expected useful life, which is situated in a period varying between 3 and 6 years. In the specific case of the base operational system, after analysis of the expected period of its use, it was decided that its amortisation should take place over a period of 15 years.

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

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

2.8 Leases

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

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

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

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

2.8.1 As lessee

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

Subsequently, the right-of-use asset is depreciated using the straight-line method from the starting date to the end of the useful life of the right-of-use asset or to the end of the lease period, according to what ends first. The useful life of right-of-use assets is determined by following the same principles as those applicable to Tangible Assets. Furthermore, the right-of-use asset is periodically deducted impairment losses, if any, and adjusted for particular remunerations of the lease liability.

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

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

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

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

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

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

Short-term leases and low-value leases

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

2.8.2 As lessor

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

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

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

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

2.9 Income Tax

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

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

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

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

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

The Bank and its subsidiaries – more than 75% held directly or indirectly, and for more than 1 year by the parent company CTT – are covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 90% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC). In this regard, Banco CTT and its subsidiaries, eligible to application of the RETGS, receive from CTT the value relative to the tax loss which they contribute to the consolidated corporate income tax of the CTT Group and, likewise, pay to CTT the value relative to their positive contribution to the consolidated corporate income tax of the CTT Group.

2.10 Provisions

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

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

2.11 Recognition of Interest

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

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

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

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

2.12 *Recognition of Income of Services, Fees and Commissions*

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

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

2.13 *Earnings per Share*

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

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

2.14 *Cash and Cash Equivalents*

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

Cash and cash equivalents exclude restricted balances with central banks.

2.15 *Provision of Insurance Mediation Services*

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

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

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

2.16 *Employee Benefits*

Variable remunerations of the employees

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

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; and the risks that affect the performance of the assets and how these risks are managed.

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

3.1.2 Impairment losses 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, reasonable and sustainable information.

Definition of group of assets with common credit risk features

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

Probability of default

The probability of default represents a determinant factor in the measurement of the expected loan losses. The probability of default corresponds to an estimate of the probability of default in a 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 Bank expects to receive, via cash flows generated by the business of the client or credit collateral. Loss given default is calculated based on, among other aspects, the different scenarios of recovery, market information, the costs involved in the recovery process and the estimated valuation of the collateral associated to credit operations.

3.2 Provisions

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

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

3.3 Impairment Investments in Subsidiaries and Associates

The Bank tests investments in subsidiaries and associates for impairment, in accordance with the policy described in Note 2.1.6. The calculation of the recoverable amounts of the cash generating units involves a judgment and substantially relies on the analysis of the Management related to the future developments of the respective subsidiary. The assessment underlying the calculations that have been made uses assumptions based on the available information, both concerning the business and macro-economic environment. The variations of these assumptions can influence the results and consequent recording of impairments.

3.4 Evolution of the SARS-COV-2 (Covid-19) situation

Due to a new general containment, as of the second half of January 2021, a negative economic and social impact is anticipated, which will affect society in general and the Bank's business, which could impact the current estimates prepared by the Bank. However, management will continue to monitor the threat and its implications on the business and provide all necessary information to its stakeholders and act in accordance with the recommendations issued by the World Health Organisation and public health authorities.

Note 4 – Net Interest Income

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Interest and similar income calculated through the effective interest rate	**17,600**	**14,209**
Interest on financial assets at amortised cost		
Investments at credit institutions	759	3,238
Loans and advances to customers	4,347	3,498
Debt securities	12,321	7,464
Interest on financial assets at fair value through other comprehensive income		
Debt securities	175	11
Other interest	(2)	(2)
Interest and similar expenses	**861**	**861**
Interest on financial liabilities at amortised cost		
Amounts owed to other credit institutions	(17)	(128)
Deposits from customers	863	974
Other interest	15	15
Net Interest Income	**16,739**	**13,348**

The heading "Interest and similar income" for the year ended on 31 December 2020 presents a total of 33 thousand euros related to financial assets with impairment (Stage 3) (2019: 15 thousand euros) on the reporting date.

The heading "Interest on loans and advances to customers" includes the amount of -431 thousand euros (2019: -136 thousand euros) related to commissions and other expenses and income recorded according to the effective interest method, as referred in the accounting policy described in Note 2.12.

Interest on "Amounts owed to other credit institutions", of the value of -17 thousand euros (2019: -128 thousand euros) essentially refers to sale and repurchase agreements (repos) contracted at market rates.

Note 5 – Net Fee and Commission Income

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Fees and commissions received	**14,213**	**9,069**
Due to banking services provided	8,779	5,361
Due to credit intermediation services	1,748	2,310
Due to insurance mediation services	3,145	1,244
Due to commitments to third parties	514	99
Due to guarantees provided	29	29
Other fees and commissions received	(2)	26
Fees and commissions paid	**3,342**	**3,352**
Due to banking services provided by third parties	3,215	3,267
Dues to operations with securities	108	65
Other fees and commissions paid	19	20
Net Fee and Commission Income	**10,871**	**5,717**

Note 6 – Net Gains/(Losses) of Other Financial Assets at Fair Value Through Other Comprehensive Income

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Profits in operations with Other Financial Assets at Fair Value Through Other Comprehensive Income	**389**	**35**
Bonds	389	35
Net Gains/(Losses) of Other Financial Assets at Fair Value Through Other Comprehensive Income	**389**	**35**

Note 7 – Other Operating Income/(Expenses)

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Operating income	**196**	**158**
Other operating income	196	158
Operating expenses	**457**	**259**
Levies and donations	50	76
Contribution of the banking sector	122	46
Contribution to the Single Resolution Fund	16	27
Contribution to the Resolution Fund	47	19
Annual supervisory fees (SSM)	-	10
Taxes	137	21
Annual supervisory fees (ASF)	2	-
Contribution to the Deposit Guarantee Fund	3	2
Other operating expenses	80	58
Other Operating Income/(Expenses)	**(261)**	**(101)**

The Single Supervisory Mechanism (SSM) is one of the three pillars of the Banking Union (the Single Supervisory Mechanism, the Single Resolution Mechanism and a Common System for Deposit Protection). The SSM model distinguishes between significant credit institutions (under direct supervision of the ECB) and less significant credit institutions (under indirect supervision of the ECB and direct supervision of the competent national authorities, with articulation and reporting to the ECB), based on quantitative and qualitative criteria. Banco CTT is classified as a Less Significant Entity (LSE).

The "Contribution of the banking sector" is calculated in accordance with the provisions in Law 55-A/2010, with the amount determined based on: (i) the annual average liability stated on the balance sheet, minus core own funds (Tier 1 Capital) and supplementary own funds (Tier 2 Capital) and the deposits covered by the Deposit Guarantee Fund; and (ii) the notional value of the derivative financial instruments.

The heading "Contribution to the Single Resolution Fund" refers to the ex-ante contribution to the Single Resolution Fund, under the Single Resolution Mechanism and pursuant to number 2 of article 70 of Regulation (EU) 806/2014 of the European Parliament and of the Council, of 15 July 2014.

The heading "Contribution to the Resolution Fund" corresponds to mandatory periodic contributions to the Fund, pursuant to Decree-Law 24/2013. The periodic contributions are calculated according to a basic rate applicable every year, determined by Banco de Portugal, by instruction, which can be adjusted according to the institution's risk profile, on the objective basis of assessment of these contributions. The periodic contributions are incident on the liabilities of the institutions participating in the Fund, defined under the terms of article 10 of the aforesaid Decree-Law, minus the liability items that are part of the of the core own funds (Tier 1 Capital), supplementary own funds (Tier 2 Capital) and deposits covered by the Deposit Guarantee Fund.

Note 8 – Staff Costs

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Remuneration	9,167	8,673
Social charges on remunerations	2,169	2,107
Employees with a multiple employer arrangement	1,860	2,004
Incentives and performance bonuses	920	1,135
Occupational accident and disease insurance	124	117
Other costs	63	85
Staff costs	**14,303**	**14,121**

The total amount of fixed remunerations attributed to the Management and Supervisory Bodies of Banco CTT, during 2020, recorded in the heading "Remunerations", reached 1,501 thousand euros (2019: 1,226 thousand euros). During 2020, costs related to Social Security contributions of the Management and Supervisory Bodies were also paid of the value of 353 thousand euros (2019: 289 thousand euros). As at 31 December 2020, the heading "Incentives and performance bonuses" includes 133 thousand euros of bonuses attributable to the Management Bodies (2019: 406 thousand euros). In 2020, the Bank recorded under the heading "Other costs" 35 thousand euros of costs related to retirement savings plans attributed to Management Bodies (2019: 35 thousand euros).

The employees of the retail network are under a multiple employer arrangement, as established in article 101 of the Labour Code, accumulating positions with the CTT postal service. In 2020 the cost related to these employees shared with CTT amounted to 1,843 thousand euros (2019: 2,004 thousand euros).

In 2020 the Management Bodies were paid 202 thousand euros of variable remuneration (2019: 242 thousand euros).

On the date of the end of 2020 and 2019, the permanent staff, excluding employees under the multiple employer arrangement, distributed by major professional category, was as follows:

	2020	2019
Administration	12	11
Executive	*5*	*4*
Non-executive	*7*	*7*
of which: Audit Committee	*3*	*3*
Heads of functional areas	35	30
Technical and secretarial staff	196	188
	243	**229**

Note 9 – General Administrative Expenses

This heading is composed of:

(amounts in thousand euros)

	2020	2019
Water, electricity and fuel	75	101
Consumables	50	63
Hygiene and cleaning supplies	8	-
Rental and hire charges	120	142
Communications	1,134	1,176
Travel, hotel and representation costs	81	121
Advertising	1,195	3,334
Maintenance and related services	5	9
Training costs	58	75
Insurance	105	346
IT	8,306	7,749
Consulting and advisory services	1,067	2,669
Other specialised services	2,708	2,428
Other supplies and services	6,151	4,690
General Administrative Expenses	**21,063**	**22,903**

The heading "IT" records the costs incurred with the implementation and maintenance of information technology systems and infrastructure of the Bank.

The heading "Advertising" records the costs incurred with advertising and communication of the brand and products of Banco CTT.

The heading "Other specialised services" records the costs incurred with the banking and transaction operative.

The heading "Other supplies and services" records, among others, costs related to the use of the CTT Retail Network, servicing of banking operations and use of payments networks. The cost of using the physical and technical resources of the CTT Post Office Network amounted to 2,745 thousand euros (2019: 1,747 thousand euros).

The costs incurred with audit and legal review of accounts services provided by the Statutory Auditor are as follows:

(amounts in thousand euros)

	2020	2019
Review of accounts services	210	233
Reliability assurance services	183	109
Services other than review of accounts	50	15
	443	**357**

Note 10 – Earnings per Share

Earnings per share are calculated as follows:

	2020	2019
Net income for the year (thousand euros)	285	(8,011)
Average number of shares	286,400,000	232,235,616
Basic earnings per share (euros)	0.00	(0.03)
Diluted earnings per share (euros)	0.00	(0.03)

The Bank's share capital stands at 286,400,000 euros, represented by 286,400,000 ordinary shares without nominal value, and is fully paid-up.

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

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

As at 31 December 2020 and 2019, the Bank did not hold potential dilutive ordinary shares: hence, the diluted earnings per share are the same as the basic earnings per share.

Note 11 – Cash and Deposits at Central Banks

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Cash	27,860	25,924
Demand deposits at Banco de Portugal	163,753	25,924
Cash and Deposits at Central Banks	**191,613**	**51,848**

The heading "Cash" is represented by notes and coins denominated in euros.

The heading "Demand deposits at Banco de Portugal" includes mandatory deposits with a view to meeting the minimum cash reserve requirements. As at 31 December 2020 the amount of the minimum cash reserves was 15,796 thousand euros.

Pursuant to Regulation (EU) 1358/2011 of the European Central Bank, of 14 December 2011, the minimum cash requirements kept as demand deposits at Banco de Portugal correspond to 1% of the deposits and other liabilities.

Note 12 – Deposits at Other Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Credit institutions in Portugal	11,003	93,236
Cheques for collection	3,575	2,226
Deposits at Other Credit Institutions	**14,578**	**95,462**

The heading "Cheques for collection" represents drawn by third parties at other credit institutions, which are pending collection.

Note 13 – Financial Assets at Amortised Cost – Investments at Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Investments at credit institutions in Portugal	10,000	1,650
Loans to credit institutions in Portugal	33,027	55,523
Investments at credit institutions abroad	10,001	-
Impairment for investments in credit institutions	(29)	(216)
Investments at Credit Institutions	**52,999**	**56,957**

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

	2020	2019
Up to 3 months	15,875	28,410
3 to 12 months	25,728	9,834
1 to 3 years	10,463	13,689
More than 3 years	962	5,240
Investments at Credit Institutions	**53,028**	**57,173**

The heading "Investments at credit institutions" showed an annual average rate of 1.496% in 2019 (2019: 1.706%).

Impairment of investments in credit institutions for the Bank is analysed as follows:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**216**	**415**
Movement for the period:		
Financial assets originated or acquired	24	55
Variations due to change in exposure or risk parameters	(161)	(64)
Derecognised financial assets excluding write-offs	(50)	(190)
Impairment of investments in credit institutions	**29**	**216**

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**216**	**415**
Movement for the period:		
Variations in expected credit loss	(187)	(199)
Impairment of investments in credit institutions	**29**	**216**

Note 14 – Financial Assets at Amortised Cost – Loans and Advances to Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Mortgage loans	525,083	405,168
Overdrafts	1,148	1,002
Outstanding loans	**526,231**	**406,170**
Overdue loans - less than 90 days	72	78
Overdue loans - more than 90 days	973	603
Overdue loans	**1,045**	**681**
Impairment for credit risk	**(1,604)**	**(529)**
Loans and Advances to Customers	**525,672**	**406,322**

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

	2020						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Overdue loans	Total
Mortgage loans	-	3,679	10,650	29,886	480,869	-	525,084
Overdrafts	1,148	-	-	-	-	1,044	2,192
Loans and Advances to Customers	**1,148**	**3,679**	**10,650**	**29,886**	**480,869**	**1,044**	**527,276**

(amounts in thousand euros)

	2019						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Overdue loans	Total
Mortgage loans	-	2,963	8,424	22,801	370,980	-	405,168
Overdrafts	1,002	-	-	-	-	681	1,683
Loans and Advances to Customers	**1,002**	**2,963**	**8,424**	**22,801**	**370,980**	**681**	**406,851**

The distribution of this heading by type of rate is presented as follows:

(amounts in thousand euros)

	2020	2019
Fixed rate	2,193	1,683
Variable rate	525,083	405,168
Loans and Advances to Customers	**527,276**	**406,851**

The analysis of this heading by type of collateral is presented as follows:

(amounts in thousand euros)

	2020				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Asset-backed loans	525,083	-	525,083	(499)	524,584
Unsecured loans	1,148	1,045	2,193	(1,105)	1,088
	526,231	**1,045**	**527,276**	**(1,604)**	**525,672**

(amounts in thousand euros)

	2019				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Asset-backed loans	405,168	-	405,168	(95)	405,073
Unsecured loans	1,002	681	1,683	(434)	1,249
	406,170	**681**	**406,851**	**(529)**	**406,322**

The analysis of this heading by type of loan is presented as follows:

(amounts in thousand euros)

	2020				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Mortgage loans	525,083	-	525,083	(499)	524,584
Overdrafts	1,148	1,045	2,193	(1,105)	1,088
	526,231	**1,045**	**527,276**	**(1,604)**	**525,672**

(amounts in thousand euros)

	2019				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Mortgage loans	405,168	-	405,168	(95)	405,073
Overdrafts	1,002	681	1,683	(434)	1,249
	406,170	**681**	**406,851**	**(529)**	**406,322**

The analysis of this heading by activity sector is presented as follows:

(amounts in thousand euros)

	2020				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Individuals					
Mortgage	525,083	-	525,083	(499)	524,584
Consumer	1,148	1,045	2,193	(1,105)	1,088
	526,231	**1,045**	**527,276**	**(1,604)**	**525,672**

(amounts in thousand euros)

	2019				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Individuals					
Mortgage	405,168	-	405,168	(95)	405,073
Consumer	1,002	681	1,683	(434)	1,249
	406,170	**681**	**406,851**	**(529)**	**406,322**

The movement of credit impairment in the period is detailed as follows:

(amounts in thousand euros)

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balance	**55**	**81**	**393**	**529**
Movement for the period:				
Financial assets originated or acquired	138	23	79	240
Variations due to change in exposure or risk parameters	384	56	421	861
Derecognised financial assets excluding write-offs	(3)	(5)	(18)	(26)
Transfers to:				
Stage 1	37	(37)	-	-
Stage 2	(1)	1	-	-
Stage 3	(1)	(32)	33	-
Credit impairment	**609**	**87**	**908**	**1,604**
Of which: POCI	-	-	-	-

(amounts in thousand euros)

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balance	**185**	**67**	**206**	**458**
Movement for the period:				
Financial assets originated or acquired	9	55	53	117
Variations due to change in exposure or risk parameters	(159)	4	128	(27)
Derecognised financial assets excluding write-offs	(10)	(2)	(6)	(18)
Transfers to:				
Stage 1	32	(32)	-	-
Stage 2	(1)	1	-	-
Stage 3	-	(12)	12	-
Exchange rate variations and other movements	(1)	-	-	(1)
Credit impairment	**55**	**81**	**393**	**529**
Of which: POCI	-	-	-	-

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balance	**55**	**81**	**393**	**529**
Movement for the period:				
Variations in the expected credit loss of the credit portfolio	519	74	482	1,075
Transfers of Stage (net)	35	(68)	33	-
Credit impairment	**609**	**87**	**908**	**1,604**

(amounts in thousand euros)

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balance	**185**	**67**	**206**	**458**
Movement for the period:				
Variations in the expected credit loss of the credit portfolio	(160)	57	175	72
Transfers of Stage (net)	31	(43)	12	-
Exchange rate variations and other movements	(1)	-	-	(1)
Credit impairment	**55**	**81**	**393**	**529**

The credit portfolio detailed by stage as defined in IFRS 9 is presented as follows:

(valores expressos em euros)

	2020	**2019**
Stage 1	**521,575**	**403,272**
Gross Value	522,184	403,327
Impairment	(609)	(55)
Stage 2	**3,909**	**2,833**
Gross Value	3,996	2,914
Impairment	(87)	(81)
Stage 3	**188**	**217**
Gross Value	1,096	610
Impairment	(908)	(393)
	525,672	**406,322**

Moratoria

Decree-Law 10-J/2020 of 26 March established exceptional measures to protect the credit of families, businesses, private charities and other social economy entities, as well as a special scheme of personal guarantees from the State, within the scope of the Covid-19 pandemic.

In the course of 2020, the said regulation was amended by Law 8/2020 of 10 April, Decree-Law 26/2020 of 16 June, Law 27-A/2020 of 24 July and Decree-Law 78-A/2020 of 29 September.

With the various legislative changes, the end of the moratorium period, initially scheduled for September 2020, was extended until September 2021. The legislative changes also allowed for the extension of the deadline for customers to formalise moratorium requests. The conditions of access and the types of credits covered have also been changed. The measures provided for in the legislation described above – Public Moratoria –, materialise in the granting of a grace period for principal or principal and interest to debtors of credit agreements.

In accordance with the EBA Guidelines on reporting and disclosure of exposures subject to measures implemented in response to the Covid-19 crisis (EBA/GL/2020/07), the following presents - as at 31 December 2020 - the gross exposures and impairment of contracts with moratoria in place:

(amounts in thousand euros)

	GROSS CARRYING AMOUNT							
		PRODUCTIVE			NON-PRODUCTIVE			
			Of which: exposures subject to restructuring measures	Of which: instruments with significant increased credit risk (*)		Of which: exposures subject to restructuring measures	Of which: low probability of payment that is either not due or past due for ≤ 90 days	Entries for non-productive exposures
Loans and advances subject to a moratorium	31,067	31,067	-	-	-	-	-	-
of which: households	31,067	31,067	-	-	-	-	-	-
of which: secured by residential property	31,067	31,067	-	-	-	-	-	-
of which: non-financial corporations	-	-	-	-	-	-	-	-
of which: small and medium-sized enterprises	-	-	-	-	-	-	-	-
of which: secured by commercial real estate	-	-	-	-	-	-	-	-

(*) since initial recognition but without credit impairment (Stage 2)

(amounts in thousand euros)

	ACCUMULATED IMPAIRMENT, ACCUMULATED NEGATIVE FAIR VALUE CHANGES RESULTING FROM CREDIT RISK						
		PRODUCTIVE			NON-PRODUCTIVE		
			Of which: exposures subject to restructuring measures	Of which: instruments with significant increased credit risk (*)		Of which: exposures subject to restructuring measures	Of which: low probability of payment that is either not due or past due for ≤ 90 days
Loans and advances subject to a moratorium	(67)	(67)	-	-	-	-	-
of which: households	(67)	(67)	-	-	-	-	-
of which: secured by residential property	(67)	(67)	-	-	-	-	-
of which: non-financial corporations	-	-	-	-	-	-	-
of which: small and medium-sized enterprises	-	-	-	-	-	-	-
of which: secured by commercial real estate	-	-	-	-	-	-	-

(*) since initial recognition but without credit impairment (Stage 2)

The total number of moratorium requests, moratoriums granted (excluding waivers) and moratoriums in force at the end of December 2020 are shown below:

(amounts in thousand euros)

	Number of debtors	GROSS CARRYING AMOUNT							
			Of which: legislative moratoria	Of which: expired	Prazo residual das moratórias				
					≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
Loans and advances which have been offered a moratorium	526	45,686							
Loans and advances subject to a moratorium (applied)	501	44,290	44,290	13,223	100	389	30,578	-	-
of which: households		44,290	44,290	13,223	100	389	30,578	-	-
of which: secured by residential property		44,290	44,290	13,223	100	389	30,578	-	-
of which: non-financial corporations		-	-	-	-	-	-	-	-
of which: small and medium-sized enterprises		-	-	-	-	-	-	-	-
of which: secured by commercial real estate		-	-	-	-	-	-	-	-

The loan portfolio with moratorium by stage is detailed as follows:

(amounts in thousand euros)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	31,067	-	-	31,067
Impairment	(67)	-	-	(67)
Net amount	**31,000**	**-**	**-**	**31,000**

Note 15 – Financial Assets at Amortised Cost – Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Public debt securities		
Portuguese	288,878	287,118
Foreign	201,696	154,304
Bonds of other issuers		
Portuguese	445,914	327,306
Impairment	(399)	(455)
Financial Assets at Amortised Cost – Debt Securities	**936,089**	**768,273**

The analysis of investments in securities as at 31 December 2020 and 2019, by residual maturity, is as follows:

(amounts in thousand euros)

	2020				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	4,493	13,931	60,600	209,854	288,878
Foreign	993	20,556	24,543	155,604	201,696
Bonds of other issuers					
Portuguese	5,345	-	2,665	437,904	445,914
Financial Assets at Amortised Cost – Debt Securities	**10,831**	**34,487**	**87,808**	**803,362**	**936,488**

(amounts in thousand euros)

	2019				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	4,539	4,718	41,143	236,718	287,118
Foreign	752	21,527	34,646	97,379	154,304
Bonds of other issuers					
Portuguese	112	-	14,606	312,588	327,306
Financial Assets at Amortised Cost – Debt Securities	**5,403**	**26,245**	**90,395**	**646,685**	**768,728**

The movement of the impairment of debt securities at amortised cost is analysed as follows:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**455**	**183**
Movement for the period:		
Financial assets originated or acquired	11	295
Variations due to change in exposure or risk parameters	(63)	(4)
Derecognised financial assets excluding write-offs	(4)	(19)
Impairment of debt securities at amortised cost	**399**	**455**

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**455**	**183**
Movement for the period:		
Variations in expected credit loss	(56)	272
Impairment of debt securities at amortised cost	**399**	**455**

Note 16 – Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Public debt securities		
Portuguese	7,621	542
Bonds of other issuers		
Portuguese	11,934	-
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	**19,555**	**542**

The analysis of investments in securities as at 31 December 2020 and 2019, by residual maturity, is as follows:

(amounts in thousand euros)

	2020				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	45	6,715	861	-	7,621
Bonds of other issuers					
Portuguese	521	-	11,413	-	11,934
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	**566**	**6,715**	**12,274**	**-**	**19,555**

(amounts in thousand euros)

	2019				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	14	-	528	-	542
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	**14**	**-**	**528**	**-**	**542**

The movement of the impairment of debt securities at fair value through other comprehensive income is analysed as follows:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**-**	**128**
Movement for the period:		
Financial assets originated or acquired	9	-
Derecognised financial assets excluding write-offs	-	(128)
Impairment of debt securities at fair value through other comprehensive income	**9**	**-**

The reconciliation of the accounting movements related to impairment losses are presented below:

(amounts in thousand euros)

	2020	2019
	Stage 1	Stage 1
Opening balance	**-**	**128**
Movement for the period:		
Variations in the expected credit loss of the Portfolio	9	(41)
Use of impairment	-	(87)
Impairment of debt securities at fair value through other comprehensive income	**9**	**-**

Note 17 – Other Tangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Acquisition Cost	**3,066**	**2,976**
Real estate properties		
Works in rented properties	102	102
Equipment		
Furniture	384	384
Machinery and tools	292	290
Computer equipment	329	279
Interior installations	1	1
Security equipment	68	68
Other equipment	6	6
Rights of use		
Real estate properties	1,212	1,069
Motor vehicles	672	777
Accumulated Depreciation	**1,320**	**1,518**
Related to previous years	221	426
Related to the current year	1,099	1,092
Other Tangible Assets	**1,746**	**1,458**

The movement of the heading "Other Tangible Assets" during 2020 is analysed as follows:

(amounts in thousand euros)

	2020					
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Other Variations	Balance on 31 December
Acquisition cost	**2,976**	**1,386**	**–**	**(1,296)**	**–**	**3,066**
Real estate properties						
Works in rented properties	102	–	–	–	–	102
Equipment						
Furniture	384	–	–	–	–	384
Machinery and tools	290	2	–	–	–	292
Computer equipment	279	50	–	–	–	329
Interior installations	1	–	–	–	–	1
Security equipment	68	–	–	–	–	68
Other equipment	6	–	–	–	–	6
Rights of use						
Real estate properties	1,069	876	–	(733)	–	1,212
Motor vehicles	777	458	–	(563)	–	672
Accumulated depreciation	**1,518**	**1,099**	**–**	**(1,296)**	**(1)**	**1,320**
Real estate properties						
Works in rented properties	71	6	–	–	–	77
Equipment						
Furniture	316	10	–	–	–	326
Machinery and tools	19	34	–	–	–	53
Computer equipment	266	49	–	–	(1)	314
Interior installations	1	–	–	–	–	1
Security equipment	32	7	–	–	–	39
Other equipment	6	–	–	–	–	6
Rights of use						
Real estate properties	200	799	–	(733)	–	266
Motor vehicles	607	194	–	(563)	–	238
Other Tangible Assets	**1,458**	**287**	**–**	**–**	**1**	**1,746**

The movement of the heading "Other Tangible Assets" during 2019 is analysed as follows:

(amounts in thousand euros)

	2019					
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Other Variations	Balance on 31 December
Acquisition cost	**2,753**	**1,074**	**-**	**(851)**	**-**	**2,976**
Real estate properties						
Works in rented properties	98	4	-	-	-	102
Equipment						
Furniture	355	29	-	-	-	384
Machinery and tools	86	204	-	-	-	290
Computer equipment	235	44	-	-	-	279
Interior installations	1	-	-	-	-	1
Security equipment	66	2	-	-	-	68
Other equipment	6	-	-	-	-	6
Rights of use						
Real estate properties	1,168	733	-	(832)	-	1,069
Motor vehicles	738	58	-	(19)	-	777
Accumulated depreciation	**1,196**	**1,091**	**-**	**(769)**	**-**	**1,518**
Real estate properties						
Works in rented properties	17	54	-	-	-	71
Equipment						
Furniture	301	15	-	-	-	316
Machinery and tools	8	11	-	-	-	19
Computer equipment	219	47	-	-	-	266
Interior installations	1	-	-	-	-	1
Security equipment	25	7	-	-	-	32
Other equipment	6	-	-	-	-	6
Rights of use						
Real estate properties	167	799	-	(766)	-	200
Motor vehicles	452	158	-	(3)	-	607
Other Tangible Assets	**1,557**	**(17)**	**-**	**(82)**	**-**	**1,458**

Note 18 – Intangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Acquisition Cost	**39,484**	**35,992**
Software in use	38,952	32,469
Other intangible assets	16	16
Software in progress	516	3,507
Accumulated Amortisation	**15,248**	**10,827**
Related to previous years	10,827	6,977
Related to the current year	4,421	3,850
Intangible Assets	**24,236**	**25,165**

The intangible assets essentially include expenses related to the acquisition and development of software, namely the core banking system, implementation projects and their customisation.

