Financial Statements and Notes to the Financial Statements

6.1 Financial Statements and Notes to the Consolidated Financial Statements 2019

Consolidated Financial Statements

Consolidated Income Statement for the year ended on 31 December 2019

(amounts in thousand euros)

	Notes	2019	restated 2018
Interest and similar income calculated through the effective interest rate		30,964	8,565
Interest and similar expenses		(1,704)	(713)
Net Interest Income	**4**	**29,260**	**7,852**
Net fee and commission income	5	15,455	11,082
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	35	2
Net gains/(losses) from divestment of other assets		7	-
Other operating income/(expenses)	7	1,070	(414)
Operating Income		**45,819**	**18,522**
Staff costs	8	(19,428)	(14,064)
General administrative expenses	9	(27,498)	(21,668)
Depreciation and amortisation	18 and 19	(5,525)	(4,525)
Operating Expenses		**(52,451)**	**(40,257)**
Operating Profit/(Loss) Before Provisions and Impairment		**(6,632)**	**(21,735)**
Loans impairment	14	(3,054)	(343)
Other financial assets impairment	13, 15 and 16	258	149
Other assets impairment	21	(297)	(168)
Other provisions	25	224	20
Operating Profit/(Loss)		**(9,501)**	**(22,077)**
Profit/(Loss) Before Tax		**(9,501)**	**(22,077)**
Income tax			
Current	20	1,606	4,454
Deferred	20	(116)	138
Net Income for the Year		**(8,011)**	**(17,485)**
Earnings per share (in euros)			
Basic	10	(0.03)	(0.12)
Diluted	10	(0.03)	(0.12)

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

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

Consolidated Statement of Comprehensive Income for the year ended on 31 December 2019

(amounts in thousand euros)

	Notes	2019	restated 2018
Items that may be reclassified to the income statement			
Fair value reserve	28	16	-
Items that shall not be reclassified to the income statement			
Actuarial gains/(losses) for the year			
Employee benefits	35	(145)	-
Comprehensive income recognized directly in Equity after taxes		**(129)**	**-**
Net Income for the Year		(8,011)	(17,485)
Total Comprehensive income for the year		**(8,140)**	**(17,485)**

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

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

Consolidated Balance Sheet as at 31 December 2019

(amounts in thousand euros)

	Notes	2019	restated 2018	restated 1 January 2018
Assets				
Cash and deposits at central banks	11	55,424	31,679	58,064
Deposits at other credit institutions	12	116,698	108,667	176,975
Financial assets at amortised cost				
Investments at credit institutions	13	34,615	119,811	101,912
Loans and advances to customers	14	885,821	248,049	79,347
Debt securities	15	455,869	452,613	261,550
Financial assets at fair value through profit or loss				
Financial assets held for trading		2	-	-
Financial assets at fair value through other comprehensive income				
Debt securities	16	542	1,489	5,751
Non-current assets held for sale	17	806	-	-
Other tangible assets	18	3,913	2,342	987
Goodwill and intangible assets	19	88,709	25,387	21,000
Current tax assets	20	70	-	-
Deferred tax assets	20	2,093	530	209
Other assets	21	21,316	12,898	15,791
Total Assets		**1,665,878**	**1,003,465**	**721,586**
Liabilities				
Financial liabilities at amortised cost				
Amounts owed to other credit institutions	22	37,851	-	-
Deposits from customers	23	1,283,567	883,950	619,230
Debt securities issued	24	76,077	-	-
Provisions	25	1,723	51	86
Current tax liabilities	20	4,118	-	-
Deferred tax liabilities	20	83	-	-
Other liabilities	26	51,104	29,968	25,890
Total Liabilities		**1,454,523**	**913,969**	**645,206**
Equity				
Share capital	27	286,400	156,400	125,000
Fair value reserves	28	16	-	50
Other reserves and retained earnings	28	(67,050)	(49,419)	(27,368)
Net income for the year		(8,011)	(17,485)	(21,302)
Total Equity		**211,355**	**89,496**	**76,380**

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

João de Almada Moreira Rato

António Pedro Ferreira Vaz da Silva

Luís Maria França de Castro Pereira Coutinho

António Emídio Pessoa Corrêa d'Oliveira

João Maria de Magalhães Barros de Mello Franco

Guy Patrick Guimarães de Goyri Pacheco

Pedro Rui Fontela Coimbra

João Manuel de Matos Loureiro

Nuno Carlos Dias dos Santos Fórneas

Susana Maria Morgado Gomez Smith

Clementina Maria Dâmaso de Jesus Silva Barroso

Consolidated Statement of Changes in Equity for the year ended on 31 December 2019

(amounts in thousand euros)

	Share capital	Fair Value Reserves	Other Reserves	Retained earnings	Net Income for the Year	Total Equity
Balance on 1 January 2018 (reported)	**125,000**	**50**	**-**	**(27,359)**	**(21,302)**	**76,389**
Impact of initial application of IFRS 16	-	-	(9)	-	-	(9)
Balance on 1 January 2018 (restated)	**125,000**	**50**	**(9)**	**(27,359)**	**(21,302)**	**76,380**
IFRS 9 transition adjustments	-	10	(695)	-	-	(685)
Balance on 1 January 2018 (adjusted)	**125,000**	**60**	**(704)**	**(27,359)**	**(21,302)**	**75,695**
Share capital increase	31,400	-	-	-	-	31,400
Fair value reserves	-	(60)	-	-	-	(60)
Other	-	-	(53)	-	-	(53)
Impact of initial application of IFRS 16	-	-	(1)	-	2	1
Retained earnings	-	-	-	(21,302)	21,302	-
Net income for the year	-	-	-	-	(17,487)	(17,487)
Balance on 31 December 2018 (restated)	**156,400**	**-**	**(758)**	**(48,661)**	**(17,485)**	**89,496**
Share capital increase	130,000	-	-	-	-	130,000
Fair value reserves	-	16	-	-	-	16
Other	-	-	(1)	-	-	(1)
Actuarial gains/(losses)	-	-	(145)	-	-	(145)
Retained earnings	-	-	-	(17,485)	17,485	-
Net income for the year	-	-	-	-	(8,011)	(8,011)
Balance on 31 December 2019	**286,400**	**16**	**(904)**	**(66,146)**	**(8,011)**	**211,355**

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

João de Almada Moreira Rato

António Pedro Ferreira Vaz da Silva

Luís Maria França de Castro Pereira Coutinho

António Emídio Pessoa Corrêa d'Oliveira

João Maria de Magalhães Barros de Mello Franco

Guy Patrick Guimarães de Goyri Pacheco

Pedro Rui Fontela Coimbra

João Manuel de Matos Loureiro

Nuno Carlos Dias dos Santos Fórneas

Susana Maria Morgado Gomez Smith

Clementina Maria Dâmaso de Jesus Silva Barroso

Consolidated Cash Flow Statement for the year ended on 31 December 2019

(amounts in thousand euros)

	Notes	2019	restated 2018
Cash flow from operating activities		**171,782**	**103,124**
Interest and commissions received		38,484	15,746
Interest and commissions paid		(6,204)	(3,127)
Payments to employees		(18,208)	(13,741)
Other payments and revenues		(14,887)	(1,662)
Variation in operational assets and liabilities		172,597	105,908
Other operational assets and liabilities		*6,128*	*9,013*
Loans and advances to customers		*(232,864)*	*(167,900)*
Deposits from customers		*399,333*	*264,795*
Cash flow from investment activities		**(61,676)**	**(195,447)**
Deposits at Banco de Portugal		(19,707)	26,539
Investment in securities		(9,555)	(197,492)
Investments at credit institutions		84,665	(18,305)
Acquisitions of tangible fixed assets and intangible assets		(6,297)	(6,189)
Acquisitions of subsidiaries and associates		(110,782)	-
Cash flow from financing activities		**(105,413)**	**23,887**
Share capital increases		130,000	25,000
Amounts owed to other credit institutions		18,881	-
Debt securities issued		(222,288)	-
Other loans raised		(30,621)	-
Leases		(1,385)	(1,113)
Cash and cash equivalents at the beginning of the year		**132,456**	**200,892**
Change of the consolidation perimeter		**6,824**	**-**
Net changes in cash and cash equivalents		**4,693**	**(68,436)**
Cash and cash equivalents at the end of the year		**143,973**	**132,456**
Cash and cash equivalents cover:		**143,973**	**132,456**
Cash	11	25,926	25,462
Demand deposits at Banco de Portugal	11	3,574	-
Deposits at credit institutions	12	114,473	106,994

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The 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

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:

	2019		2018	
	Holding (%)	Voting Rights (%)	Holding (%)	Voting Rights (%)
Payshop (Portugal), S.A.	100%	100%	100%	100%
321 Crédito - Instituição Financeira de Crédito, S.A.	100%	100%	-	-

The values relative to the year of 2019 as well as their variation for the values of the year of 2019, incorporate the entrance of 321 Crédito into 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	12.2%	Full
Chaves Funding No.8 (*)	2019	Portugal	100%	Full

(*) 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 38 – Asset securitisation).

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

(amounts in thousand euros)

	2019
Cash and deposits at credit institutions	7,730
Financial liabilities at amortised cost – Debt securities issued (see Note 24)	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 2019, having been prepared in accordance with current IFRS as endorsed in the European Union by 31 December 2019.

The Group implemented IFRS 16 retrospectively to each reporting period presented previously pursuant to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The most relevant impacts of the changes derived from the adoption of IFRS 16 are disclosed in Note 37.

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 13 March 2020.

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 2019 and 2018, the Bank does not have any associates.

2.1.3 Acquisition and dilution of non-controlling interests

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

2.1.4 Loss of control

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

2.1.5 Transactions eliminated on consolidation

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

2.1.6 Goodwill

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

Positive goodwill arising from acquisitions is recognised as an asset and recorded at acquisition cost, not being subject to amortisation. Goodwill arising on the acquisition of subsidiaries and associates is defined as the difference between the acquisition cost and the total fair value or corresponding share of the fair value of the assets and liabilities and contingent liabilities of the acquired entity, depending on the option taken.

If the estimated goodwill is negative, it is recognised directly through profit or loss for the period when the business combination occurs.

Goodwill is not adjusted according to the final determination of the value of the contingent price, with its impact being recognised 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 signs 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

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

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

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

The classification takes into account the following aspects:

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

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

The 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.

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

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.

<u>Reclassifications between financial instruments categories</u>

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

<u>Classification</u>

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).

<u>Initial recognition and subsequent measurement</u>

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.

Forward Looking Information

For models based on historical records, namely those applicable to 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.

Significant increase of credit risk (SICR)

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

- Loans with payment in arrears for more than 30 days (backstop);

- Loans with qualitative triggers subject to risk, namely those presented in Banco de Portugal Circular Letter 02/2014/DSP.

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

Customers 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 Group's loan portfolio is divided by degrees of internal risk and according to the following segments:

Financial Assets	Retail Offers	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 loan-to-value (LTV) 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.

The Group recognises the lease payments received under operating lease payments on a straight-line basis during the lease period as part of the "General Administrative Expenses".

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 (i) 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 maintains control over the assets and liabilities of these operations 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.

Note 4 – Net Interest Income

This heading is composed of:

(amounts in thousand euros)

	2019	restated 2018
Interest and similar income calculated through the effective interest rate	**30,964**	**8,565**
Interest on deposits at Central Banks and credit institutions	3	2
Interest on financial assets at amortised cost		
Investments at credit institutions	570	457
Loans and advances to customers	23,271	1,856
Debt securities	7,110	6,226
Interest on financial assets at fair value through other comprehensive income		
Debt securities	11	24
Other interest	(1)	-
Interest and similar expenses	**1,704**	**713**
Interest on financial liabilities at amortised cost		
Amounts owed to other credit institutions	(102)	(3)
Deposits from customers	974	693
Debt securities issued	766	-
Other interest	66	23
Net Interest Income	**29,260**	**7,852**

The heading "Interest and similar income" for the year ended on 31 December 2019 presents a total of 103 thousand euros related to financial assets with impairment (Stage 3) (2018: 16 thousand euros) on the reporting date.

The heading "Interest on loans and advances to customers" includes the amount of -3,738 thousand euros (2018: 163 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.

Interest on "Amounts owed to other credit institutions", of the value of -102 thousand euros (2018: -3 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)

	2019	2018
Fees and commissions received	**21,402**	**15,650**
Due to payment operations	10,697	10,662
Due to banking services provided	6,467	3,719
Due to credit intermediation services	2,310	1,031
Due to insurance mediation services	1,902	185
Other fees and commissions received	26	53
Fees and commissions paid	**5,947**	**4,568**
Due to banking services provided by third parties	3,392	2,271
Due to payment operations	2,455	2,210
Dues to operations with securities	65	72
Other fees and commissions paid	35	15
Net Fee and Commission Income	**15,455**	**11,082**

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)

	2019	2018
Profits in operations with Other Financial Assets at Fair Value Through Other Comprehensive Income	**35**	**2**
Bonds	35	2
Net Gains/(Losses) of Other Financial Assets at Fair Value Through Other Comprehensive Income	**35**	**2**

Note 7 – Other Operating Income/(Expenses)

This heading is composed of:

(amounts in thousand euros)

	2019	2018
Operating income	**2,751**	**33**
Credit recovery	1,272	-
Other operating income	1,479	33
Operating expenses	**1,681**	**447**
Royalties	299	299
Levies and donations	87	43
Contribution of the banking sector	79	37
Contribution to the Single Resolution Fund	77	16
Contribution to the Resolution Fund	19	12
Annual supervisory fees (SSM)	10	7
Taxes	56	5
Annual supervisory fees (ASF)	-	2
Contribution to the Deposit Guarantee Fund	2	1
Other operating expenses	1,052	25
Other Operating Income/(Expenses)	**1,070**	**(414)**

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)

	2019	2018
Remuneration	12,679	8,940
Social charges on remunerations	2,985	2,196
Employees with a multiple employer arrangement	2,004	1,612
Incentives and performance bonuses	1,314	1,122
Occupational accident and disease insurance	277	114
Other costs	169	80
Staff costs	**19,428**	**14,064**

The total amount of fixed remunerations attributed to the Management and Supervisory Bodies of Banco CTT, during 2019, recorded in the heading "Remunerations", reached 1,226 thousand euros (2018: 1,177 thousand euros). During 2019, costs related to Social Security contributions of the Management and Supervisory Bodies were also paid of the value of 289 thousand euros (2018: 278 thousand euros). As at 31 December 2019, the heading "Incentives and performance bonuses" includes 406 thousand euros of bonuses attributable to the Management Bodies (2018: 299 thousand euros). In 2019, the Bank recorded under the heading "Other costs" 35 thousand euros of costs related to retirement savings plans attributed to Management Bodies (2018: 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 2019 the cost related to these employees shared with CTT amounted to 2,004 thousand euros (2018: 1,612 thousand euros).

In 2019 the Management Bodies were paid 242 thousand euros of variable remuneration (2018: 180 thousand euros).

On the date of the end of 2019 and 2018, the permanent staff, excluding employees under the multiple employer arrangement, distributed by major professional category, was as follows:

	2019	2018
Directors	11	11
Executive	*4*	*4*
Non-executive	*7*	*7*
of which: Audit Committee	*3*	*3*
Directors (subsidiaries)	2	1
Heads of functional areas	33	24
Technical and secretarial staff	351	212
	397	**248**

As at 31 December 2019, the heading "Other costs" includes 37 thousand euros relative to defined benefit plans, as referred to in Note 35.

Note 9 – General Administrative Expenses

This heading is composed of:

(amounts in thousand euros)

	2019	restated 2018
Water, electricity and fuel	228	135
Consumables	175	132
Hygiene and cleaning supplies	5	3
Rental and hire charges	317	245
Communications	1,763	1,322
Travel, hotel and representation costs	198	136
Advertising	3,878	3,839
Maintenance and related services	59	102
Training costs	92	92
Insurance	376	129
IT	8,261	7,162
Consulting and advisory services	3,607	2,052
Other specialised services	2,819	2,329
Other supplies and services	5,720	3,990
General Administrative Expenses	**27,498**	**21,668**

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

(amounts in thousand euros)

	2019	restated 2018
Review of accounts services	301	222
Reliability assurance services	169	97
Services other than review of accounts	15	-
	485	**319**

Note 10 – Earnings per Share

Earnings per share are calculated as follows:

	2019	restated 2018
Net income for the year (thousand euros)	(8,011)	(17,485)
Average number of shares	232,235,616	151,895,342
Basic earnings per share (euros)	(0,03)	(0,12)
Diluted earnings per share (euros)	(0,03)	(0,12)

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 2019 and 2018, 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)

	2019	2018
Cash	25,926	25,462
Demand deposits at Banco de Portugal	29,498	6,217
Cash and Deposits at Central Banks	**55,424**	**31,679**

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.

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)

	2019	2018
Credit institutions in Portugal	114,473	106,994
Cheques for collection	2,226	1,675
Impairment for deposits at other credit institutions	(1)	(2)
Deposits at Other Credit Institutions	**116,698**	**108,667**

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)

	2019	2018
Investments at credit institutions in Portugal	4,351	74,817
Loans to credit institutions in Portugal	30,480	36,915
Investments at credit institutions abroad	-	8,501
Impairment for investments in credit institutions	(216)	(422)
Investments at Credit Institutions	**34,615**	**119,811**

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

(amounts in thousand euros)

	2019	2018
Up to 3 months	3,368	26,974
3 to 12 months	12,535	70,349
1 to 3 years	13,689	14,251
More than 3 years	5,239	8,659
Investments at Credit Institutions	**34,831**	**120,233**

The heading "Investments at credit institutions" showed an annual average rate of 0.781% in 2019 (2018: 0.394%).