The movement of the heading "Intangible assets" during 2020 is analysed as follows:

(amounts in thousand euros)

	2020				
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Acquisition Cost	**35,992**	**3,492**	**–**	**–**	**39,484**
Software in use	32,469	106	6,377	–	38,952
Other intangible assets	16	–	–	–	16
Software in progress	3,507	3,386	(6,377)	–	516
Accumulated amortisation	**10,827**	**4,421**	**–**	**–**	**15,248**
Software in use	10,819	4,420	–	–	15,239
Other intangible assets	8	1	–	–	9
Intangible Assets	**25,165**	**(929)**	**–**	**–**	**24,236**

The movement of the heading "Intangible assets" during 2019 is analysed as follows:

(amounts in thousand euros)

	2019				
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Acquisition Cost	**31,282**	**4,710**	**-**	**-**	**35,992**
Software in use	28,201	861	3,407	-	32,469
Other intangible assets	16	-	-	-	16
Software in progress	3,065	3,849	(3,407)	-	3,507
Accumulated amortisation	**6,977**	**3,850**	**-**	**-**	**10,827**
Software in use	6,971	3,848	-	-	10,819
Other intangible assets	6	2	-	-	8
Intangible Assets	**24,305**	**860**	**-**	**-**	**25,165**

Note 19 – Investments in Subsidiaries and Associates

This heading is analysed as follows:

(amounts in thousand euros)

	2020		2019	
	Holding (%)	Book Value	Holding (%)	Book Value
Payshop (Portugal), S.A.	100%	8,053	100%	8,218
321 Crédito - Instituição Financeira de Crédito, S.A. (321 Crédito)	100%	136,639	100%	127,564
Investments in Subsidiaries and Associates		**144,692**		**135,782**

The financial data relative to the more important associates are presented in the following table:

(amounts in thousand euros)

	Assets		Liabilities		Equity		Net Income	
	2020	2019	2020	2019	2020	2019	2020	2019
Payshop (Portugal), S.A.	14,564	15,368	6,917	7,556	7,647	7,812	2,235	3,101
321 Crédito - Instituição Financeira de Crédito, S.A. (321 Crédito)	581,189	493,945	505,320	427,060	75,869	66,884	8,968	12,537

During 2019, on 2 May, closed the acquisition of 321 Crédito for a price of 110,782,000 euros. During 2019, Banco CTT also underwrote and fully paid-up two share capital increases at 321 Crédito of the total value of 9,898,290 euros, elevating the share capital to 30 million euros.

During 2020, Banco CTT received 2,400,000 euros (2019: 1,866,509 euros) of dividends from Payshop (Portugal), S.A.

Impairment

The recoverable amount of investments in subsidiaries and associates is assessed annually or whenever there is indication of a possible loss of value. The recoverable amount is determined based on the value in use of the assets, computed using calculation methodologies supported by discounted cash flow techniques, considering the market conditions, the time value and business risks.

In order to determine the recoverable amount of its investments, impairment tests were carried out, as at 31 December 2020 and 31 December 2019, based on the following assumptions:

	2020			
Corporate Name	**Basis of determination of recoverable amount**	**Explicit period for cash flows**	**Discount Rate**	**Growth rate in perpetuity**
Payshop (Portugal), S.A.	Equity Value / DCF	10 years	10.0%	1.5%
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	10 years	10.0%	1.5%

	2019			
Corporate Name	**Basis of determination of recoverable amount**	**Explicit period for cash flows**	**Discount Rate**	**Growth rate in perpetuity**
Payshop (Portugal), S.A.	Equity Value / DCF	10 years	10.0%	2.0%
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	10 years	10.0%	2.0%

Based on this analysis and on the outlook on future evolution, it is concluded that there are no indications of impairment in relation to investments in subsidiaries and associates.

Sensitivity analyses were performed on the results of these impairment tests, namely regarding the following key assumptions: (i) reduction of 50 basis points in the growth rate in perpetuity and (ii) increase of 50 basis points in the different discount rates used. The results of the sensitivity analyses do not determine the existence of evidence of impairment in investments in subsidiaries and associates.

Note 20 – Income Tax

The Bank is subject to Corporate Income Tax (IRC) and corresponding Surcharge.

Income tax (current or deferred is reflected in the net income for the year, except in cases in which the transactions that originated this tax have been reflected in other equity headings. In these situations, the corresponding tax is likewise reflected through equity, not affecting the net income for the year.

The calculation of the current tax for 2020 and 2019 was based on a nominal corporate income tax rate of 21% pursuant to Law 107-B/2003, of 31 December, and Law 2/2007, of 15 January.

Deferred tax is calculated based on the tax rates that are expected to be applicable on the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved on the reporting date.

As mentioned in Note 2.9, the Bank is covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 90% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC).

The reconciliation of the tax rate, in the portion relative to the amount recognised through profit or loss, may be analysed as follows:

(amounts in thousand euros)

	2020	2019
Profit/(Loss) before tax	(2,799)	(13,027)
Current tax rate	21.0%	21.0%
Expected tax	**(588)**	**(2,736)**
Net asset variations	-	(32)
Elimination of the equity method of accounting	(2,371)	(2,097)
Accruals/(deductions) for calculation purposes	8	(111)
Autonomous tax	25	21
	-	
Recorded current tax for the year	**(2,926)**	**(4,955)**
Recorded deferred tax	**(54)**	**58**
Recorded total tax	**(2,980)**	**(4,897)**
Effective rate (except equity method)	**21.2%**	**21.7%**
Corrections relative to previous years	**(104)**	**(119)**
Taxes	**(3,084)**	**(5,016)**

Current tax

Pursuant to the accounting policy described in Note 2.9, the value related to tax is recorded as a value receivable by the shareholder CTT (see Note 21).

Deferred tax

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

(amounts in thousand euros)

	2020	2019
Opening balance	**472**	**530**
Recognised through profit or loss	54	(58)
Recognised through other reserves	-	-
Deferred Tax Assets	**526**	**472**

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

(amounts in thousand euros)

	2020	2019
Opening balance	**–**	**–**
Recognised through other reserves	20	–
Deferred Tax Liabilities	**20**	**–**

New tax system for impairment losses

The Bank exercised the option to definitively adopt the tax system applicable to the impairment losses of credit institutions and other financial institutions subject to the supervision of Banco de Portugal, established by articles 2 and 3 of Law 98/2019, of 4 September, under the terms stipulated in number 1 of article 4 of this same Law, taking effect from the tax period started on 1 January 2019 (inclusively).

SIFIDE

The Bank's policy is to recognise tax credit relative to the system of tax incentives for business research and development (SIFIDE) upon receiving the statement of the competent body formalising the eligibility of the expenses presented in the corresponding application.

During 2019, the Bank incurred R&D expenses of approximately 197,803 euros for which the Group is entitled to benefit from a tax credit in the context of Corporate Income Tax (IRC) of an estimated value of 158,900 euros.

As for 2020, the Bank is still identifying and quantifying the expenses incurred with R&D that will integrate the applications that will be submitted during 2021.

Note 21 – Other Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
IRC RETGS	13,651	10,621
Operations to be cleared	1,978	1,311
Escrow accounts	276	2,008
Other receivables	2,140	4,177
Expenses with deferred charges	494	590
Administrative Public Sector	122	88
Receivables due to advances	105	–
Income receivable	–	52
Impairment of other assets	(252)	(267)
Other assets	**18,514**	**18,580**

The heading "Other Assets" includes the amount of 13,651 thousand euros (2019: 10,621 thousand euros) for corporate income tax as a result of the application of the special regime applicable to the taxation of groups of companies (RETGS), pursuant to point 2.9 of Note 2.

The movement of impairment of other assets is analysed as follows:

(amounts in thousand euros)

	2020	2019
Opening balance	**267**	**145**
Allocation for the period	-	122
Reversal for the period	(15)	-
Impairment of other assets	**252**	**267**

Note 22 – Financial Liabilities at Amortised Cost – Amounts owed to Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Amounts owed to credit institutions in Portugal		
Demand deposits	34	284
Amounts owed to credit institutions abroad		
Sale and repurchase agreements (repos)	-	37,851
Financial liabilities at Amortised Cost – Amounts owed to Credit Institutions	**34**	**38,135**

The scheduling of this heading by maturity periods is presented as follows:

(amounts in thousand euros)

	2020	2019
Demand deposits	34	284
Sale and repurchase agreements (repos)		
Up to 3 months	-	37,851
Financial liabilities at Amortised Cost – Amounts owed to Credit Institutions	**34**	**38,135**

Note 23 – Financial Liabilities at Amortised Cost – Deposits from Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Demand deposits	1,207,683	961,772
Term deposits	178,176	169,581
Saving accounts	303,251	152,214
Financial Liabilities at Amortised Cost – Deposits from Customers	**1,689,110**	**1,283,567**

The analysis of the heading "Deposits from Customers", by contractual residual maturity, is as follows:

(amounts in thousand euros)

	2020	2019
Demand deposits and saving accounts	1,510,934	1,113,986
Term deposits		
Up to 3 months	81,534	53,165
3 to 12 months	96,642	116,416
Financial Liabilities at Amortised Cost – Deposits from Customers	**1,689,110**	**1,283,567**

Note 24 – Provisions

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Provisions for other risks and charges	165	14
Provisions	**165**	**14**

These provisions were constituted in order to meet contingencies related to the Bank's activity, the payment of which is considered likely.

On each reporting date, the Bank revalues the amounts recorded under this heading, so as to ensure that it reflects the best estimate of amount and probability of occurrence.

The movement of the heading "Provisions" in the period is detailed as follows:

(amounts in thousand euros)

	2020	2019
Opening balance	**14**	**51**
Allocation for the period	155	118
Reversal for the period	(4)	(155)
Provisions	**165**	**14**

Note 25 – Other Liabilities

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Payables		
Suppliers	2,099	3,667
Related parties	958	1,748
Other payables	1	1
Staff costs	3,577	3,854
Operations to be cleared	20,090	16,570
Administrative Public Sector	640	531
Deferred income	419	386
Lease liabilities	1,382	1,033
Other Liabilities	**29,166**	**27,790**

The heading "Operations to be cleared" primarily records the balance of banking operations pending financial settlement.

The heading "Lease liabilities" corresponds to the lease liabilities recognised under IFRS 16, as described in accounting policy 2.8.

Note 26 – Share Capital

The share capital stands at 286,400,000 euros, represented by 286,400,000 ordinary shares without nominal value, and is fully underwritten and paid-up.

An increase of the Company's share capital was carried out on 26 April 2019 from 156.400.000 euros (one hundred and fifty-six million and four hundred thousand mil euros) to 266.400.000 euros (two hundred and sixty-six million and four hundred thousand euros), via a new cash entry by the Sole Shareholder (CTT – Correios de Portugal, S.A.), of the value of 110,000,000 euros (one hundred and ten million euros) giving rise to the issue of 110,000,000 new ordinary, registered shares without nominal value with the issue value of 1 euro each.

An increase of the Company's share capital was carried out on 23 December 2019 from 266.400.000 euros (two hundred and sixty-six million and four hundred thousand euros) to 286.400.000 euros (two hundred and eighty-six million and four hundred thousand euros), via a new cash entry by the Sole Shareholder (CTT – Correios de Portugal, S.A.), of the value of 20,000,000 euros (twenty million euros) giving rise to the issue of 20,000,000 new ordinary, registered shares without nominal value with the issue value of 1 euro each.

As at 31 December 2020, the Bank's share capital is 100% held by CTT – Correios de Portugal, S.A. (public company).

Note 27 – Fair Value Reserves, Other Reserves and Retained Earnings

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Fair Value Reserves		
Other financial assets at fair value through other comprehensive income	83	16
Other reserves	(884)	(902)
Retained earnings	(74,159)	(66,148)
Reserves and Retained Earnings	**(74,960)**	**(67,034)**

Note 28 – Guarantees and Other Commitments

This heading is analysed as follows:

(amounts in thousand euros)

	2020	2019
Guarantees Provided	18,827	51,785
Guarantees Received	941,936	736,288
Commitments to third parties		
Revocable commitments		
Credit lines	87,973	64,189
Irrevocable commitments		
Credit lines	23,426	148,592
Commitments from third parties		
Revocable commitments		
Credit lines	12,690	10,119
Liabilities due to services rendered		
Assets under custody	-	40

The amount recorded as Guarantees Provided primarily includes securities given as collateral to secure the settlement of interbank operations.

The amount recorded as Guarantees Received basically includes sureties and mortgages on properties for collateralization of operation mortgage loans.

The revocable and irrevocable commitments present contractual agreements for granting credit to the Bank's customers (for example unused credit lines) which, generally speaking, are contracted for fixed periods or with other expiry requirements. Substantially all the credit granting commitments in force require the customers to maintain certain requirements observed at the time the loans were granted.

Notwithstanding the particularities of these commitments, the appraisal of these operations follows the same basic principles of any other commercial operation, namely the principle of the customer's solvency, where the Bank requires that these operations should be duly collateralised when necessary. As it is expected that some of them shall expire without having been used, the indicated amounts do not necessarily represent future cash needs.

Note 29 – Transactions with Related Parties

All the business and operations carried out by the Bank with related parties in controlling or group relations are cumulatively concluded under normal market conditions for similar operations and are part of the Bank's current activity.

As at 31 December 2020 the list of related parties was as follows:

Shareholder Structure / Qualifying Holdings
CTT – Correios de Portugal, S.A. (Public Company).
Manuel Champalimaud, SGPS, S.A. (1)
Global Portfolio Investments, S.L. (2)

(1) Qualifying holding in the sole shareholder, CTT – Correios de Portugal, S.A. (Public Company). Manuel Champalimaud, SGPS, S.A. holds 19,246,815 shares corresponding to 12.83% of CTT's share capital and respective voting rights and is a company controlled by Manuel Carlos de Mello Champalimaud. The referred voting rights, together with the 0.55% of voting rights inherent to the shares held in CTT by the members of the Board of Directors of Manuel Champalimaud, SGPS, S.A. are attributable to Manuel Carlos de Mello Champalimaud who, in turn, directly holds 353,185 shares corresponding to 0.24% of CTT's share capital and respective voting rights. Therefore, 13.12% of the voting rights in CTT are attributable to Manuel Champalimaud.

(2) Qualifying holding in the sole shareholder, CTT. Global Portfolio Investments, S.L. holds 15,057,937 shares corresponding to 10.04% of CTT's share capital and respective voting rights. Said voting rights are attributable to Indumenta Pueri, S.L..

Corporate Bodies [1]	Board of Directors	Executive Committee	Audit Committee	Board of the General Meeting (MAG)	Statutory Auditor
João de Almada Moreira Rato	Chairman	-	-	-	-
Luís Maria França de Castro Pereira Coutinho	Member	Chairman (CEO)	-	-	-
João Maria de Magalhães Barros de Mello Franco	Member	Member (CCO)	-	-	-
Pedro Rui Fontela Coimbra	Member	Member (CFO)	-	-	-
Nuno Carlos Dias dos Santos Fórneas	Member	Member (CIO)	-	-	-
Luís Jorge de Sousa Uva Patrício Paúl	Member	Member (CRO)	-	-	-
João Manuel de Matos Loureiro	Member	-	Chairman	-	-
Clementina Maria Dâmaso de Jesus Silva Barroso	Member	-	Member	-	-
Susana Maria Morgado Gomez Smith	Member	-	Member	-	-
António Pedro Ferreira Vaz da Silva	Member	-	-	-	-
Guy Patrick Guimarães de Goyri Pacheco	Member	-	-	-	-
António Emídio Pessoa Corrêa d'Oliveira	Member	-	-	-	-
Rui Afonso Galvão Mexia de Almeida Fernandes	-	-	-	Chairman	-
KPMG & Associados SROC, S.A.	-	-	-	-	Permanent
Vítor Manuel da Cunha Ribeirinho	-	-	-	-	Representative
Maria Cristina Santos Ferreira	-	-	-	-	Alternate

1 The members of the corporate bodies in office on the present date and as at 31 December 2020 are indicated herein.

Other related parties
Payshop (Portugal), S.A.
321 Crédito, Instituição Financeira de Crédito, S.A.
CTT Expresso – Serviços Postais e Logística, S.A.
CTT Contacto, S.A.
Correio Expresso de Moçambique, S.A.
CTT Soluções Empresariais, S.A.
Mktplace - Comércio Eletrónico, S.A.
NEWPOST - Atividades e Serviços de Telecomunicações, de Linha de Apoio e de Administração e Operação de Sistemas, A.C.E.
Fundo Inovação TechTree

As at 31 December 2020, the value of the Bank's transactions with related parties, as well as the respective costs and income recognised for the year, were as follows:

(amounts in thousand euros)

	2020			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Operating expenses	Operating income
CTT - Correios de Portugal, S.A.	14,116	1,527	4,209	-
CTT Expresso – Serviços Postais e Logística, S.A.	1	9	89	-
CTT Contacto, S.A.	-	-	-	-
Payshop (Portugal), S.A.	31	645	-	175
321 Crédito, S.A.	14,128	51	-	372
Chaves Funding No.8	438,058	-	-	5,315
	466,334	**2,232**	**4,298**	**5,862**

As at 31 December 2019, the value of the Bank's transactions with related parties, as well as the respective costs and income recognised for the year, were as follows:

(amounts in thousand euros)

	2019			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Operating expenses	Operating income
CTT - Correios de Portugal, S.A.	10,667	2,221	3,087	-
CTT Expresso – Serviços Postais e Logística, S.A.	1	35	163	-
CTT Contacto, S.A.	-	-	-	-
Payshop (Portugal), S.A.	118	-	-	142
321 Crédito, S.A.	25,042	284	-	2,700
Chaves Funding No.8	312,785	-	-	453
	348,613	**2,540**	**3,250**	**3,295**

As at 31 December 2020, the value of the deposits placed by the members of the Corporate Bodies at the Group amounted to 150 thousand euros (2019: 142 thousand euros).

Note 30 – Fair Value

The fair value of the financial assets and liabilities, as at 31 December 2020, is analysed as follows:

(amounts in thousand euros)

	2020				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Cash and deposits at central banks	–	–	191,613	191,613	191,613
Deposits at other credit institutions	–	–	14,578	14,578	14,578
Financial assets at amortised cost					
Investments at credit institutions	–	–	52,999	52,999	52,999
Loans and advances to customers	–	–	525,672	525,672	527, 915
Debt securities	–	–	936,089	936,089	981,372
Bonds issued by public entities	–	–	*490,394*	*490,394*	*535,452*
Bonds of other issuers	–	–	*445,695*	*445,695*	*445,920*
Financial assets at fair value through other comprehensive income					
Debt securities	–	19,555	–	19,555	19,555
Bonds issued by public entities	–	*19,555*	–	*19,555*	*19,555*
Financial Assets	**–**	**19,555**	**1,720,951**	**1,740,506**	**1,788,032**
Financial liabilities at amortised cost					
Amounts owed to other credit institutions	–	–	34	34	34
Deposits from customers	–	–	1,689,110	1,689,110	1,689,110
Financial liabilities	**–**	**–**	**1,689,144**	**1,689,144**	**1,689,144**

The fair value of the financial assets and liabilities, as at 31 December 2019, is analysed as follows:

(amounts in thousand euros)

	2019				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Cash and deposits at central banks	–	–	51,848	51,848	51,848
Deposits at other credit institutions	–	–	95,462	95,462	95,462
Financial assets at amortised cost					
Investments at credit institutions	–	–	56,957	56,957	56,957
Loans and advances to customers	–	–	406,322	406,322	408,672
Debt securities	–	–	768,273	768,273	803,648
Bonds issued by public entities	–	–	*441,255*	*441,255*	*476,238*
Bonds of other issuers	–	–	*327,018*	*327,018*	*327,410*
Financial assets at fair value through other comprehensive income					
Debt securities	–	542	–	542	542
Bonds issued by public entities	–	*542*	–	*542*	*542*
Financial Assets	**–**	**542**	**1,378,862**	**1,379,404**	**1,417,129**
Financial liabilities at amortised cost					
Amounts owed to other credit institutions	–	–	38,135	38,135	38,135
Deposits from customers	–	–	1,283,567	1,283,567	1,283,567
Financial liabilities	**–**	**–**	**1,321,702**	**1,321,702**	**1,321,702**

Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through internal models based on discounted cash flow methods. The generation of cash flow of the different instruments is based on their financial characteristics, and the discount rates used incorporate both the market interest rate curve and the current risk levels of the respective issuer.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model, which necessarily incorporate some degree of subjectivity, and exclusively reflects the value attributed to the different financial instruments.

The Bank uses the following fair value hierarchy, with three levels in the valuation of financial instruments (assets or liabilities), which reflect the level of judgement, the observability of the data, and the importance of the parameters applied in the determination of the assessment of the fair value of the financial instrument, pursuant to IFRS 13:

Level 1: Fair value is determined based on unadjusted listed prices, captured in transactions in active markets involving financial instruments similar to the instruments to be assessed. Where there is more than one active market for the same financial instrument, the relevant price is that prevailing in the main market of the instrument, or the most advantageous market to which there is access;

Level 2: Fair value is calculated through valuation techniques based on observable data in active markets, whether direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and valuation assumptions similar to those that a non-related party would use to estimate the fair value of the same financial instrument. This also includes instruments whose valuation is obtained through listed prices disclosed by independent entities, but whose markets show less liquidity; and,

Level 3: Fair value is determined based on data not observable in active markets, using techniques and assumptions that the market participants would use to assess the same instruments, including hypotheses about the inherent risks, the assessment method and inputs used, entailing process of review of the accuracy of the values obtained in this manner.

The Bank considers a market active for a particular financial instrument, on the measurement date, according to the turnover and liquidity of the operations carried out, the relative volatility of the listed prices, and the promptness and availability of the information, where the following minimum conditions must be met:

- Existence of frequent daily prices of trading in the last year;
- The prices mentioned above change regularly;
- Existence of enforceable prices of more than one entity.

A parameter used in the valuation method is considered to be observable market data if the following conditions are met:

- If its value is determined in an active market;
- If there is an OTC market and it is reasonable to assume that active market conditions are met, except for the condition of trading volumes; and,
- The value of the parameter can be obtained by the inverse calculation of the prices of the financial instruments and/or derivatives where all the other parameters required for the initial assessment are observable in a liquid market or OTC market that complies with the previous paragraphs.

The table below summarises, by valuation levels, the fair value of the financial assets and liabilities, as at 31 December 2020:

(amounts in thousand euros)

	2020			
	Valuation methods			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	191,613	–	–	191,613
Deposits at other credit institutions	14,578	–	–	14,578
Financial assets at amortised cost				
Investments at credit institutions	–	–	52,999	52,999
Loans and advances to customers	–	–	527,915	527,915
Debt securities	535,452	442,120	3,800	981,372
Bonds issued by public entities	*535,452*	–	–	*535,452*
Bonds of other issuers	–	*442,120*	*3,800*	*445,920*
Financial assets at fair value through other comprehensive income				
Debt securities	19,555	–	–	19,555
Bonds issued by public entities	*19,555*	–	–	*19,555*
Financial Assets	**761,198**	**442,120**	**584,714**	**1,788,032**
Financial liabilities at amortised cost				
Amounts owed to other credit institutions	–	–	34	34
Deposits from customers	–	–	1,689,110	1,689,110
Financial liabilities	**–**	**–**	**1,689,144**	**1,689,144**

The table below summarises, by valuation levels, the fair value of the financial assets and liabilities, as at 31 December 2019:

(amounts in thousand euros)

	2019			
	Valuation methods			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	51,848	–	–	51,848
Deposits at other credit institutions	95,462	–	–	95,462
Financial assets at amortised cost				
Investments at credit institutions	–	–	56,957	56,957
Loans and advances to customers	–	–	408,672	408,672
Debt securities	476,238	327,410	–	803,648
Bonds issued by public entities	*476,238*	–	–	*476,238*
Bonds of other issuers	–	*327,410*	–	*327,410*
Financial assets at fair value through other comprehensive income				
Debt securities	542	–	–	542
Bonds issued by public entities	*542*	–	–	*542*
Financial Assets	**624,090**	**327,410**	**465,629**	**1,417,129**
Financial liabilities at amortised cost				
Amounts owed to other credit institutions	–	–	38,135	38,135
Deposits from customers	–	–	1,283,567	1,283,567
Financial liabilities	**–**	**–**	**1,321,702**	**1,321,702**

The main methods and assumptions used to estimate the fair value of the financial assets and liabilities recorded in the balanced sheet at amortised cost are analysed as follows:

Cash and deposits at Central Banks, Deposits at other credit institutions and Investments at Central Banks and at other credit institutions

These assets are very short-term; hence, their book value is a reasonable estimate of their fair value.

Investment securities measured at amortised cost

The fair value of these financial instruments is based on market prices, when available. If market prices do not exist, their fair value is estimated based on the expected future principal and interest cash flows for these instruments.

Loans and Advances to Customers

Mortgage Loans

Fair value is calculated by discounting, at the average rates of the production of December, the expected cash flows throughout the life of the contracts considering the historical pre-payment rates.

Other

This type of credit is very short-term; hence, its book value is a reasonable estimate of its fair value.

Amounts Owed to Central Banks and Other Credit Institutions

These assets are very short-term; hence, their book value is a reasonable estimate of their fair value.

Deposits from Customers

The fair value of these financial instruments is estimated based on the discounted expected principal and interest cash flows. The discount rate used is that which reflects the rates applied for deposits with similar features on the reporting date. Considering that the applicable interest rates are renewed for periods less than one year, there are no materially relevant differences in their fair value.

Note 31 – Risk Management

The Bank is exposed to various risks during the course of its business activity.

The Bank's Policy on Risk Management and Internal Control aims to ensure the effective application of the risk management system, through the ongoing follow-up of its adequacy and efficacy, seeking to identify, assess, monitor and control all the materially relevant risks to which the institution is exposed, both internally and externally.

In this context, it is important to monitor and control the main types of financial risks – credit, liquidity, interest rate, market and operational – faced by the Bank's activity.

Credit Risk

Credit risk reflects the degree of uncertainty of the expected returns, due to the inability either of the borrower, or of the counterpart of a contract, to comply with the respective obligations.

At the Bank, credit risk management includes the identification, measurement, assessment and monitoring of the different credit exposures, ensuring risk management throughout the successive phases of the life of the credit process.

The monitoring and follow-up of credit risk, in particular with respect to the evolution of credit exposures and monitoring of losses, is regularly conducted by the Risk Department and by the Capital and Risk Committee.

In the first quarter of 2017, the Bank launched the granting of the mortgage loan product. As at 31 December 2020, the exposure (net of impairment and including off-balance sheet exposures) to this product was in the amount of 531,669 thousand euros (413,307 thousand euros as at 31 December 2019).

The Bank is currently exposed to credit risk in other areas of its business activity. These necessarily include direct exposure to credit risk associated to investments and deposits at other credit institutions (counterpart risk), to public debt securities issues by eurozone countries (Portugal, Italy, Spain, France and Ireland), debt instruments of other issuers (credit institutions and companies), securitisation operations relative to the tariff deficit.

In order to mitigate credit risk, the lending operations have associated collateral, namely mortgages. Except in situations of default, the Bank, under its activity, does not have permission to sell or pledge this collateral. The fair value of this collateral is determined as at the date of the granting of the loan, with its value being checked periodically.

The acceptance of collateral to secure credit operations requires the need to define and implement techniques to mitigate the risks to which this collateral is exposed. Thus, and as an approach to this matter, the Bank has stipulated a series of procedures applicable to collateral (namely real estate properties), that hedge, among others, the volatility of the value of the collateral.

The gross value of the loans and respective fair value of the collateral, limited to the value of the associated loan, are presented below:

(amounts in thousand euros)

	2020		2019	
	Loans and advances to customers	**Fair value of the collateral**	**Loans and advances to customers**	**Fair value of the collateral**
Mortgage loans	520,340	879,528	402,126	687,598
Other	6,937	-	4,195	-
	527,277	**879,528**	**406,321**	**687,598**

The following table presents information on the Bank's exposures to credit risk (net of impairment and including off-balance sheet exposures) as at 31 December 2020 and 31 December 2019:

(amounts in thousand euros)

	2020	2019
Central Authorities or Central Banks	656,725	467,721
Regional governments or local authorities	5,043	-
Credit institutions	150,615	212,917
Companies	19,718	464,430
Retail customers	7,796	6,660
Loans secured by immovable assets	531,669	413,307
Non-performing loans	189	217
Shares	144,692	135,782
Other items	60,778	49,379
Risk Headings	**1,577,225**	**1,750,413**

The information on the risk headings (including off-balance sheet) as at 31 December 2020 and 31 December 2019 is detailed as follows:

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Demand deposits	163,753	-	163,753	25,924	-	25,924
Other financial assets at fair value through other comprehensive income	7,623	(2)	7,621	542	-	542
Investment securities measured at amortised cost	485,526	(175)	485,351	441,422	(167)	440,912
Central Authorities or Central Banks	**656,902**	**(177)**	**656,725**	**467,888**	**(167)**	**467,721**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Investment securities measured at amortised cost	5,048	(5)	5,043	-	-	-
Regional governments or local authorities	**5,048**	**(5)**	**5,043**	**-**	**-**	**-**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Demand deposits	14,578	-	14,578	95,462	-	95,462
Investments at financial institutions	134,128	(29)	134,099	115,733	(216)	115,517
Other	1,938	-	1,938	1,938	-	1,938
Credit institutions	**150,644**	**(29)**	**150,615**	**213,133**	**(216)**	**212,917**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Investment securities measured at amortised cost	19,727	(9)	19,718	464,718	(288)	464,430
Companies	**19,727**	**(9)**	**19,718**	**464,718**	**(288)**	**464,430**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Loans and advances to customers	8,003	(207)	7,796	6,701	(41)	6,660
Retail customers	**8,003**	**(207)**	**7,796**	**6,701**	**(41)**	**6,660**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Loans and advances to customers	532,158	(489)	531,669	413,401	(95)	413,307
Loans secured by immovable assets	**532,158**	**(489)**	**531,669**	**413,401**	**(95)**	**413,307**

(amounts in thousand euros)

	2020			2019		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Loans and advances to customers	1,097	(908)	189	610	(393)	217
Non-performing loans	**1,097**	**(908)**	**189**	**610**	**(393)**	**217**

The exposure to public debt, net of impairment, of eurozone countries is detailed as follows:

(amounts in thousand euros)

	2020			2019		
	Other financial assets at fair value through other comprehensive income	Investment securities measured at amortised cost	Total	Other financial assets at fair value through other comprehensive income	Investment securities measured at amortised cost	Total
Portugal	7,620	288,754	296,374	542	286,995	287,537
Spain	-	94,407	94,407	-	54,924	54,924
Italy	-	95,233	95,233	-	87,172	87,172
France	-	6,434	6,434	-	6,492	6,492
Ireland	-	5,565	5,565	-	5,671	5,671
	7,620	**490,393**	**498,013**	**542**	**441,254**	**441,796**

The analysis of the portfolio of financial assets by stages is presented as follows:

(amounts in thousand euros)

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Deposits at Central Banks and other credit institutions	178,331	–	–	178,331	121,386	–	–	121,386
Impairment losses	–	–	–	–	–	–	–	–
Net value	**178,331**	**–**	**–**	**178,331**	**121,386**	**–**	**–**	**121,386**
Financial assets at amortised cost – Investments at credit institutions	53,028	–	–	53,028	57,173	–	–	57,173
Impairment losses	(29)	–	–	(29)	(216)	–	–	(216)
Net value	**52,999**	**–**	**–**	**52,999**	**56,957**	**–**	**–**	**56,957**
Financial assets at fair value through other comprehensive income – Debt securities	19,564	–	–	19,564	542	–	–	542
Impairment losses	(9)	–	–	(9)	–	–	–	–
Net value	**19,555**	**–**	**–**	**19,555**	**542**	**–**	**–**	**542**
Financial assets at amortised cost – Debt securities	936,488	–	–	936,488	768,728	–	–	768,728
Impairment losses	(399)	–	–	(399)	(455)	–	–	(455)
Net value	**936,089**	**–**	**–**	**936,089**	**768,273**	**–**	**–**	**768,273**
Financial assets at amortised cost – Loans and advances to customers	522,184	3,996	1,096	527,276	403,327	2,914	610	406,851
Impairment losses	(609)	(87)	(908)	(1,604)	(55)	(81)	(393)	(529)
Net value	**521,575**	**3,909**	**188**	**525,672**	**403,272**	**2,833**	**217**	**406,322**

Liquidity Risk

Liquidity risk reflects the possibility of significant losses being incurred as a result of deterioration of funding conditions (funding risk) and/or sale of assets for less than their market value (market liquidity risk)

Overall, the liquidity risk management strategy is entrusted to the Board of Directors, which delegates it to the Executive Committee, and is carried out by the Treasury Department, based on constant vigilance of exposure indicators, being closely monitored by the Capital and Risk Committee.

The Capital and Risk Committee is responsible for controlling liquidity risk exposure, by analysing liquidity positions and assessing their conformity with the applicable regulatory rules and limitations, as well as with the goals and guidelines defined by Banco CTT.

The liquidity risk of Banco CTT is assessed through regulatory indicators defined by the supervision authorities, as well as through other internal metrics.

As at 31 December 2020, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2020						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Undetermined maturity	Total
Assets							
Cash and deposits at central banks	191,613	–	–	–	–	–	**191,613**
Deposits at other credit institutions	14,578	–	–	–	–	–	**14,578**
Financial assets at amortised cost							
Investments at credit institutions	–	15,875	25,728	10,463	962	–	**53,028**
Loans and advances to customers	1,148	3,679	10,650	29,886	480,869	1,044	**527,276**
Debt securities	–	10,831	34,487	87,808	803,362	–	**936,488**
Financial assets at fair value through other comprehensive income							
Debt securities	–	566	6,715	12,274	–	–	**19,555**
Total Assets	**207,339**	**30,951**	**77,580**	**140,431**	**1,285,193**	**1,044**	**1,742,538**
Liabilities							
Financial liabilities at amortised cost							
Amounts owed to other credit institutions	34	–	–	–	–	–	**34**
Deposits from customers	1,510,934	81,534	96,642	–	–	–	**1,689,110**
Total Liabilities	**1,510,968**	**81,534**	**96,642**	**–**	**–**	**–**	**1,689,144**
Gap (Assets-Liabilities)	**(1,303,629)**	**(50,583)**	**(19,062)**	**140,431**	**1,285,193**	**1,044**	**53,394**
Accumulated Gap	**(1,303,629)**	**(1,354,212)**	**(1,373,274)**	**(1,232,843)**	**52,350**	**53,394**	

As at 31 December 2019, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2019						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Undetermined maturity	Total
Assets							
Cash and deposits at central banks	55,424	–	–	–	–	–	**55,424**
Deposits at other credit institutions	108,669	–	–	–	–	–	**108,669**
Financial assets at amortised cost							
Investments at credit institutions	–	3,368	12,535	13,689	5,239	–	**34,831**
Loans and advances to customers	1,002	25,144	63,715	164,944	630,118	4,876	**889,799**
Debt securities	–	5,305	26,245	90,395	334,097	–	**456,042**
Financial assets at fair value through profit or loss							
Financial assets held for trading	–	–	–	–	2	–	**2**
Financial assets at fair value through other comprehensive income							
Debt securities	–	14	–	528	–	–	**542**
Total Assets	**165,095**	**33,831**	**102,495**	**269,556**	**969,456**	**4,876**	**1,545,309**
Liabilities							
Financial liabilities at amortised cost							
Amounts owed to other credit institutions	37,851	–	–	–	–	–	**37,851**
Deposits from customers	1,113,986	53,165	116,416	–	–	–	**1,283,567**
Debt securities issued	–	17	–	–	76,060	–	**76,077**
Total Liabilities	**1,151,837**	**53,182**	**116,416**	**–**	**76,060**	**–**	**1,397,495**
Gap (Assets-Liabilities)	**(986,742)**	**(19,351)**	**(13,921)**	**269,556**	**893,396**	**4,876**	**147,814**
Accumulated Gap	**(986,742)**	**(1,006,093)**	**(1,020,014)**	**(750,458)**	**142,938**	**147,814**	

Furthermore, under the periodic monitoring of the liquidity situation, the Group calculates the liquidity mismatch, Additional Liquidity Monitoring Metrics (ALMM), pursuant to the addenda issued in 2018 to Regulation (EU) 680/2014 of the Commission.

ALMM takes into account all the contracted outflows and inflows and uses a maturity ladder which enables confirming the existence or not of the liquidity mismatch of Banco CTT, and also enables knowing its capacity to counterbalance any liquidity mismatch.

The liquidity mismatch is calculated for various timeframes, from overnight up to more than five years, taking into account the asset, liability and off-balance sheet positions with expected and estimated financial flows that are scheduled according to the corresponding residual maturities or inflow/outflow date of the monetary flow.

As at 31 December 2020, the ALMM shows a positive liquidity mismatch (difference between contracted outflows and inflows) of 88,941 thousand euros.

Interest Rate Risk

Interest Rate Risk refers to losses arising from the impact that interest rate fluctuations have on balance sheet or off-balance sheet items that are sensitive.

As at 31 December 2020, one of the main instruments in the monitoring of balance sheet interest rate risk is based on the recent Banco de Portugal Instruction 34/2018, which revokes Instruction 19/2005. This model groups variation-sensitive assets and liabilities into19 fixed timeframes (maturity dates or date of first review of interest rates, when indexed), from which a potential impact on economic value is calculated. Economic value is calculated by the sum of the net present value of the discounted cash flows. This discount is based on an interest rate curve not subject to any type of shock, in which, for discount purposes, the average periods of the timeframes are assumed. As presented in the table below, the two standard scenarios that correspond to a positive and negative shock of 200 basis points are applied to the baseline scenario.

As at 31 December 2020, the distribution of assets, liabilities and off-balance sheet items sensitive to the interest rate, according to the 19 timeframes and respective impact on economic value, are as follows:

(amounts in thousand euros)

			2020			
Timeframe	**Assets**	**Liabilities**	**Off-Balance Sheet**	**Net Position**	**Economic Value Delta (+200 bps)**	**Economic Value Delta (-200 bps)**
At sight	376,096	269,158	7,940	114,879	(6)	2
At sight – 1 month	51,862	54,262	6,939	4,539	(4)	1
1 – 3 months	94,658	67,049	25	27,634	(92)	21
3 – 6 months	132,667	86,242	132	46,557	(347)	79
6 – 9 months	154,656	68,882	82	85,856	(1,065)	239
9 – 12 months	177,042	73,037	461	104,466	(1,813)	382
1 – 1.5 years	19,194	87,680	10,564	(57,922)	1,433	(298)
1.5 – 2 years	33,875	87,680	-	(53,805)	1,858	(386)
2 – 3 years	57,051	172,327	-	(115,276)	5,663	(1,143)
3 – 4 years	56,480	154,184	-	(97,704)	6,675	(1,321)
4 – 5 years	49,195	151,151	-	(101,956)	8,879	(1,827)
5 – 6 years	50,250	108,691	-	(58,441)	6,154	(1,370)
6 – 7 years	57,003	96,615	-	(39,611)	4,862	(1,222)
7 – 8 years	54,000	96,615	-	(42,615)	5,940	(1,676)
8 – 9 years	39,593	72,461	-	(32,868)	5,100	(1,602)
9 – 10 years	64,522	72,461	-	(7,939)	1,349	(476)
10 – 15 years	437,838	-	-	437,838	(92,369)	36,582
15 – 20 years	-	-	-	-	-	-
> 20 years	-	-	-	-	-	-
Total	**1,905,982**	**1,718,495**	**26,143**	**213,632**	**(47,783)**	**25,985**

As at 31 December 2019, the distribution of assets, liabilities and off-balance sheet items sensitive to the interest rate, according to the 19 timeframes and respective impact on economic value, are as follows:

(amounts in thousand euros)

2019						
Timeframe	Assets	Liabilities	Off-Balance Sheet	Net Position	Economic Value Delta (+200 bps)	Economic Value Delta (-200 bps)
At sight	189,495	200,768	1,689	(9,584)	1	-
At sight – 1 month	59,194	69,068	5,629	(4,245)	4	(1)
1 – 3 months	87,235	51,741	(474)	35,021	(116)	39
3 – 6 months	109,078	97,276	-	11,802	(88)	29
6 – 9 months	138,204	64,646	25	73,583	(910)	293
9 – 12 months	166,684	47,260	143	119,568	(2,067)	658
1 – 1.5 years	55,334	61,788	10,912	4,457	(110)	34
1.5 – 2 years	44,560	61,788	-	(17,228)	592	(179)
2 – 3 years	97,886	122,054	-	(24,168)	1,179	(363)
3 – 4 years	84,032	109,392	-	(25,359)	1,712	(578)
4 – 5 years	84,547	107,869	-	(23,322)	1,997	(748)
5 – 6 years	68,948	86,559	-	(17,611)	1,812	(760)
6 – 7 years	63,457	76,942	-	(13,485)	1,608	(760)
7 – 8 years	60,443	76,942	-	(16,499)	2,217	(1,180)
8 – 9 years	51,999	57,706	-	(5,707)	847	(503)
9 – 10 years	27,426	57,706	-	(30,280)	4,891	(3,166)
10 – 15 years	11,675	-	-	11,675	(2,290)	1,718
15 – 20 years	-	-	-	-	-	-
> 20 years	-	-	-	-	-	-
Total	**1,400,197**	**1,349,504**	**17,924**	**68,617**	**11, 280**	**(5,467)**

In view of the interest rate gaps observed, as at 31 December 2020, the impact on the economic value of instantaneous and parallel shifts of the interest rates by -200 basis points is approximately 25,985 thousand euros (2019: -5,467 thousand euros).

The main assumptions used in 2019 and 2020 in the Bank's analyses are:

- For Demand Deposits: 15% at sight, 85% distributed non-linearly over 10 years, giving rise to a duration of 3.9 years;
- Saving Accounts: 18% at sight, 82% distributed non-linearly over 5 years, giving rise to a duration of 1.9 years;

Market Risk

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.

Operational Risk

The Bank, in view of the nature of its activity, is exposed to potential losses or reputational risk, as a result of human errors, failures of systems and/or processing, unexpected stoppage of activity or failures on the part of third parties in terms of supplies, provisions or execution of services.

The approach to operational risk management is underpinned by the end-to-end structure, ensuring the effective adequacy of the controls involving functional units that intervene in the process. The Bank identifies and assesses the risks and controls of the processes, ensuring their compliance with the requirements and principles of the Internal Control System.

Encumbered Assets

Pursuant to Banco de Portugal Instruction 28/2014, which addresses the guidance of the European Banking Authority relative to the disclosure of encumbered assets and unencumbered assets (EBA/GL/2014/3), and considering the recommendation issued by the European Systemic Risk Board, the following information is presented in relation to the assets and collateral:

(amounts in thousand euros)

	2020			
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Debt Securities	14,055	14,262	941,589	986,266
Other assets	2,624	n/a	971,952	n/a
	16,679		**1,913,541**	

(amounts in thousand euros)

	2019			
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Debt Securities	45,989	48,179	722,827	755,555
Other assets	3,656	n/a	788,389	n/a
	49,645		**1,511,216**	

(amounts in thousand euros)

	Fair value of the encumbered collateral received or own debt securities issued		Fair value of the encumbered collateral received or own debt securities issued and able to be encumbered	
	2020	2019	2020	2019
Collateral received	**-**	**-**	**879,528**	**687,598**
Debt securities				
Other assets	-	-	-	-
Other collateral received	-	-	879,528	687,598
Own Debt Securities Issued other than Covered Own Bonds or ABS	**-**	**-**	**-**	**-**

(amounts in thousand euros)

	Book value of the selected financial liabilities	
	2020	2019
Associated liabilities, contingent liabilities and loaned securities	-	-
Assets, collateral received and own debt securities issued other than covered own bonds or ABS that are encumbered	16,402	47,636

The encumbered assets are primarily related to the Bank's funding operations in repos (Debt securities).

The collateral received that is able to be encumbered essentially refers to the collateral received (mortgages) in mortgage loan contracts.

Of the total unencumbered total assets of the value of 971,952 thousand euros (2019: 788,388 thousand euros), approximately 18% (2019: 21%) refer to items that cannot be encumbered (investments in subsidiaries and associates, other tangible assets, intangible assets, current and deferred taxes).

Note 32 – Capital Management and Solvency Ratio

The main objective of capital management is to ensure compliance with the Group's strategic goals concerning capital adequacy, respecting and assuring compliance with the minimum requirements for own funds defined by the supervision entities.

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

The capital, calculated pursuant to Directive 2013/36/EU and Regulation (EU) 575/2013 approved by the European Parliament and Council, and Banco de Portugal Notice 10/2017, includes core own funds (tier 1 capital) and supplementary own funds (tier 2 capital). Tier 1 includes core own funds (Common Equity Tier 1 – CET1) and tier 1 additional capital.

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

The legislation in force establishes a transition period between capital requirements pursuant to national legislation and that calculated pursuant to Community legislation in a phased fashion both for the non-inclusion/exclusion of items considered previously (phased-out) and the inclusion/deduction of new items (phased-in). At a prudential framework level, institutions should report Common Equity Tier 1, tier 1 and totals not below 7%, 8.5% and 10.5%, respectively, including a conservation buffer of 2.5% and a countercyclical buffer of 0%, in the case of the Bank.

In order to promote the banking system's capacity to adequately perform this function, and cumulatively with monetary policy measures, the financial regulatory and supervisory authorities introduced a wide range of measures. These measures included the relaxation of a wide range of requirements usually required of institutions. In the case of the banking system, the European Central Bank and Banco de Portugal allowed the institutions directly supervised by them to operate temporarily with a level below the own funds guidance and the combined own funds buffer, and with liquidity levels below the liquidity coverage requirement.

During 2020, several measures were disclosed - by the national supervisor and the European Union - easing regulatory and supervisory requirements to alleviate the contingency situation arising from the Covid-19 outbreak, by reducing regulatory capital requirements, including macro-prudential capital reserves.

Banco de Portugal Notice 10/2017 regulates the transitional arrangement established in the CRR concerning own funds, namely with respect to deductions related to deferred taxes generated before 2014 and to subordinated debt and hybrid instruments that are not eligible, both non-applicable to Banco CTT.

With the introduction of IFRS 9, the Bank opted for the phased recognition of the respective impacts of the static component pursuant to Article 473-A of the CRR..