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	422	-
IFRS 9 transition adjustment	-	624
Change of the consolidation perimeter	-	7
Movement for the period:		
Financial assets originated or acquired	53	564
Variations due to change in exposure or risk parameters	(69)	(773)
Derecognised financial assets excluding write-offs	(190)	-
Write-offs	-	-
Changes in the model and methodologies	-	-
Exchange rate variations and other movements	-	-
Impairment for Investments at Credit Institutions	**216**	**422**

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	422	-
IFRS 9 transition adjustment	-	624
Change of the consolidation perimeter	-	7
Movement for the period:		
Variations in the expected credit loss of the portfolio	(206)	(209)
Transfers of Stage (net)	-	-
Credit sales	-	-
Use of impairment	-	-
Write-offs	-	-
Recoveries of write-off	-	-
Exchange rate variations and other movements	-	-
Impairment for Investments at Credit Institutions	**216**	**422**

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

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Mortgage loans	405,168	238,667
Auto loans	469,776	-
Finance leases	8,977	-
Other loans	-	8,918
Overdrafts	1,002	529
Performing loans	**884,923**	**248,114**
Overdue loans - less than 90 days	741	61
Overdue loans - more than 90 days	4,135	332
Overdue loans	**4,876**	**393**
Impairment for credit risk	**(3,978)**	**(458)**
Loans and Advances to Customers	**885,821**	**248,049**

The scheduling of this heading by maturity periods is presented 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	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**

(amounts in thousand euros)

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

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

(amounts in thousand euros)

	2019	2018
Fixed rate	427,176	922
Variable rate	462,623	247,585
Loans and Advances to Customers	**889,799**	**248,507**

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

(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
Loans and Advances to Customers	**884,923**	**4,876**	**889,799**	**(3,978)**	**885,821**

(amounts in thousand euros)

	2018				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Asset-backed loans	238,667	-	238,667	(232)	238,435
Personal guaranteed loans	-	-	-	-	-
Unsecured loans	9,447	393	9,840	(226)	9,614
Loans and Advances to Customers	**248,114**	**393**	**248,507**	**(458)**	**248,049**

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

(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
Loans and Advances to Customers	**884,923**	**4,876**	**889,799**	**(3,978)**	**885,821**

(amounts in thousand euros)

	2018				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Mortgage loans	238,667	-	238,667	(232)	238,435
Auto Loans	-	-	-	-	-
Finance leases	-	-	-	-	-
Other loans	8,918	-	8,918	-	8,918
Overdrafts	529	393	922	(226)	696
Loans and Advances to Customers	**248,114**	**393**	**248,507**	**(458)**	**248,049**

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

(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
Loans and Advances to Customers	**884,923**	**4,876**	**889,799**	**(3,978)**	**885,821**

(amounts in thousand euros)

	2018				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Companies					
Public administration, Defence and Social Security	8,918	-	8,918	-	8,918
Individuals					
Mortgage	238,667	-	238,667	(233)	238,434
Consumer	529	393	922	(225)	697
Loans and Advances to Customers	**248,114**	**393**	**248,507**	**(458)**	**248,049**

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

(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
Variations due to modification of non-derecognised contracts	-	-	-	-
Derecognised financial assets excluding write-offs	(140)	(65)	(410)	(615)
Write-offs	-	-	(1,175)	(1,175)
Changes in the model and methodologies	-	-	-	-
Transfers to:				
Stage 1	404	(374)	(30)	-
Stage 2	(83)	122	(39)	-
Stage 3	(14)	(718)	732	-
Exchange rate variations and other movements	-	63	1,578	1,641
Impairment for credit risk	**2,063**	**871**	**1,044**	**3,978**
Of which: POCI	-	-	(1,293)	(1,293)

(amounts in thousand euros)

	2018			
	Stage 1	*Stage 2*	*Stage 3*	Total
Opening balance	**58**	**6**	**51**	**115**
Movement for the period:				
Financial assets originated or acquired	140	50	74	264
Variations due to change in exposure or risk parameters	(11)	15	79	83
Variations due to modification of non-derecognised contracts	-	-	-	-
Derecognised financial assets excluding write-offs	(2)	(1)	(1)	(4)
Write-offs	-	-	-	-
Changes in the model and methodologies	-	-	-	-
Transfers to:				
Stage 1	1	(1)	-	-
Stage 2	(1)	2	(1)	-
Stage 3	-	(4)	4	-
Exchange rate variations and other movements	-	-	-	-
Impairment for credit risk	**185**	**67**	**206**	**458**
Of which: POCI	-	-	-	-

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

(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 portfolio	1,571	1,711	(228)	3,054
Transfers of Stage (net)	307	(970)	663	-
Credit sales	-	-	-	-
Use of impairment	-	-	-	-
Write-offs	-	-	(1,175)	(1,175)
Recoveries of write-off	-	-	-	-
Exchange rate variations and other movements	-	63	1,578	1,641
Impairment for credit risk	**2,063**	**871**	**1,044**	**3,978**

(amounts in thousand euros)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Opening balance	58	6	51	115
Movement for the period:				
Variations in the expected credit loss of the portfolio	127	64	152	343
Transfers of Stage (net)	-	(3)	3	-
Credit sales	-	-	-	-
Use of impairment	-	-	-	-
Write-offs	-	-	-	-
Recoveries of write-off	-	-	-	-
Exchange rate variations and other movements	-	-	-	-
Impairment for credit risk	**185**	**67**	**206**	**458**

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

(amounts in thousand euros)

	2019	2018
Stage 1	**834,895**	**246,486**
Gross Value	836,958	246,671
Impairment	(2,063)	(185)
Stage 2	**39,337**	**1,435**
Gross Value	40,208	1,502
Impairment	(871)	(67)
Stage 3	**11,589**	**128**
Gross Value	12,633	334
Impairment	(1,044)	(206)
Loans and Advances to Customers	**885,821**	**248,049**

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

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

(amounts in thousand euros)

	2019	2018
Value of future minimum payments	9,632	-
Interest not yet due	(655)	-
Present value	**8,977**	**-**

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

(amounts in thousand euros)

	2019	2018
Up to 1 year	2,533	-
1 to 5 years	5,835	-
More than 5 years	1,264	-
Value of future minimum payments	**9,632**	**-**

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

(amounts in thousand euros)

	2019	2018
Individuals	**1,096**	**-**
Mortgage	95	-
Consumer	-	-
Other	1,001	-
Companies	**7,881**	**-**
Furniture	635	-
Real estate	7,246	-
	8,977	**-**

Note 15 – Financial Assets at Amortised Cost – Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Public debt securities		
Portuguese	287,118	296,486
Foreign	154,304	121,103
Bonds of other issuers		
Portuguese	14,620	35,207
Impairment	(173)	(183)
Financial Assets at Amortised Cost – Debt Securities	**455,869**	**452,613**

The analysis of debt securities at amortised cost as at 31 December 2019 and 2018, by residual maturity, is as follows:

(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**

(amounts in thousand euros)

	2018				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	4,704	6,551	18,071	267,160	296,486
Foreign	498	2,539	42,443	75,623	121,103
Bonds of other issuers					
Portuguese	5,258	4,900	17,879	7,170	35,207
Financial Assets at Amortised Cost – Debt Securities	**10,460**	**13,990**	**78,393**	**349,953**	**452,796**

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	183	-
IFRS 9 transition adjustment	-	247
Change of the consolidation perimeter	-	-
Movement for the period:		
Financial assets originated or acquired	13	126
Variations due to change in exposure or risk parameters	(4)	(190)
Derecognised financial assets excluding write-offs	(19)	-
Write-offs	-	-
Changes in the model and methodologies	-	-
Exchange rate variations and other movements	-	-
Financial Assets at Amortised Cost – Debt Securities	**173**	**183**

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	183	-
IFRS 9 transition adjustment	-	247
Change of the consolidation perimeter	-	-
Movement for the period:		
Variations in the expected credit loss of the portfolio	(10)	(64)
Transfers of Stage (net)	-	-
Sales	-	-
Use of impairment	-	-
Write-offs	-	-
Recoveries of write-off	-	-
Exchange rate variations and other movements	-	-
Impairment for Debt Securities at Amortised Cost	**173**	**183**

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

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Public debt securities		
Portuguese	542	560
Bonds of other issuers		
Portuguese	-	-
Foreign	-	929
Financial Assets at Fair Value Through Other Comprehensive Income – Debt Securities	**542**	**1,489**

The analysis of debt securities at fair value through other comprehensive income as at 31 December 2019 and 2018, by residual maturity, is as follows:

(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
Bonds of other issuers					
Portuguese	-	-	-	-	-
Foreign	-	-	-	-	-
Financial Assets at Fair Value Through Other Comprehensive Income – Debt Securities	**14**	**-**	**528**	**-**	**542**

(amounts in thousand euros)

	2018				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	14	-	546	-	560
Bonds of other issuers					
Portuguese	-	-	-	-	-
Foreign	10	608	311	-	929
Financial Assets at Fair Value Through Other Comprehensive Income – Debt Securities	**24**	**608**	**857**	**-**	**1,489**

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	128	-
IFRS 9 transition adjustment	-	11
Change of the consolidation perimeter	-	-
Movement for the period:		
Financial assets originated or acquired	-	125
Variations due to change in exposure or risk parameters	-	(8)
Derecognised financial assets excluding write-offs	(128)	-
Write-offs	-	-
Changes in the model and methodologies	-	-
Exchange rate variations and other movements	-	-
Impairment for Debt Securities at Fair Value Through Other Comprehensive Income	**-**	**128**

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	128	-
IFRS 9 transition adjustment	-	11
Change of the consolidation perimeter	-	-
Movement for the period:		
Variations in the expected credit loss of the portfolio	(41)	117
Transfers of Stage (net)	-	-
Sales	-	-
Use of impairment	(87)	-
Write-offs	-	-
Recoveries of write-off	-	-
Exchange rate variations and other movements	-	-
Impairment for Debt Securities at Fair Value Through Other Comprehensive Income	**-**	**128**

Note 17 – Non-Current Assets Held for Sale

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Assets	991	-
Real estate properties	990	-
Equipment	1	-
Impairment	(185)	-
Non-Current Assets Held for Sale	**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 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)

	2019	restated 2018
Acquisition Cost	**9,291**	**5,809**
Real estate properties		
Works in rented properties	522	98
Equipment		
Furniture	621	420
Machinery and tools	2,822	2,474
Computer equipment	868	273
Interior installations	14	4
Transport material	19	-
Security equipment	127	66
Other equipment	101	71
Rights of use		
Real estate properties	2,866	1,521
Vehicles	1,328	882
Other tangible assets	3	-
Accumulated Depreciation	**5,378**	**3,467**
Related to previous years	3,729	2,061
Related to the current year	1,649	1,406
Other Tangible Assets	**3,913**	**2,342**

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.

As at 31 December 2018, Machinery and tools includes the value of 2,488 thousand euros relative to the entrance of Payshop into the consolidation perimeter.

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
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
Vehicles	475	258	-	(8)	17	-	742
Other tangible assets	-	-	-	-	1	-	1
Other Tangible Assets	**2,342**	**(144)**	**-**	**(82)**	**1,795**	**2**	**3,913**

The movement of the heading "Other Tangible Assets" during 2018 is analysed as follows:

(amounts in thousand euros)

	2018 restated						
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Payshop Acquisition	Other variations	Balance on 31 December
Acquisition cost	**2,840**	**2,097**	**-**	**(1,845)**	**2,717**	**-**	**5,809**
Real estate properties							
Works in rented properties	206	98	-	(206)	-	-	98
Equipment							
Furniture	250	105	-	-	65	-	420
Machinery and tools	32	56	-	-	2,386	-	2,474
Computer equipment	159	76	-	-	38	-	273
Interior installations	7	1	-	(7)	3	-	4
Transport material	-	-	-	-	-	-	-
Security equipment	43	23	-	-	-	-	66
Other equipment	6	-	-	-	65	-	71
Rights of use							
Real estate properties	1,479	1,521	-	(1,479)	-	-	1,521
Vehicles	658	217	-	(153)	160	-	882
Other tangible assets	-	-	-	-	-	-	-
Accumulated depreciation	**1,853**	**1,408**	**-**	**(1,845)**	**2,051**	**-**	**3,467**
Real estate properties							
Works in rented properties	85	138	-	(206)	-	-	17
Equipment							
Furniture	244	57	-	-	65	-	366
Machinery and tools	1	249	-	(7)	1,774	8	2,025
Computer equipment	156	63	-	-	28	(1)	246
Interior installations	5	3	-	-	3	(7)	4
Transport material	-	-	-	-	-	-	-
Security equipment	13	12	-	-	-	-	25
Other equipment	6	-	-	-	65	-	71
Rights of use							
Real estate properties	1,040	677	-	(1,479)	-	-	238
Vehicles	303	209	-	(153)	116	-	475
Other tangible assets	-	-	-	-	-	-	-
Other Tangible Assets	**987**	**689**	**-**	**-**	**666**	**-**	**2,342**

Note 19 – Goodwill and Intangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Goodwill	**61,085**	**406**
Payshop (Portugal), S.A.	406	406
321 Crédito – Instituição Financeira de Crédito, S.A.	60,679	-
Intangible Assets	**27,624**	**24,981**
Acquisition Cost	**40,515**	**32,714**
Software in use	33,959	28,599
Other intangible assets	680	424
Software in progress	5,876	3,691
Accumulated Amortisation	**12,891**	**7,733**
Related to previous years	9,015	4,614
Related to the current year	3,876	3,119
Goodwill and Intangible Assets	**88,709**	**25,387**

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 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**

The movement of the headings "Goodwill" and "Intangible Assets" during 2018 is analysed as follows:

(amounts in thousand euros)

	2018					
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Payshop Acquisition	Balance on 31 December
Goodwill	**-**	**-**	**-**	**-**	**406**	**406**
Consolidation and revaluation differences	-	-	-	-	406	406
Impairment	-	-	-	-	-	-
Intangible Assets	**21,000**	**3,769**	**-**	**-**	**212**	**24,981**
Acquisition Cost	**24,870**	**6,888**	**-**	**-**	**956**	**32,714**
Software in use	22,719	2,015	3,516	-	349	28,599
Other intangible assets	16	-	-	-	408	424
Software in progress	2,135	4,873	(3,516)	-	199	3,691
Accumulated amortisation	**3,870**	**3,119**	**-**	**-**	**744**	**7,733**
Software in use	3,866	3,117	-	-	336	7,319
Other intangible assets	4	2	-	-	408	414
Goodwill and Intangible Assets	**21,000**	**3,769**	**-**	**-**	**618**	**25,387**

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 2019 and 31 December 2012, based on the following assumptions:

	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	5 years	10.0%	2.0%

	2018			
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	5 years	10.1%	1.0%

Based on this analysis and on the outlook on future evolution, it is concluded that there are no signs 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) perpetuity growth rate and (ii) discount rates. The results of the sensitivity analyses do not determine the existence of indicators of 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 2019 and 2018 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)

	2019	restated 2018
Profit/(Loss) before tax	(9,501)	(22,079)
Current tax rate	21%	21%
Expected income tax	**(1,995)**	**(4,637)**
Surcharges	659	177
Total Expected Tax	**(1,336)**	**(4,459)**
Net asset variations	(32)	(185)
Accruals/(deductions) for calculation purposes	(197)	296
Autonomous tax	87	25
Other adjustments	-	2
Recorded current tax for the year	**(1,479)**	**(4,321)**
Recorded deferred tax	**116**	**(138)**
Recorded total tax	**(1,363)**	**(4,459)**
Effective Rate	**14.3%**	**20.2%**
Corrections relative to previous years	**(127)**	**(133)**
Taxes	**(1,490)**	**(4,592)**

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 19 and 22).

As at 31 December 2019, as described in Note 2.9, 321 Crédito does not meet the requirements to be included under the RETGS.

The heading "Current tax liabilities", of the value of 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)

	2019	2018
Opening balance	**530**	**209**
Change of the consolidation perimeter	1,679	-
Recognised through profit or loss	(116)	136
Recognised through other reserves	-	185
Deferred tax assets	**2,093**	**530**

The value of deferred tax assets as at 31 December 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)

	2019	2018
Opening balance	**-**	**-**
Change of the consolidation perimeter	83	-
Recognised through profit or loss	-	-
Recognised through other reserves	-	-
Deferred tax assets	**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 2018, the Group incurred R&D expenses of approximately 17,153 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 9,863 euros.

During the economic year of 2019, the Group incurred R&D expenses of approximately 115,215 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 90,764 euros.

Note 21 – Other Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
IRC RETGS	10,621	5,547
Receivables due to payment operations	1,720	1,734
Transactions pending settlement	1,477	1,514
Escrow accounts	2,052	371
Other receivables	8,645	3,561
Expenses with deferred charges	833	603
Administrative Public Sector	648	58
Receivables due to advances	53	1
Income receivable	56	51
Impairment of other assets	(4,789)	(542)
Other Assets	**21,316**	**12,898**

The heading "Other Assets" includes the amount of 10,621 thousand euros (2018: 5,547 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 2.12 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.

The movement of impairment for other assets is analysed as follows:

(amounts in thousand euros)

	2019	2018
Opening balance	542	-
Change of the consolidation perimeter	4,011	375
Allocation for the period	368	193
Reversal for the period	(68)	(25)
Usage for the period	(64)	(1)
Impairment for Other Assets	**4,789**	542

Note 22 – Financial Liabilities at Amortised Cost – Amounts Owed to Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Amounts owed to credit institutions abroad		
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)

	2019	2018
Up to 3 months	37,851	-
3 to 12 months	-	-
1 to 3 years	-	-
More than 3 years	-	-
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)

	2019	2018
Demand deposits	961,772	671,673
Term deposits	169,581	100,832
Saving accounts	152,214	111,445
Financial Liabilities at Amortised Cost – Deposits from Customers	**1,283,567**	**883,950**

The analysis of the heading "Deposits from customers", by contractual residual maturity, is as follows:

(amounts in thousand euros)

	2019	2018
Demand deposits and saving accounts	1,113,986	783,118
Term deposits		
Up to 3 months	53,165	47,463
3 to 12 months	116,416	53,369
Financial Liabilities at Amortised Cost – Deposits from Customers	**1,283,567**	**883,950**

Note 24 – Financial Liabilities at Amortised Cost – Debt Securities Issued

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Securitisations (see Note 36)	**76,077**	-
Financial Liabilities at Amortised Cost – Debt Securities Issued	**76,077**	**-**

As at 31 December 2019, the debt securities issued are analysed as follows:

(amounts in thousand euros)

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
Financial Liabilities at Amortised Cost – Debt Securities Issued				**76,038**	**76,077**

The movement of this heading for the year is presented as follows:

(amounts in thousand euros)

Name	Opening balance	Changes in the consolidation perimeter	Issues	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
Financial Liabilities at Amortised Cost – Debt Securities Issued	**-**	**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 an auto loan 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)

	2019				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Securitisations	17	-	-	76,060	76,077
Financial Liabilities at Amortised Cost – Debt Securities Issued	**17**	**-**	**-**	**76,060**	**76,077**

Note 25 – Provisions

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Provisions for other risks and charges	1,723	51
Provisions	**1,723**	**51**

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)

	2019	2018
Opening balance	**51**	86
Change of the consolidation perimeter	1,896	-
Allocation for the period	190	46
Reversal for the period	(414)	(66)
Usage for the period	-	(15)
Provisions	**1,723**	**51**

Note 26 – Other Liabilities

This heading is analysed as follows:

(amounts in thousand euros)

	2019	restated 2018
Payables		
Suppliers	12,554	3,829
Related parties	2,031	1,176
Other payables	1,907	44
Staff costs	6,222	3,407
Transactions pending settlement	17,971	14,954
Revenue with deferred charge	395	-
Payables due to payment operations	4,982	3,390
IRC RETGS	282	458
Administrative Public Sector	1,619	794
Escrow accounts	239	217
Trading activity to be cleared	-	-
Lease liabilities	2,902	1,699
Other Liabilities	**51,104**	**29,968**

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 282 thousand euros (2018: 458 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 2.10 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 2019, 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)

	2019	restated 2018
Fair Value Reserves		
Other financial assets at fair value through other comprehensive income	16	-
Other reserves	(904)	(758)
Retained earnings	(66,146)	(48,661)
Reserves and Retained Earnings	**(67,034)**	**(49,419)**

Note 29 – Guarantees and Other Commitments

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Guarantees Provided	15,344	9,077
Guarantees Received	1,226,911	439,242
Commitments to third parties		
Revocable commitments		
Credit lines	19,440	10,897
Irrevocable commitments		
Credit lines	11,180	9,984
Commitments from third parties		
Revocable commitments		
Credit lines	10,119	6,862
Irrevocable commitments		
Other	279	-
Liabilities due to services rendered		
Assets under custody	40	219

The amount recorded as Guarantees Provided primarily includes securities given as collateral to secure the settlement of interbank operations.