As at 31 December 2020 and 31 December 2019, the Bank presented the following capital ratios, calculated in accordance with the transitional provisions established in the CRR:

(amounts in thousand euros)

	2020		2019		
	CRR Phasing in	CRR Fully Implemented	CRR Phasing in	CRR Fully Implemented	Notes
OWN FUNDS					
Share capital	**286,400**	**286,400**	**286,400**	**286,400**	26
Retained earnings	**(74,159)**	**(74,159)**	**(66,148)**	**(66,148)**	27
Other Reserves	**(190)**	**(190)**	**(207)**	**(207)**	
Prudential Filters	**64**	**64**	**15**	**15**	
Fair value reserves	83	83	16	16	27
Additional Valuation Adjustment (AVA)	(19)	(19)	(1)	(1)	
Deductions to common equity tier 1	**(16,532)**	**(17,019)**	**(33,280)**	**(33,871)**	
Losses for the period	-	-	(8,011)	(8,011)	
Intangible assets	(16,324)	(16,324)	(25,165)	(25,165)	18
Adoption of IFRS 9	(208)	(695)	(104)	(695)	
Items not deducted from Own Funds	**144,692**	**144,692**	**135,782**	**135,782**	
Holdings in financial entities	144,692	144,692	135,782	135,782	
Common Equity Tier 1	**195,583**	**195,096**	**186,780**	**186,190**	
Tier 1 Capital	**195,583**	**195,096**	**186,780**	**186,190**	
Total Own Funds	**195,583**	**195,096**	**186,780**	**186,190**	
RWA					
Credit Risk	757,035	757,035	702,341	702,341	
Operational Risk	36,248	36,248	22,624	22,624	
Market Risk	-	-	-	-	
IFRS 9 adjustments	-	(268)	-	(271)	
Total RWA	**793,283**	**793,015**	**724,964**	**724,694**	
CAPITAL RATIOS					
Common Equity Tier 1	24.65%	24.60%	25.76%	25.69%	
Tier 1 Ratio	24.65%	24.60%	25.76%	25.69%	
Total Capital Ratio	24.65%	24.60%	25.76%	25.69%	

Note 33 – Provision of Insurance or Reinsurance Mediation Services

As at 31 December 2020 and 2019, the remunerations derived from the provision of insurance and reinsurance mediation services were broken down as follows:

(amounts in thousand euros)

	2020	2019
Life Business	2,965	1,373
Non-Life Business	180	(129)
	3,145	1,244

The values receivable and payable associated to the insurance mediation activity are presented as follows:

(amounts in thousand euros)

	2020	2019
Values receivable	320	923
Values payable	-	-

The Bank does not charge insurance premiums on account of the Insurers, nor does it carry out the movement of funds relative to insurance contracts. Therefore, there are no other assets, liabilities, income or expenses to report, relative to the insurance mediation service pursued by the Bank, apart from those already disclosed.

Note 34 – Recent Pronoucements

The standards and amendments recently issued, already effective and adopted by the Bank in the preparation of these financial statements, are as follows:

Amendments to References to the Conceptual Framework in IFRS Standards

In March 2018, the International Accounting Standards Board (Board) issued a comprehensive set of concepts for financial reporting, the revised Conceptual Framework for Financial Reporting (Conceptual Framework), which aim is to update, in existing Standards, references to, and quotes from, the existing version of the Conceptual Framework or the version that was replaced in 2010 so that they refer to the revised Conceptual Framework.

The revised Conceptual Framework has an effective date of 1 January 2020 for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction.

There were no significant effects on the Bank's financial statements as of December 31, 2020 resulting from this change.

Definition of Material (amendments to IAS 1 and IAS 8)

On 31 October 2018, the International Accounting Standards Board has issued amendments to its definition of material to make it easier for companies to make materiality judgments.

The Amendments consist of (a) replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concepts of 'omitting' and 'misstating' information in the definition of material; (c) clarifying that the 'users' referred to are the primary users of general purpose financial statements referred to in the Conceptual Framework; and (d) aligning the definition of material across IFRS publications.

The amended definition of material therefore states that 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

There were no significant effects on the Bank's financial statements as of December 31, 2020 resulting from this change.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

On 26 September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. Additionally, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The Amendments provide exceptions so that entities would apply hedge accounting requirements assuming that the interest rate benchmark on which the hedged risk or hedged cash flows of the hedged item or cash flows of the hedging instrument are based is not altered as a result of the IBOR reform. The proposed exceptions apply only to the hedge accounting requirements and the Amendments do not provide relief from any other consequences arising from interest rate benchmark reform.

The Amendments are limited in scope. If a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the Amendments, then discontinuation of hedge accounting is still required.

In addition, the Amendments clarify that if an entity designated interest rate benchmark-based cash flows as the hedged item in a cash flow hedge, the entity would not assume for the purpose of measuring hedge ineffectiveness that the expected replacement of the interest rate benchmark with an alternative benchmark rate will result in zero cash flows after the replacement. The hedging gain or loss should be measured using the interest rate benchmark-based cash flows when applying a present value technique, discounted at a market-based discount rate that reflects market participants' assumptions about the uncertainty arising from the reform.

The Amendments are mandatory to all hedging relationships to which the exceptions are applicable.

The amendments have an effective date of annual periods beginning on or after 1 January 2020. The amendments would be applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which the entity first applies the Amendments and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the Amendments (i.e. even if the reporting period is not an annual period).

There were no significant effects on the Bank's financial statements as of December 31, 2020 resulting from this change.

Definition of a Business (amendments to IFRS 3 Business Combinations)

On 22 October 2018, the IASB issued the amendments to its definition of a business.

The Amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. They also clarify that a set of activities and assets can qualify as a business without including all of the inputs and processes needed to create outputs, or including the outputs themselves, by replacing the term 'ability to create outputs' with 'ability to contribute to the creation of outputs'.

It is no longer necessary to assess whether market participants are capable of replacing any missing inputs or processes (for example by integrating the acquired activities and assets) and continuing to produce outputs. The Amendments focus on whether acquired inputs and acquired substantive processes, together, significantly contribute to the ability to create outputs.

The Amendments shall be applied to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier application permitted. If entities apply the Amendments earlier, they shall disclose that fact.

There were no significant effects on the Bank's financial statements as of December 31, 2020 resulting from this change.

Note 35 – 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 the European Union:

Covid-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the International Accounting Standards Board (Board) issued Covid-19-Related Rent Concessions, which amended IFRS 16 Leases.

If certain conditions are met, the Amendment would permit lessees, as a practical expedient, not to assess whether particular covid-19-related rent concessions are lease modifications. Instead, lessees that apply the practical expedient would account for those rent concessions as if they were not lease modifications, so that, for example, the amount of rent forgiven on or before 30 June 2021 is taken to income the same year that the concession is granted, instead of being allocated over the duration of the contract as would be the case were the practical expedient not allowed.

The Amendment shall be applied for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In August 2020, the IASB issued Interest Rate Benchmark Reform—Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

The objective of the Amendments is to assist entities with providing useful information to users of financial statements and to support preparers in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships, as a result of the transition from an IBOR benchmark rate to alternative benchmark rates, in the context of the ongoing risk-free rate reform ('IBOR reform').

The Amendments are the results of the second phase of the IASB project that deals with the accounting implications of the IBOR reform, which originated the Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) issued by the IASB on 26 September 2019. They complement the first phase of the project which dealt with pre-replacement accounting implications of the IBOR reform and which have been issued by the IASB in 2019.

The Amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2021, with earlier application permitted.

Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)

IASB has issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) ('the Amendments') on 25 June 2020.

The objective of the Amendments is to extend the expiry date of the temporary exemption from applying IFRS 9 by two years (i.e. from 2021 to 2023) in order to align the effective dates of IFRS 9 Financial Instruments with IFRS 17 Insurance Contracts.

Note 36 – Recently Issued Pronouncements That Are Not Yet Effective For The Bank

Reference to the Conceptual Framework (Amendments to IFRS 3)

In May 2020 the IASB issued Reference to the Conceptual Framework, which made amendments to IFRS 3 Business Combinations.

The amendments updated IFRS 3 by replacing a reference to an old version of the Board's Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018.

The Amendments shall be applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022. Earlier application is permitted if at the same time or earlier an entity also applies all the amendments made by Amendments to References to the Conceptual Framework in IFRS Standards, issued in March 2018.

Property, Plant and Equipment – Proceeds before Intended Use, Amendments to IAS 16 Property, Plant and Equipment

In May 2020, the IASB issued Property, Plant and Equipment—Proceeds before Intended Use, which made amendments to IAS 16 Property, Plant and Equipment.

The Amendments would prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in a manner intended by management. Instead, an entity would recognise those sales proceeds in profit or loss.

The Amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2022, with earlier application permitted.

Onerous Contracts - Cost of Fulfilling a Contract

In May 2020, the IASB issued Onerous Contracts—Cost of Fulfilling a Contract, which made amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The objective of the Amendments is to clarify the requirements of IAS 37 on onerous contracts regarding the assessment of whether, in a contract, the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The Amendments shall be applied for annual periods beginning on or after 1 January 2022, with earlier application permitted.

Annual Improvements to IFRS Standards 2018 – 2020

On 14 May 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020 containing the following amendments to IFRSs:

a) permit an entity that is a subsidiary, associate or joint venture, who becomes a first-time adopter later than its parent and elects to apply paragraph D16(a) of IFRS 1 First-time Adoption of International Financial Reporting Standards, to measure the cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRSs;

b) clarify that the reference to fees in the 10 per cent test includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf (IFRS9);

c) remove the potential confusion regarding the treatment of lease incentives applying IFRS 16 Leases as was illustrated in Illustrative Example 13 accompanying IFRS 16; and

d) remove the requirement in paragraph 22 of IAS 41 Agriculture for entities to exclude cash flows for taxation when measuring fair value applying IAS 41.

The Amendments shall be applied for annual periods beginning on or after 1 January 2022, with earlier application permitted.

Note 37 – Subsequent Events

In addition to the aspects disclosed in the remaining notes, the events that occurred after the date of the financial statements and up to the date of their approval were the following:

Banco CTT, S.A.'s share capital increase.

An increase of the Company's share capital was carried out on 25 January 2021 from 286,400,000 euros (two hundred and eighty-six million and four hundred thousand euros) to 296,400,000 euros (two hundred and ninety-six million and four hundred thousand euros), via a new cash entry by the Sole Shareholder (CTT – Correios de Portugal, S.A.), of the value of 10,000,000 euros (ten million euros) giving rise to the issue of 10,000,000 new ordinary, registered shares without nominal value with the issue value of 1 euro each.

6.3 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 2020 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, 15 March 2021

The Board of Directors,

Chairman of the Board of Directors
João de Almada Moreira Rato

Member of the Board of Directors and Chairman of the Executive Committee
Luís Maria França de Castro Pereira Coutinho

Member of the Board of Directors and of the Executive Committee
João Maria de Magalhães Barros de Mello Franco

Member of the Board of Directors and of the Executive Committee
Pedro Rui Fontela Coimbra

Member of the Board of Directors and of the Executive Committee
Nuno Carlos Dias dos Santos Fórneas

Member of the Board of Directors and of the Executive Committee
Luís Jorge de Sousa Uva Patrício Paúl

Member of the Board of Directors and Chairman of the Audit Committee
João Manuel de Matos Loureiro

Member of the Board of Directors and of the Audit Committee
Clementina Maria Dâmaso de Jesus Silva Barroso

Member of the Board of Directors and of the Audit Committee
Susana Maria Morgado Gomez Smith

Member of the Board of Directors
António Pedro Ferreira Vaz da Silva

Member of the Board of Directors
Guy Patrick Guimarães de Goyri Pacheco

Member of the Board of Directors
António Emídio Pessoa Corrêa d'Oliveira

6.4
Annual Report of the Audit Committee

Report of the Audit Committee
Banco CTT, S.A.
for the financial year of 2020

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 2020, 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) Receive the communications of irregularities presented, namely through the Ethics Channel, and participate in or accompany the decisions taken by the Ethics Forum concerning the sames;
(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:

- 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;

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

- Examining if incentives set out in the Bank's remuneration policy take into account risk, capital, liquidity and expectations regarding results.

On 13 September 2019, the General Meeting elected the Board of Directors for the term of office corresponding to the three-year period 2019/2021. On this same occasion, an Audit Committee was elected from among the members of the Board of Directors, with the Audit Committee being composed of three independent members to perform duties during the aforesaid three-year period, and with this composition being maintained on the date that this Report was produced.

2. Supervisory activities carried out in 2020

During 2020, the Audit Committee monitored the management and evolution of the Bank's activity and exercised the powers and performed the duties referred to above, having, in particular:

a. **Supervised the approval and implementation 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. Received, namely through the Ethics Forum, reports of irregularities, and participated in or accompanied the decisions taken by the Ethics Forum in relation to these irregularities;

g. Supervised and assessed the Statutory Auditor's activity;

h. Coordinated the process of selection of the Statutory Auditor for the term of office 2021-2023;

i. 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 the Board of Directors' meetings; (b) contacts with the Bank's Executive Committee and senior management, including with the directors responsible for the control duties, and the Statutory Auditor in office until 31 December 2021 (KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A.); and (c) analysis of the available financial and business information, as well as correspondence exchanged between the Bank and the regulators/supervisors, especially, Banco de Portugal.

In exercising these powers and performing these duties, the Committee held 30 (thirty) formal meetings during 2020, with minutes having been drawn up of all the meetings.

It should be noted that, following the pandemic outbreak of COVID-19 and the consequent need to adopt standards of social distancing, the meetings of the Audit Committee began to be held, for the most part, through telematic means.

The meetings of the Audit Committee were regularly attended by the Bank's Executive Directors, in particular the Chairman of the Executive Committee (CEO), the Executive Director responsible for the financial area (CFO), the Executive Director responsible for the Compliance, Risk and Security and Data Protection areas, the Executive Director responsible for the Operations and IT areas (CIO), and the Executive Director responsible for the Marketing and Commercial areas (CCO).

The Audit Committee also summoned other senior staff to its meetings to clarify and provide relevant information for the performance of the duties entrusted to this body, in particular: (a) the Director of Internal Audit for purposes of analysis, among others, of the Internal Audit Statutes, the activities plan, the resources and headcount of this function, and follow-up of the activity of the internal audit control function; (b) the Director(s) of Compliance and the Director(s) of Risk for purposes of analysis, among others, of the respective annual activities plans, resources and headcount of these departments, and follow-up of the activities of compliance and risk management control, respectively; (c) the AML Officer for topics related to Anti-Money Laundering and Terrorist Financing ("PBCFT"); (d) the Director of Legal Services and Company Secretary to provide clarifications on the governance model and procedures of the Bank, as well as other issues of legal nature related to the Committee's activities; (e) the Directors of Planning and Control and the Director of Accounting concerning the monitoring and preparation of the financial information; (f) the Director of Human Resources to discuss remuneratory matters; and (g) the Bank's Statutory Auditor for purposes of supervising its activity relative to the Bank's financial statements, including supervision of its independence and respective assessment of performance.

During 2020, the Audit Committee monitored and appraised the appointment of new key function holders, namely:

(i) the appointment of a new Director of Compliance;

(ii) the appointment of a new Director of Risk;

(iii) the appointment of a new AML Officer (responsible for compliance with the anti-money laundering and terrorist financing legal framework).

It should also be noted that, still in 2020, in order to allow greater speed and security in information flows, as well as the recording and archiving of each meeting, Banco CTT began the process of adopting the "Smartgovernance" IT document management system, which was fully implemented in early 2021, also in compliance with the provisions of Article 8(3) of Notice 3/2020 of Banco de Portugal.

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 approval and review process, in the Bank, of some relevant policies and processes, in particular (i) the Business Continuity Management Policy, the Investment Policy, the Liquidity Management Policy, the Credit Policy, the Privacy Policy of CTT Group Companies, the Policy on Selection, Appointment and Evaluation of Statutory Auditors (ROC) and Audit Firms (SROC) and the Contracting of Services from ROC/SROC and the Remuneration Policy of Credit Intermediaries; (ii) the Regulations of the Audit Committee, the Board of Directors, the Remuneration Committee, the Commercial and Product Committee, the Internal Control Committee, the Capital and Risk Committee, the Credit Committee, the Costs and Investments Committee and the Technology and Operational Efficiency Committee; (iii) the delegation of powers of the Board of Directors, in directors with executive duties and in the Executive Committee; (iv) the Internal Audit Statutes; and (v) the Regulations of the Ethics Forum.

The Committee also monitored the Bank's process of approval and review of its internal control environment and governance model, in particular, appraising the revisions to the Bank's Organisational Structure Model that took place during 2020, with a view to formalising, inter alia: (a) the creation of a Fraud Management Department within the Risk Department; (b) the integration of the Company Secretary in the Legal Services Department/General Secretariat; (c) the increase in the number of members of the Board of Directors and the Executive Committee, with the appointment of a new member with executive functions, to act as Chief Risk Officer; (d) the consequent redistribution of purviews among the executive members of the Board of Directors; (e) the appointment of a new person responsible for the risk management control function; (f) the appointment of those responsible for the control functions of the Group and of the Bank's subsidiaries; and (g) the redefinition of the reporting lines of the control functions.

For the 2020 performance assessment cycle, the Audit Committee also assessed (i) the Banco CTT Group Remuneration Policy, which joined, in a single policy, the Remuneration Policy for the Members of the Management and Supervisory Bodies and Relevant Employees and the Remuneration Policy for Employees (excluding Relevant Employees and Multi-Employer Staff); (ii) the review of the Remuneration Policy for Multi-Employer Staff of the Retail Network; and (iii) the exercise of identifying relevant employees. The proposals for review of the performance assessment model (i) of the Members of the Executive Committee, (ii) of the Relevant Employees, and (iii) of the Employees (excluding Relevant Employees and the Multi-Employer Staff of the Retail Network) were also submitted to the Audit Committee for assessment. Also concerning remuneration, the Audit Committee appraised the verification of the adjustment mechanisms for members of the Executive Committee, Relevant Employees and all other Employees (excluding Relevant Employees and Multi-Employer Staff of the Retail Network) that could lead to the reduction or non-attribution of variable remuneration relative to the assessment cycle of 2019 and, when applicable, the deferred component of variable remuneration relative to previous assessment cycles.

Also during 2020, following the entry into force of Banco de Portugal Notice 3/2020 on internal control and organisational conduct and culture, a proposed implementation plan for the new regulatory requirements set out in the regulatory diploma was considered.

In 2021, for the year 2020, the Audit Committee was informed and took account of the reports on activities and self-assessment of the Remuneration Committee and the Bank's Selection and Salary Committee.

b. Monitoring of developments of the Bank's activity throughout 2020

The Audit Committee monitored the development of the Bank's activity, both in terms of the Bank's offer and commercial activity, and in terms of the operational and technological activity.

Since March 2019, following the confinement of the country as a result of the COVID-19 pandemic, the Audit Committee has monitored the adaptation of the Bank's activity, human resources and operations to the challenges of remote working. It has also followed all the other new issues that stemmed from the pandemic crisis, including credit moratoria.

Additionally, the Audit Committee has analysed, discussed and monitored the Bank's strategic projects.

c. Supervision of the Bank's conclusion of agreements and other transactions with related parties

During 2020, the Committee assessed and issued a favourable opinion on the conclusion, by the Bank, of contracts and transactions with related parties (companies of the CTT Group).

Under the terms of the Conflicts of Interest and Related Party Transactions Policy, the Audit Committee took note of the transactions with related parties not subject to prior opinion.

d. Supervision of the preparation of financial information and verification of the adopted accounting policies, in particular regarding the annual financial reporting documents

The Audit Committee appraised the Bank's financial information and evolution of its business on a monthly basis, and monitored the key prudential and business indicators, at an individual and consolidated level, provided by the Director responsible for the financial area (CFO) and by the Bank's Director of Planning and Control and the Director of Accounting, having held meetings with the Statutory Auditor to present the conclusions of work on the interim information reported as at 31 March, 30 June and 30 September 2020, as well as on the report of the external auditor on the process of quantification of the impairment of the credit portfolio reported as at 31 December 2019 and as at 30 June 2020.

In 2020, but with reference to the financial year of 2019, the Audit Committee analysed the annual financial statements and the proposed appropriation of net income in the Annual Report, having issued the corresponding Opinion. In 2021, the Audit committee analysed the annual financial statements for 2020, as well as the corresponding proposal for the appropriation of net income included in the Annual Report , with a view to issuing the respective Opinion.

e. Supervision of the effectiveness of the Bank's risk management, internal control and internal audit systems

During 2020, the Audit Committee monitored the implementation of the action plans adopted to eliminate the flaws detected in the Internal Control System (SCI). Likewise, the Audit Committee closely followed the preparation of the Annual Report on the Internal Control System sent to the supervisor in July 2020, for which it issued the opinion provided fro in Banco de Portugal Notice 5/2008.

Following the entry into force of Bank of Portugal Notice 3/2020 on internal control and organisational conduct and culture, the Bank launched a process with a view to fully adopting the new measures imposed, ensuring, at the same time, the consistency of the internal control and corporate governance systems within the Group, with the intervention of various areas of the Bank, in particular the Internal Control Functions, a process that was accompanied and monitored very closely by the Audit Committee.

During 2020, the Audit Committee also issued an opinion on the Internal Control System concerning anti-money laundering and terrorist financing, after follow-up of the preparation of the Report on Prevention of Money Laundering and Terrorist Financing.

The Audit Committee monitored the activity of the ComplianceDepartment, having assessed the annual plan of activities and the respective degree of compliance, including the Compliance Plan and the Plan for the Prevention of Money Laundering and Terrorist Financing Activities proposed by that Department for 2020 - in the latter case, supervising the measures proposed and adopted in the meantime with a view to remedying the *backlog* of analysis of alerts in the areas of know your customer ("KYC") and know your transactions ("KYT").

The Audit Committee monitored the activity of the Risk Department, namely through periodic monitoring of the main risk indicators, having assessed the annual plan of activities and the respective degree of compliance.

The Audit Committee monitored the activity of the Internal Audit Department, having appreciated the annual plan of activities and the respective degree of compliance, the proposed changes to the Audit Plan for Branches, motivated by the pandemic outbreak of COVID-19, and the proposed Audit Plan for 2021, as well as the Audit Strategic Plan (2021-2023).

f. Reception of reports on irregularities (whistleblowing) submitted by shareholders, Bank employees and others

The Bank has a Whistleblowing Policy (previously named the Policy on Communication of Irregularities) which includes a channel provided for the communication of irregularities, with the Audit Committee having been informed and taken account of all the reported situations.

Under the terms of the identified Policy, the Audit Committee delegated to the Compliance Department support functions related to the management of the Channel of Ethics and to the Ethics Forum the handling of reports of irregularities in matters of its competence, with the Audit Committee being, in any case, responsible for the reception and registration of the reports, as well as the final decision regarding closure or adoption of other measures.

In March 2020, the Audit Committee approved the amendment to the Regulations of the Ethics Forum and its composition, which now includes not only the Bank's Directors of Compliance, Internal Audit and Risk, but also a member of the Audit Committee, appointed by the latter, who chairs the Forum and has a casting vote. On the same date, the Audit Committee appointed its Member Susana Maria Gomez Smith as member of the Audit Committee to integrate and chair the Ethics Forum.

In February 2020, the Audit Committee approved the Annual Report on Whistleblowing, to be submitted to Banco de Portugal under the terms and for the purposes of Article 116-AA(7) of the Legal Framework of Credit Institutions and Financial Companies, with reference to the financial year 2019. This Report describes the process of receiving and handling irregularities endorsed by Banco CTT, as well as the irregularities reported in the reference period. In 2021, the Audit Committee approved the Annual Report on Whistleblowing for the year 2020.

g. Supervision and assessment of the Statutory Auditor's activity

Throughout 2020, the Audit Committee held meetings with the Statutory Auditor on various occasions and for various purposes. One of the aspects discussed with the Bank's Statutory Auditor (KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A., "KPMG") was the relationship model between the Statutory Auditor and the Committee, namely regarding the monitoring of the work developed by KPMG and the reporting and discussion of the respective results and conclusions.

The Committee carried out a preliminary assessment of the proposals for the provision of services to be contracted by Banco CTT Group companies and CTT Group companies from KPMG, both for audit services and non-audit services, having decided, pursuant to the Audit Committee's Internal Regulation, the Regulation on the Provision of Services by the Statutory Auditor and, subsequently, the Policy on Selection, Appointment and Evaluation of Statutory Auditors (ROC) and Audit Firms (SROC) and the Contracting of Services from the ROC/SROC approved in July 2020, with a view to proceeding with the respective prior approval/authorisation whenever deemed to fall within the scope of the respective powers.

Also in this regard, it should be noted that, during 2020, amendments to the Engagement Letter issued in June 2019 by KPMG were approved by the Audit Committee, following (i) the change in the structure of Banco CTT's Annual Report, due to the inclusion of 321 Crédito in the consolidation perimeter; and (ii) the broadening of the scope of the report on the assessment of the adequacy of the quantification process for impairment of the loan portfolio and reasonableness of individual and collective impairment under Banco de Portugal Instruction 5/2013, which included a supplementary chapter with information on the impact of the pandemic outbreak of COVID-19.

Regarding the non-audit services that are not required of the Statutory Audit by law, these were subject to prior approval/authorisation by the Audit Committee after analysis and confirmation, in particular, of the following aspects, as applicable: (i) that the services 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 legal review of accounts, namely the provision of these services does not entail any risk of self-review, of personal interest or participation in the decision-making in any of the CTT Group companies 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 the law; (iii) that the services under analysis are based on appropriate possession of information that is relevant to the provision of this service and on experience in the development of similar services, showing the necessary conditions for them to be rendered with independence and impartiality.

During the year of 2020, the Audit Committee analysed the reports on the activity carried out by the Statutory Auditor. In 2021, and by reference to the financial year of 2020, it analysed the conclusions of the review of the individual and consolidated financial statements of the Bank for the financial year 2020. A similar exercise was carried out in 2020 with reference to 2019.

In 2020, the Committee supervised the independence of the Statutory Auditor, having received from him a statement confirming his independence for the financial year 2019. In 2021, the same monitoring of the independence of the Statutory Auditor was carried out in relation to the activity carried out during the financial year 2020.

h. Conducting the process of selection of the Statutory Auditor for the 2021 2023 term of office

The election of the Statutory Auditor for the new term of office was preceded by a selection process, initiated in 2019, by the Audit Committee, motivated by the opening of the selection process of the Statutory Auditor conducted by the sole shareholder, CTT, since the maximum number of terms of office legally established for the exercise of statutory audit functions by the same Statutory Auditor in CTT - KPMG - had been exceeded. Although, in the case of the Bank, a new KPMG mandate could be accommodated by the aforementioned mandate limit, it was found that there would be efficiency gains if Banco CTT's Statutory Auditor and CTT's Statutory Auditor were the same entity, given that the Bank is part of the CTT Group, at which level the consolidation of accounts is performed.

In 2020, the Audit Committee completed the selection process of the Statutory Auditor for the 2021-2023 term of office, with the support of a Monitoring and Analysis Committee composed, for this purpose, of the Directors of the Control Functions (Internal Audit, Compliance and Risk) and the Director of Accounting. The various steps taken included the identification of the entities to be consulted, the definition of specifications, the setting of weighting criteria for the classification of proposals, exposure sessions and clarification of the proposals submitted by the bidders and, finally, the preparation and submission to the sole shareholder of a proposal for the appointment of the selected candidates.

Following the proposal presented by the Audit Committee, the sole shareholder deliberated, in July 2020, to elect Ernst & Young Audit & Associados - SROC, S.A., Audit Firm No. 178, represented by Sílvia Maria Teixeira da Silva, Statutory Auditor No. 1636, and Ana Rosa Ribeiro Salcedas Montes Pinto, Statutory Auditor No. 1230, as the Bank's Alternate Statutory Auditor, for the new term of office corresponding to 2021-2023 (resolution which took effect on 1 January 2021) as the Bank's Statutory Auditor.

Subsequent to the appointment of the Statutory Auditor for the new term of office, the Audit Committee has been monitoring the articulation between this and the outgoing Statutory Auditor to ensure the efficiency and linearity of the corresponding transition process.

i. Monitoring of the institution's risks (in carrying out risk committee duties)

The Audit Committee monitored the definition of the Bank's risk strategy and risk appetite, and also monitored the risks to which the Bank is exposed (namely, strategic risk, credit and concentration risk, operational risk, market and interest rate risk, liquidity risk, risk of excessive leverage and the evolution of the Bank's own funds and capital requirements), in this way supporting the Board of Directors in the supervision of the execution of the Bank's risk strategy.

In this respect, the Audit Committee favourably assessed and recommended to the Board of Directors the approval of the following items:

(i) Risk Appetite Statement - RAS 2021-2023;

(ii) Report on the liquidity adequacy self-assessment process (ILAAP);

(iii) Review of the Bank's Liquidity Contingency Plan;

(iv) Estimated economic capital for the Bank as at 31 December 2019, as well as the "Internal Capital Adequacy Assessment Process (ICAAP)";

(v) Principles for granting or restructuring loans to debtors with increased risk.

3. Conclusions

In exercising its powers and duties, the Committee requested and obtained all the information and clarifications that it considered relevant, and did encounter any constraints to its actions and the effective pursuit of its duties.

The Committee received from the Executive Committee, as well as from all the Bank's bodies, commissions, committees, 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 its activities for their cooperation.

Lisbon, 12 March 2021

The Chairman of the Audit Committee,
João Manuel de Matos Loureiro

The Members of the Audit Committee,
Clementina Maria Dâmaso de Jesus Silva Barroso

Susana Maria Morgado Gomez Smith

6.5
Opinion of the Audit Committee

Opinion on the Annual Report of
Banco CTT, S.A.
for the financial year of 2020

The Audit Committee, in light of the powers and duties entrusted to it, examined the Management Report and the Individual and Consolidated Statements of Banco CTT, S.A. ("Bank") relative to the financial year of 2020, which were prepared by the Bank's Executive Committee. The Audit Committee also appraised the Legal Certifications of Accounts, issued by KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A. ("KPMG") on the financial statements, on an individual and consolidated basis, which do not contain any reservation or emphasis. The Audit Committee also appraised the Additional Report on the Supervisory Board issued by KPMG.

The preparation of the Management Report and Financial Statements was followed by the Audit Committee, which attended the meeting of the Executive Committee that approved the respective final version for submission to the Board of Directors. During the preparation of this opinion, the Audit Committee requested all the information and clarifications that it considered relevant, to this end questioning various senior personnel, including the Executive Director responsible for the financial area, the Director of Accounting, the Director of Risk, the Director of Compliance, the Director of Planning and Control, the Company Secretary and the Statutory Auditor of the Bank.

The Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union, where the signatories declare that, to the best of their knowledge, these Financial Statements are compliant with the IFRS, and that the Individual and Consolidated Financial Statements appropriately reflect the net worth, financial position and results of the Bank and of the Group. The Management Report appropriately describes the evolution of the business activities, performance and main risks and uncertainties associated to the activity of the Bank and of all the other companies of the Banco CTT Group.

The Legal Certifications of Accounts include the "Key Audit Matters" that KPMG identified, on a consolidated basis, as being:

- Mortgage lending

- Impairments for loans and advances to customers – car credit and finance leases; and

- Recoverability of Goodwill.

All these matters were duly monitored, throughout the year, by the Audit Committee, and were analysed jointly with the Executive Committee, with the Bank's pertinent Departments and with KPMG.

The Audit Committee, in view of its action, and in compliance with the provisions in Article 420(6) of the Portuguese Companies Code, applicable by reference to Article 423-F(2) of the same Code, agrees with the Management Report and Financial Statements of the Bank and of the Group, for the year ended on 31 December 2020, as well as the Proposed Appropriation of Net Income presented in the Management Report, which are in accordance with the applicable accounting, legal and statutory provisions.

Therefore, the Audit Committee recommends that the General Meeting of Banco CTT should approve the Annual Report of the Bank and of the Group, as well as the Proposed Appropriation of Net Income for the year ended on 31 December 2020.

Lisbon, 15 March 2021

The Chairman of the Audit Committee,
João Manuel de Matos Loureiro

The Members of the Audit Committee,
Clementina Maria Dâmaso de Jesus Silva Barroso

Susana Maria Morgado Gomez Smith

6.6
Summary of the Self-Assessment Report

Summary of the Self-Assessment Report (Group)

The Self Assessment Report ('Report') prepared under the provisions of Article 54 of Banco de Portugal Notice 3/2020 ('Notice'), in force since 16 July 2020, and Banco de Portugal Instruction 18/2020 ('Instruction') contains the results of the assessment carried out by the Banco CTT, S.A. Group ('GBCTT' or 'Group') regarding the adequacy and effectiveness of the financial group's internal control system to ensure compliance with the requirements set forth in Article 51 of the Notice, as well as regarding the consistency between the internal control systems of the subsidiaries and the internal control system of the parent company, Banco CTT, S.A. ('BCTT' or 'Bank'), with reference to 31 January 2021.

This Report includes a description of the activities specifically developed, ongoing, and planned for 2021 to ensure full compliance with the provisions of the Notice and Instruction at the GBCTT level.

The project to implement the Notice and Instruction involved an in-depth analysis of the Group's internal control and risk management systems. This process was coordinated by the Compliance Department of BCTT, as the parent company, in close collaboration with other areas of the Group, in particular the other Internal Control Functions (Risk Department and Internal Audit Department of the Bank), the Internal Control Area of 321 Crédito - Instituição Financeira de Crédito, S.A. ('321 Crédito' or 'Company') and the Legal Services Department and General Secretariat of the Bank, and was closely monitored by the Management and Supervisory Bodies of BCTT, as parent company, and of its subsidiary 321 Crédito, in order to ensure the consistency of the Group's internal control and corporate governance systems.

In this context, the project to adopt the Notice at the GBCTT level included the development of the following main activities:

- Gap analysis exercise on the adequacy and alignment of the Group's governance and internal control systems in relation to the provisions of the Notice and the respective requirements and definition of the initiatives determined to resolve the gaps identified, as well as the respective persons responsible, inherent activities and associated deadlines;

- Review of the organisational structure and responsibilities, with the aim of ensuring compliance with the additional requirements imposed by the Notice, concerning, in particular, the: (i) formalisation of responsibilities for the 2nd and 3rd line control functions of the Bank and, accordingly, of the Group, (ii) replacement of the Head of the Group's Risk Management Function, (iii) establishment of the Internal Control and Operational Risk Area in subsidiary 321 Crédito and (iv) review of the Regulations of the collegiate bodies and control functions, in order to reflect the densification of responsibilities imposed on the latter by the Notice;

- Review of internal regulations: updating of a number of internal policies and procedures, which underwent significant changes with the entry into force of the Notice, particularly the General Policy on Internal Control and Risk Management, which included changes to the taxonomy of risks and the definition of a new model for classification of internal control deficiencies, to be applied across the board by the Group's internal control functions within the scope of its activities, in the light of the provisions of the Instruction;

- Quality of information: with a view to strengthening the processes of production, collection and processing of data and information circuits that ensure the quality of the information that supports the Group's internal decisions and information, the information disclosed to the public and the information submitted to the Supervisor (as provided for in Articles 29 and 30 of the Notice), a survey of these processes was initiated, which include not only the production and processing of financial and accounting information, but also prudential and non-financial information. This process includes not only the survey of these information flows and their reporting, but also the definition of control mechanisms to mitigate the risks underlying the processing of these data, ensuring that the information produced is reliable, integral, consistent, complete, current, timely, accessible and granular.

The gap analysis exercise, whose results were analysed by the Internal Control Committee and reported to the Management and Supervisory Bodies of the Bank, as parent company, showed a high degree of alignment of the Group's internal control system and governance model with most of the requirements already contained in the internal regulations (Banco de Portugal Notice 5/2008), with the main gaps identified in the new matters regulated by the Notice and in those which it altered in greater depth.

For the requirements for which gaps were identified, an implementation plan was defined, which included a detail of the activities completed, in progress, or yet to be started, as at 1 March 2021, which are presented in the individual self-assessment reports of the Bank as parent company and its subsidiaries,

The Report also includes a description of (i) the organisational structure and the Group's governance model, which are considered to be in line with the best market practices in matters of corporate governance; (ii) the main activities carried out by the Group during the period under review with regard to payment services and specialised credit at the point of sale, as well as the prospects for 2021 and (iii) the training plan on the matters set out in the Notice, attended and to be attended by the members of the management and supervisory bodies, by other senior management and by the holders of key functions in the Group's entities.

The organisational structure and governance model of the BCTT Group are complemented by the methodology underlying the continuous monitoring process of the Group's Internal Control System, consisting essentially of the following phases: (i) identification and reporting of deficiencies, (ii) assessment and classification of deficiencies, (iii) prioritisation and decision-making, (iv) definition of action plans and (v) monitoring and reporting. The Report also includes a description of the taxonomy of risks and the incidence classification model used by the Group, which have been reviewed in the light of Annexes I and II to the Instruction.

Additionally, the Report includes a global analysis of the internal control deficiencies, which includes the description and characterisation of the deficiencies open on the reference date. In order to eliminate the effect of duplicating the presentation of the deficiencies reported in the individual self-assessment reports of the Group's entities, only those recommendations whose scope/nature of the process in question is effectively of the Group are presented in the Report.

In preparing the Report, the individual self-assessment reports of the Group entities subject to compliance with the Notice and the Instruction were included, which in turn include the annual self-assessment/independence reports of the persons responsible for the risk management, compliance and internal audit functions, pursuant to Articles 27, 28 and 32 of the Notice, respectively. In these annual self-assessment reports, the independence of each internal control function is confirmed by the respective persons in charge (no record of incidents).

The Report also includes the assessment of the Group's supervisory and management bodies, pursuant to Articles 56 and 57 of the Notice, respectively.

In the context of the assessment of the Group's Supervisory Body, the Audit Committee concludes, in the light of the work performed, the cumulative evidence gathered, weighing the current and potential impacts of the deficiencies that remain open, except for those deficiencies and the need to develop an additional set of procedures for full adoption of the provisions of the Notice, on the adequacy and efficacy of the internal control system of the financial group, as well as on the consistency between the internal control systems of the subsidiaries and the internal control system of the parent company, in all material respects, pursuant to the requirements defined in the Notice.

In turn, the Board of Directors concludes, considering the referred open deficiencies and gaps in the adoption of the Notice, on the effectiveness of the internal control system of the financial Group, in view of the requirements defined in the Notice.

Summary of the Self-Assessment Report (Individual Bank)

The Self Assessment Report ('Report') prepared under the provisions of Article 54 of Banco de Portugal Notice 3/2020 ('Notice'), in force since 16 July 2020, and Banco de Portugal Instruction 18/2020 ('Instruction') contains the results of the assessment carried out by Banco CTT, S.A. ('BCTT' or 'Bank') regarding the adequacy and efficacy of the organisational culture in place, its governance and internal control systems, including remuneration practices and policies and the other matters addressed in the Notice, with reference to 31 January 2021.

This report includes a description of the activities specifically developed, ongoing, and planned for 2021 to ensure full compliance with the provisions of the Notice and Instruction.

The process of adoption of the Notice and Instruction was coordinated by the Compliance Function of BCTT, with the intervention of several areas of the Bank, in particular the Internal Control Functions (Risk Management and Internal Audit), and was closely monitored by the management and supervisory bodies of BCTT. The gap analysis exercise, whose results were analysed by the Internal Control Committee and reported to the Management and Supervisory Bodies of the Bank, showed a high degree of alignment of BCTT's internal control system and governance model with most of the requirements already contained in the internal regulations (Banco de Portugal Notice 5/2008), with the main gaps identified in the new matters regulated by the Notice and in those which it altered in greater depth.

For the requirements for which gaps were identified, an implementation plan was defined, described in the Report, which included a detail of the activities completed, in progress, or yet to be started, as at 1 March 2021, among which the following are noteworthy:

The Report also includes a description of the Bank's organisational structure and governance model, which are considered to be aligned with the corporate governance practices adopted by the CTT Group and with best market practices.

The organisational structure and governance model of BCTT are complemented by the methodology underlying the continuous monitoring process of the Bank's Internal Control System, consisting essentially of the following phases: (i) identification and reporting of deficiencies, (ii) assessment and classification of deficiencies, (iii) prioritisation and decision-making, (iv) definition and follow-up of action plans and (v) monitoring and reporting.

Additionally, the Report includes a global analysis of the internal control deficiencies, which includes the description and characterisation of the deficiencies open on the reference date.

As part of the preparation of the report, the annual self-assessment/independence reports of the heads of the Risk Management, Compliance and Internal Audit Functions were also drawn up, pursuant to Articles 27, 28 and 32 of the Notice, respectively, and are included in the Report. In these annual self-assessment reports, the independence of each internal control function is confirmed by the respective persons in charge (no record of incidents). These Reports also include a number of open deficiencies classified as F1 ('low') or F2 ('moderate') and 3 classified as F3 ('high') attributed to BCTT's internal control functions (2 attributed to the Risk Management Function and 1 attributed to the Compliance Function), with no deficiencies classified as F4 ('severe').

The Report also includes the assessment of the Bank's supervisory and management bodies, pursuant to Articles 56 and 57 of the Notice, respectively.

In the context of the assessment of BCTT's Supervisory Body, the Audit Committee concludes, in the light of the work performed, the cumulative evidence gathered, weighing the current and potential impacts of the deficiencies that remain open, except for those deficiencies and the need to develop an additional set of procedures for full adoption of the provisions of the Notice, on the adequacy and efficacy of the organisational culture in force in the Bank and of its governance and internal control systems, in all materially relevant aspects, under the terms of the requirements defined in the Notice.

In turn, the Board of Directors concludes, considering the aforementioned open deficiencies and gaps in the adoption of the Notice, on the adequacy and efficacy of BCTT's organisational culture and governance and internal control systems, including the Bank's remuneration policies and practices, in relation to the requirements defined in the Notice.

6.7
External Auditors' Report

Legal Certification of the Accounts (Consolidated)

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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 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 2020 (showing a total of 1,999,879 thousand euros and total equity of 211,673 thousand euros, including a profit for the year of 233 thousand euros), 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 **Banco CTT, S.A.** as at 31 December 2020 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.

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.

<table>
<tr><th colspan="2">Mortgage credit concession (527,277 thousand euros)</th></tr>
<tr><td colspan="2">As at 31 December 2020, the caption Loans to clients (mortgage and overdrafts) amounts to 527,277 thousand euros, as disclosed in note 14 of the accompanying notes to the financial statements, representing approximately 26% of total assets. This caption includes the amount of 525,084 thousand euros relating to mortgage loans.</td></tr>
<tr><td>Risk</td><td>Our Response</td></tr>
<tr><td>The Group started in March 2017 to grant mortgage credit to its customers.

This process was developed by the Group from the ground up, based on a workflow developed in partnership with an external partner.

Having in consideration the objectives defined for the management, the weight of this area in the operational activity of the Group and the context of economic uncertainty associated with COVID-19, 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 Group's 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;
– Analysis of the documentation that supports the credit analysis, on a</td></tr>
</table>

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	sample basis and the accounting records of the loans, including the contract deeds; – Testing of interest of the period and accrued interest; – Evaluated the adequacy of the disclosures made in the financial statements, in accordance with applicable accounting rules.

Impairment for loans to customers (14,939 thousand euros)	
As at 31 December 2020, as disclosed in note 14 of the accompanying notes to the financial statements, the credit to customers portfolio – auto loans and leasing amounts to 582,044 thousand euros, which has associated an impairment amount of 14,939 thousand euros. The credit to customers portfolio - auto loans and leasing, net of impairment, represent approximately 28% of the Group's total assets as at 31 December 2020.	
Risk	**Our Response**
For the purpose of impairment calculation, the financial assets measured at amortised cost are classified into three stages (1, 2 or 3) taking into account the identification or not of a significant deterioration in credit risk, since its initial recognition or if these are assets with impairment. The determination of this effect is a relevant process since it influences the associated Expected Credit Loss ('ECL') levels. The impairment is calculated based on the expected loss estimated by the Group, as disclosed in notes 2.3.1.6 and 32 of the Financial Statements. In response to the economic crisis resulting from the COVID-19 pandemic situation, the Portuguese State and some sector associations (including ASFAC), implemented a credit moratoriums mechanism, which allowed customers (under certain	Our procedures included, among other: – Inquiries to Management about the process of identifying and determining impairment losses; – Evaluation of the design and implementation of controls and testing of controls operating effectiveness related to the impairment model; – Analysis of the alignment of accounting policies with IFRS 9; – Analysis of the classification process of financial assets based on their credit risk (Stage 1, 2 and 3); – Evaluation of the impairment model developed by the management, including the review of its main assumptions and forward-looking information considered in the estimation of the ECL, with the involvement of our specialists;

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conditions) to stop paying total or partial installments. In accordance with to the Banco de Portugal and the European Banking Authority, the clients' adhesion to the moratoriums does not qualify as a restructuring, for the purpose of classifying the contract into the three categories mentioned above. With the access to the moratorium, there is a possibility that the credit risk of those customers increases and that is not timely identified by the Group. The collective analysis is based on estimates and assumptions for determining the ECL taking into account (i) the historical information of losses in credit portfolios with similar risk determined taking into account the category to which they are allocated; and (ii) the knowledge of the economic and credit environment and its influence on the level of historical and future losses ('forward looking'), the latter especially relevant considering the uncertain economic environment arising from COVID-19. In the most relevant exposures of each credit segment and in contracts that meet certain qualitative characteristics, the amount of the impairment is determined using an individual analysis, which implies judgment in determining the best estimate of the cash flows of these operations. The impairment assessment process is highly complex in its design and implementation and includes several estimates and judgments made by the Group. This process takes into account factors such as the probability of default, risk ratings, the value of collateral associated with each	– For credits whose impairment losses are determined on a collective basis, test, with the support of our specialists in this area, of the underlying models. Additionally, testing the adequacy and accuracy of the significant assumptions used in the model; – For credits for which impairment losses are determined on an individual basis, analysis, for a sample of operations, of the information used by the Group to carry out the economic analysis of the client and assess the reasonableness of the defined impairment rate; – Evaluation of disclosures made by the Group in accordance with the applicable accounting framework.

Document classification: 4

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transaction, recovery rates and estimates of both future cash flows and the time of receipt. As referred in note 3, the use of alternative methodologies and other assumptions and estimates could result in different levels of recognised impairment losses, with the consequent impact on the Group's results. The evolution of the economic environment, as well as the control and monitoring of the spread of COVID-19 and its effects may create greater pressure on the liquidity of economic agents with an impact on the future calculation of the impairment losses for the customer loan portfolio. On this basis, in view of the uncertainty, complexity and judgment involved in calculating the estimate, credit to customers impairment was considered a relevant audit matter.	

321 Credito goodwill recoverability (61,085 thousand euros)	
As at 31 December 2020, as disclosed in note 9 of the accompanying notes to the financial statements, the caption Goodwill amounts to 61,085 thousand euros, of which 60,679 are attributable to the acquisition of the subsidiary 321 Crédito – Instituição Financeira de Crédito, S.A. ("321 Crédito") occurred in May 2019.	
Risk	**Our Response**
As referred in note 1, in May 2019 Banco CTT acquired 321 Crédito – Instituição Financeira de Crédito, S.A.. The monitoring of the budget and business plan approved by the shareholder is relevant, particularly the impact of current market conditions resulting from the COVID-19 pandemic, particularly with regard to the production of new contracts and the credit portfolio loss ratio, and any	Our procedures included, among other: – Evaluation of the design and implementation of key controls performed by the Group related to the Business Plan approval and related assumptions. – Evaluation of the valuation methodology used, having involved our valuation specialists for this purpose.

adjustments to the plan in the shareholder capital requirements and in the dividend distribution capacity. Considering the goodwill amount generated by the acquisition of 321 Crédito, the monitoring of its business plan and underlying assumptions is relevant in the audit process. The evolution of the economic environment, as well as the control and monitoring of the spread of COVID-19 and the respective effects may create greater pressure on the results of 321 Crédito.	– Analysis of the computation performed by the Group regarding the recoverable amount and the main assumptions considered in the impairment model, namely: i) the discount rate; ii) the perpetuity growth rate; iii) the Core Tier 1 requirements considered for the computation of profits available for distribution; iv) dividends distributed and capital increases. Our specialists were involved in the execution of this analysis. – Comparison of the financial projections with the budget plan approved. – Discuss with management the future expectations, namely in relation to credit concession, forms of financing and expected profitability. – Performance of sensitivity to the main assumptions applied; and – We assessed the adequacy of the respective disclosures in the financial statements, in accordance with the applicable accounting framework.

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 consolidated financial position, financial performance and the consolidated 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 misstatements, 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.

Auditors' 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 the 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 with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Our responsibility also includes the verification that the information contained in the consolidated management report is consistent with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Consolidated Management Report

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the consolidated management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment 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 the Group in the shareholders general assembly held on 24 August 2015 for a first mandate from 2015 to 2018. We were reappointed as auditors in the shareholders general assembly held on 25 June 2019 for a second mandate from 2019 to 2020.

- 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 on 12 March 2021.
- 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:
    - Report, according to the terms of Instruction nr. 5/2013 from the Bank of Portugal, regarding the impairment of the credit portfolio.
    - Opinion, according to the terms of paragraph b) of nr. 5 of article 25 of Aviso nr. 5/2008 from Bank of Portugal, regarding the internal control system of the Group and its subsidiaries.
    - Technical support rendered with the objective to support the Opinion given by the Audit Committee of Banco CTT and the Fiscal Councils of the subsidiaries over the internal control system, in accordance with paragraph a) of nr. 5 of article 25 of Aviso nr. 5/2008 from Bank of Portugal.
    - Technical support rendered with the objective to support the opinion given by the Fiscal Council of Payshop regarding the internal control system associated with the anti-money laundering / financing of terrorism (Aviso nr. 2/2018).

15 March 2021

SIGNED ON THE ORIGINAL

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

Legal Certification of the Accounts (Individual)

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A.
Edifício FPM41 – Avenida Fontes Pereira de Melo, 41 – 15º
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 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 2020 (showing a total of 1,930,220 thousand euros and total equity of 211,725 thousand euros, including a profit for the year of 285 thousand euros), 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 2020 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.

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><th colspan="2">Mortgage credit concession (527,276 thousand euros)</th></tr>
<tr><td colspan="2">As at 31 December 2020, the caption Loans to clients (mortgage and overdrafts) amounts to 527,276 thousand euros, as disclosed in note 14 of the accompanying notes to the financial statements, representing approximately 27% of total assets. This caption includes the amount of 525,083 thousand euros 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 objectives defined for the management, the weight of this area in the operational activity of the Bank and the context of economic uncertainty associated with COVID-19, 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 Entity's 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;
– Analysis of the documentation that supports the credit analysis, on a sample basis and the accounting records of the loans, including the contract deeds;</td></tr>
</table>

KPMG

	– Testing of interest of the period and accrued interest; – Evaluated the adequacy of the disclosures made in the financial statements, in accordance with applicable accounting rules.