The amount recorded as Guarantees Provided primarily includes securities given as collateral to secure the settlement of interbank operations.

The revocable and irrevocable commitments present contractual agreements for granting credit to the 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 2019 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]

(1) Qualifying holding in the sole shareholder, CTT – Correios de Portugal, S.A. (Public Company). This holding is imputable to Manuel Carlos de Mello Champalimaud, being composed of a directly held component of 0.24% and by a component of 12.76% indirectly held through Manuel Champalimaud, SGPS, S.A., a company controlled by Manuel Carlos de Mello Champalimaud, as well as shares held by the members of the Board of Directors of Manuel Champalimaud, SGPS, S.A.

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 (COO)	-	-	-
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	-	-	-	-
António Emídio Pessoa Corrêa d'Oliveira	Member	-	-	-	-
Guy Patrick Guimarães de Goyri Pacheco	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 2019 are indicated herein.

Other related parties
CTT Expresso – Serviços Postais e Logística, S.A.
CTT Contacto, S.A.
Correio Expresso de Moçambique, S.A.

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 2018, 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)

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

As at 31 December, the value of the deposits placed by the members of the Corporate Bodies at the Group amounted to 142 thousand euros (2018: 135 thousand euros).

Note 31 – Fair Value

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*
Bonds of other issuers	-	-	-	-	-
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**

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

(amounts in thousand euros)

	2018				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair Value
Cash and deposits at central banks	-	-	31,679	31,679	31,679
Deposits at other credit institutions	-	-	108,667	108,667	108,667
Financial assets at amortised cost					
Investments at credit institutions	-	-	119,811	119,811	119,811
Loans and advances to customers	-	-	248,049	248,049	248,049
Debt securities	-	-	452,613	452,613	468,350
Bonds issued by public entities	-	-	*417,441*	*417,441*	*433,215*
Bonds of other issuers	-	-	*35,172*	*35,172*	*35,135*
Financial assets at fair value through other comprehensive income					
Debt securities	-	1,489	-	1,489	1,489
Bonds issued by public entities	-	*560*	-	*560*	*560*
Bonds of other issuers	-	*929*	-	*929*	*929*
Non-current assets held for sale	-	-	-	-	-
Financial Assets	**-**	**1,489**	**960,819**	**962,308**	**978,045**
Financial liabilities at amortised cost					
Deposits from customers	-	-	883,950	883,950	883,950
Financial liabilities	**-**	**-**	**883,950**	**883,950**	**883,950**

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 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*
Bonds of other issuers	-	-	-	-
Non-current assets held for sale	-	806	-	806
Financial Assets	**648,904**	**15,531**	**926,790**	**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 table below summarises, by valuation levels, the fair value of the financial assets and liabilities, as at 31 December 2018:

(amounts in thousand euros)

	2018			
	Valuation methods			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	31,679	-	-	31,679
Deposits at other credit institutions	108,667	-	-	108,667
Financial assets at amortised cost				
Investments at credit institutions	-	-	119,811	119,811
Loans and advances to customers	-	-	248,049	248,049
Debt securities	433,215	25,245	9,890	468,350
Bonds issued by public entities	*433,215*	-	-	*433,215*
Bonds of other issuers	-	*25,245*	*9,890*	*35,135*
Financial assets at fair value through other comprehensive income				
Debt securities	1,489	-	-	1,489
Bonds issued by public entities	*560*	-	-	*560*
Bonds of other issuers	*929*	-	-	*929*
Non-current assets held for sale	-	-	-	-
Financial Assets	**575,050**	**25,245**	**377,750**	**978,045**
Financial liabilities at amortised cost				
Deposits from customers	-	-	883,950	883,950
Financial liabilities	**-**	**-**	**883,950**	**883,950**

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.

Financial Assets 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.

In the first quarter of 2017, the Bank launched the granting of the mortgage loan product. As at 31 December 2019, the exposures (net of impairment and including off-balance exposures) to this type of loan of credit stood at 421,748 thousand euros (247,042 thousand euros as at 31 December 2018).

During 2019, via the acquisition of 321 Crédito, the Group significantly increased its credit in the retail segment, more specifically in auto loans at point of sale, recording significant changes in its balance sheet structure and concerning exposure to credit risk. The 467,468 thousand euros of exposures (net of impairment and including off-balance exposures) to retail of 2019 compare with 4,341 thousand euros of 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.

Auto loans' operations are made with reservation of ownership, and the value of the vehicle is assessed at the time of granting the credit.

The acceptance of collateral to secure credit operations requires the need to define and implement techniques to mitigate the risks to which this collateral is exposed. Thus, and as an approach to this matter, the Group has stipulated a series of procedures applicable to collateral (namely real estate properties), that hedge, among others, the volatility of the value of the collateral.

The gross value of the loans and respective fair value of the collateral, limited to the value of the associated loan, are presented below:

(amounts in thousand euros)

	2019		2018	
	Loans and advances to customers	Fair value of the collateral	Loans and advances to customers	Fair value of the collateral
Mortgage loans	402,126	687,598	239,524	410,225
Auto loans	460,808	456,534	-	-
Other	884,958	1,176,951	8,526	-
	1,747,893	**2,321,083**	**248,050**	**410,225**

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 2019 and 31 December 2018:

(amounts in thousand euros)

	2019	2018
Central Authorities or Central Banks	471,295	424,194
Credit institutions	166,289	237,526
Companies	18,041	44,841
Retail customers	467,469	4,341
Loans secured by immovable assets	421,748	247,042
Non-performing loans	7,291	128
Other items	57,072	40,849
Risk Headings	**1,609,203**	**998,921**

The information on the risk headings (including off-balance sheet) as at 31 December 2019 and 31 December 2018 is detailed as follows:

(amounts in thousand euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	29,498	-	29,498	6,217	-	6,217
Other financial assets at fair value through other comprehensive income	542	-	542	536	-	536
Investment securities measured at amortised cost	441,422	(167)	441,255	417,589	(148)	417,441
Central Authorities or Central Banks	**471,462**	**(167)**	**471,295**	**424,342**	**(148)**	**424,194**

(amounts in thousand euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	116,699	-	116,699	104,309	-	104,309
Other financial assets at fair value through other comprehensive income	-	-	-	203	-	203
Investments at financial institutions	48,391	(216)	48,175	122,355	(415)	121,940
Other	1,415	-	1,415	11,083	(9)	11,074
Credit institutions	**166,505**	**(216)**	**166,289**	**237,950**	**(424)**	**237,526**

(amounts in thousand euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Other financial assets at fair value through other comprehensive income	3,440	(13)	3,427	878	(127)	751
Investment securities measured at amortised cost	14,620	(7)	14,614	35,207	(35)	35,172
Loans and advances to customers	-	-	-	8,918	-	8,918
Companies	**18,060**	**(20)**	**18,041**	**45,003**	**(162)**	**44,841**

(amounts in thousand euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	470,625	(3,156)	467,468	4,360	(19)	4,341
Retail customers	**470,625**	**(3,156)**	**467,468**	**4,360**	**(19)**	**4,341**

(amounts in thousand euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	421,903	(155)	421,748	247,274	(232)	247,042
Loans secured by immovable assets	**421,903**	**(155)**	**421,748**	**247,274**	**(232)**	**247,042**

(amounts in thousand euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	7,944	(653)	7,291	334	(206)	128
Non-performing loans	**7,944**	**(653)**	**7,291**	**334**	**(206)**	**128**

The exposure to public debt, net of impairment, of eurozone countries is detailed as follows:

(amounts in thousand euros)

	2019			2018		
	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	542	286,995	287,537	536	296,486	297,022
Spain	-	54,924	54,924	-	45,048	45,048
Italy	-	87,172	87,172	-	63,727	63,727
France	-	6,492	6,492	-	6,551	6,551
Ireland	-	5,671	5,671	-	5,777	5,777
	542	**441,254**	**441,796**	**536**	**417,589**	**418,125**

The analysis of the portfolio of financial assets by stages is presented as follows:

(amounts in thousand euros)

	2019					2018			
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	Total
Deposits at Central Banks and other credit institutions	146,197	-	-	-	146,197	114,886	-	-	114,886
Impairment losses	(1)	-	-	-	(1)	(2)	-	-	(2)
Net value	**146,196**	**-**	**-**	**-**	**146,196**	**114,884**	**-**	**-**	**114,884**
Investments at credit institutions	34,831	-	-	-	34,831	120,233	-	-	120,233
Impairment losses	(216)	-	-	-	(216)	(422)	-	-	(422)
Net value	**34,615**	**-**	**-**	**-**	**34,615**	**119,811**	**-**	**-**	**119,811**
Financial assets at fair value through other comprehensive income – Debt securities	542	-	-	-	542	1,141	476	-	1,617
Impairment losses	-	-	-	-	-	(1)	(127)	-	(128)
Net value	**542**	**-**	**-**	**-**	**542**	**1,140**	**349**	**-**	**1,489**
Financial assets at amortised cost – Debt securities	456,042	-	-	-	456,042	452,796	-	-	452,796
Impairment losses	(173)	-	-	-	(173)	(183)	-	-	(183)
Net value	**455,869**	**-**	**-**	**-**	**455,869**	**452,613**	**-**	**-**	**452,613**
Financial assets at amortised cost – Loans and advances to customers	836,958	40,208	7,199	5,434	889,799	246,671	1,502	334	248,507
Impairment losses	(2,063)	(871)	(2,337)	1,293	(3,978)	(185)	(67)	(206)	(458)
Net value	**834,895**	**39,337**	**4,862**	**6,727**	**885,821**	**246,486**	**1,435**	**128**	**248,049**

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 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	**173,125**	**206,956**	**309,451**	**579,007**	**1,548,463**	**1,553,339**	

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

(amounts in thousand euros)

	2018						
	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	31,679	-	-	-	-	-	**31,679**
Deposits at other credit institutions	104,309	-	-	-	-	-	**104,309**
Financial assets at amortised cost							
Investments at credit institutions	-	24,472	72,851	14,251	8,659	-	**120,233**
Loans and advances to customers	529	10,641	4,921	13,333	218,690	393	**248,507**
Debt securities	-	10,460	13,990	78,392	349,953	-	**452,795**
Financial assets at fair value through profit or loss							
Financial assets held for trading	-	-	-	-	-	-	**-**
Financial assets at fair value through other comprehensive income							
Debt securities	-	23	608	858	-	-	**1,489**
Total Assets	**136,517**	**45,596**	**92,370**	**106,834**	**577,302**	**393**	**959,012**
Liabilities							
Financial liabilities at amortised cost							
Amounts owed to other credit institutions	-	-	-	-	-	-	**-**
Deposits from customers	783,118	47,463	53,370	-	-	-	**883,951**
Debt securities issued	-	-	-	-	-	-	**-**
Total Liabilities	**783,118**	**47,463**	**53,370**	**-**	**-**	**-**	**883,951**
Gap (Assets-Liabilities)	**(646,601)**	**(1,867)**	**39,000**	**106,834**	**577,302**	**393**	**75,061**
Accumulated Gap	**(780,815)**	**(1,622,008)**	**(2,325,463)**	**(2,483,845)**	**284,395**	**438,264**	

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 2019, the ALMM shows a negative liquidity mismatch (difference between contracted outflows and inflows) of 609,479 thousand euros, to which customer deposits greatly contribute.

However, this negative liquidity mismatch is offset by the financial assets and reserves at the Central Bank of close to 781,858 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 2019, 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 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)**

As at 31 December 2018, 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)

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

In view of the interest rate gaps observed, as at 31 December 2019, the impact on the economic value of instantaneous and parallel shifts of the interest rates by -200 basis points is -2,740 thousand euros (2018: -530 thousand euros).

The main assumptions used in 2018 and 2019 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;
- Auto Loans: constant annual pre-payment rate of 11%.

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 (2 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 financial assets at amortised cost and residually as financial assets at fair value through other comprehensive income. 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)

	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	405,843	n/a	803,923	n/a
	451,532		**1,214,346**	

(amounts in thousand euros)

	2018			
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Debt securities	7,574	7,574	446,528	462,265
Other assets	1,150	n/a	548,213	n/a
	8,724		**994,741**	

(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	
	2019	2018	2019	2018
Collateral received	**416,645**	**-**	**794,938**	**-**
Debt securities				
Other assets	-	-	-	-
Other collateral received	416,645	-	794,938	-
Own debt securities issued other than covered own bonds or ABS	**-**	**-**	**-**	**-**

(amounts in thousand euros)

	Book value of the selected financial liabilities	
	2019	2018
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	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 auto loan contracts.

Of the total unencumbered total assets of the value of 803,924 thousand euros (2018: 545,522 thousand euros), approximately 12% (2018: 5%) 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 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, goodwill 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, but benefiting from a transition period lasting up to the end of 2019.

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 2019 and 31 December 2018, the Bank presented the following capital ratios, calculated in accordance with the transitional provisions established in the CRR:

(amounts in thousand euros)

	2019		2018		
	CRR Phasing in	CRR Fully Implemented	CRR Phasing in	CRR Fully Implemented	Notes
OWN FUNDS					
Share capital	286,400	286,400	156,400	156,400	27
Retained earnings	(66,148)	(66,148)	(48,661)	(48,661)	28
Other Reserves	(207)	(207)	(53)	(53)	
Prudential Filters	15	15	(1)	(1)	28
Fair value reserves	16	16	-	-	
Additional Valuation Adjustment (AVA)	(1)	(1)	(1)	(1)	
Deductions to common equity tier 1	(96,824)	(97,415)	(42,909)	(43,569)	
Losses for the period	(8,011)	(8,011)	(17,487)	(17,487)	
Intangible assets	(88,709)	(88,709)	(25,387)	(25,387)	19
Adoption of IFRS 9	(104)	(695)	(35)	(695)	
Items not deducted from Equity pursuant to article 437 of the CRR	2,093	2,093	-	-	
Deferred tax assets	2,093	2,093	-	-	20
Common Equity Tier 1	123,236	122,645	64,776	64,116	
Tier 1 Capital	123,236	122,645	64,776	64,116	
Total Own Funds	123,236	122,645	64,776	64,116	
RWA	643,061	646,166	275,186	274,706	
Credit Risk	600,298	600,298	258,673	258,673	
Operational Risk	45,816	45,816	16,513	16,513	
Market Risk	487	487	-	-	
IFRS 9 adjustments	-	(335)	-	(480)	
CAPITAL RATIOS					
Common Equity Tier 1	19.06%	18.98%	23.54%	23.34%	
Tier 1 Ratio	19.06%	18.98%	23.54%	23.34%	
Total Capital Ratio	19.06%	18.98%	23.54%	23.34%	

The values of 2018 presented in the table above are the reported values and not the restated values derived from the adoption of IFRS 16 (see Note 37).

Note 34 – Business Combinations

Purchase of 321 Crédito – Instituição Financeira de Crédito, S.A.

Description of the transaction

On 24 July 2018, Banco CTT closed the agreement to buy 100% of 321 Crédito, a credit institution specialised in granting credit for the purchase of used motor vehicles by retail customers, through an external network of points of sale.

The agreement was concluded with Firmus Investimentos, SGPS, S.A., an entity held by Cabot Square Capital LLP and Eurofun, which, taken together, held the entirety of the capital of 321 Crédito.

The suspensive conditions established in the share purchase agreement of 321 Crédito were met by Banco CTT on 22 April 2019, including non-objection by the competent banking supervision entities and the Competition Authority.

Strategic rationale for the transaction

The acquisition of 321 Crédito is part of Banco CTT's development strategy, introducing a new business line, generating funding synergies and optimising the consolidated balance sheet through a significant increase of the loan portfolio and loan-to-deposit ratio.

The transaction is also aligned with CTT's strategy, reinforcing the commitment to the diversification of its business, through strategic investment in the growth of Banco CTT while maintaining capacity to continue to invest in future opportunities for growth in other business segments, such as Express & Parcels.

Price

The acquisition was carried out at an initial price of 100 million euros, settled on the closing date of the operation, on 2 May 2019. The price was also subject to a price adjustment mechanism with a view to reflecting the variation of the regulatory capital from 31 December 2017 up to 31 March 2019, which stood at 10,782 thousand euros, also settled in May 2019. The final price amounted to 110,782,000 euros.

Funding

The acquisition price was paid in cash and funded by the Bank's own capital, with a share capital increase having been carried out for this purpose of 110 million euros, fully underwritten and paid-up by the Bank's sole shareholder, CTT – Correios de Portugal, S.A..

Moreover, the agreement specified that the funding granted to 321 Crédito by AL Securitisation Limited (a company held by Cabot Square Capital LLP) on the amount of 31 million euros should also be acquired, at its nominal value, by Banco CTT from AL Securitisation Limited.

Recognition and measurement of acquired identifiable assets and liabilities undertaken pursuant to the IFRS

The following data relative to the measurement at fair value of the acquired identifiable assets and liabilities were based on identification in the perspective of Banco CTT and under the adopted assumptions considering the level of materiality.