321 Credito Investment recoverability (144,692 thousand euros)	
As at 31 December 2020, as disclosed in note 19 of the accompanying notes to the financial statements, the caption Investments in subsidiaries and associated companies amounts to 144,692 thousand euros, of which 136,639 are attributable to the subsidiary 321 Crédito – Instituição Financeira de Crédito, S.A. ("321 Crédito"), whose acquisition occurred in May 2019.	
Risk	**Our Response**
As referred in note 19, in May 2019 Banco CTT acquired 321 Crédito – Instituição Financeira de Crédito, S.A., by the amount of 110,782 thousand euros. The monitoring of the budget and business plan approved by the shareholder is relevant, particularly the impact of current market conditions resulting from the COVID-19 pandemic, particularly with regard to the production of new contracts and the credit portfolio loss ratio, and any adjustments to the plan in the shareholder capital requirements and in the dividend distribution capacity. Considering the investment amount in 321 Crédito, the monitoring of its business plan and underlying assumptions is relevant in the audit process. The evolution of the economic environment, as well as the control and monitoring of the spread of COVID-19 and the respective effects	Our procedures included, among other: – Evaluation of the design and implementation of key controls performed by the Entity related to the Business Plan approval and related assumptions. – Evaluation of the valuation methodology used, having involved our valuation specialists for this purpose. – Analysis of the computation performed by the Entity regarding the recoverable amount of its investment in 321 Crédito and the main assumptions considered in the impairment model, namely: i) the discount rate; ii) the perpetuity growth rate; iii) the Core Tier 1 requirements considered for the computation of profits available for distribution; iv) dividends distributed and capital increases. Our specialists were involved in the execution of this analysis.

may create greater pressure on the results of 321 Crédito.	– Comparison of the financial projections with the budget plan approved. – Discuss with management the future expectations, namely in relation to credit concession, forms of financing and expected profitability. – Performance of sensitivity to the main assumptions applied; and – We assessed the adequacy of the respective disclosures in the financial statements, in accordance with the applicable accounting framework.

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 the 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 with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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.

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. We were reappointed as auditors of the Entity in the shareholders general assembly held on 25 June 2019 for a second mandate from 2019 to 2020.
- 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 2021.
- 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:
    - Report, according to the terms of Instruction nr. 5/2013 from the Bank of Portugal, regarding the impairment of the credit portfolio.
    - Opinion, according to the terms of paragraph b) of nr. 5 of article 25 of Aviso nr. 5/2008 from Bank of Portugal, regarding the internal control system of the Entity.
    - Technical support rendered with the objective to support the Opinion given by the Audit Committee of Banco CTT over the internal control system, in accordance with paragraph a) of nr. 5 of article 25 of Aviso nr. 5/2008 from Bank of Portugal.

15 March 2021

SIGNED ON THE ORIGINAL

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

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CORPORATE GOVERNANCE REPORT

7

With responsibility
and solidarity,
Banco CTT raised
its social impact.

Table of Contents

A. Shareholder Structure

I. Capital Structure

The share capital of Banco CTT, S.A. ("Bank" or "Banco CTT") is 296,400,000.00 euros, fully underwritten and paid-up, represented by 296,400,000 ordinary registered, book-entry shares, with no nominal value (where there are no different categories of shares).

During 2019, the Bank registered two share capital increases, fully underwritten and paid up in cash by the sole shareholder CTT-Correios de Portugal, S.A. ("CTT"), on 26 April (from 156,400.00 euros to 266,400.00 euros) and on 23 December 2019 (from 266,400.00 euros to 286,400.00 euros).

After the close of the 2020 financial year, the Bank recorded a capital increase, also fully subscribed and paid up by the sole shareholder, on 25 January 2021, from 286,400.00 euros to 296,400.00 euros.

As mentioned above, the Bank's shares are entirely held by 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 the Bank's and CTT's shares are freely transferable, 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 Companies 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 previously 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 2020 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 2020, 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 2020 for the purposes of Article 447 of the Portuguese Companies Code ("CSC"), in its current version.

Also under Article 447(5) of the CSC, during 2020 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//2019 (d)	Date	Acquisition	Encumbrance	Divestment	Price	No. of Shares as at 31//2020 (d)
João de Almada Moreira Rato	-	-	-	-	-	-	-
Luís Maria França de Castro Pereira Coutinho	500	-	-	-	-	-	500
João Maria de Magalhães Barros de Mello Franco	-	-	-	-	-	-	-
Pedro Rui Fontela Coimbra	-	-	-	-	-	-	-
Nuno Carlos Dias dos Santos Fórneas	-	-	-	-	-	-	-
Luís Jorge de Sousa Uva Patrício Paúl (b)	-	-	-	-	-	-	-
João Manuel de Matos Loureiro	-	-	-	-	-	-	-
Clementina Maria Dâmaso de Jesus Silva Barroso	-	-	-	-	-	-	-
Susana Maria Morgado Gomez Smith	-	-	-	-	-	-	-
António Pedro Ferreira Vaz da Silva	3,500	Annex II	Annex II	-	-	Annex II	7,000 (e)
Guy Patrick Guimarães de Goyri Pacheco	6,000	Annex II	Annex II	-	-	Annex II	8,000 (e)
António Emídio Pessoa Corrêa d'Oliveira (c)	20,000	Annex II	Annex II	-	-	Annex II	25,000 (e)

Statutory Auditor	No. of Shares as at 31//2019 (d)	Date	Acquisition	Encumbrance	Divestment	Price	No. of Shares as at 31//2020 (d)
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) Elected Member of the Board of Directors on 15 June 2020, with duties commencing on 22 June 2020, when he was appointed Member of the Executive Committee.
c) On 24 January 2020, António Emídio Pessoa Corrêa d'Oliveira ceased to hold the position of Member of the Board of Directors and of the Executive Committee (CFO) at Manuel Champalimaud, SGPS, S.A., which, by this means and until that date, was considered to be a person/entity closely related to António Emídio Pessoa Corrêa d'Oliveira. Between 1 January and 24 January 2020, Manuel Champalimaud, SGPS, S.A. did not carry out any transactions with shares representing the share capital of companies in a control or group relationship with the Bank.
d) Transaction in question conducted in a regulated market on shares of CTT – Correios de Portugal, S.A.
e) Annex II presents the details relative to the acquisitions and/or divestments made in 2020, as disclosed to the Company.

In 2020 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, elected at the General Meeting. Pursuant to that same provision, the Chairman of the Board of the General Meeting is assisted by the Secretary of the Company, duties performed in 2020 and currently by Catarina Morais Bastos Gonçalves de Oliveira. As at 31 December 2020, the Chairman of the Board of the General Meeting was Afonso Galvão Mexia de Almeida Fernandes, appointed for the term of office 2019/2021 at the General Meeting of 13 September 2019.

The Bank's Selection and Salary Committee, resulting from the merger of the previous Selection Committee and Salary Committee, was set up at the General Meeting of 13 September 2019 and its members elected for a term of office coinciding with that of the corporate bodies (2019/2021). On 15 June 2020, following the resignation submitted by António Sarmento Gomes Mota and José Manuel Baptista Fino from their positions on the Bank's Selection and Salary Committee, the sole shareholder resolved to elect Raúl Catarino Galamba de Oliveira and Maria da Graça Farinha de Carvalho to replace the resigning members in the exercise of the functions of Chairman and Member of the Bank's Selection and Salary Committee, respectively, until the end of the current mandate.

In this context, the Bank's Selection and Salary Committee had, as at 31 December 2021, the following composition:

Members	Position
Raul Catarino Galamba de Oliveira	Chairman
João Afonso Ramalho Sopas Pereira Bento	Member
Maria da Graça Farinha de Carvalho	Member

Pursuant to the Policy on Selection and Assessment of the Adequacy of the Members of the Management and Supervisory Bodies and of the Holders of Key Position, as approved in the General Meeting of 24 August 2015, amended by the same body on 10 March 2016 and subsequently amended by the Board of Directors and the General Meeting on 22 and 24 January 2019, respectively ("Selection Policy"), with the Banco CTT Group Remuneration Policy approved by the Board of Directors and by the Selection and Salary Committee on 27 April and 30 June 2020, respectively, ("Remuneration Policy") and its internal Regulation, all in force on 31 December 2020, the Selection and Salary Committee is responsible for, in particular:

- Identifying, selecting and recommending possible members of management and supervisory bodies and holders of key positions, checking whether these candidates meet the necessary adequacy requisites (both individual and collective);
- Preparing the individual and collective adequacy assessment and reassessment models, preparing the adequacy assessment and reassessment reports and preparing the processing of requests for authorisation and registration with the Bank of Portugal;
- Ensuring the representation of men and women and the diversity of qualifications and skills, professional experience, age and geographical origin necessary for the performance of their duties;
- Periodically reviewing the Selection Policy;
- Assessing, with the defined periodicity, the structure and dimension of the management and supervisory bodies, their suitability, professional qualifications, independence, diversity and availability, as well as the performance in terms of suitability of its members and the holders of of key positions;
- Assessing and discussing the annual training plan with the competent bodies and committees;

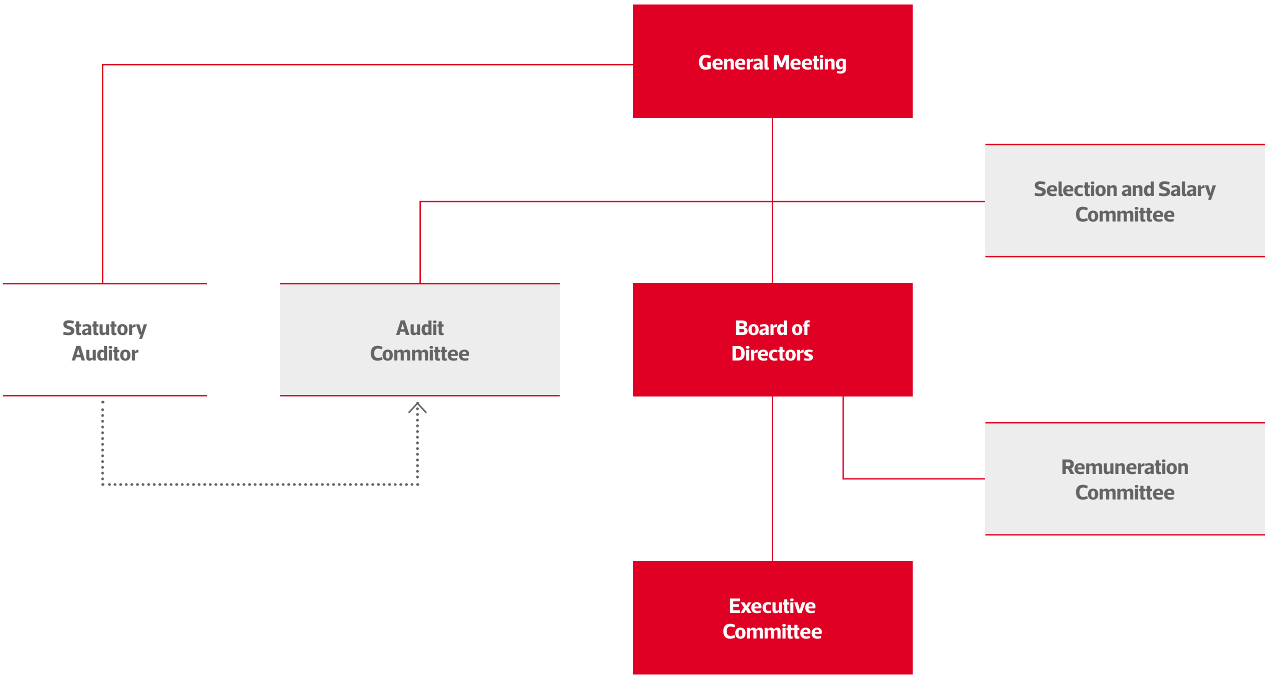
- Establishing the remuneration of the members of the Board of the General Meeting, the Board of Directors, the Audit Committee and the Statutory Auditor;

- Approving and reviewing at least annually the Remuneration Policy, namely defining its various components and possible benefits.

II. Management and Supervision

1) Adopted governance model

Banco CTT has adopted a governance model of Anglo-Saxon nature, according to which the Board of Directors is responsible for the Company's administration, and the Audit Committee (composed of non-executive and independent Directors) and the Statutory Auditor are responsible for its supervision.



This model has implemented a number of good governance practices and an appropriate and effective organisational culture, in line with the Bank's specific characteristics (namely its dimension and activity), as described in this Report, promoting sound and prudent management, the effective performance of functions and coordination of corporate bodies, the smooth operation of a checks and balances system and the accountability of management to its stakeholders.

In this regard, the General Meeting is responsible for: (i) electing the members of the 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 results and (iv) deliberating on amendments to the Articles of Association; and (iv) establishing the remuneration of the members of the corporate bodies or, alternatively, establishing a Selection and Salary Committee and electing its members. In this sense, the General Meeting established, on 13 September 2019, a Selection and Salary Committee composed of three independent members, under the terms of the Bank's Selection Policy, and which is also responsible for identifying, selecting and assessing the adequacy of persons to be appointed as members of the management and supervisory bodies and holders of key functions of the Bank (as described in point B.I. above).

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 point 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 effectiveness of the internal control, risk management and internal audit systems (as described in point B.III. below).

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

2) Board of Directors and internal committees

Pursuant to the Bank's Articles of Association, the Board of Directors is composed of 7 to 12 members and the Executive Committee is composed of 3 to 5 Directors, appointed for three-year terms of office.

The Company's Board of Directors in office as at 31 December 2020 was composed of the following 12 Directors, appointed for the term of office of 2019/2021, whose curricula are presented in Annex I attached herewith:

Members	Board of Directors	Executive Committee	Audit Committee	Independent [1]
João de Almada Moreira Rato	Chairman			Yes
Luís Maria França de Castro Pereira Coutinho	Member	Chairman (CEO)		
João Maria de Magalhães Barros de Mello Franco	Member	Member (CCO)		
Pedro Rui Fontela Coimbra	Member	Member (CFO)		
Nuno Carlos Dias dos Santos Fórneas	Member	Member (CIO)		
Luís Jorge de Sousa Uva Patrício Paúl (2)	Member	Member (CRO)		
João Manuel de Matos Loureiro	Member		Chairman	Yes
Clementina Maria Dâmaso de Jesus Silva Barroso	Member		Member	Yes
Susana Maria Morgado Gomez Smith	Member		Member	Yes
António Pedro Ferreira Vaz da Silva	Member			
Guy Patrick Guimarães de Goyri Pacheco	Member			
António Emídio Pessoa Corrêa d'Oliveira	Member			

1) According to the criteria established in Article 414(5) of the CSC (applicable by virtue of Article 31-A(3) of the RGICSF).
2)Elected Member of the Board of Directors on 15 June 2020, with duties commencing on 22 June 2020, when he was appointed Member of the Executive Committee.

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 andaccounts;

b) Defining the strategic guidelines (including the approval of the strategic plans, activities and businesses), policies and the Bank's corporate structures;

c) Approving the budgets and investment and financial plans;

d) Passing resolutions on merger, demerger and transformation projects, important expansions or down-sizing of the Bank's operations, the establishment, termination or amendment of any partnership, cooperation, sharing or joint venture agreements that are long-lasting and important;

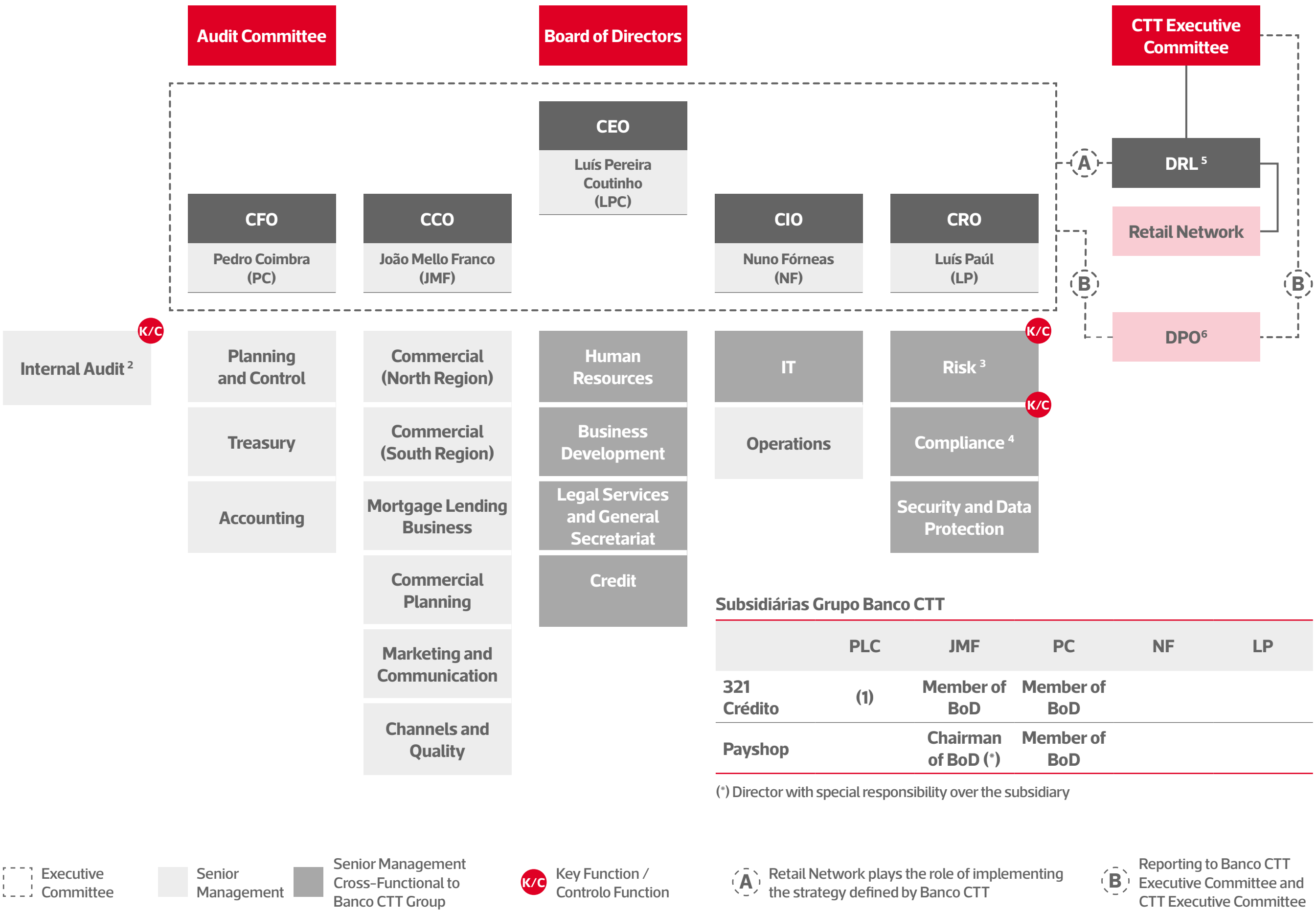
e) Supervising and ensuring the Bank is equipped with effective systems for internal control and internal audit and for information processing and disclosure and compliance with information duties with the Bank of Portugal, as well as risk identification, management, control and communication processes;

f) 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

g) Appointing and removing those responsible for compliance and internal audit, under recommendation of the Selection and Salary Committee and upon prior assessment of the Audit Committee, as well as stipulating their remuneration and assessing the performance of those responsible for compliance and internal audit, under proposal of the Remuneration Committee and upon prior assessment of the Audit Committee. In this regard, it should be noted that, following the appointment of a new person responsible for risk management control, in December 2020, the Internal Regulation of the Board of Directors will be adjusted taking into account this new reality.

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 and others detailed in the Internal Regulation of the Board of Directors, the matters set out in the subparagraphs of the preceding paragraph, as well as acts and operations that give rise to liabilities/obligations for the Bank above certain thresholds.

As at 31 December 2020, the areas of responsibility of the Bank's Executive Committee and its organisational structure were distributed as follows:



Subsidiárias Grupo Banco CTT

	PLC	JMF	PC	NF	LP
321 Crédito	(1)	Member of BoD	Member of BoD		
Payshop		Chairman of BoD (*)	Member of BoD		

(*) Director with special responsibility over the subsidiary

1 Special Project Units may be created by decision of the Executive Committee when projects are approved that, due to their complexity and duration, justify it.
2 The Head of Internal Audit is responsible for the Internal Audit Control Function of Banco CTT and its subsidiaries, without prejudice to the possible existence of Internal Audit heads at the level of each of the subsidiaries.
3 The Head of Risk is responsible for the Risk Management Control Function of Banco CTT and its subsidiaries, without prejudice to the possible existence of Risk Management heads at the level of each of the subsidiaries.
4 The Head pf Compliance is responsible for the Compliance Control Function of Banco CTT and its subsidiaries, without prejudice to the possible existence of Compliance heads at the level of each of the subsidiaries.
5 DRL-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 Executive Committee areas and control positions.
6 DPO-Data Protection Officer of CTT Group.

After defining the governance model, the Bank's Board of Directors created six 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 Capital and Risk Committee, the Commercial and Product Committee, the Credit Committee, the Technology and Operational Efficiency Committee, the Costs and Investments Committee and the Internal Control Committee.
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 2020, the existing Committee structure, both in terms of the Bank's Executive Committee and regarding governance of the partnership with CTT, was as follows:

Committees supporting the Executive Committee	Capital and Risk Committee
	Commercial and Product Committee
	Credit Committee
	Technology and Operational Efficiency Committee
	Costs and Investments Committee
	Internal Control Committee
Committees governing the partnership with CTT	Partnership Governance Committee
	Business Coordination Committee
	Shared Services Committee

The Bank also has a Remuneration Committee, created and appointed by the Board of Directors, whose composition and powers are presented in section D. II. below.

III. Oversight

Pursuant to the Bank's Articles of Association, the Audit Committee is composed of 3 directors, one of which will be its Chairman. All are elected at the General Meeting (for the current 3-year term of office), together with all the other Directors. 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 2020, was composed of the following members (appointed for the term of office 2019/2021):

Members	Position
João Manuel de Matos Loureiro	Chairman
Clementina Maria Dâmaso de Jesus Silva Barroso	Member
Susana Maria Morgado Gomez Smith	Member

All the members referred to above are independent, pursuant to Article 414(5) of the CSC, by virtue of Article 31-A(3) 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 one member has accounting knowledge.

The Audit Committee was entrusted by law, the Articles of Association and its Internal Regulation in force on 31 December 2020 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) Supervising the activity of the Control Functions and making a prior assessment of the appointment, dismissal, remuneration and performance evaluation of those responsible for compliance and internal audit - it should be noted that, following the appointment of a new head of risk management control in December 2020, the Internal Regulations of the Audit Committee should be adjusted taking this new reality into account;

b) Overseeing the implementation of the Bank's strategic objectives, the strategy on risk and internal governance and, at least annually, assessing their efficacy;

c) Supervising the Bank's policy and processes of identification, management, control and communication of risks;

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

e) Being informed and taking account of the communications of irregularities presented, namely through the Ethics Channel, and participate in or accompany the decisions taken by the Ethics Forum concerning the same;

f) 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;

g) 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;

h) 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

i) 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 2019 and for the term of office 2019/2020, KPMG & Associados, SROC, S.A. ("KPMG"),Audit 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 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 amended accordingly.

Notwithstanding the above, by unanimous resolution passed in writing by the sole shareholder on 30 July 2020, Ernst & Young Audit & Associados - SROC, S.A., Audit Firm No. 178, represented by Sílvia Maria Teixeira da Silva, Statutory Auditor No. 1636, and Ana Rosa Ribeiro Salcedas Montes Pinto, Statutory Auditor No. 1230, as the Bank's Alternate Statutory Auditor, was elected for the new mandate corresponding to 2021-2023 (resolution which took effect on 1 January 2021) as the Bank's Statutory Auditor.,

The election of the Statutory Auditor for the new term of office was preceded by a selection process, initiated in 2019, by the Audit Committee, due to the start of the selection process of the Statutory Auditor conducted by the sole shareholder, CTT - Correios de Portugal, S.A., as the maximum number of terms of office legally established for the exercise of statutory audit functions by the same Statutory Auditor in CTT - KPMG - had been exceeded. Although, in the case of the Bank, a new KPMG mandate could be accommodated by the aforementioned mandate limit, it was found that there would be efficiency gains if Banco CTT's Statutory Auditor and CTT's Statutory Auditor were the same entity, given that the Bank is part of the CTT Group, at which level the consolidation of accounts is performed.

Accordingly, the Bank's Audit Committee began a process of selecting the Statutory Auditor for the 2021/2023 term of office, with the support of a Monitoring and Analysis Committee set up for this purpose, having analysed and assessed the quality of the proposals received, and as a result, submitted the corresponding proposal to the sole shareholder, under its powers.

The rules to be followed in engaging audit services and non-audit services from the Statutory Auditor are set out in the Policy for the Selection, Appointment and Evaluation of Statutory Auditors (ROC) and Audit Firms (SROC) and for the engaging of services from the Statutory Auditor/Audit Firm ("Statutory Auditor Selection Policy") approved by the General Meeting of Banco CTT on 3 July 2020, following the recommendation issued by Banco de Portugal expressed in the Circular Letter of 23 March 2020 (ref. CC/2020/00000020) and in line with the provisions of Regulation (EU) 537/2014 of the European Parliament and of the Council of 16 April 2014, which determines the requirements applicable to statutory audits of public interest entities, in Law 140/2015 of 7 September, which approved the Statutes of the Portuguese Institute of Statutory Auditors, and Law 148/2015 of 9 September, which establishes the Legal Framework for Audit Supervision.