(amounts in thousand euros)

	Fair Value 02 May 2019
Assets	
Cash and deposits at central banks	2.103
Deposits at other credit institutions	4.721
Financial assets at amortised cost	
Loans and advances to customers	397.553
Non-current assets held for sale	803
Other tangible assets	1.797
Intangible assets	486
Deferred tax assets	1.677
Other assets	1.585
Total Assets	**410.725**
Liabilities	
Financial liabilities at amortised cost	
Amounts owed to other credit institutions	19.016
Customer funds and other funding	31.342
Financial liabilities associated to transferred assets	294.487
Provisions	1.897
Current tax liabilities	3.442
Deferred tax liabilities	83
Other liabilities	10.355
Total Liabilities	**360.622**
Total Equity	**50.103**

The gross value of the loans and advances to customers stood at 415,709 thousand euros and the impairment associated to this portfolio of assets amounted to 19,783 thousand euros.

Method of measurement at fair value

Cash and deposits at central banks

The estimated fair value corresponds to the net book value.

Deposits at other credit institutions

The estimated fair value corresponds to the net book value.

Loans and advances to customers

The portfolio of loans and advances to customers acquired as part of the operation of acquisition of shares of 321 Crédito, S.A., was measured at fair value on the acquisition date in conformity with the requirements of IFRS 3 and IFRS 13. The fair value was estimated as the present value of the discounted future cash flows of the acquired assets, considering the expected fluctuations in the value and period of the financial flows, the time value of the financial flows and the market conditions of similar portfolios.

Stage 1

The fair value of Stage 1 credit 1 corresponds to the sum of the Net Present Value ("NPV") of the credit granted by 321 Crédito. In order to determine the NPV of each operation, two steps were taken:

1. Estimate of a fixed monthly instalment, which is reflected in the amount of principal repaid to 321 Crédito by the borrowers on a monthly basis.

   This exercised was based on the NPV formula, which was inverted to determine the value of the instalment, in which the following parameters were considered:

   a) Present value - Value of the amount that has not yet fallen due of the credit under review;

   b) Interest rate - Remuneration rate of the credit operation under review;

   c) Duration (monthly) - Monthly timeframe up to the maturity of the credit under review.

2. Determination of the Fair Value of the granted credit, obtained by the application of the NPV formula, which considers the following parameters:

   a) Constant monthly instalment;

   b) Discount rate - Weighted average of the Internal Rate of Return of the credit granted in April 2019;

   c) Duration (monthly).

Stage 2

The calculation of the fair value of Stage 2 credit follows the same methodology as that used for Stage 1 credit, additionally considering the amount of impairment of this credit, in order to incorporate the specific credit risk ascertained for these operations in the calculation of the fair value of this credit.

Stage 3

It was assumed that the fair value of Stage 3 credit corresponds to its gross value minus the expected losses for each credit item.

Non-current assets held for sale

The fair value of the real estate assets held for sale corresponds to the valuation amount arising from the analysis by 321 Crédito, which includes the immediate sale value ("ISV") arising from the real estate valuations corrected for the effects of costs and periods of selling.

Other tangible assets

The estimated fair value corresponds to the net book value.

Intangible assets

The estimated fair value corresponds to the net book value.

Deferred tax assets

The estimated value for effects of Purchase Price Allocation (PPA) corresponds to the value of deferred taxes in April 2019 relative to the (i) estimated deductible temporary differences made by 321 Crédito; and (ii) differences between the fair value and the net book value of the headings "Loans and advances to customers" and "Financial liabilities" associated to asset transfers.

Other assets

The estimated fair value corresponds to the net book value.

Amounts owed to other credit institutions

The estimated fair value corresponds to the net book value.

Customer funds and other funding

The estimated fair value corresponds to the net book value.

Financial liabilities associated to transferred assets

Fair value was determined through the market value for the tranches traded on markets and the net book value for all the other tranches.

Provisions

Fair value is derived from the analysis carried out on the effect of the identified contingent liabilities.

Current tax liabilities

The estimated fair value corresponds to the net book value.

Deferred tax liabilities

The estimated fair value corresponds to the differences between the fair value and the net book value of the heading "Non-current liabilities held for sale".

Other liabilities

The estimated fair value corresponds to the net book value.

Calculation of Goodwill

On the date of this report, the Bank had not yet completed the process of calculation of the goodwill reported as 2 May 2019.

The Bank made a provisional record and a preliminary calculation of goodwill as a result of the acquisition of shares of 321 Crédito, S.A. In conformity with the requirements of IFRS 3, Banco CTT shall carry out the final recording of the acquisition within the maximum period of one year counted from the date on which it obtained control, i.e. by 2 May 2020. During this period, the acquiror can retrospectively adjust the provisional fair value of the assets and liabilities recognised with reference to the acquisition date, in order to reflect any new information obtained in relation to facts and circumstances that existed on the acquisition date and that, had they been known, would have affected the measurements of those assets and liabilities. These adjustments shall be reflected in the recognition and measurement of goodwill or the gain arising from a purchase at an advantageous price.

(amounts in thousand euros)

Purchase price	110,782
Fair value of the acquired net assets (net asset value)	50,103
Goodwill	**60,679**

(amounts in thousand euros)

Statutory Capital of 321 Crédito	47,539
Fair value of the acquired net assets (net asset value)	50,103
	2,564

Goodwill is primarily attributable to the human capital skills of 321 Crédito and to the synergies that are expected to be obtained from the integration of the company into the Group's existing business activities. It is not expected that the goodwill shall be deductible for tax purposes.

Additional disclosures

The consolidated statement of comprehensive income of the Banco CTT Group, for the first year of 2019, includes the value of 9,591,902 euros of net income of 321Crédito.

The income statement of the Banco CTT Group, prepared as if the acquisition date had been at the beginning of the reporting date, i.e. 1 January 2019, is presented below. This information is only for reference, as the income statement of the Banco CTT Group includes the net income of 321 Crédito from the date of its incorporation (2 May 2019), in other words, from May up to December 2019.

(amounts in thousand euros)

	2019 *pro forma*
Interest and similar income calculated through the effective interest rate	39,875
Interest and similar expenses	(3,802)
Net Interest Income	**36,073**
Net fee and commission income	16,441
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	35
Net gains/(losses) from divestment of other assets	11
Other operating income/(expenses)	1,519
Operating Income	**54,071**
Staff costs	(21,091)
General administrative expenses	(28,721)
Depreciation and amortisation	(5,640)
Operating Expenses	**(55,452)**
Operating Profit/(Loss) Before Provisions and Impairment	**(1,381)**
Impairment	(4,182)
Provisions	120
Operating Profit/(Loss)	**(5,443)**
Profit/(Loss) Before Tax	**(5,443)**
Income Tax	
Current	493
Deferred	(116)
Net Income for the Year	**(5,006)**

The Group incurred costs related to the acquisition of 321 Crédito of 1,608 thousand euros related to the transaction, namely financial advisory and legal costs. These costs were recorded under general administrative expenses (see Note 9).

Note 35 – 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:

	2019
Financial assumptions	
Discount rate	1.50%
Salary growth rate (considering progressions)	1.25%
Medical inflation rate	1.00%
Demographic assumptions	
Rate of death due to work accidents	0.000035
Mortality table	Men: TV 88 / 90 Women: TV 88 / 90 (-1)
Disability table	Swiss RE
Retirement age	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 1.50%.

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 2019, is presented below:

(amounts in thousand euros)

	2019		
	Healthcare – SAMS	Other post-employment benefits	Total
Opening balance	-	-	-
Change of the consolidation perimeter	1,101	178	1,279
Cost of the current service	34	3	37
Cost of interest (note 4)	21	3	24
Benefits paid	(1)	-	(1)
Actuarial gains and losses for the year	131	14	145
Closing balance	**1,286**	**198**	**1,484**

On the present date, the Group's best estimate for the expenses related to employment benefits that the Group expects to recognise in the next annual period in relation to Healthcare (SAMS) is approximately 116 thousand euros and in relation to other post-employment benefits approximately 15 thousand euros.

As at the period ended on 31 December 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)

	2019
Expenses recognised in the income statement	
Healthcare – SAMS	55
Other post-retirement benefits	6
	61
Actuarial deviations recorded under the balance sheet heading "Other changes in equity"	
Healthcare – SAMS	131
Other post-retirement benefits	14
	145

The average duration of the liabilities related to Healthcare (SAMS) and other employee benefits is approximately 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)

	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, keeping everything else constant, could be reflected in a reduction of the liabilities due to past services by approximately 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 6.4%.

<u>Mortality table:</u>

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 2.2%, increasing to 1,516 thousand euros.

(amounts in thousand euros)

	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 36 – Asset Securitisation

As at 31 December 2019, the Group had in progress the following securitisation operations not derecognised from the balance sheet:

(amounts in thousand euros)

Issue	Securitised asset	Issue date	Redemption date	Initial value of the credit	Retained interests	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.8 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, as at 31 December 2019, are analysed as follows:

(amounts in thousand euros)

	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**										

These operations incorporate interest rate swaps, which are 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 issuers of the securitisation operations (Tagus and 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 2019, the Group, through 321 Crédito, maintained the Fénix operation as the only outstanding derecognised securitisation operation. The Group's only involvement in this operation was to provide serving for this operation.

Note 37 – Application of IFRS 16 – Leases

As described in Note 1 – Basis of presentation and accounting policy 2.8, the Group adopted IFRS 16 – Leases on 1 January 2019 in replacement of IAS 17 – Leases, which was in force up to 31 December 2018. IFRS 16 was approved by the EU in October 2017, with the Group not having opted for the early adoption of any of the requirements of IFRS 16 in October 2017, nor the early adoption of any of the requirements of IFRS 16 in previous periods.

Pursuant to IFRS 16, the lessee henceforth applies a single lease accounting model, and no longer classifies leases as operating or finance.

The lessee should recognise all the leases on the balance sheet at the beginning of the contract, recognising:

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

The adoption of IFRS 16 also has impacts on the income statement, with the depreciation of the right-of-use asset and interest associated to the lease liability henceforth being recognised separately, instead of the previous recognition of lease payments under the heading "External Supplies and Services".

IFRS 16 gives the lessee the option not to apply this accounting model for:

- Leases with a lease period of up to 12 months that do not contain a purchase option; and
- Leases of low-value assets.

Adoption of IFRS 16 by the Banco CTT Group

The Group adopted the new rules taking effect on 1 January 2019 in accordance with the full retrospective transition option, with the exemptions mentioned above not having been applied.

<u>Type of Leases</u>

The Company took stock of all the lease and service contracts that could include right-of-use assets, identifying three major groups of leases:

i. Real Estate Property Leases

Real estate property lease contracts that, in the light of IFRS 16, constitute a right-of-use asset, with the lease period having been considered the initial periods of duration of the contracts and the renewal periods that exclusively depend on the Company's decision and which the Company is reasonably certain to exercise in the future.

As a convenient practice, the provision of fixed services associated to each real estate property (variable component) was included in the recording of the right of use.

ii. Vehicle Leases

The initial periods of duration of the contracts and the renewal periods that exclusively depend on the Company's decision and which the Company is reasonably certain to exercise in the future were assumed.

In these types of contracts, the value relative to the lease payment varies according to the number of kilometres that the vehicle covers throughout the contract period. Accordingly, only the minimum lease payments for the valorisation of the liability and right of use were considered.

As a convenient practice, the provision of fixed services associated to each vehicle (variable component) was included in the recording of the right of use.

<u>Incremental interest rate</u>

As lease contracts do not have an implicit rate, an incremental interest rate was considered for the discount of the lease payments.

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

Impacts on the consolidated financial statements

The impacts of the adoption of IFRS 16, taking effect on 1 January 2018, the transition date, and as at 31 December 2018, are detailed below:

(amounts in thousand euros)

	01 January 2018		
	Reported value	IFRS 16 adjustments	Restated value
Assets			
Cash and deposits at central banks	58,064	-	58,064
Deposits at other credit institutions	176,975	-	176,975
Financial assets at amortised cost			
Investments at credit institutions	101,912	-	101,912
Loans and advances to customers	79,347	-	79,347
Debt securities	267,301	-	267,301
Other tangible assets	193	794	987
Goodwill and intangible assets	21,000	-	21,000
Deferred tax assets	209	-	209
Other assets	15,791	-	15,791
Total Assets	**720,792**	**794**	**721,586**
Liabilities			
Financial liabilities at amortised cost			
Deposits from customers	619,230	-	619,230
Provisions	86	-	86
Other liabilities	25,087	803	25,890
Total Liabilities	**644,403**	**803**	**645,206**
Equity			
Share capital	125,000	-	125,000
Fair value reserves	50	-	50
Other reserves and retained earnings	(27,359)	(9)	(27,368)
Net income for the year	(21,302)	-	(21,302)
Total Equity	**76,389**	**(9)**	**76,380**

(amounts in thousand euros)

	31 December 2018		
	Reported value	IFRS 16 adjustments	Restated value
Assets			
Cash and deposits at central banks	31,679	-	31,679
Deposits at other credit institutions	108,667	-	108,667
Financial assets at amortised cost			
Investments at credit institutions	119,811	-	119,811
Loans and advances to customers	248,049	-	248,049
Debt securities	452,613	-	452,613
Financial assets at fair value through other comprehensive income			
Debt securities	1,489	-	1,489
Other tangible assets	651	1,691	2,342
Goodwill and intangible assets	25,387	-	25,387
Deferred tax assets	530	-	530
Other assets	12,898	-	12,898
Total Assets	**1,001,774**	**1,691**	**1,003,465**
Liabilities			
Financial liabilities at amortised cost			
Deposits from customers	883,950	-	883,950
Provisions	51	-	51
Other liabilities	28,269	1,699	29,968
Total Liabilities	**912,270**	**1,699**	**913,969**
Equity			
Share capital	156,400	-	156,400
Other reserves and retained earnings	(49,409)	(10)	(49,419)
Net income for the year	(17,487)	2	(17,485)
Total Equity	**89,504**	**(8)**	**89,496**

The impacts of the adoption of IFRS 16, taking effect on 31 December 2018, are detailed below:

(amounts in thousand euros)

	31 December 2018		
	Reported value	IFRS 16 adjustments	Restated value
Interest and similar income calculated through the effective interest rate	8,565	-	8,565
Interest and similar expenses	(693)	(20)	(713)
Net Interest Income	**7,872**	**(20)**	**7,852**
Net fee and commission income	11,082	-	11,082
Net gains/(losses) of assets and liabilities at fair value through profit or loss	2	-	2
Other operating income/(expenses)	(414)	-	(414)
Operating Income	**18,542**	**(20)**	**18,522**
Staff costs	(14,064)	-	(14,064)
General administrative expenses	(22,574)	906	(21,668)
Depreciation and amortisation	(3,641)	(884)	(4,525)
Operating Expenses	**(40,279)**	**(22)**	**(40,257)**
Operating Profit/(Loss) Before Provisions and Impairment	**(21,737)**	**2**	**(21,735)**
Loans impairment	(343)	-	(343)
Other financial assets impairment	149	-	149
Other assets impairment	(168)	-	(168)
Other provisions	20	-	20
Operating Profit/(Loss)	**(22,079)**	**2**	**(22,077)**
Profit/(Loss) Before Tax	**(22,079)**	**2**	**(22,077)**
Income tax			
Current	4,454	-	4,454
Deferred	138	-	138
Net Income for the Year	**(17,487)**	**2**	**(17,485)**
Earnings per share (in euros)			
Basic	(0.12)		(0.12)
Diluted	(0.12)		(0.12)

(amounts in thousand euros)

		31 December 2018		
		Reported value	IFRS 16 adjustments	Restated value
Cash flow from operating activities		**102,011**	**1,113**	**103,124**
Interest and commissions received		15,746	-	15,746
Interest and commissions paid		(3,127)	-	(3,127)
Payments to employees		(13,741)	-	(13,741)
Other payments and revenues		(2,775)	1,113	(1,662)
Variation in operational assets and liabilities		105,908	-	105,908
Other operational assets and liabilities		*9,013*	-	*9,013*
Loans and advances to customers		*(167,900)*	-	*(167,900)*
Deposits from customers		*264,795*	-	*264,795*
Cash flow from investment activities		**(195,447)**	**-**	**(195,447)**
Deposits at Banco de Portugal		26,539	-	26,539
Investment in securities		(197,492)	-	(197,492)
Investments at credit institutions		(18,305)	-	(18,305)
Acquisitions of tangible fixed assets and intangible assets		(6,189)	-	(6,189)
Acquisitions of subsidiaries and associates		-	-	-
Cash flow from financing activities		**25,000**	**(1,113)**	**23,887**
Share capital increases		25,000	-	25,000
Amounts owed to other credit institutions		-	-	-
Debt securities issued		-	-	-
Other loans raised		-	-	-
Leases		-	(1,113)	(1,113)
Cash and cash equivalents at the beginning of the year		**200,892**		**200,892**
Net changes in cash and cash equivalents		**(68,436)**	-	**(68,436)**
Cash and cash equivalents at the end of the year		**132,456**		**132,456**
Cash and cash equivalents cover:		**132,456**		**132,456**
Cash	11	25,462		25,462
Deposits at credit institutions	12	106,994		106,994

The impacts in the period of twelve months ended on 31 December 2019 can be analysed in Notes 4, 9, 20, 28 and 30.

The underlying estimates and assumptions were determined based on the best knowledge of the on- going events and transactions, at the time the financial statements were approved, as well as on the experience of past and/or current events.

Tangible fixed assets

During the periods ended on 31 December 2018 and 31 December 2019, the movement that occurred in the book value of the "Tangible fixed assets", and in the respective accumulated depreciation, was 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
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
Vehicles	475	258	-	(8)	17	-	742
Other tangible assets	-	-	-	-	1	-	1
Other Tangible Assets	**2,342**	**(144)**	**-**	**(82)**	**1,795**	**2**	**3,913**

(amounts in thousand euros)

	2018 restated						
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Payshop Acquisition	Other variations	Balance on 31 December
Acquisition cost	**2,840**	**2,097**	**-**	**(1,845)**	**2,717**	**-**	**5,809**
Real estate properties							
Works in rented properties	206	98	-	(206)	-	-	98
Equipment							
Furniture	250	105	-	-	65	-	420
Machinery and tools	32	56	-	-	2,386	-	2,474
Computer equipment	159	76	-	-	38	-	273
Interior installations	7	1	-	(7)	3	-	4
Transport material	-	-	-	-	-	-	-
Security equipment	43	23	-	-	-	-	66
Other equipment	6	-	-	-	65	-	71
Rights of use							
Real estate properties	1,479	1,521	-	(1,479)	-	-	1,521
Vehicles	658	217	-	(153)	160	-	882
Other tangible assets	-	-	-	-	-	-	-
Accumulated depreciation	**1,853**	**1,408**	**-**	**(1,845)**	**2,051**	**-**	**3,467**
Real estate properties							
Works in rented properties	85	138	-	(206)	-	-	17
Equipment							
Furniture	244	57	-	-	65	-	366
Machinery and tools	1	249	-	(7)	1,774	8	2,025
Computer equipment	156	63	-	-	28	(1)	246
Interior installations	5	3	-	-	3	(7)	4
Transport material	-	-	-	-	-	-	-
Security equipment	13	12	-	-	-	-	25
Other equipment	6	-	-	-	65	-	71
Rights of use							
Real estate properties	1,040	677	-	(1,479)	-	-	238
Vehicles	303	209	-	(153)	116	-	475
Other tangible assets	-	-	-	-	-	-	-
Other Tangible Assets	**987**	**689**	**-**	**-**	**666**	**-**	**2,342**

Rights of Use

Following the adoption of IFRS 16, the Group recognised the rights of use which are detailed below, by type of underlying asset:

(amounts in thousand euros)

		Real estate properties	Vehicles	Total
01.01.2018	Gross Fixed Assets	1,479	658	2,137
	Accumulated Depreciation	1,040	303	1,343
	Total Assets	**439**	**355**	**794**
Δ Gross Fixed Assets	Acquisitions	1,521	217	1,738
	Ended Contracts	(1,479)	(153)	(1,632)
	Payshop Acquisition	-	160	160
	Total Δ	**42**	**224**	**266**
Δ Accumulated Depreciation	Acquisitions	677	209	886
	Ended Contracts	(1,479)	(153)	(1,632)
	Payshop Acquisition	-	116	116
	Total Δ	**(802)**	**172**	**(630)**
31.12.2018	Gross Fixed Assets	1,521	882	2,403
	Accumulated Depreciation	238	475	713
	Total do Ativo	**1,283**	**407**	**1,690**
Δ Gross Fixed Assets	Acquisitions	758	339	1,097
	Ended Contracts	(832)	(24)	(856)
	321 Crédito Acquisition	1,419	131	1,550
	Total Δ	**1,345**	**446**	**1,791**
Δ Accumulated Depreciation	Acquisitions	1,018	258	1,276
	Ended Contracts	(766)	(8)	(774)
	321 Crédito Acquisition	72	17	89
	Total Δ	**324**	**267**	**591**
31.12.2019	Gross Fixed Assets	2,866	1,328	4,194
	Accumulated Depreciation	562	742	1,304
	Total Assets	**2,304**	**586**	**2,890**

Note 38 – Provision of insurance or reinsurance mediation services

As at 31 December 2019 and 2018, the remunerations derived from the provision of insurance and reinsurance mediation services were broken down as follows:

(amounts in thousand euros)

	2019	2018
Life Business	1,839	119
Non-Life Business	63	66
	1,902	**185**

The values receivable and payable associated to the insurance mediation activity are presented as follows:

(amounts in thousand euros)

	2019	2018
Values receivable	1,280	984
Values payable	638	-

Note 39 – Recent Pronouncements

The standards and amendments recently issued, already effective and adopted by the Group in the preparation of these financial statements, are as follows:

IFRS 16 – Leases

On 13 January 2016 the IASB issued IFRS 16 - Leases, effective for annual reporting periods beginning on or after 1 January 2019. The standard was endorsed in European Union by EU Regulation 1986/2017, of 31 October. Earlier application is allowed as long as IFRS 15 is also applied. This new standard replaces IAS 17 - Leases.

IFRS 16 introduces a single lessee accounting model and removes the classification of leases as either operating leases or finance leases.

Under IFRS 16 the lessee may opt for the non-application of this standard to short-term leases (12 months or less) and leases of low-value underlying assets (as personal computers).

See the impacts on the adoption of IFRS 16 in note 39.

IFRIC 23 Uncertainty over Income Tax Treatment

On June 7, 2017 was issued an interpretation on how to handle, in an accounting manner, uncertainties about the tax treatment of income taxes, especially when tax legislation requires that a payment be made to the Authorities in the context of a tax dispute and the entity intends to appeal to appeal a tax examination which resulted in a payment to a taxation authority. The interpretation has determined that the payment can be considered as a tax asset, if it is related to income taxes, in accordance with IAS 12 applying the criterion of probability defined by the standard as to the favorable outcome in favor of the entity on the matter concerned. In this context, the entity may use the most likely amount method or, if the resolution can dictate ranges of values, use the expected value method. IFRIC 23 was endorsed by EU Commission Regulation 2018/1595, 23rd October and becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

The Group did not registered a significant impact from this interpretation.

Prepayment features with negative compensation (amendments to IFRS 9)

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

The Group did not registered a significant impact from this amendment.

The annual improvements cycle 2015-2017

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

The Group did not registered a significant impact from this amendment.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

In October 2017, IASB issued Long-term interests in Associates and Joint Ventures (Amendments to IAS 28). The Amendments clarify that IFRS 9 applies to financial instruments in associates or joint ventures to which the equity method is not applied, including long-term interests. The Amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2019.

The Group did not registered a significant impact from this amendment.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

In February 2018, the International Accounting Standards Board issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. The Amendments now specify that an entity should use the updated assumptions from remeasurement of its net defined benefit liability (asset) in order to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The Amendments result in a different allocation of the total comprehensive income between service cost, interest and other comprehensive income. The Amendments apply prospectively to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Earlier application is permitted.

The Group did not registered a significant impact from this amendment.

Note 40 – Standards, Interpretations, Amendments and Adopted Revisions by European Union and Which the Group Decided To Not To Early Apply

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

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".

The amendments are effective from 1 January 2020 but may be applied earlier.

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—with earlier application permitted—for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction.

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. Earlier application is permitted. 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).

Note 41 – Recently Issued Pronouncements That Are Not Yet Effective for the Group

IFRS 17 – Insurance Contracts

IFRS 17, being a standard applicable only to entities in the insurance sector, will have no impact on the Group's financial statements.

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.

Clarification requirements for classifying liabilities as current or non-current (amendments to IAS 1 – Presentation of Financial Statements)

IABS issued on 23 January 2020 narrow-scope amendments to IAS 1 Presentation of Financial Statements to clarify how to classify debt and other liabilities as current or non-current.

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

This amendment is effective for periods stating on 1 January 2022.

Note 42 – Subsequent Events

Evolution of the situation of the Covid-19 virus

Although no material impacts have been observed on its activity, the Group is closely following the evolution of the situation of the Covid-19 virus, both at a national and global level, with a view to the promptly taking the measures that are deemed necessary to mitigate the impact of the Covid-19 virus on the Group's companies, aimed at:

i. Safeguarding the life and health of the employees by effective preventive counselling on healthcare and provision of information and appropriate means of protection;

ii. Preparing the operational response and maintaining the functioning of essential services; and

iii. Minimising the effects of any stoppage of labour activities and preparing the rapid re-establishment of the normal operation of the companies.

In view of the scarcity of information up to date, on the severity both of the potential epidemic and the preventive measures that governments may impose, the uncertainty surrounding the severity and duration of the situation, on the date of this report ,it is extremely difficult to quantify, with a reasonable degree of confidence, any financial impacts.

The management shall continue to monitor the threats and their implications on the business, and provide all the necessary information to its stakeholders.

6.2 Financial Statements and Notes to the Individual Financial Statements of 2019

Individual Financial Statements

Individual Income Statement for the year ended on 31 December 2019

(amounts in thousand euros)

	Notes	2019	restated 2018
Interest and similar income calculated through the effective interest rate		14,209	8,560
Interest and similar expenses		(861)	(707)
Net Interest Income	**4**	**13,348**	**7,853**
Net fee and commission income	5	5,717	2,630
Net gains/(losses) of other financial assets at fair value through other comprehensive income	6	35	2
Other operating income/(expenses)	7	(101)	(145)
Operating Income		**18,999**	**10,340**
Staff costs	8	(14,121)	(12,698)
General administrative expenses	9	(22,903)	(20,191)
Depreciation and amortisation	17 and 18	(4,942)	(4,164)
Operating Expenses		**(41,966)**	**(37,053)**
Operating Profit/(Loss) Before Provisions and Impairment		**(22,967)**	**(26,713)**
Loans impairment	14	(72)	(343)
Other financial assets impairment	13, 15 and 16	(33)	156
Other assets impairment	21	(122)	(145)
Other provisions	24	37	20
Operating Profit/(Loss)		**(23,157)**	**(27,025)**
Net gains/(losses) of investments in subsidiaries and associates		**10,130**	**3,732**
Profit/(Loss) Before Tax		**(13,027)**	**(23,293)**
Income tax			
Current	20	5,074	5,672
Deferred	20	(58)	136
Net Income for the Year		**(8,011)**	**(17,485)**
Earnings per share (in euros)			
Basic	10	(0.03)	(0.12)
Diluted	10	(0.03)	(0.12)

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

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

Individual Statement of Comprehensive Income for the year ended on 31 December 2019

(amounts in thousand euros)

	Notes	2019	restated 2018
Items that may be reclassified to the income statement			
Fair value reserve	27	16	-
Items that shall not be reclassified to the income statement			
Actuarial gains/(losses) for the year			
Employee benefits	27	(145)	-
Comprehensive income recognized directly in Equity after taxes		**(129)**	**-**
Net Income for the Year		(8,011)	(17,485)
Total Comprehensive income for the year		**(8,140)**	**(17,485)**

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

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

Individual Balance Sheet as at 31 December 2019

(amounts in thousand euros)

	Notes	2019	restated 2018	restated 1 January 2018
Assets				
Cash and deposits at central banks	11	51,848	31,679	58,064
Deposits at other credit institutions	12	95,462	104,309	176,975
Financial assets at amortised cost				
Investments at credit institutions	13	56,957	114,815	101,912
Loans and advances to customers	14	406,322	248,049	79,347
Debt securities	15	768,273	452,613	261,550
Financial assets at fair value through other comprehensive income				
Debt securities	16	542	1,489	5,751
Other tangible assets	17	1,458	1,557	987
Intangible assets	18	25,165	24,305	21,000
Investments in subsidiary and associated companies	19	135,782	6,985	-
Deferred tax assets	20	472	530	209
Other assets	21	18,580	11,491	15,791
Total Assets		**1,560,861**	**997,822**	**721,586**
Liabilities				
Financial liabilities at amortised cost				
Amounts owed to other credit institutions	22	38,135	-	-
Deposits from customers	23	1,283,567	883,950	619,230
Provisions	24	14	51	86
Other liabilities	25	27,790	24,325	25,890
Total Liabilities		**1,349,506**	**908,326**	**645,206**
Equity				
Share capital	26	286,400	156,400	125,000
Fair value reserves	27	16	-	50
Other reserves and retained earnings	27	(67,050)	(49,419)	(27,368)
Net income for the year		(8,011)	(17,485)	(21,302)
Total Equity		**211,355**	**89,496**	**76,380**

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

João de Almada Moreira Rato

António Pedro Ferreira Vaz da Silva

Luís Maria França de Castro Pereira Coutinho

António Emídio Pessoa Corrêa d'Oliveira

João Maria de Magalhães Barros de Mello Franco

Guy Patrick Guimarães de Goyri Pacheco

Pedro Rui Fontela Coimbra

João Manuel de Matos Loureiro

Nuno Carlos Dias dos Santos Fórneas

Susana Maria Morgado Gomez Smith

Clementina Maria Dâmaso de Jesus Silva Barroso

Individual Statement of Changes in Equity for the year ended on 31 December 2019

(amounts in thousand euros)

	Share capital	Fair Value Reserves	Other Reserves	Retained earnings	Net Income for the Year	Total Equity
Balance on 1 January 2018 (reported)	**125,000**	**50**	**-**	**(27,359)**	**(21,302)**	**76,389**
Impact of initial application of IFRS 16	-	-	(9)	-	-	(9)
Balance on 1 January 2018 (restated)	**125,000**	**50**	**(9)**	**(27,359)**	**(21,302)**	**76,380**
IFRS 9 transition adjustments	-	10	(695)	-	-	(685)
Balance on 1 January 2018 (adjusted)	**125,000**	**60**	**(704)**	**(27,359)**	**(21,302)**	**75,695**
Share capital increase	31,400	-	-	-	-	31,400
Fair value reserves	-	(60)	-	-	-	(60)
Other	-	-	(53)	-	-	(53)
Impact of initial application of IFRS 16	-	-	(1)	-	2	1
Retained earnings	-	-	-	(21,302)	21,302	-
Net income for the year	-	-	-	-	(17,487)	(17,487)
Balance on 31 December 2018 (restated)	**156,400**	**-**	**(758)**	**(48,661)**	**(17,485)**	**89,496**
Share capital increase	130,000	-	-	-	-	130,000
Fair value reserves	-	16	-	-	-	16
Other	-	-	(1)	-	-	(1)
Actuarial gains/(losses)	-	-	(145)	-	-	(145)
Retained earnings	-	-	-	(17,485)	17,485	-
Net income for the year	-	-	-	-	(8,011)	(8,011)
Balance on 31 December 2019	**286,400**	**16**	**(904)**	**(66,146)**	**(8,011)**	**211,355**

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The Board of Directors

João de Almada Moreira Rato

António Pedro Ferreira Vaz da Silva

Luís Maria França de Castro Pereira Coutinho

António Emídio Pessoa Corrêa d'Oliveira

João Maria de Magalhães Barros de Mello Franco

Guy Patrick Guimarães de Goyri Pacheco

Pedro Rui Fontela Coimbra

João Manuel de Matos Loureiro

Nuno Carlos Dias dos Santos Fórneas

Susana Maria Morgado Gomez Smith

Clementina Maria Dâmaso de Jesus Silva Barroso

Individual Cash Flow Statement for the year ended on 31 December 2019

(amounts in thousand euros)

	Notes	2019	restated 2018
Cash flow from operating activities		**232,524**	**90,413**
Interest and commissions received		26,434	15,744
Interest and commissions paid		(3,929)	(3,127)
Payments to employees		(12,895)	(12,331)
Other payments and revenues		(22,617)	(7,979)
Variation in operational assets and liabilities		245,517	98,106
Other operational assets and liabilities		2,879	1,211
Loans and advances to customers		(156,695)	(167,900)
Deposits from customers		399,333	264,795
Cash flow from investment activities		**(408,564)**	**(187,148)**
Deposits at Banco de Portugal		(19,707)	26,539
Investment in securities		(322,143)	(197,492)
Investments at credit institutions		57,365	(13,305)
Acquisitions of tangible fixed assets and intangible assets		(5,266)	(5,984)
Acquisitions of subsidiaries and associates		(120,680)	-
Dividends received		1,867	3,094
Cash flow from financing activities		**(167,104)**	**23,939**
Share capital increases		130,000	25,000
Amounts owed to other credit institutions		38,165	-
Leases		(1,061)	(1,061)
Cash and cash equivalents at the beginning of the year		**128,096**	**200,892**
Net changes in cash and cash equivalents		**(8,936)**	**(72,796)**
Cash and cash equivalents at the end of the year		**119,160**	**128,096**
Cash and cash equivalents cover:		**119,160**	**128,096**
Cash	11	25,924	25,462
Deposits at credit institutions	12	93,236	102,634

The Chartered Accountant

Nuno Filipe dos Santos Fernandes

The 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

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 2019, and were prepared in accordance with the current IFRS as endorsed in the European Union by 31 December 2019.

The Bank implemented IFRS 16 retrospectively to each reporting period presented previously pursuant to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The most relevant impacts of the changes derived from the adoption of IFRS 16 are disclosed in Note 33.

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 13 March 2020.

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)

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.

<u>Forward Looking Information</u>

Due to the lack of historical data, the Bank estimates its parameters based on benchmarks. As the available data up to date refer to 2019, at which time IFRS 9 was already in force, the Bank considers that they already include prospective information, namely on the expected macroeconomic context.

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

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

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

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

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

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

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

Financial Assets	Retail Offer	Mortgage Loans	Consists of the Bank's mortgage 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.
	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 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's 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 offset 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 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)".

2.6 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)".

2.7 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.

2.7.1 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.

2.7.2 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.

The Bank recognises the lease payments received under operating lease payments on a straight-line basis during the lease period as part of the "General Administrative Expenses".

2.8 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.

2.9 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.

2.10 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.

2.11 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.

2.12 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.

2.13 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.

2.14 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".

2.15 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.

3.1Financial 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 information, reasonable and sustainable.

Definition of group of assets with common credit risk features

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

Probability of default

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

Loss given default

Corresponds to an estimated loss in a default scenario. This is based on the difference between the contractual cash flows and those that the 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.

Note 4 – Net Interest Income

This heading is composed of:

(amounts in thousand euros)

	2019	restated 2018
Interest and similar income calculated through the effective interest rate	**14,209**	**8,560**
Interest on deposits at Central Banks and credit institutions	-	-
Interest on financial assets at amortised cost		
Investments at credit institutions	3,238	454
Loans and advances to customers	3,498	1,856
Debt securities	7,464	6,226
Interest on financial assets at fair value through other comprehensive income		
Debt securities	11	24
Other interest	(2)	-
Interest and similar expenses	**861**	**707**
Interest on financial liabilities at amortised cost	(128)	-
Amounts owed to other credit institutions	974	693
Deposits from customers	15	14
Other interest		
Net Interest Income	**13,348**	**7,853**

The heading "Interest on loans and advances to customers" includes the amount of -136 thousand euros (2018: 163 thousand euros) related to commissions and other expenses and income recorded according to the effective interest method, as referred in the accounting policy described in Note 2.11.