In 2020, the Banco CTT Group hired KPMG to carry out the following non-audit services (considering the understanding expressed by the CMVM on 9 September 2019 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 2020":

- Limited review of the financial statements of Banco CTT and 321 Crédito, Instituição Financeira de Crédito, S.A. ("321 Crédito") for the period ended on 30 June 2020;

- Assessment of the adequacy of the process for quantifying the impairment of the Bank and 321 Crédito's loan portfolio and the reasonableness of individual and collective impairment under Bank of Portugal Instruction 5/2013, including an additional chapter, at the request of Banco de Portugal, on the effects that may arise from the termination of credit moratoria, in the context of the current economic crisis caused by the Covid-19 pandemic;

- Technical support to the supervisory bodies of the Bank, Payshop (Portugal), S.A. ("Payshop") and 321 Crédito in the evaluation of the internal control system foreseen in Article 25(5)(a) of Banco de Portugal Notice 5/2008, on an individual and consolidated basis;

- Issue of the opinion of the Statutory Auditor defined under the terms of Article 25(5)(b) of Banco de Portugal Notice 5/2008, regarding the internal control system of the Bank, Payshop and 321 Crédito and, under the terms of Article 26(4)(c) of Banco de Portugal Notice 5/2008, of the Banco CTT Group.

- Technical support to the supervisory bodies of the Bank, Payshop and 321 Crédito regarding the adequacy and effectiveness of the internal control system for the prevention of money laundering and terrorism financing, reported as at 31 December 2019, required by Banco de Portugal Notice 2/2018;

- Technical support to the Bank in the remediation of monitoring alerts within the scope of the prevention of money laundering and financing of terrorism ("PBCFT"), through the definition of the alert remediation strategy and the provision of remediation support services in a secondment format;

- Technical support to the management and supervisory bodies and to the control functions of the Bank and 321 Crédito in the process of preparing the self-assessment reports and issuing the corresponding opinions (at individual and group level) required by Banco de Portugal Notice 3/2020 and Instruction 18/2020.

Under the terms of the Statutory Auditor Selection Policy, the Bank's Audit Committee is responsible for assessing requests to engage non-audit services from the Statutory Auditor, and their engagement is subject to the prior approval of that body and conditioned, as applicable, to the prior approval by the Supervisory Bodies of its (their) parent company(ies) and the entity(ies) under its control that are Public Interest Entities, procedures that were adopted in the engaging of the non-audit services in 2020 indicated above , having thus been analysed and confirmed, in particular, the following aspects: (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 CTT Group companies 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 issue of the opinion of the statutory auditor regarding the internal control system as required by Banco de Portugal Notice 5/2008 and the assessment of the adequacy of the process of quantification of the impairment of the loan portfolio, as required by Banco de Portugal Notice 5/2013,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. As a result, the Bank considers itself exempt, in relation to this service, from carrying out the necessary tests and checks for purposes of assessment of independence and objectivity for legal review of accounts to be carried out by the Statutory Auditor.

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 2020, relative to Banco CTT, Payshop and 321 Crédito, as entities that are fully part of the Group:

(amounts in euros)

	Engaged Services [1]		Accounted Services [2]		Paid Services [3]	
	Amount (€)	%	Amount (€)	%	Amount (€)	%
By the Company	**225,804**	**81%**	**442,514**	**71%**	**492,523**	**72%**
Value of the audit services	24,600	9%	209,795	33%	270,114	40%
Value of the reliability assurance services	147,797	53%	182,510	29%	156,702	23%
Value of the tax advisory services	-	0%	-	0%	-	0%
Value of non-audit services	53,407	19%	50,209	8%	65,707	10%
By entities that are part of the Group[4]	**52,633**	**19%**	**184,642**	**29%**	**188,092**	**28%**
Value of the audit services	-	0%	74,720	12%	92,644	14%
Value of the reliability assurance services	19,804	7%	77,216	12%	83,148	12%
Value of the tax advisory services	-	0%	-	0%	-	0%
Value of non-audit services	32,829	12%	32,706	5%	12,300	2%
TOTAL	**278,437**	**100%**	**627,156**	**100%**	**680,615**	**100%**
Value of the audit services	***24,600***	***9%***	***284,515***	***45%***	***362,758***	***53%***
Value of non-audit services	***253,837***	***91%***	***342,641***	***55%***	***317,857***	***47%***

[1] *Includes VAT at the legal rate in force.*
[2] *Includes invoiced values and specialised values in the year.*
[3] *The paid services refer to services hired in 2020 as well as in previous years whose conditions of payment occurred in 2020.*
[4] *Payshop and 321 Crédito.*

C. Internal Organisation

I. Articles of Association

The definition of the Bank's Articles of Association (available on the Bank's website www.bancoctt.pt and their amendment are entrusted to the General Meeting.

II. Reporting of Irregularities

The RGICSF and the European Banking Authority (EBA) Guidelines on Internal Governance (EBA/GL/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.

As at 31 December 2020, the Bank has a Whistleblowing Policy (resulting from the review, on 1 April 2019, of the previously named Policy for Communication of Irregularities) 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 of the Banco CTT Group and by any stakeholders, namely shareholders, partners, suppliers, service providers or customers, through the "Channel of Ethics". The Whistleblowing Model, through the Channel of Ethics, guarantees the confidentiality of the communications received and the protection of the personal data of the whistleblower and suspect, pursuant to applicable legislation. On the other hand, the Group may not dismiss, threaten, suspend, reprimand, harass, withhold or suspend payments of salaries and/or benefits, or take any retaliatory action against anyone legally reporting an irregularity or providing any information or assistance in the investigation of the reports of irregularities presented and these reports may not in themselves serve as grounds for any disciplinary, civil or criminal proceedings against the whistleblower, unless they are deliberate and manifestly unfounded.

In 2019, the Manual on Handling of Reports of Irregularities - Channel of Ethics was also created, which aims to define and detail the process and the responsibilities in the context of the handling of reports of irregularities. The Manual is divided into three parts, the first part refers to sorting, the second part refers to the handling of reports of irregularities concerning harassment and discrimination and the third part refers to the treatment of the remaining irregularities covered by the Whistleblowing Policy.

Under the terms of the identified Policy, the Audit Committee delegated to the Compliance Department support functions related to the management of the Channel of Ethics and to the Ethics Forum the handling of reports of irregularities in matters of its competence, being, in any case, that supervisory body responsible for the reception and registration of the reports, as well as the final decision regarding the filing or adoption of other measures.

On 9 March 2020, the Audit Committee approved the amendment of the Ethics Forum Regulation and its composition, which now includes not only the Compliance, Internal Audit and Risk Directors, but also a member of the Audit Committee, appointed by the latter, who chairs the Forum and has a casting vote. On the same date, the Audit Committee appointed its Member Susana Maria Gomez Smith as member of the Audit Committee to integrate and chair the Ethics Forum.

The Whistleblowing Policy further establishes that, without prejudice to other reporting duties established by law: (i) the Audit Committee or any member of the management or supervisory bodies, as well as the holders of qualified holdings, shall immediately report to Banco de Portugal any serious irregularity of which they become aware relating to the management, accounting organisation and internal auditing of the Bank and which is likely to place it in a situation of financial imbalance; and (ii) employees of the areas responsible for control functions (internal audit, risk management and compliance) shall report to the Audit Committee any serious irregularity of which they become aware related to the management, accounting organisation and internal supervision of the Bank or indications of breaches of duties established in the RGICSF or Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June, which is likely to place it in a situation of financial imbalance.

During 2020, a total of 6 reports were received in the Ethics Channel, of which 3 were customer complaints that were forwarded to the Complaints Management area and dealt with as such and 3 related to fraud that were dealt with by the Fraud Area. Therefore, none of the submissions received fall within the scope of the Whistleblowing Policy.

Although no reports of irregularities were received through the Ethics Channel, the Ethics Forum became aware of and analysed a report received by Banco CTT's Fraud Area through an anonymous complaint made by letter to CTT, which culminated in the closure of the case, without any evidence of financial irregularities having been identified within the scope of the investigation procedures carried out by Banco CTT.

III. Internal Control and Risk Management

From the outset, Banco CTT's management and supervisory bodies have attributed a structural importance to its internal control, risk management and internal audit systems. On this issue, please see the section above of this Annual Report entitled "Internal Control System" and "Risk Management".

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

In the context of the entry into force of Banco de Portugal Notice 3/2020 and Instruction 18/2020, a project was launched to implement various initiatives, at Group level, with a view to full compliance with the requirements set out in these regulations, with the intervention of various areas of the Bank, in particular the Internal Control Functions, and was closely monitored by the Bank's management and supervisory bodies.

As this is a project promoted by the Group, the Bank, as the parent company, issued the necessary instructions for its subsidiaries to ensure compliance with the provisions of the regulations and continuously monitored the activities undertaken, to ensure the consistency of the Group's internal control and corporate governance systems.

IV. Investor Support

Because it is not a listed company with shares listed for trading, Banco CTT does not have an investor support office.

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. Remuneration

I. Power to Establish

Pursuant to the Bank's Articles of Association, the General Meeting or Remuneration Committee elected by the General Meeting are competent to determine the remunerations of corporate body members. In the General Meeting held on 13 September 2019, a Bank Selection and Salary Committee was elected, resulting from the merger of the former Selection Committee and Salary Committee.

The General Meeting and the Selection and 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 2020:

Members	Position
João de Almada Moreira Rato	Chairman
Clementina Maria Dâmaso de Jesus Silva Barroso	Member
Susana Maria Morgado Gomez Smith	Member

Under its Internal Regulation in force on 31 December 2020, this Committee is responsible, among other aspects, for:

- Preparing proposals and recommendations for General Meeting decisions on matters of remuneration of governing 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 policies and decisions affecting the Bank's risk and risk management;

- At least once a year, analysing and assessing the remuneration policies of the members of the corporate bodies and relevant employees and their implementation, in particular their effect on risk, capital and liquidity management of the institution, namely with the aim of verifying compliance with the remuneration policies and procedures adopted by the competent corporate body, ensuring that (i) they are effectively applied and comply with the legislation and regulations in force and that (ii) the allocation and payment of remuneration are appropriate and that the risk profile and long-term objectives of the institution are adequately reflected;

- At least once a year, reviewing and assessing the remuneration policies and remuneration practices of employees and multi-employer staff engaged in the marketing or provision of banking products and services to consumers, in particular to ensure that remuneration policies do not prevent employees from acting honestly, fairly, transparently and professionally, taking into account the rights and interests of consumers;

- Preparing proposals and recommendations to the competent bodies regarding the definition, calculation and payment of the fixed and variable remuneration and other benefits of the members of the corporate bodies and relevant employees in accordance with the remuneration policies and the legislation and regulations in force;

- Preparing and presenting to the competent corporate bodies the performance evaluation model concerning the variable component of remuneration and proposals regarding the evaluation of the fulfilment of the objectives in light of said model.

III. Remuneration Disclosure

The following tables indicate the gross remuneration payable, with reference to the period from 1 January 2020 to 31 December 2020, to the members of the Board of Directors and of the Audit Committee, on an aggregate and individual basis; during 2020, the member of the Board of Directors and of the Executive Committee Luís Jorge de Sousa Uva Patrício Paúl began his duties on 22 June 2020:

Remuneration of the non-executive members of the Board of Directors and Audit Committee

(amounts in euros)

Members	Position	Fixed Remuneration (1)
João Manuel de Matos Loureiro	Non-Executive Director and Chairman of the Audit Committee	89,999.98
Clementina Maria Dâmaso de Jesus Silva Barroso	Non-Executive Director, Member of the Audit Committee and Member of the Remuneration Committee	65,000.04
Susana Maria Morgado Gomez Smith	Non-Executive Director, Member of the Audit Committee and Member of the Remuneration Committee	65,000.04
Total of the Audit Committee		**220,000.06**
João de Almada Moreira Rato	Chairman of the Board of Directors and of the Remuneration Committee	124,999.98
António Pedro Ferreira Vaz da Silva	Non-Executive Director	No remuneration paid by the Bank
Guy Patrick Guimarães de Goyri Pacheco	Non-Executive Director	No remuneration paid by the Bank
António Emídio Corrêa d'Oliveira	Non-Executive Director	50,000.02
Total of the Remuneration of the Non-Executive Directors who are not part of the Audit Committee		**175,000.00**
Total Non-Executive Directors		**395,000.06**

(1) Amount of fixed remuneration of the Non-Executive Directors and members of the Audit Committee, who do not earn any variable remuneration in accordance with the Remuneration Policy in force as at 31 December 2020

Remuneration of Executive Committee members in 2020

(amounts in euros)

Members	Position	Fixed Remuneration (1)	Variable Remuneration paid in 2020 (2)	Deferred Variable Remuneration payable in 2021 (2)	Deferred Variable Remuneration payable in 2022 (2)	Deferred Variable Remuneration payable in 2023 (2)	Total Variable Remuneration awarded in 2020 (2)	Total Fixed Remuneration 2020 and Variable 2019 paid in 2020	Total Remuneration awarded in 2020
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	399,697.50	-	-	-	-	-	399,697.50	399,697.50
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CCO)	217,371.26	25,714.71	8,571.57	8,571.57	8,571.57	51,429.42	243,085.97	268,800.68
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	217,010.31	25,714.71	8,571.57	8,571.57	8,571.57	51,429.42	242,725.02	268,439.73
Nuno Carlos Dias dos Santos Fórneas	Member of the Executive Committee (CIO)	217,528.23	8,752.53	2,917.51	2,917.51	2,917.51	17,505.07	226,280.76	235,033.30
Luís Jorge de Sousa Uva Patrício Paúl	Member of the Executive Committee (CRO) since 22.06.2020	118,721.51	-	-	-	-	-	118,721.51	118,721.51
Total of the Executive Committee		**1,170,328.81**	**60,181.95**	**20,060.65**	**20,060.65**	**20,060.65**	**120,363.91**	**1,230,510.76**	**1,290,692.72**

(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 2019.

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 paid in 2019	Deferred Variable Remuneration paid in 2020	Total Variable Remuneration
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	77,350.00	25,783.00	25,783.00	25,783.00	154,699.00
Luís Miguel Agoas Correia Amado	Member of the Executive Committee (COO)	20,257.00	6,752.00	6,752.00	6,752.00	40,513.00
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CCO)	31,333.00	10,444.00	10,444.00	10,444.00	62,665.00
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	14,670.00	4,890.00	4,890.00	4,890.00	29,340.00
Total of the Executive Committee		**143,610.00**	**47,869.00**	**47,869.00**	**47,869.00**	**287,217.00**

Variable Remuneration of Executive Committee members relative to 2017

(amounts in euros)

Members	Position	Variable Remuneration paid in 2018	Deferred Variable Remuneration paid in 2019	Deferred Variable Remuneration paid in 2020	Deferred Variable Remuneration payable in 2021	Total Variable Remuneration
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	47,513.00	15,838.00	15,838.00	15,838.00	95,027.00
Luís Miguel Agoas Correia Amado	Member of the Executive Committee (COO)	23,020.00	7,673.00	7,673.00	7,673.00	46,039.00
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CCO)	30,980.00	10,327.00	10,327.00	10,327.00	61,961.00
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	30,980.00	10,327.00	10,327.00	10,327.00	61,961.00
Total of the Executive Committee		**132,493.00**	**44,165.00**	**44,165.00**	**44,165.00**	**264,988.00**

Variable Remuneration of Executive Committee members relative to 2018

(amounts in euros)

Members	Position	Variable Remuneration paid in 2019	Deferred Variable Remuneration paid in 2020	Deferred Variable Remuneration payable in 2021	Deferred Variable Remuneration payable in 2022	Total Variable Remuneration
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	53,550.00	17,850.00	17,850.00	17,850.00	107,100.00
Luís Miguel Agoas Correia Amado	Member of the Executive Committee (COO)	17,992.80	5,997.60	5,997.60	5,997.60	35,985.60
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CCO)	39,028.50	13,009.50	13,009.50	13,009.50	78,057.00
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	39,028.50	13,009.50	13,009.50	13,009.50	78,057.00
Total of the Executive Committee		**149,599.80**	**49,866.60**	**49,866.60**	**49,866.60**	**299,199.60**

In 2020 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 2020.

Remuneration of Relevant Employees

The gross remuneration payable to Relevant Employees, with reference to the period from 1 January 2020 to 31 December 2020, as defined in the Remuneration Policy in force on 31 December 2020 (corresponding to 19 Relevant Employees of the Bank, one of whom ceased functions in March 2020, another initiated duties in May 2029 and another was elected a member of the Board of Directors and of the Executive Committee in June 2020), amounted, in aggregate terms, to 1,884,461.00 euros. The distribution of this remuneration was as follows:

Remuneration of Relevant Employees in 2020

(amounts in euros)

Relevant Employees [1]	Fixed Remuneration [2]	Variable Remuneration paid in 2020 [3]	Deferred Variable Remuneration payable in 2021 [3]	Deferred Variable Remuneration payable in 2022 [3]	Deferred Variable Remuneration payable in 2023 [3]	Total Variable Remuneration awarded in 2020 [3]	Total Fixed Remuneration 2020 and Variable 2019 paid in 2020	Total Remuneration awarded in 2020
A – Risk-Taking Officers and Control Officers (4 employees)	211,505.27	15,541.22	5,180.41	5,180.41	5,180.41	31,082.43	227,046.49	242,587.70
B – Other Senior Management Employees (19 employees) [(B)]	1,252,880.09	145,445.40	48,481.80	48,481.80	48,481.80	290,890.81	1,398,325.49	1,543,770.90
Total Relevant Employees	**1,464,385.36**	**160,986.62**	**53,662.21**	**53,662.21**	**53,662.21**	**321,973.24**	**1,625,371.98**	**1,786,358.60**

(a) Includes a Relevant Employee who ceased functions in June 2020 and was elected a member of the Board of Directors, a Relevant Employee who commenced functions in May 2020 and a Relevant Employee who ceased functions in March 2020
(b) Includes two Relevant Employees who initiated functions in January and February 2020
(1) For the purpose of defining Relevant Employees, the employees identified under the "process of identification of Relevant Employees" set out in the Remuneration Policy were considered.
(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 2019

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 paid in 2019	Deferred Variable Remuneration paid 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 (13 employees)	80,214	26,738	26,738	26,738	160,428
Total Relevant Employees	**98,907**	**32,969**	**32,969**	**32,969**	**197,814**

(1) The definition of Relevant Employees considered employees appointed by the Bank's competent corporate bodies to perform the duties in question

Variable Remuneration of Relevant Employees relative to 2017

(amounts in euros)

Relevant Employees [1]	Variable Remuneration paid in 2018	Deferred Variable Remuneration paid in 2019	Deferred Variable Remuneration paid in 2020	Deferred Variable Remuneration payable in 2021	Total Variable Remuneration
A – Risk-Taking Officers and Control Officers (3 employees)	21,631	7,210	7,210	7,210	43,261
B - Other Relevant Employees (13 employees)	99,417	33,139	33,139	33,139	198,834
Total Relevant Employees	**121,048**	**40,349**	**40,349**	**40,349**	**242,096**

(1) The definition of Relevant Employees considered employees appointed by the Bank's competent corporate bodies to perform the duties in question.

Variable Remuneration of Relevant Employees relative to 2018

(amounts in euros)

Relevant Employees [1]	Variable Remuneration paid in 2019	Deferred Variable Remuneration paid in 2020	Deferred Variable Remuneration payable in 2021	Deferred Variable Remuneration payable in 2022	Total Variable Remuneration
A – Risk-Taking Officers and Control Officers (3 employees)	20,210	6,737	6,737	6,737	40,421
B - Other Relevant Employees (13 employees)	108,020	36,007	36,007	36,007	216,041
Total Relevant Employees	**128,230**	**42,744**	**42,744**	**42,744**	**256,462**

(1) The definition of Relevant Employees considered employees appointed by the Bank's competent corporate bodies to perform the duties in question.

In 2020 there is no deferred remuneration subject to reduction as a result of adjustments made according to the individual performance of Relevant Employees.

In 2020 there were no payments due to early termination of employment contract relative to Relevant Employees.

IV. Agreements with remuneration implications

According to the Remuneration Policy, the award of variable remuneration to executive members of the Board of Directors and to Relevant Employees depends on prior written commitment by its beneficiary that this person will refrain from entering into risk hedging or risk transfer agreements in relation to any deferred portion that may minimise the risk alignment effects inherent to the framework that applies to the referenced remuneration component or through the payment of the variable remuneration component through special purpose vehicles or other similar methods.

V. Share allocation or stock option plans

Also according to the Remuneration Policy, 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 can be paid in cash and/or in the form of non-monetary benefits, namely through flexible benefits. It is the responsibility of the competent bodies to to define the method (or combination of methods, as applicable) for each period in question, without prejudice to the fact that until all or part of the variable remuneration is paid, an alternative model may be implemented as defined by the competent bodies, where half of the variable remuneration (including the deferred portion) may be paid in financial instruments and subject to a retention policy.

E. Related Party Transactions

a) Control mechanisms and procedures

According to the Conflicts of Interest and Related Parties Policy, the Executive Committee and/or the Board of Directors submits to the appreciation of the Audit Committee any transaction with a related party (understood as (i) the holders of qualified shareholdings, (ii) members of the corporate bodies and of the structure bodies; (iii) third parties related to any of these through relevant "commercial or personal interests" (pursuant to the terms in IAS 24) and also (iv) subsidiaries, associates and joint ventures. The Audit Committee's assessment is carried out at two levels:

i) Prior opinion on:

a) Significant Transactions (any Transaction with a Related Party of a value above 200,000 euros relative to a single business or to a series of business deals conducted in each economic year), except for transactions carried out between Banco CTT and subsidiaries whose capital is 100% directly or indirectly held by CTT;

b) Transactions to be entered into with members of the management bodies of Banco CTT or with relevant third parties (defined as the spouse or person living with him/her in a de facto union, relatives or kin in the 1st degree, or companies or other collective entities that one or the other directly or indirectly controls), regardless of their value, under the terms and for the purposes of Articles 397 and 423-H of the Commercial Companies Code.

ii) Subsequent appraisal: applicable to all "Transactions with Related Parties" that are not subject to a prior opinion.

The Executive Committee and/or the Board of Directors shall also submit in advance the Transactions to be entered into with the members of the management body of Banco CTT or with Relevant Third Parties, pursuant to articles 397 and 423-H of the Commercial Companies Code.

Also pursuant to these legal rules and without prejudice to the application of the other provisions of this Policy, transactions included in the Company's own business and in which no special advantage is granted to the director or person involved (as stated in the grounds presented when the decision was taken) are exempt from this provision.

In this context, the main terms and conditions, the objectives and opportunity of the business, the amount of the transaction, the contracting process, respect for the interests of the Bank, market conditions and the rules in force and other mechanisms for preventing and correcting conflicts of interest are appraised.

b) Transaction information

Relevant business transactions with related parties are described in Note 30 (Related party transactions), attached to the consolidated financial statements in the Annual Report.

Annex I

Curricula of the Management and Supervisory Body Members

João de Almada Moreira Rato
Chairman of the Board of Directors

Date of birth: 29 September 1971, Portugal
Date of 1st appointment: 13 September 2019
Term of office: 2019 / 2021

Education

- 1995 - 2000: PhD in Economics (specialising in financial subjects and economic mathematics), University of Chicago (USA)
- 1989 - 1993: Degree in Economics, Nova School of Business and Economics

Internal management and supervisory positions

- 2019 - ...: Non-executive chairman of the Board of Directors of Banco CTT, S.A.

Other Internal Positions

- 2019 - ...: Chairman of the Remuneration Committee of Banco CTT, S.A.

Professional experience

For over 20 years, he has held positions in the financial sector, including several positions in Portugal and abroad in the areas of investment banking, capital markets, public debt management, commercial banking and financial sector advisory.

He also works as a lecturer, both in Portugal and abroad, with a special focus on the financial and economic areas, and has given specialised training, especially in the areas of economics, corporate finance, financial derivatives, financial management for sovereigns and portfolio management, along this career path.

Management and supervisory positions in other companies (last 5 years)
- 2018 - 2020: Non-executive member of the Board of Directors of Omtel, Estruturas de Comunicações, S.A.

Other external positions
- 2020: Provision of services / preparation of a scientific / academic article for Springer Nature Switzerland AG
- 2016 – 2020: External Consultant / Expert at Oliver Wyman (United Kingdom and Dubai)
- 2016 - ...: Research Associate at the Systemic Risk Centre of the London School of Economics
- 2015 - ...: Senior Advisor at Morgan Stanley (United Kingdom) and Executive Director between 2010 and 2012
- 2015 - 2016: Senior Advisor at Incus Capital Advisors (Spain)
- 2014 - ...: Guest Associate Professor at Nova School of Business and Economics, Nova Law School and Nova Information Management School
- 2014: Member of the Board of Directors and Executive Committee (Chief Financial Officer) at Novo Banco, S.A.
- July 2014: Member of the Board of Directors and Executive Committee (Chief Financial Officer) at Banco Espírito Santo, S.A.
- 2012 - 2014: Chairman of the Board of Directors of IGCP (Portuguese Treasury and Public Debt Management Agency)
- 2008 - 2010: Partner in Nau Capital, head of risk and operational areas (United Kingdom)
- 2003 - 2008: Executive Director at Lehman Brothers (United Kingdom)
- 2000 - 2003: Associate at Goldman Sachs (United Kingdom)
- 1999: Lecturer at the College and Teaching Assistant on the PhD programme of the University of Chicago (USA) between 1996 and 1997.
- 1997 - 1998: Associate at Banco Bozano (Brazil)

Luís Maria França de Castro Pereira Coutinho
CEO, Chairman of the Executive Committee

Date of birth: 02 March 1962, Portugal
Date of 1st appointment: 24 August 2015 (1)
Term of office: 019 / 2021

Education

- 2015 - 2016: Training Programme for Senior Managers of Banco CTT, S.A., Institute of Bank Management
- 2001 - 2002: Senior Business Management Programme, AESE Business School
- 1979 - 1984: Degree in Economics, Universidade Católica Portuguesa

Internal management and supervisory positions

- 2015 - ...: Member of the Board of Directors and Chairman of the Executive Committee (CEO) of Banco CTT, S.A.