The interest of amounts owed to other credit institutions of the value of -128 thousand euros 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)

	2019	2018
Fees and commissions received	**9,069**	**4,988**
Due to banking services provided	5,361	3,704
Due to credit intermediation services	2,310	1,031
Due to insurance mediation services	1,244	200
Due to commitments to third parties	99	-
Due to guarantees provided	29	-
Other fees and commissions received	26	53
Fees and commissions paid	**3,352**	**2,358**
Due to banking services provided by third parties	3,267	2,271
Dues to operations with securities	65	72
Other fees and commissions paid	20	15
Net Fee and Commission Income	**5,717**	**2,630**

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)

	2019	2018
Profits in operations with Other Financial Assets at Fair Value Through Other Comprehensive Income	**35**	**2**
Bonds	35	2
Net Gains/(Losses) of Other Financial Assets at Fair Value Through Other Comprehensive Income	**35**	**2**

Note 7 – Other Operating Income/(Expenses)

This heading is composed of:

(amounts in thousand euros)

	2019	2018
Operating income	**158**	**2**
Other operating income	158	2
Operating expenses	**259**	**147**
Levies and donations	76	43
Contribution of the banking sector	46	37
Contribution to the Single Resolution Fund	27	16
Contribution to the Resolution Fund	19	12
Annual supervisory fees (SSM)	10	7
Taxes	21	4
Annual supervisory fees (ASF)	-	2
Contribution to the Deposit Guarantee Fund	2	1
Other operating expenses	58	25
Other Operating Income/(Expenses)	**(101)**	**(145)**

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)

	2019	2018
Remuneration	8,673	7,930
Social charges on remunerations	2,107	1,948
Employees with a multiple employer arrangement	2,004	1,612
Incentives and performance bonuses	1,135	1,051
Occupational accident and disease insurance	117	100
Other costs	85	57
Staff Costs	**14,121**	**12,698**

The total amount of fixed remunerations attributed to the Management and Supervisory Bodies, during 2019, recorded in the heading "Remunerations", reached 1,226 thousand euros (2018: 1,177 thousand euros). During 2019, costs related to Social Security contributions of the Management and Supervisory Bodies were also paid of the value of 289 thousand euros (2018: 278 thousand euros). As at 31 December 2019, the heading "Incentives and performance bonuses" includes 406 thousand euros of bonuses attributable to the Management Bodies (2018: 299 thousand euros). In 2019, the Bank recorded under the heading "Other costs" 35 thousand euros of costs related to retirement savings plans attributed to Management Bodies (2018: 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 2019 the cost related to these employees shared with CTT amounted to 2,004 thousand euros (2018: 1,612 thousand euros).

In 2019 the Management Bodies were paid 242 thousand euros of variable remuneration (2018: 180 thousand euros).

On the date of the end of 2019 and 2018, the permanent staff, excluding employees under the multiple employer arrangement, distributed by major professional category, was as follows:

	2019	2018
Directors	11	11
Executive	*4*	*4*
Non-executive	*7*	*7*
of which: Audit Committee	*3*	*3*
Heads of functional areas	30	24
Technical and secretarial staff	188	178
	229	**213**

Note 9 – General Administrative Expenses

This heading is composed of:

(amounts in thousand euros)

	2019	restated 2018
Water, electricity and fuel	101	109
Consumables	63	73
Hygiene and cleaning supplies	-	3
Rental and hire charges	142	206
Communications	1,176	1,053
Travel, hotel and representation costs	121	82
Advertising	3,334	3,752
Maintenance and related services	9	76
Training costs	75	90
Insurance	346	117
IT	7,749	7,028
Consulting and advisory services	2,669	1,724
Other specialised services	2,428	1,962
Other supplies and services	4,690	3,916
General Administrative Expenses	**22,903**	**20,191**

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

(amounts in thousand euros)

	2019	restated 2018
Review of accounts services	233	209
Reliability assurance services	109	84
Services other than review of accounts	15	-
	357	**293**

Note 10 – Earnings per Share

Earnings per share are calculated as follows:

	2019	restated 2018
Net income for the year (thousand euros)	(8,011)	(17,485)
Average number of shares	232,235,616	151,895,342
Basic earnings per share (euros)	(0.03)	(0.12)
Diluted earnings per share (euros)	(0.03)	(0.12)

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 2019 and 2018, 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)

	2019	2018
Cash	25,924	25,462
Demand deposits at Banco de Portugal	25,924	6,217
Cash and Deposits at Central Banks	**51,848**	**31,679**

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.

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)

	2019	2018
Credit institutions in Portugal	93,236	102,634
Cheques for collection	2,226	1,675
Deposits at Other Credit Institutions	**95,462**	**104,309**

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)

	2019	2018
Investments at credit institutions in Portugal	1,650	69,814
Loans to credit institutions in Portugal	55,523	36,915
Investments at credit institutions abroad	-	8,501
Impairment for investments in credit institutions	(216)	(415)
Investments at Credit Institutions	**56,957**	**114,815**

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

(amounts in thousand euros)

	2019	2018
Up to 3 months	28,410	24,472
3 to 12 months	9,834	67,848
1 to 3 years	13,689	14,251
More than 3 years	5,240	8,659
Investments at Credit Institutions	**57,173**	**115,230**

The heading "Investments at credit institutions" showed an annual average rate of 1.706% in 2019 (2018: 0.404%).

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	415	-
IFRS 9 transition adjustment	-	624
Movement for the period:		
Financial assets originated or acquired	55	564
Variations due to change in exposure or risk parameters	(64)	(773)
Derecognised financial assets excluding write-offs	(190)	-
Impairment for Investments in Credit Institutions	**216**	**415**

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	415	-
IFRS 9 transition adjustment	-	624
Movement for the period:		
Variations in expected credit loss	(199)	(209)
Impairment for Investments in Credit Institutions	**216**	**415**

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

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Mortgage loans	405,168	238,667
Other loans	-	8,918
Overdrafts	1,002	529
Performing loans	**406,170**	**248,114**
Overdue loans - less than 90 days	78	61
Overdue loans - more than 90 days	603	332
Overdue loans	**681**	**393**
Impairment for credit risk	**(529)**	**(458)**
Loans and Advances to Customers	**406,322**	**248,049**

The scheduling of this heading by maturity periods is presented 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	Overdue loans	Total
Mortgage loans	-	2,963	8,424	22,801	370,980	-	405,168
Other loans	-	-	-	-	-	-	-
Overdrafts	1,002	-	-	-	-	681	1,683
Loans and Advances to Customers	**1,002**	**2,963**	**8,424**	**22,801**	**370,980**	**681**	**406,851**

(amounts in thousand euros)

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

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

(amounts in thousand euros)

	2019	2018
Fixed rate	1,683	922
Variable rate	405,168	247,585
Loans and Advances to Customers	**406,851**	**248,507**

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

(amounts in thousand euros)

	2019				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Asset-backed loans	405,168	-	405,168	(95)	405,073
Personal guaranteed loans	-	-	-	-	-
Unsecured loans	1,002	681	1,683	(434)	1,249
Loans and Advances to Customers	**406,170**	**681**	**406,851**	**(529)**	**406,322**

(amounts in thousand euros)

	2018 restated				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Asset-backed loans	238,667	-	238,667	(232)	238,435
Personal guaranteed loans	-	-	-	-	-
Unsecured loans	9,447	393	9,840	(226)	9,614
Loans and Advances to Customers	**248,114**	**393**	**248,507**	**(458)**	**248,049**

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

(amounts in thousand euros)

	2019				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Mortgage loans	405,168	-	405,168	(95)	405,073
Other loans	-	-	-	-	-
Overdrafts	1,002	681	1,683	(434)	1,249
Loans and Advances to Customers	**406,170**	**681**	**406,851**	**(529)**	**406,322**

(amounts in thousand euros)

	2018				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Mortgage loans	238,667	-	238,667	(232)	238,435
Other loans	8,918	-	8,918	-	8,918
Overdrafts	529	393	922	(226)	696
Loans and Advances to Customers	**248,114**	**393**	**248,507**	**(458)**	**248,049**

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

(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
Loans and Advances to Customers	**406,170**	**681**	**406,851**	**(529)**	**406,322**

(amounts in thousand euros)

	2018				
	Performing loans	Overdue loans	Gross loans	Impairment	Net loans
Companies					
Public administration, Defence and Social Security	8,918	-	8,918	-	8,918
Individuals					
Mortgage	238,667	-	238,667	(233)	238,434
Consumer	529	393	922	(225)	697
Loans and Advances to Customers	**248,114**	**393**	**248,507**	**(458)**	**248,049**

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

(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)
Variations due to modification of non-derecognised contracts	-	-	-	-
Derecognised financial assets excluding write-offs	(10)	(2)	(6)	(18)
Write-offs	-	-	-	-
Changes in the model and methodologies	-	-	-	-
Transfers to:				
Stage 1	32	(32)	-	-
Stage 2	(1)	1	-	-
Stage 3	-	(12)	12	-
Exchange rate variations and other movements	(1)	-	-	(1)
Impairment for Credit Risk	**55**	**81**	**393**	**529**
Of which: POCI	-	-	-	-

(amounts in thousand euros)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Opening balance	**58**	**6**	**51**	**115**
Movement for the period:				
Financial assets originated or acquired	140	50	74	264
Variations due to change in exposure or risk parameters	(11)	15	79	83
Variations due to modification of non-derecognised contracts	-	-	-	-
Derecognised financial assets excluding write-offs	(2)	(1)	(1)	(4)
Write-offs	-	-	-	-
Changes in the model and methodologies	-	-	-	-
Transfers to:				
Stage 1	1	(1)	-	-
Stage 2	(1)	2	(1)	-
Stage 3	-	(4)	4	-
Exchange rate variations and other movements	-	-	-	-
Impairment for Credit Risk	**185**	**67**	**206**	**458**
Of which: POCI	-	-	-	-

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

(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 portfolio	(160)	57	175	72
Transfers of Stage (net)	31	(43)	12	-
Credit sales	-	-	-	-
Use of impairment	-	-	-	-
Write-offs	-	-	-	-
Recoveries of write-off	-	-	-	-
Exchange rate variations and other movements	(1)	-	-	(1)
Impairment for Credit Risk	**55**	**81**	**393**	**529**

(amounts in thousand euros)

	2018			
	Stage 1	Stage 2	Stage 3	Total
Opening balance	58	6	51	115
Movement for the period:				
Variations in the expected credit loss of the portfolio	127	64	152	343
Transfers of Stage (net)	-	(3)	3	-
Credit sales	-	-	-	-
Use of impairment	-	-	-	-
Write-offs	-	-	-	-
Recoveries of write-off	-	-	-	-
Exchange rate variations and other movements	-	-	-	-
Impairment for Credit Risk	**185**	**67**	**206**	**458**

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

(amounts in thousand euros)

	2019	2018
Stage 1	**403,272**	**246,486**
Gross Value	403,327	246,671
Impairment	(55)	(185)
Stage 2	**2,833**	**1,435**
Gross Value	2,914	1,502
Impairment	(81)	(67)
Stage 3	**217**	**128**
Gross Value	610	334
Impairment	(393)	(206)
Loans and Advances to Customers	**406,322**	**248,049**

Note 15 – Financial Assets at Amortised Cost – Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Public debt securities		
Portuguese	287,118	296,486
Foreign	154,304	121,103
Bonds of other issuers		
Portuguese	327,306	35,207
Impairment	(455)	(183)
Financial Assets at Amortised Cost – Debt Securities	**768,273**	**452,613**

The analysis of investments in securities as at 31 December 2019 and 2018, by residual maturity, is as follows:

(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	312,588	327,306
Financial Assets at Amortised Cost – Debt Securities	**5,403**	**26,245**	**90,395**	**646,685**	**768,728**

(amounts in thousand euros)

	2018				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	4,704	6,551	18,071	267,160	296,486
Foreign	498	2,539	42,443	75,623	121,103
Bonds of other issuers					
Portuguese	5,258	4,900	17,879	7,170	35,207
Financial Assets at Amortised Cost – Debt Securities	**10,460**	**13,990**	**78,393**	**349,953**	**452,796**

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	183	-
IFRS 9 transition adjustment	-	247
Movement for the period:		
Financial assets originated or acquired	295	126
Variations due to change in exposure or risk parameters	(4)	(190)
Derecognised financial assets excluding write-offs	(19)	-
Write-offs	-	-
Impairment for Debt Securities at Amortised Cost	**455**	**183**

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	183	-
IFRS 9 transition adjustment	-	247
Movement for the period:		
Variations in expected credit loss	272	(64)
Impairment for Debt Securities at Amortised Cost	**455**	**183**

Note 16 – Financial Assets at Fair Value Through Other Comprehensive income – Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Public debt securities		
Portuguese	542	560
Bonds of other issuers		
Portuguese	-	-
Foreign	-	929
Financial Assets at Fair Value Through Other Comprehensive income – Debt Securities	**542**	**1,489**

The analysis of investments in securities as at 31 December 2019 and 2018, by residual maturity, is as follows:

(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
Bonds of other issuers					
Portuguese	-	-	-	-	-
Foreign	-	-	-	-	-
Financial Assets at Fair Value Through Other Comprehensive income – Debt Securities	**14**	**-**	**528**	**-**	**542**

(amounts in thousand euros)

	2018				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	14	-	546	-	560
Bonds of other issuers					
Portuguese	-	-	-	-	-
Foreign	10	608	311	-	929
Financial Assets at Fair Value Through Other Comprehensive income – Debt Securities	**24**	**608**	**857**	**-**	**1,489**

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	128	-
IFRS 9 transition adjustment	-	11
Movement for the period:		
Financial assets originated or acquired	-	125
Variations due to change in exposure or risk parameters	-	(8)
Derecognised financial assets excluding write-offs	(128)	-
Write-offs	-	-
Changes in the model and methodologies	-	-
Exchange rate variations and other movements	-	-
Impairment for Debt Securities at Fair Value Through Other Comprehensive Income	**-**	**128**

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

(amounts in thousand euros)

	2019 Stage 1	2018 Stage 1
Opening balance	128	-
IFRS 9 transition adjustment	-	11
Movement for the period:		
Variations in the expected credit loss of the portfolio	(41)	117
Transfers of Stage (net)	-	-
Credit sales	-	-
Use of impairment	(87)	-
Write-offs	-	-
Recoveries of write-off	-	-
Exchange rate variations and other movements	-	-
Impairment for Debt Securities at Fair Value Through Other Comprehensive Income	**-**	**128**

Note 17 – Other Tangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2019	restated 2018
Acquisition Cost	**2,976**	**2,753**
Real estate properties		
Works in rented properties	102	98
Equipment		
Furniture	384	355
Machinery and tools	290	86
Computer equipment	279	235
Interior installations	1	1
Security equipment	68	66
Other equipment	6	6
Rights of use		
Real estate properties	1,069	1,168
Vehicles	777	738
Accumulated Depreciation	**1,518**	**1,196**
Related to previous years	426	139
Related to the current year	1,092	1,057
Other Tangible Assets	**1,458**	**1,557**

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	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
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
Vehicles	452	158	-	(3)	607
Other Tangible Assets	**1,557**	**(17)**	**-**	**(82)**	**1,458**

The movement of the heading "Other Tangible Assets" during 2018 is analysed as follows:

(amounts in thousand euros)

	2018 restated Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Acquisition cost	**2,840**	**1,627**	**-**	**(1,714)**	**2,753**
Real estate properties					
Works in rented properties	206	98	-	(206)	98
Equipment					
Furniture	250	105	-	-	355
Machinery and tools	32	54	-	-	86
Computer equipment	159	76	-	-	235
Interior installations	7	1	-	(7)	1
Security equipment	43	23	-	-	66
Other equipment	6	-	-	-	6
Rights of use					
Real estate properties	1,479	1,168	-	(1,479)	1,168
Vehicles	658	102	-	(22)	738
Accumulated depreciation	**1,853**	**1,057**	**-**	**(1,714)**	**1,196**
Real estate properties					
Works in rented properties	85	138	-	(206)	17
Equipment					
Furniture	244	57	-	-	301
Machinery and tools	1	7	-	-	8
Computer equipment	156	63	-	-	219
Interior installations	5	3	-	(7)	1
Security equipment	13	12	-	-	25
Other equipment	6	-	-	-	6
Rights of use					
Real estate properties	1,040	606	-	(1,479)	167
Vehicles	303	171	-	(22)	452
Other Tangible Assets	**987**	**570**	**-**	**-**	**1,557**

Note 18 – Intangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Acquisition Cost	**35,992**	**31,282**
Software in use	32,469	28,201
Other intangible assets	16	16
Software in progress	3,507	3,065
Accumulated Amortisation	**10,827**	**6,977**
Related to previous years	6,977	3,870
Related to the current year	3,850	3,107
Intangible Assets	**25,165**	**24,305**

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 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**

The movement of the heading "Intangible assets" during 2018 is analysed as follows:

(amounts in thousand euros)

	2018 Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Acquisition Cost	**24,870**	**6,412**	**-**	**-**	**31,282**
Software in use	22,719	2,008	3,474	-	28,201
Other intangible assets	16	-	-	-	16
Software in progress	2,135	4,404	(3,474)	-	3,065
Accumulated amortisation	**3,870**	**3,107**	**-**	**-**	**6,977**
Software in use	3,866	3,105	-	-	6,971
Other intangible assets	4	2	-	-	6
Intangible Assets	**21,000**	**3,305**	**-**	**-**	**24,305**

Note 19 – Investments in Subsidiaries and Associated Companies

This heading is analysed as follows:

(amounts in thousand euros)

	2019		2018 restated	
	Holding (%)	Book Value	Holding (%)	Book Value
Payshop (Portugal), S.A.	100%	8,218	100%	12,154
321 Crédito - Instituição Financeira de Crédito, S.A.	100%	127,564	-	-
Investments in Subsidiaries and Associated Companies		**135,782**		**6,985**

The financial data relative to the more important associates are presented in the following table:

(amounts in thousand euros)

	Assets		Liabilities		Equity		Net Income	
	2019	2018 restated	2019	2018 restated	2019	2018 restated	2019	2018 restated
Payshop (Portugal), S.A.	15,368	12,154	7,556	5,576	7,812	6,578	3,101	3,732
321 Crédito - Instituição Financeira de Crédito, S.A.	493,945	-	427,061	-	66,884	-	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 2019, Banco CTT received 1,866,509 euros (2018: 3,093,630 euros) of dividends from Payshop (Portugal), S.A.

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 2019 and 2018 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 2.8, 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)

	2019	restated 2018
Profit/(Loss) before tax	(13,027)	(23,293)
Current tax rate	21%	21%
Expected tax	**(2,736)**	**(4,892)**
Net asset variations	(32)	(185)
Elimination of the equity method of accounting	(2,097)	(784)
Accruals/(deductions) for calculation purposes	(111)	301
Autonomous tax	21	21
Recorded current tax for the year	**(4,955)**	**(5,539)**
Recorded deferred tax	**58**	**(136)**
Recorded total tax	**(4,897)**	**(5,675)**
Effective Rate (except equity method)	**21.7%**	**21.5%**
Corrections relative to previous years	**(119)**	**(133)**
Taxes	**(5,016)**	**(5,808)**

Current tax

Pursuant to the accounting policy described in Note 2.8, 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 taxes in the period is presented as follows:

(amounts in thousand euros)

	2019	2018
Opening balance	**530**	**209**
Recognised through profit or loss	(58)	136
Recognised through other reserves	-	185
Deferred tax	**472**	**530**

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 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 2018, the Group incurred R&D expenses of approximately 17,153 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 9,863 euros.

During the economic year of 2019, the Group incurred R&D expenses of approximately 115,215 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 90,764 euros.

Note 21 – Other Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
IRC RETGS	10,621	5,547
Transactions pending settlement	1,311	1,513
Escrow accounts	2,008	369
Other receivables	4,177	3,556
Expenses with deferred charges	590	590
Administrative Public Sector	88	57
Receivables due to advances	-	-
Income receivable	52	4
Impairment of other assets	(267)	(145)
Other Assets	**18,580**	**11,491**

The heading "Other Assets" includes the amount of 10,621 thousand euros (2018: 5,547 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 2.8 of Note 2.

The movement of impairment of other assets is analysed as follows:

(amounts in thousand euros)

	2019	2018
Opening balance	**145**	-
Allocation for the period	122	145
Reversal for the period	-	-
Usage for the period	-	-
Impairment of Other Assets	**267**	**145**

Note 22 – Financial Liabilities at Amortised Cost – Amounts Owed to Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Amounts owed to credit institutions in Portugal		
Demand deposits	284	-
Amounts owed to credit institutions abroad		
Repurchase agreements (Repos)	37,851	-
Financial Liabilities at Amortised Cost – Amounts Owed to Credit Institutions	**38,135**	**-**

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

(amounts in thousand euros)

	2019	2018
Up to 3 months	37,851	-
3 to 12 months	-	-
1 to 3 years	-	-
More than 3 years	-	-
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)

	2019	2018
Demand deposits	961,772	671,673
Term deposits	169,581	100,832
Saving accounts	152,214	111,445
Financial Liabilities at Amortised Cost – Deposits from Customers	**1,283,567**	**883,950**

The analysis of the heading "Deposits from customers", by contractual residual maturity, is as follows:

(amounts in thousand euros)

	2019	2018
Demand deposits and saving accounts	1,113,986	783,118
Term deposits		
Up to 3 months	53,165	47,463
3 to 12 months	116,416	53,369
Financial Liabilities at Amortised Cost – Deposits from Customers	**1,283,567**	**883,950**

Note 24 – Provisions

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Provisions for other risks and charges	14	51
Provisions	**14**	**51**

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)

	2019	2018
Opening balance	**51**	86
Allocation for the period	118	46
Reversal for the period	(155)	(66)
Usage for the period	-	(15)
Provisions	**14**	**51**

Note 25 – Other Liabilities

This heading is analysed as follows:

(amounts in thousand euros)

	2019	restated 2018
Payables		
Suppliers	3,667	3,380
Related parties	1,748	944
Other payables	1	-
Staff costs	3,854	3,187
Transactions pending settlement	16,570	14,953
Administrative Public Sector	531	567
Deferred income	386	-
Trading activity to be cleared	-	-
Lease liabilities	1,033	1,294
Other Liabilities	**27,790**	**24,325**

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 2.7.

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 2019, 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)

	2019	restated 2018
Fair Value Reserves		
Other financial assets at fair value through other comprehensive income	16	-
Other Reserves	(904)	(758)
Retained earnings	(66,146)	(48,661)
Reserves and Retained Earnings	**(67,034)**	**(49,419)**

Note 28 – Guarantees and Other Commitments

This heading is analysed as follows:

(amounts in thousand euros)

	2019	2018
Guarantees Provided	51,785	8,917
Guarantees Received	736,288	439,091
Commitments to third parties		
Revocable commitments		
Credit lines	64,189	10,897
Irrevocable commitments		
Credit lines	148,592	9,984
Commitments from third parties		
Revocable commitments		
Credit lines	10,119	6,862
Liabilities due to services rendered		
Assets under custody	40	219

The amount recorded as Guarantees Provided primarily includes securities given as collateral to secure the settlement of interbank operations.

The amount recorded as Guarantees Provided primarily includes securities given as collateral to secure the settlement of interbank operations.

The revocable and irrevocable commitments present contractual agreements for granting credit to the Bank's customers (for example unused credit lines) which, generally speaking, are contracted for fixed periods or with other expiry requirements. Substantially all the credit granting commitments in force require the customers to maintain certain requirements observed at the time the loans were granted.

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 2019 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)

(1) Qualifying holding in the sole shareholder, CTT – Correios de Portugal, S.A. (Public Company). This holding is imputable to Manuel Carlos de Mello Champalimaud, being composed of a directly held component of 0.24% and by a component of 12.76% indirectly held through Manuel Champalimaud, SGPS, S.A., a company controlled by Manuel Carlos de Mello Champalimaud, as well as shares held by the members of the Board of Directors of Manuel Champalimaud, SGPS, S.A.

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 (COO)	-	-	-
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	-	-	-	-
António Emídio Pessoa Corrêa d'Oliveira	Member	-	-	-	-
Guy Patrick Guimarães de Goyri Pacheco	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 2019 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.

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 - Instituição Financeira de 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 2018, 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)

	restated 2018			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Operating expenses	Operating income
CTT - Correios de Portugal, S.A.	5,565	988	2,134	-
CTT Expresso – Serviços Postais e Logística, S.A.	-	56	261	-
CTT Contacto, S.A.	-	-	-	-
	5,565	**1,044**	**2,395**	**-**

As at 31 December, the value of the deposits placed by the members of the Corporate Bodies at the Group amounted to 142 thousand euros (2018: 135 thousand euros).

Note 30 – Fair Value

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 profit or loss					
Financial assets held for trading	-	-	-	-	-
Financial assets at fair value through other comprehensive income					
Debt securities	-	542	-	542	542
Bonds issued by public entities	-	*542*	-	*542*	*542*
Bonds of other issuers	-	-	-	-	-
Non-current assets held for sale	-	-	-	-	-
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
Debt securities issued	-	-	-	-	-
Financial liabilities	**-**	**-**	**1,321,702**	**1,321,702**	**1,321,702**

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

(amounts in thousand euros)

	2018				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair Value
Cash and deposits at central banks	-	-	31,679	31,679	31,679
Deposits at other credit institutions	-	-	104,309	104,309	104,309
Financial assets at amortised cost					
Investments at credit institutions	-	-	114,815	114,815	114,815
Loans and advances to customers	-	-	248,049	248,049	248,049
Debt securities	-	-	452,613	452,613	468,350
Bonds issued by public entities	-	-	*417,441*	*417,441*	*433,215*
Bonds of other issuers	-	-	*35,172*	*35,172*	*35,135*
Financial assets at fair value through other comprehensive income					
Debt securities	-	1,489	-	1,489	1,489
Bonds issued by public entities	-	*560*	-	*560*	*560*
Bonds of other issuers	-	*929*	-	*929*	*929*
Non-current assets held for sale	-	-	-	-	-
Financial Assets	**-**	**1,489**	**951,465**	**952,954**	**968,691**
Financial liabilities at amortised cost					
Deposits from customers	-	-	883,950	883,950	883,950
Financial liabilities	**-**	**-**	**883,950**	**883,950**	**883,950**

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 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 profit or loss				
Financial assets held for trading	-	-	-	-
Financial assets at fair value through other comprehensive income				
Debt securities	542	-	-	542
Bonds issued by public entities	*542*	-	-	*542*
Bonds of other issuers	-	-	-	-
Non-current assets held for sale	-	-	-	-
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
Debt securities issued	-	-	-	-
Financial liabilities	**-**	**-**	**1,321,702**	**1,321,702**

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

(amounts in thousand euros)

	2018			
	Valuation methods			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	31,679	-	-	31,679
Deposits at other credit institutions	104,309	-	-	104,309
Financial assets at amortised cost				
Investments at credit institutions	-	-	114,815	114,815
Loans and advances to customers	-	-	248,049	248,049
Debt securities	433,215	25,245	9,890	468,350
Bonds issued by public entities	*433,215*	-	-	*433,215*
Bonds of other issuers	-	*25,245*	*9,890*	*35,135*
Financial assets at fair value through other comprehensive income				
Debt securities	1,489	-	-	1,489
Bonds issued by public entities	*560*	-	-	*560*
Bonds of other issuers	*929*	-	-	*929*
Non-current assets held for sale	-	-	-	-
Financial Assets	**570,692**	**25,245**	**372,754**	**968,691**
Financial liabilities at amortised cost				
Deposits from customers	-	-	883,950	883,950
Financial liabilities	**-**	**-**	**883,950**	**883,950**

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 Other Credit Institutions

These assets are very short-term; hence, their book value is a reasonable estimate of their fair value.

Financial Assets 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

The contracts contained in the Bank's balance sheet were all granted during 2018 and 2017, at market rates; hence, the value recorded in the balance sheet is a reasonable estimate of their fair value.

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 2019, the exposures (net of impairment and including off-balance exposures) to this type of loan of credit stood at 421,748 thousand euros (247,042 thousand euros as at 31 December 2018).

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, ar

(amounts in thousand euros)

	2019		2018	
	Loans and advances to customers	Fair value of the collateral	Loans and advances to customers	Fair value of the collateral
Mortgage loans	402,126	687,598	239,524	410,225
Other	4,195	-	8,526	-
	406,321	**687,598**	**248,050**	**410,225**

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 2019 and 31 December 2018:

(amounts in thousand euros)

	2019	2018
Central Authorities or Central Banks	467,721	424,194
Credit institutions	212,917	226,452
Companies	464,430	44,841
Retail customers	6,660	4,341
Loans secured by immovable assets	413,307	247,042
Non-performing loans	217	128
Shares	135,782	6,986
Other items	49,379	39,127
Risk Headings	**1,750,413**	**993,111**

The information on the risk headings (including off-balance sheet) as at 31 December 2019 and 31 December 2018 is detailed as follows:

(valores expressos em milhares de euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	25,924	-	25,924	6,217	-	6,217
Other financial assets at fair value through other comprehensive income	542	-	542	536	-	536
Investment securities measured at amortised cost	441,422	(167)	440,912	417,589	(148)	417,441
Central Authorities or Central Banks	**467,888**	**(167)**	**467,721**	**424,342**	**(148)**	**424,194**

(amounts in thousand euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	95,462	-	95,462	104,309	-	104,309
Other financial assets at fair value through other comprehensive income	-	-	-	203	-	203
Investments at financial institutions	115,733	(216)	115,517	122,355	(415)	121,940
Other	1,938	-	1,938	-	-	-
Credit institutions	**213,133**	**(216)**	**212,917**	**226,867**	**(415)**	**226,452**

(amounts in thousand euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Other financial assets at fair value through other comprehensive income	-	-	-	878	(127)	751
Investment securities measured at amortised cost	464,718	(288)	464,430	35,207	(35)	35,172
Loans and advances to customers	-	-	-	8,918	-	8,918
Companies	**464,718**	**(288)**	**464,430**	**45,003**	**(162)**	**44,841**

(amounts in thousand euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	6,701	(41)	6,660	4,360	(19)	4,341
Retail customers	**6,701**	**(41)**	**6,660**	**4,360**	**(19)**	**4,341**

(amounts in thousand euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	413,401	(95)	413,307	247,274	(232)	247,042
Loans secured by immovable assets	**413,401**	**(95)**	**413,307**	**247,274**	**(232)**	**247,042**

(amounts in thousand euros)

	2019			2018		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	610	(393)	217	334	(206)	128
Non-performing loans	**610**	**(393)**	**217**	**334**	**(206)**	**128**

The exposure to public debt, net of impairment, of eurozone countries is detailed as follows:

(amounts in thousand euros)

	2019			2018		
	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	542	286,995	287,537	536	296,486	297,022
Spain	-	54,924	54,924	-	45,048	45,048
Italy	-	87,172	87,172	-	63,727	63,727
France	-	6,492	6,492	-	6,551	6,551
Ireland	-	5,671	5,671	-	5,777	5,777
	542	**441,254**	**441,796**	**536**	**417,589**	**418,125**

The analysis of the portfolio of financial assets by stages is presented as follows:

(amounts in thousand euros)

	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Deposits at Central Banks and other credit institutions	121,386	-	-	121,386	110,526	-	-	110,526
Impairment losses	-	-	-	-	-	-	-	-
Net value	**121,386**	**-**	**-**	**121,386**	**110,526**	**-**	**-**	**110,526**
Financial assets at amortised cost – Investments at credit institutions	57,173	-	-	57,173	115,230	-	-	115,230
Impairment losses	(216)	-	-	(216)	(415)	-	-	(415)
Net value	**56,957**	**-**	**-**	**56,957**	**114,815**	**-**	**-**	**114,815**
Financial assets at fair value through other comprehensive income – Debt securities	542	-	-	542	1,141	476	-	1,617
Impairment losses	-	-	-	-	(1)	(127)	-	(128)
Net value	**542**	**-**	**-**	**542**	**1,140**	**349**	**-**	**1,489**
Financial assets at amortised cost – Debt securities	768,728	-	-	768,728	452,796	-	-	452,796
Impairment losses	(455)	-	-	(455)	(183)	-	-	(183)
Net value	**768,273**	**-**	**-**	**768,273**	**452,613**	**-**	**-**	**452,613**
Financial assets at amortised cost – Loans and advances to customers	403,327	2,914	610	406,851	246,671	1,502	334	248,507
Impairment losses	(55)	(81)	(393)	(529)	(185)	(67)	(206)	(458)
Net value	**403,272**	**2,833**	**217**	**406,322**	**246,486**	**1,435**	**128**	**248,049**

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 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**	

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

(amounts in thousand euros)

	2018						
	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	31,679	-	-	-	-	-	**31,679**
Deposits at other credit institutions	104,309	-	-	-	-	-	**104,309**
Financial assets at amortised cost							
Investments at credit institutions	-	24,472	67,848	14,251	8,659	-	**115,230**
Loans and advances to customers	529	10,641	4,921	13,333	218,690	393	**248,507**
Debt securities	-	10,460	13,990	78,392	349,953	-	**452,795**
Financial assets at fair value through profit or loss							
Financial assets held for trading	-	-	-	-	-	-	**-**
Financial assets at fair value through other comprehensive income							
Debt securities	-	23	608	858	-	-	**1,489**
Total Assets	**136,517**	**45,596**	**87,367**	**106,834**	**577,302**	**393**	**954,009**
Liabilities							
Financial liabilities at amortised cost							
Amounts owed to other credit institutions	-	-	-	-	-	-	**-**
Deposits from customers	783,118	47,463	53,370	-	-	-	**883,951**
Debt securities issued	-	-	-	-	-	-	**-**
Total Liabilities	**783,118**	**47,463**	**53,370**	**-**	**-**	**-**	**883,951**
Gap (Assets-Liabilities)	**(646,601)**	**(1,867)**	**33,997**	**106,834**	**577,302**	**393**	**70,058**
Accumulated Gap	**1,522,859**	**1,939,867**	**2,659,254**	**3,822,307**	**8,064,102**	**9,615,466**	

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 2019, the ALMM shows a negative liquidity mismatch (difference between contracted outflows and inflows) of 680,074 thousand euros, to which customer deposits greatly contribute.

However, this negative liquidity mismatch is offset by the financial assets and reserves at the Central Bank of close to 755,792 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 2019, 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 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)**

As at 31 December 2018, 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)

2018						
Timeframe	Assets	Liabilities	Off-Balance Sheet	Net Position	Economic Value Delta (+200 bps)	Economic Value Delta (-200 bps)
At sight	151.605	145.885	(2.624)	3.096	-	-
At sight – 1 month	18.648	29.092	3.772	(6.672)	6	(2)
1 – 3 months	45.807	38.200	930	8.537	(28)	10
3 – 6 months	105.445	45.750	180	59.875	(444)	169
6 – 9 months	78.133	38.029	-	40.104	(495)	187
9 – 12 months	115.824	35.009	10.154	90.969	(1.569)	588
1 – 1.5 years	20.908	43.613	470	(22.235)	546	(208)
1.5 – 2 years	13.801	43.613	-	(29.812)	1.020	(391)
2 – 3 years	52.113	86.111	390	(33.608)	1.630	(649)
3 – 4 years	54.874	77.166	280	(22.012)	1.474	(648)
4 – 5 years	49.249	76.051	200	(26.602)	2.251	(1.110)
5 – 6 years	58.131	60.449	260	(2.058)	209	(115)
6 – 7 years	49.763	53.732	-	(3.969)	465	(282)
7 – 8 years	50.334	53.732	-	(3.398)	448	(297)
8 – 9 years	52.891	40.299	-	12.592	(1.835)	1.311
9 – 10 years	47.717	40.299	-	7.418	(1.175)	897
10 – 15 years	-	-	-	-	-	-
15 – 20 years	-	-	-	-	-	-
> 20 years	-	-	-	-	-	-
Total	**965.243**	**907.030**	**14.012**	**72.225**	**2.503**	**(540)**

In view of the interest rate gaps observed, as at 31 December 2019, the impact on the economic value of instantaneous and parallel shifts of the interest rates by -200 basis points is approximately -5,467 thousand euros (2018: -540 thousand euros).

The main assumptions used in 2018 and 2019 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.

The Bank does not have a trading portfolio, 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. Credit risk, and not market risk, is the main risk arising from the Group's investments.

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)

	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	3,616	n/a	788,388	n/a
	49,645		**1,511,215**	

(amounts in thousand euros)

	2018			
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Debt Securities	7,574	7,574	446,528	462,265
Other assets	1,150	n/a	541,284	n/a
	8,724		**987,741**	

(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	
	2019	2018	2019	2018
Collateral received	**-**	**-**	**687,598**	**-**
Debt securities				
Other assets	-	-	-	-
Other collateral received	-	-	687,598	-
Own debt securities issued other than covered own bonds or ABS	**-**	**-**	**-**	**-**

(amounts in thousand euros)

	Book value of the selected financial liabilities	
	2019	2018
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	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 788,388 thousand euros (2018: 541,284 thousand euros), approximately 21% (2018: 6%) 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, but benefiting from a transition period lasting up to the end of 2019.