Other internal positions
—

Professional experience

For more than 30 years he has performed functions in various areas in the banking sector in Portugal. He has also performed executive functions of leadership and strategy in international operations, namely in Bank Millennium SA (Poland), as well as non-executive functions in several operations of the Banco Comercial Português, S.A. universe. (Greece, Romania, Turkey, United States of America and Switzerland) In Portugal, in the years before moving to Banco CTT, he performed executive management functions at Banco Comercial Português, S. A., in the areas of private and corporate banking, and digital banking at ActivoBank, S.A.

Management and supervisory positions in other companies (last 5 years)
—

Other external positions (last 20 years)
- 2012 - 2015: Member of the Board of Directors and of the Executive Committee of Banco Comercial Português, S.A.
- 2012 - 2015: Chairman of the Board of Directors of Banco ActivoBank, S.A.
- 2014 - 2015: Member of the Board of Directors of Pensões Gere – Sociedade Gestora de Fundos de Pensões, S.A.
- 2014 - 2015: Member of the Board of Directors of Millennium BCP Ageas, Grupo Segurador, SGPS, S.A.
- 2014 - 2015: Member of the Board of Directors of Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.
- 2014 - 2015: Chairman of the Board of Directors of BCP Capital - Sociedade de Capital de Risco, S.A.
- 2009 - 2015: Member of the Supervisory Board of Bank Millennium, S.A. (Poland)
- 2008 - 2015: Chairman of the Board of Directors of Banca Millennium, S.A. (Romania)
- 2017 - ...: Chairman of the Supervisory Board of the Portuguese Banking Association in representation of Banco CTT, S.A.
- 2011 - 2013: Member of the Board of Directors of Millennium Bank, S.A. (Greece)
- 2008 - 2013: Chairman of the Board of Directors of Banque Privée BCP (Suisse), S.A.
- 2008 - 2012: Member of the Executive Board of Directors of Banco Comercial Português, S.A.
- 2008 - 2012: Member of the Board of Directors of the Millennium BCP Foundation
- 2010 - 2011: Chairman of the Board of Directors of Millennium Bank, S.A. (Greece)
- 2003 - 2009: Vice-Chairman of the Executive Board of Directors of Bank Millennium, S.A. (Poland)
- 2008 - 2010: Vice-Chairman of the Board of Directors of Millennium Bank, S.A. (Greece)
- 2008 - 2010: Chairman of the Board of Directors of BCP Holdings (USA) INC.
- 2008 - 2009: Member of the Board of Directors of Banco ActivoBank, S.A.
- 2008 - 2009: Member of the Board of Directors of Millennium BCP – Prestação de Serviços, ACE
- 2003 - 2009: Member of the Supervisory Board of Millennium Lease Sp Zoo (Poland)
- 2003 - 2009: Member of the Supervisory Board of Millennium Dom Maklerski, S.A. (Poland)
- 2003 - 2009: Member of the Supervisory Board of Millennium Leasing Sp Zoo (Poland)
- 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.

(1) Date of appointment after the incorporation of Banco CTT, S.A.

João Maria de Magalhães Barros de Mello Franco
CCO, Executive Director

Date of birth: 03 March 1972, Portugal
Date of 1st appointment: 14 January 2016
Term of office: 2019 / 2021

Education

- 1998: Master in Business Administration (MBA), INSEAD (France)
- 1990 - 1995: Degree in Economics, Universidade Católica Portuguesa

Internal management and supervisory positions

- 2019 - ...: Member of the Board of Directors of 321 Crédito, Sociedade Financeira de Crédito, S.A.
- 2018-...: Chairman of the Board of Directors of Payshop (Portugal) S.A.
- 2016-...: Member of the Board of Directors and of the Executive Committee (CCO) of Banco CTT, S.A.

Other internal positions

—

Professional experience

For more than 20 years, he has held positions in sales and marketing, products and channels in the banking sector, namely coordinating consulting projects in this sector for 8 years (1995-2003 at McKinsey & Company); as a senior officer at Banco Espírito Santo, S.A. and Novobanco, S.A. for 12 years, focusing on the retail market, namely marketing, product, digital and face-to-face channels and innovation and participation in committees responsible mainly for product and risk areas. He has also held management duties in credit institutions, including as Chief Marketing Officer and Chief Risk Officer at Novo Banco, S.A.

Management and supervisory positions in other companies (last 5 years)

—

Other external positions

- 2014: Member of the Board of Directors and of the Executive Committee of Novobanco, S.A. (Chief Marketing Officer and Chief Risk Officer)
- 2008 - 2014: Non-Executive Director of the Board of Directors of Novo Banco dos Açores, S.A.
- 2014 - 2015: General Manager of Retail Banking and Remote Channels at Novobanco, S.A.
- 2013 - 2014: Coordinating 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.
- 1995 - 2003: Associate Partner at Mckinsey & Company

Pedro Rui Fontela Coimbra
CFO, Executive Director

Date of birth: 11 June 1974, Portugal
Date of 1st appointment: 04 August 2016
Term of office: 2019 / 2021

Education

- 2017: Compliance Risk Management by Euromoney (United Kingdom)
- 2006: Master in Business Administration (MBA), INSEAD (France)
- 2001 - 2003: Chartered Financial Analyst (CFA) by CFA Institute
- 1992 - 1997: Degree in Business Administration and Management, Universidade Católica Portuguesa

Internal management and supervisory positions

- 2019 - ...: Member of the Board of Directors of 321 Crédito, Sociedade Financeira de Crédito, S.A.
- 2018 - ...: Member of the Board of Directors of Payshop (Portugal) S.A.
- 2016-...: Member of the Board of Directors and of the Executive Committee (CFO) of Banco CTT, S.A.

Other internal positions

—

Professional experience

For over 20 years he has held positions essentially in the banking sector, more specifically in the finance area, as a financial analyst conducting institutional research in the banking sector, as well as positions involving the management of corporate projects related to mergers and acquisitions, asset valuation and share capital increases, at Millennium BCP. Also in that Group, he carried out duties as member of the Board of Directors and Executive Committee (CFO) at Banco Millennium BCP Angola. He was also Corporate Banking Manager of the Portuguese Branch of Barclays Bank. 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 (last 5 years)

- 2015 - 2016: Manager of Notícias Direct - Distribuição ao Domicílio, Lda.
- 2015 - 2016: Manager of Empresa Gráfica Funchalense, Lda.
- 2015 - 2016: Manager of Urcaldas - Empreendimentos Urbanísticos, Lda
- 2014 - 2016: Member of the Board of Directors and of the Executive Committee (Chief Financial Officer) of Global Notícias – Media Group, S.A.
- 2014 - 2016: Member of the Board of Directors of Global Notícias Publicações, S.A.
- 2014 - 2016: Member of the Board of Directors of Global Notícias - Agência de Informação e Imagens, S.A.
- 2014 - 2016: Member of the Board of Directors of Rádio Notícias – Produção e Publicidade S.A.
- 2014 - 2016: Manager of RJN - Rádio Jornal do Norte, Lda.
- 2014 - 2016: Manager of TSF - Rádio Jornal de Lisboa, Lda.
- 2014 - 2016: Manager of Difusão de Ideias – Sociedade de Radiodifusão, Lda.
- 2014 - 2016: Member of the Board of Directors of TSF - Cooperativa Rádio Jornal do Algarve, CRL
- 2014 - 2016: Member of the Board of Directors of Naveprinter – Indústria Gráfica do Norte, S.A.
- 2014 - 2016: Member of the Board of Directors of Açormédia - Comunicação Multimédia e Edição de Publicações, S.A.
- 2014 - 2016: Manager of Jornal do Fundão Editora, Lda.

Other external positions

- 2011 - 2014: Corporate Banking Manager of the Portuguese Branch of Barclays Bank
- 2009 - 2011: Member of the Board of Directors and Executive Committee (CFO) at Banco Millennium,..
- 2007 - 2009: Director at the Corporate Centre at Banco Millennium BCP

Nuno Carlos Dias dos Santos Fórneas
CIO, Executive Director

Date of birth: 24 February 1967, Portugal
Date of 1st appointment: 13 September 2019
Term of office: 2019 / 2021

Education

- 1999: Strategic Management in Banking by INSEAD
- 1994 - 1995: Master in Business Administration (MBA), Institute of Economics and Management of Universidade Técnica de Lisboa
- 1984 - 1989: Degree in Electrical and Computer Engineering, Instituto Superior Técnico, Universidade Técnica de Lisboa

Internal management and supervisory positions

- 2019 - ...: Member of the Board of Directors and of the Executive Committee (CIO) of Banco CTT, S.A.

Other internal positions

—

Professional experience

For over 30 years, he has developed his professional career in the areas of systems engineering, process and systems consulting and the development of solutions and information technologies (particularly in the financial sector, in Portugal and abroad, with emphasis on Spain and the United Kingdom).

The technical and management skills developed, as well as the professional experience of more than 17 years in executive management positions, with emphasis on the positions held in the Novabase and Glintt Groups, are also noteworthy.

Management and supervisory positions in other companies (last 5 years)

- 2018: Head of the Advanced Analytics Competence Center at the National Association of Pharmacies (ANF)
- 2017 – 2018: Member of the Board of Directors and of the Executive Committee at Glintt – Global Intelligent Technologies, S.A.
- 2017 - 2018: Member of the Board of Directors of Glintt UK, Limited
- 2017 - 2018: Member of the Board of Directors of Glintt Ireland Solutions, Limited
- 2016 - 2018: Member of the Management Board of Glintt - Business Solutions, Lda.
- 2016 - 2018: Member of the Board of Directors of Glintt – Healthcare Solutions, S.A.
- 2014 - 2016: Manager of Livian Techonoloies, Lda
- 2012 - 2016: Manager at Binómio - Máquinas e Sistemas de Informação, Lda.
- 2003 - 2016: Member of the Board of Directors of NOVABASE Business Solutions, S.A. (formerly Novabase Consulting S.A.)
- 2009 - 2015: Member of the Board of Directors of Novabase SGPS, S.A.
- 2009 - 2015: Member of the Board of Directors and of the Executive Committee of Novabase Serviços – Serviços de Gestão e Consultoria, S.A.
- 2009 - 2015: Non-executive member of the Board of Directors of NOVABASE Infraestruturas SGPS, S.A.
- 2009 - 2015: Member of the Board of Directors of NOVABASE Infraestructuras e Integración de Sistemas, S.A.

Other external positions

- 2012 – 2013: Member of the Board of Directors of NOVABASE Consulting, SA (Spain)

Luís Jorge de Sousa Uva Patrício Paúl
CRO, Executive Director

Date of birth: 18 March 1971, Portugal
Date of 1st appointment: 15 June 2020
Term of office: 2019 / 2021

Education

› 2016 - 2017: "Financial Risk & Regulation" - FRR Certificate Program, GARP- Global Association of Risk Professionals
› 2015 - 2016: Training Programme for Senior Management "Corporate Governance Regulations and Models" by the Portuguese Bank Training Institute (IFB)
› 1990 - 1994: Degree in Economics, Faculty of Economics, Universidade Nova de Lisboa

Internal management and supervisory positions

› 2020 - ...: Member of the Board of Directors and of the Executive Committee (CRO) of Banco CTT, S.A.

Other internal positions

—

Professional experience

For 25 years he has been working in the banking sector, especially in the financial and risk area, with strong technical expertise in planning, valuations, financial markets, credit and risk, through functional and coordination experience in these various areas. In Banco Fomento e Exterior, S.A. (later integrated in BPI Group), he worked in the Middle Office Department of the Markets and Treasury Room, with participation in the control of risks and profitability of financial products and, still within the same financial Group, he joined the Planning Department, with functions at the level of the implementation of the profitability analysis model and in the budget preparation process. In Banco Mello, S.A. (subsequently merged into Banco Comercial Português, S.A.), he joined the Financial Department, with responsibility for the Asset & Liabilities Management ("ALM") model and for the analysis of financial margin control. Subsequently, in Banco Comercial Português, S.A., he performed the duties of Deputy Director of the Assets and Liabilities Management area, with participation in the implementation of the market and liquidity risk management methodology in five subsidiaries in Portugal and abroad and, subsequently, assumed the position of Deputy Director in the Risk area, within the same institution. More recently, he held the position of Director of Risk at Bank Millennium, S.A. (banking operation in Poland).

In the last 5 years, he was responsible for Risk Management at Banco CTT, having participated in the Bank's launch and ensured the implementation of internal control and risk frameworks (financial and non-financial), through the definition of the risk management governance, Risk Appetite Statement, policies, processes, methodologies, controls and reporting for the different types of risk, with permanent participation in several internal committees of the Bank.

Management and supervisory positions in other companies (last 5 years)

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Other external positions

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João Manuel de Matos Loureiro
Non-Executive Director, Chairman of the Audit Committee

Date of birth: 04 October 1959, Portugal
Date of 1st appointment: 13 September 2019
Term of office: 2019 / 2021

Education

- 1987 - 1992: PhD in Economics, specialising in International Macroeconomics and Finance, School of Economics and Commercial Law, University of Gothenburg, Sweden
- 1978 - 1983: Licentiate degree in Economics, Faculty of Economics, Universidade do Porto

Internal management and supervisory positions

- 2019-...: Member of the Board of Directors and Chairman of the Audit Committee of Banco CTT, S.A.

Other internal positions

—

Professional experience

In the last 35 years, he has been a teacher in the area of Economics, namely in programmes and curricular units of macroeconomics and finance at the Faculty of Economics of Universidade do Porto and in more specialised programmes for executives at Porto Business School. As an author he has published several works in those fields.

In parallel with his academic career he has maintained another professional activity, namely in the banking sector. In the last 10 years, he has held non-executive management and supervisory positions at Banco Comercial Português, S.A., where he was Chairman of the Audit Committee (previously Financial Matters Committee) between 2009 and 2018. In the BCP Group he also performed supervisory functions in subsidiaries.

Management and supervisory positions in other companies (last 5 years)
- 2008 - ...: Lecturer and held academic/university management positions at Porto Business School
- 1984 - ...: Lecturer and held academic/university management positions at the Faculty of Economics, Universidade do Porto
- 2012 - 2018: Member of the Board of Directors and Chairman of the Audit Committee of Banco Comercial Português, S.A.

Other external positions
- 2012: Member of the Board of Directors of the Millenniumbcp Foundation
- 2010 - 2012: Chairman of the Audit Board of Banco BII - Banco de Investimento Imobiliário, S.A.
- 2009 - 2012: Chairman of the Supervisory Board of Banco ActivoBank, S.A.
- 2009 - 2012: Member of the General and Supervisory Board and Chairman of the Financial Matters Committee of Banco Comercial Português, S.A.

Clementina Maria Dâmaso de Jesus Silva 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: 2019 / 2021

Education

- 2017: The Internal Control Functions - Risk Management System, Banking Training Institute
- 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), ISEG - Lisboa School of Economics & Management
- 1976 - 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 35 years, she has held academic positions, namely in the fields of 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 (Chartered Accountant number 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 General and Supervisory Board and of the Financial Matters Committee of EDP – Energias de Portugal, S.A.
- 2016 - 2019: 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.
- 2012 - 2016: Non-executive member of the Board of Directors and member of the Audit Committee of Fundbox, Sociedade Gestora de Fundos de Investimento Imobiliário, 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 - 2020: 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 and Member of the Board of the Institute for Business Management Development (INDEG/ISCTE)

(1) Date of appointment after the incorporation of Banco CTT, S.A.

Susana Maria Morgado Gomez Smith
Non-Executive Director and member of the Audit Committee

Date of birth: 20 February 1973, Portugal
Date of 1st appointment: 13 September 2019
Term of office: 2019 / 2021

Education

- 2018: Advanced Programme for Non-Executive Directors, IPCG – Instituto Português de Corporate Governance
- 2017: Certification in Non-Executive Administration, CASS Business School - CITY University of London
- 2017: Certification in Non-Executive Administration, ICSA - The Governance Institute (UK)
- 2016: International Directors Program, INSEAD
- 2012: Investor Relations Certification, IR Society - Investor Relations Society
- 2011 - 2013: Post-graduation in Risk Management, College of Business and Finance - HKU The University of Hong Kong
- 2004 - 2006: Post-graduation in Political Science and International Relations, Universidade Católica Portuguesa
- 1995 - 1998: Master's in Monetary and Financial Economics, Institute of Economics and Management - Universidade Técnica de Lisboa
- 1991 - 1995: Licentiate degree in Economics, Faculty of Economics, Universidade Nova de Lisboa

Internal management and supervisory positions

- 2019 - ...: Member of the Board of Directors and of the Audit Committee of Banco CTT, S.A.

Other internal positions

- 2019 - ...: Member of the Remuneration Committee (within the Board of Directors) of Banco CTT, S.A.

Professional experience

Currently Non-Executive Director in the financial sector in Portugal and Switzerland. For more than 20 years, she has performed executive functions in the financial sector, in Portugal and abroad, particularly in the areas of investment banking, capital markets and corporate banking, as well as in strategic change, strengthening of risk environments, regulatory compliance, internal governance, control and operational efficiency.

She also worked as a lecturer for about 5 years at the beginning of her career, having obtained specialised training in economics and management throughout her career.

Management and supervisory positions in other companies (last 5 years)

- 2020 - ...: Member of the Audit and Risk Committee of Leonteq AG
- 2019 - ...: Member of the Board of Directors and of the Remuneration and Nominating Committee of Leonteq AG

Other external positions

- 2000 - ...: Member of the Board of Directors of the INSEAD Alumni Association, Portugal
- 2013 - 2018: Managing Director at Santander UK plc (Santander Global Corporate Banking)
- 2017 - ...: Volunteer (Ambassador to the International Directorship Network - Portugal; Mentoring Committee of the Mentoring Program), INSEAD
- 2016 - 2019: Member of the Board of Directors (Trustee), Mind in Camden
- 2012 - 2013: Advisor at Banco Nacional Ultramarino Macau, S.A. (BNU)
- 2007 - 2012: Director at Citigroup Global Markets Asia Limited
- 2005 - 2006: Member of the Board of Directors - representing Citibank International Plc, Portugal Branch - and Treasurer, Junior Achievements Portugal
- 2002 - 2007: Vice President at Citibank International plc - Portuguese branch (now Citibank Europe Plc - Portuguese branch)
- 1998 - 2002: Director at Banco Espírito Santo de Investimento, S.A. (now Haitong Bank, S.A.)
- 1998 - 2000: Assistant Professor, Universidade Católica Portuguesa
- 1995 - 1998: Assistant Professor,Universidade Lusíada

António Pedro Ferreira Vaz da Silva
Non-Executive Director

Date of birth: 13 November 1966, Portugal
Date of 1st appointment: 01 September 2017
Term of office: 2019 / 2021

Education

- 2020: Qualification Course for Insurance Agent, Insurance Broker or Reinsurance Broker - Non-Life businesses and Life business, Portuguese Insurers Association (APS)
- 2015 - 2016: Training Programme for Senior Managers of Banco CTT, S.A., Instituto Superior de Gestão Bancária and Portuguese Banking Association
- 2014: Business Management Programme, AESE Business School
- 1972 - 1984: Secondary Education, Amadora Secondary School

Internal management and supervisory positions

- 2020-...: Member of the Board of Directors of CTT Soluções Empresariais, S.A.
- 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

As a member of CTT's Executive Committee, he is responsible for the areas of Philately, B2C External Channels Management, Own Stores Management, B2C Product Management, B2C Segment Management, Physical Resources and People and Culture (shared responsibility).

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 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 (last 5 years)

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Guy Patrick Guimarães de Goyri Pacheco
Non-Executive Director

Date of birth: 25 May 1977, Portugal
Date of 1st appointment: 15 June 2018
Term of office: 2019 / 2021

Education

- 2018 - 2019: Training Programme for Senior Managers, Bank Training Institute, Portuguese Banking Association
- 2011: Leaders who transform, The Lisbon MBA – Católica/Nova
- 2010: Leadership Executive Program, Universidade Católica Portuguesa
- 1995 - 2000: Licentiate degree in Economics, Faculty of Economics, Universidade do Porto

Internal management and supervisory positions

- 2020-...: Member of the Board of Directors of CTT Soluções Empresariais, S.A.
- 2018 - ...: Non-executive member of the Board of Directors of Banco CTT, S.A.
- 2018 - 2019: Member of the Board of Directors of Tourline Express Mensajería, S.L.U.
- 2017 - ...: Member of the Board of Directors and of the Executive Committee (CFO) of CTT– Correios de Portugal, S.A.
- 2017 - ...: Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A.

Other internal positions

—

Professional experience

As CTT's *Chief Financial Officer*, he is currently responsible for Investor Relations, Procurement and Logistics, Accounting & Tax, Planning and Control and Information Systems.

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 & 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 management and senior management positions in these fields within the PT universe over the course of 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 Finerge, S.A.
- 2017 - 2019: Non-executive member of the Board of Directors of Âncora Wind – Energia Eólica, S.A.
- 2017 - 2018: Non-executive member of the Board of Directors of First State Wind Energy Investments, S.A.
- 2017 - 2017: Non-executive member of the Board of Directors of Sport TV Portugal, S.A.
- 2016 - 2017: Non-executive chairman of the Board of Directors of Janela Digital – Informática e Telecomunicações, S.A.
- 2016 - 2017: Non-executive member of the Board of Directors of Capital Criativo, SCR, S.A.
- 2015 - 2017: Member of the Executive Committee (Chief Financial Officer) of PT Portugal, SGPS, S.A.
- 2015 - 2017: Chairman of the Supervisory Board of Hungaro Digitel Plc.
- 2015 - 2017: Chairman of the Supervisory Board of Fibroglobal – Comunicações Electrónicas, S.A.
- 2015 - 2017: Member of the Board of Directors of PT Pay, S.A.

Other external positions (last 5 years)

- 2018 - ...: Member of the Board of AEM (Association of Companies Issuing Listed Securities)

António Emídio Pessoa Corrêa D'Oliveira
Non-Executive Director

Date of birth: 30 October 1976, Portugal
Date of 1st appointment: 01 September 2017
Term of office: 2019 / 2021

Education

- 2018 - 2019: Training Programme for Senior Managers, Bank Training Institute, Portuguese Banking Association
- 2010: Breakthrough Program for Senior Executives (BPSE), IMD Business School (Lausanne, Switzerland)
- 1994 - 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

—

Professional experience

After 6 years as a consultant at Deloitte, he took on senior duties in the Gestmin Group (currently Manuel Champalimaud Group) in 2005 in the areas of corporate finance and business development, focused on the planning, identification, structuring, financing and implementation of the Manuel Champalimaud Group's investments and on management of the portfolio of assets held by the Group. Between 2016 and 2020, these senior duties also focused on the financial area, as Chief Financial Officer of Manuel Champalimaud SGPS, S.A.[(1)]

Management and supervisory positions in other companies (last 5 years)

- 2016 - 2020: Member of the Board of Directors and of the Executive Committee (CFO) of Manuel Champalimaud SGPS, S.A.[(1)]
- 2016 - 2020: Manager at Gestmin - Serviços, Unipessoal, Lda
- 2017 - 2020: Member of the Board of Directors of Sogestão – Administração e Gerência, S.A.
- 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

Other external positions

- 2015: Non-executive member of the Board of Directors of GLNplast, S.A.
- 2011 - 2013: Chairman 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
- 2008 - 2010: Member of the Board of Directors of Gestfin SGPS, S.A.
- 2007 - 2012: Non-executive member of the Board of Directors of Winreason - S.A.
- 2007 - 2010: Non-executive member of the Board of Directors of Oni SGPS, S.A.

(1) Named Gestmin SGPS, S.A. up to 28 February 2019, when the change of corporate name took effect.

Annex II

Transactions Involving CTT Shares in 2020

Details of transactions by Directors and closely related parties during 2020, as disclosed to the Company.

António Pedro Ferreira Vaz da Silva

Transaction type	Place	Unit price (€)	Quantity	Transaction date
Acquisition	XLIS	1.960	3,500	13.05.2020

Guy Patrick Guimarães de Goyri Pacheco

Transaction type	Place	Unit price (€)	Quantity	Transaction date
Acquisition	XLIS	1.871	1,000	19.03.2020
Acquisition	XLIS	1.875	1,000	19.03.2020

António Emídio Pessoa Corrêa d'Oliveira

Transaction type	Place	Unit price (€)	Quantity	Transaction date
Acquisition	XLIS	2.060	1,500	18.03.2020
Acquisition	XLIS	1.940	1,500	19.03.2020
Acquisition	XLIS	1.999	1,736	25.03.2020
Acquisition	XLIS	2.000	264	25.03.2020
Divestment	XLIS	2.510	2,000	14.12.2020
Divestment	XLIS	2.555	2,000	15.12.2020
Acquisition	XLIS	2.550	4,000	16.12.2020
Acquisition	XLIS	2.500	2,000	16.12.2020
Divestment	XLIS	2.520	2,000	17.12.2020
Divestment	XLIS	2.500	2,000	17.12.2020
Acquisition	XLIS	2.480	2,000	17.12.2020

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