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 2019 and 31 December 2018, the Bank presented the following capital ratios, calculated in accordance with the transitional provisions established in the CRR:

(amounts in thousand euros)

	2019		2018		Notes
	CRR Phased-in	CRR Fully Implemented	CRR Phased-in	CRR Fully Implemented	
OWN FUNDS					
Share capital	286,400	286,400	156,400	156,400	26
Retained earnings	(66,148)	(66,148)	(48,661)	(48,661)	27
Other Reserves	(207)	(207)	(53)	(53)	
Prudential Filters	15	15	(1)	(1)	
Fair value reserves	16	16	-	-	27
Additional Valuation Adjustment (AVA)	(1)	(1)	(1)	(1)	
Deductions to common equity tier 1	(33,280)	(33,871)	(41,827)	(42,487)	
Losses for the period	(8,011)	(8,011)	(17,487)	(17,487)	
Intangible assets	(25,165)	(25,165)	(24,305)	(24,305)	18
Adoption of IFRS 9	(104)	(695)	(35)	(695)	
Items not deducted from Own Funds	135,782	135,782	6,985	6,985	
Holdings in financial entities	135,782	135,782	6,985	6,985	
Common Equity Tier 1	186,780	186,190	65,858	65,858	
Tier 1 Capital	186,780	186,190	65,858	65,858	
Total Own Funds	186,780	186,190	65,858	65,858	
RWA					
Credit Risk	702,341	702,341	260,071	260,071	
Operational Risk	22,624	22,624	10,976	10,976	
Market Risk	-	-	-	-	
IFRS 9 adjustments	-	(271)	-	(480)	
Total RWA	724,964	724,694	271,047	270,567	
CAPITAL RATIOS					
Common Equity Tier 1	25.76%	25.69%	24.30%	24.10%	
Tier 1 Ratio	25.76%	25.69%	24.30%	24.10%	
Total Capital Ratio	25.76%	25.69%	24.30%	24.10%	

The values of 2018 presented in the table above are the reported values and not the restated values derived from the adoption of IFRS 16 (see Note 33).

Note 33 – Application of IFRS 16 – Leases

As described in Note 1 – Basis of presentation and accounting policy 2.7, the Bank adopted IFRS 16 – Leases on 1 January 2019 in replacement of IAS 17 – Leases, which was in force up to 31 December 2018. IFRS 16 was approved by the EU in October 2017, with the Bank not having opted for the early adoption of any of the requirements of IFRS 16 in October 2017, nor the early adoption of any of the requirements of IFRS 16 in previous periods.

Pursuant to IFRS 16, the lessee henceforth applies a single lease accounting model, and no longer classifies leases as operating or finance.

The lessee should recognise all the leases on the balance sheet at the beginning of the contract, recognising:

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

The adoption of IFRS 16 also has impacts on the income statement, with the depreciation of the right-of-use asset (RoU) and interest associated to the lease liability henceforth being recognised separately, instead of the previous recognition of lease payments under the heading "General administrative expenses".

IFRS 16 gives the lessee the option not to apply this accounting model for:

- Leases with a lease period of up to 12 months that do not contain a purchase option; and
- Leases of low-value assets.

Adoption of IFRS 16 by Banco CTT

The Bank adopted the new rules taking effect on 1 January 2019 in accordance with the full retrospective transition option, with the exemptions mentioned above not having been applied.

<u>Type of Leases</u>

The Bank took stock of all the lease and service contracts that could include right-of-use assets, identifying two major groups of leases:

i. Real Estate Property Leases

Real estate property lease contracts that, in the light of IFRS 16, constitute a right-of-use asset, with the lease period having been considered the initial periods of duration of the contracts and the renewal periods that exclusively depend on the Bank's decision and which the Bank is reasonably certain to exercise in the future.

As a convenient practice, the provision of fixed services associated to each real estate property (variable component) was included in the recording of the right of use.

ii. Vehicle Leases

The initial periods of duration of the contracts and the renewal periods that exclusively depend on the Bank's decision and which the Bank is reasonably certain to exercise in the future were assumed.

In these types of contracts, the value relative to the lease payment varies according to the number of kilometres that the vehicle covers throughout the contract period. Accordingly, only the minimum lease payments for the valorisation of the liability and right of use were considered.

As a convenient practice, the provision of fixed services associated to each vehicle (variable component) was included in the recording of the right of use.

<u>Incremental interest rate</u>

As lease contracts do not have an implicit rate, an incremental interest rate was considered for the discount of the lease payments.

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

Impacts on the individual financial statements

The impacts of the adoption of IFRS 16, taking effect on 1 January 2018, the transition date, and as at 31 December 2018, are detailed below:

(amounts in thousand euros)

	01 January 2018		
	Reported value	IFRS 16 adjustments	Restated value
Assets			
Cash and deposits at central banks	58,064	-	58,064
Deposits at other credit institutions	176,975	-	176,975
Financial assets at amortised cost			
Investments at credit institutions	101,912	-	101,912
Loans and advances to customers	79,347	-	79,347
Debt securities	267,301	-	267,301
Other tangible assets	193	794	987
Intangible assets	21,000	-	21,000
Deferred tax assets	209	-	209
Other assets	15,791	-	15,791
Total Assets	**720,792**	**794**	**721,586**
Liabilities			
Financial liabilities at amortised cost			
Deposits from customers	619,230	-	619,230
Provisions	86	-	86
Other liabilities	25,087	803	25,890
Total Liabilities	**644,403**	**803**	**645,206**
Equity			
Share capital	125,000	-	125,000
Fair value reserves	50	-	50
Other reserves and retained earnings	(27,359)	(9)	(27,368)
Net income for the year	(21,302)	-	(21,302)
Total Equity	**76,389**	**(9)**	**76,380**

(amounts in thousand euros)

	31 December 2018		
	Reported value	IFRS 16 adjustments	Restated value
Assets			
Cash and deposits at central banks	31,679	-	31,679
Deposits at other credit institutions	104,309	-	104,309
Financial assets at amortised cost			
Investments at credit institutions	114,815	-	114,815
Loans and advances to customers	248,049	-	248,049
Debt securities	452,613	-	452,613
Financial assets at fair value through other comprehensive income			
Debt securities	1,489	-	1,489
Other tangible assets	270	1,287	1,557
Intangible assets	24,305	-	24,305
Investments in subsidiary and associated companies	6,986	(1)	6,985
Deferred tax assets	530	-	530
Other assets	11,491	-	11,491
Total Assets	**996,536**	**1,286**	**997,822**
Liabilities			
Financial liabilities at amortised cost			
Deposits from customers	883,950	-	883,950
Provisions	51	-	51
Other liabilities	23,031	1,294	24,325
Total Liabilities	**907,032**	**1,294**	**908,326**
Equity			
Share capital	156,400	-	156,400
Other reserves and retained earnings	(49,409)	(10)	(49,419)
Net income for the year	(17,487)	2	(17,484)
Total Equity	**89,504**	**(8)**	**89,496**

The impacts of the adoption of IFRS 16, taking effect on 31 December 2018, are detailed below:

(amounts in thousand euros)

	31 December 2018		
	Reported value	IFRS 16 adjustments	Restated
Interest and similar income calculated through the effective interest rate	8,560	-	8,560
Interest and similar expenses		(14)	(707)
Net Interest Income	**7,867**	**(14)**	**7,853**
Net fee and commission income	2,630	-	2,630
Net gains/(losses) of assets and liabilities at fair value through profit or loss	2	-	2
Other operating income/(expenses)	(145)	-	(145)
Operating Income	**10,354**	**(14)**	**10,340**
Staff costs	(12,698)	-	(12,698)
General administrative expenses	(20,985)	794	(20,191)
Depreciation and amortisation	(3,387)	(777)	(4,164)
Operating Expenses	**(37,070)**	**17**	**(37,053)**
Operating Profit/(Loss) Before Provisions and Impairment	**(26,716)**	**3**	**(26,713)**
Loans impairment	(343)	-	(343)
Other financial assets impairment	156	-	156
Other assets impairment	(145)	-	(145)
Other provisions		-	20
Operating Profit/(Loss)	**(27,028)**	**3**	**(27,025)**
Net gains/(losses) of investments in subsidiaries and associates	**3,733**	**(1)**	**3,732**
Profit/(Loss) Before Tax	**(23,295)**	**2**	**(23,293)**
Income tax			
Current	5,672	-	5,672
Deferred	136	-	136
Net Income for the Year	**(17,487)**	**2**	**(17,485)**
Earnings per share (in euros)			
Basic	(0.12)		(0.12)
Diluted	(0.12)		(0.12)

(amounts in thousand euros)

		31 December 2018		
		Reported value	IFRS 16 adjustments	Restated value
Cash flow from operating activities		**89.352**	**1.061**	**90.413**
Interest and commissions received		15.744	-	15.744
Interest and commissions paid		(3.127)	-	(3.127)
Payments to employees		(12.331)	-	(12.331)
Other payments and revenues		(9.040)	1.061	(7.979)
Variation in operational assets and liabilities		98.106	-	98.106
Other operational assets and liabilities		*1.211*	-	*1.211*
Loans and advances to customers		*(167.900)*	-	*(167.900)*
Deposits from customers		*264.795*	-	*264.795*
Cash flow from investment activities		**(187.148)**	**-**	**(187.148)**
Deposits at Banco de Portugal		26.539	-	26.539
Investment in securities		(197.492)	-	(197.492)
Investments at credit institutions		(13.305)	-	(13.305)
Acquisitions of tangible fixed assets and intangible assets		(5.984)	-	(5.984)
Acquisitions of subsidiaries and associates		-	-	-
Dividends received		3.094	-	3.094
Cash flow from financing activities		**25.000**	**(1.061)**	**23.939**
Share capital increases		25.000	-	25.000
Leases		-	(1.061)	(1.061)
Cash and cash equivalents at the beginning of the year		**200.892**		**200.892**
Net changes in cash and cash equivalents		**(72.796)**		**(72.796)**
Cash and cash equivalents at the end of the year		**128.096**		**128.096**
Cash and cash equivalents cover:		**128.096**		**128.096**
Cash	11	25.462		25.462
Deposits at credit institutions	12	102.634		102.634

The impacts in the period of twelve months ended on 31 December 2019 can be analysed in Notes 4, 9, 17, 23 and 25.

The underlying estimates and assumptions were determined based on the best knowledge of the on- going events and transactions, at the time the financial statements were approved, as well as on the experience of past and/or current events.

Tangible fixed assets

During the periods ended on 31 December 2019 and 31 December 2018, the movement that occurred in the book value of the "Tangible fixed assets", and in the respective accumulated depreciation, was 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
Transport material	-	-	-	-	-	-
Security equipment	66	2	-	-	-	68
Other equipment	6	-	-	-	-	6
Rights of use						
Real estate properties	1,168	733	-	(832)	-	1,069
Vehicles	738	58	-	(19)	-	777
Other tangible assets	-	-	-	-	-	-
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
Transport material	-	-	-	-	-	-
Security equipment	25	7	-	-	-	32
Other equipment	6	-	-	-	-	6
Rights of use						
Real estate properties	167	799	-	(766)	-	200
Vehicles	452	158	-	(3)	-	607
Other tangible assets	-	-	-	-	-	-
Other Tangible Assets	**1,557**	**(17)**	**-**	**(82)**	**-**	**1,458**

(amounts in thousand euros)

	2018 restated					
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Other variations	Balance on 31 December
Acquisition cost	**2,840**	**1,627**	**-**	**(1,714)**	**-**	**2,753**
Real estate properties						
Works in rented properties	206	98	-	(206)	-	98
Equipment						
Furniture	250	105	-	-	-	355
Machinery and tools	32	54	-	-	-	86
Computer equipment	159	76	-	-	-	235
Interior installations	7	1	-	(7)	-	1
Transport material	-	-	-	-	-	-
Security equipment	43	23	-	-	-	66
Other equipment	6	-	-	-	-	6
Rights of use						
Real estate properties	1,479	1,168	-	(1,479)	-	1,168
Vehicles	658	102	-	(22)	-	738
Other tangible assets	-	-	-	-	-	-
Accumulated depreciation	**1,853**	**1,057**	**-**	**(1,714)**	**-**	**1,196**
Real estate properties						
Works in rented properties	85	138	-	(206)	-	17
Equipment						
Furniture	244	57	-	-	-	301
Machinery and tools	1	7	-		-	8
Computer equipment	156	63	-	-	-	219
Interior installations	5	3	-	(7)	-	1
Transport material	-	-	-	-	-	-
Security equipment	13	12	-	-	-	25
Other equipment	6	-	-	-	-	6
Rights of use						
Real estate properties	1,040	606	-	(1,479)	-	167
Vehicles	303	171	-	(22)	-	452
Other tangible assets	-	-	-	-	-	-
Other Tangible Assets	**987**	**570**	**-**	**-**	**-**	**1,557**

Rights of Use

Following the adoption of IFRS 16, the Bank recognised the rights of use which are detailed below, by type of underlying asset:

(amounts in thousand euros)

		Vehicles	Real estate properties	Total
01.01.2018	Gross Fixed Assets	1,479	658	2,137
	Accumulated Depreciation	1,040	303	1,343
	Total Assets	**439**	**355**	**794**
Δ Gross Fixed Assets	Acquisitions	1,168	102	1,270
	Ended Contracts	(1,479)	(22)	(1,501)
	Total Δ	**(311)**	**80**	**(231)**
Δ Accumulated Depreciation	Acquisitions	606	171	777
	Ended Contracts	(1,479)	(22)	(1,501)
	Total Δ	**(873)**	**149**	**(724)**
31.12.2018	Gross Fixed Assets	1,168	738	1,906
	Accumulated Depreciation	167	452	619
	Total Assets	**1,001**	**286**	**1,287**
Δ Gross Fixed Assets	Acquisitions	733	58	791
	Ended Contracts	(832)	(19)	(851)
	Total Δ	**(99)**	**39**	**(60)**
Δ Accumulated Depreciation	Acquisitions	799	158	957
	Ended Contracts	(766)	(3)	(769)
	Total Δ	**33**	**155**	**188**
31.12.2019	Gross Fixed Assets	1,069	777	1,846
	Accumulated Depreciation	200	607	807
	Total Assets	**869**	**170**	**1,039**

Note 34 – Provision of Insurance or Reinsurance Mediation Services

As at 31 December 2019 and 2018, the remunerations derived from the provision of insurance and reinsurance mediation services were broken down as follows:

(amounts in thousand euros)

	2019	2018
Life Business	1,373	119
Non-Life Business	(129)	66
	1,244	**185**

The values receivable and payable associated to the insurance mediation activity are presented as follows:

(amounts in thousand euros)

	2019	2018
Values receivable	923	984
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 35 – Recent Pronouncements

The standards and amendments recently issued, already effective and adopted by the Bank in the preparation of these financial statements, are as follows:

IFRS 16 – Leases

On 13 January 2016 the IASB issued IFRS 16 - Leases, effective for annual reporting periods beginning on or after 1 January 2019. The standard was endorsed in European Union by EU Regulation 1986/2017, of 31 October. Earlier application is allowed as long as IFRS 15 is also applied. This new standard replaces IAS 17 - Leases.

IFRS 16 introduces a single lessee accounting model and removes the classification of leases as either operating leases or finance leases.

Under IFRS 16 the lessee may opt for the non-application of this standard to short-term leases (12 months or less) and leases of low-value underlying assets (as personal computers).

See the impacts on the adoption of IFRS 16 in note 33.

IFRIC 23 Uncertainty over Income Tax Treatment

On June 7, 2017 was issued an interpretation on how to handle, in an accounting manner, uncertainties about the tax treatment of income taxes, especially when tax legislation requires that a payment be made to the Authorities in the context of a tax dispute and the entity intends to appeal to appeal a tax examination which resulted in a payment to a taxation authority. The interpretation has determined that the payment can be considered as a tax asset, if it is related to income taxes, in accordance with IAS 12 applying the criterion of probability defined by the standard as to the favorable outcome in favor of the entity on the matter concerned. In this context, the entity may use the most likely amount method or, if the resolution can dictate ranges of values, use the expected value method. IFRIC 23 was endorsed by EU Commission Regulation 2018/1595, 23rd October and becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

The Bank did not registered a significant impact from this interpretation.

Prepayment features with negative compensation (amendments to IFRS 9)

Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. The board clarified that IFRS 9 requires the prepares to recalculate the amortised cost of the modification financial liability by discounting the modified contractual cash flows using the original EIR and recognize any adjustment in profit or loss (align with financial assets). This amendment was endorsed by EU Commission Regulation 2018/498 and becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The Group did not registered a significant impact from this amendment.

The annual improvements cycle 2015-2017

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

The Bank did not registered a significant impact from this amendment.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

In October 2017, IASB issued Long-term interests in Associates and Joint Ventures (Amendments to IAS 28). The Amendments clarify that IFRS 9 applies to financial instruments in associates or joint ventures to which the equity method is not applied, including long-term interests. The Amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2019.

The Bank did not registered a significant impact from this amendment.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

In February 2018, the International Accounting Standards Board issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. The Amendments now specify that an entity should use the updated assumptions from remeasurement of its net defined benefit liability (asset) in order to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The Amendments result in a different allocation of the total comprehensive income between service cost, interest and other comprehensive income. The Amendments apply prospectively to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Earlier application is permitted.

The Bank did not registered a significant impact from this amendment.

Note 36 – Standards, Interpretations, Amendments and Adopted Revisions by European Union and Which the Bank Decided To Not To Early Apply

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

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".

The amendments are effective from 1 January 2020 but may be applied earlier.

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—with earlier application permitted—for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction.

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. Earlier application is permitted. 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).

Note 37 – Recently Issued Pronouncements That Are Not Yet Effective for the Bank

IFRS 17 – Insurance Contracts

IFRS 17, being a standard applicable only to entities in the insurance sector, will have no impact on the Group's financial statements.

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.

Clarification requirements for classifying liabilities as current or non-current (amendments to IAS 1 – Presentation of Financial Statements)

IABS issued on 23 January 2020 narrow-scope amendments to IAS 1 Presentation of Financial Statements to clarify how to classify debt and other liabilities as current or non-current.

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

This amendment is effective for periods stating on 1 January 2022.

Note 38 – Subsequent Events

Evolution of the situation of the Covid-19 virus

Although no material impacts have been observed on its activity, the Bank is closely following the evolution of the situation of the Covid-19 virus, both at a national and global level, with a view to the promptly taking the measures that are deemed necessary to mitigate the impact of the Covid-19 virus on the Bank, aimed at:

i. Safeguarding the life and health of the employees by effective preventive counselling on healthcare and provision of information and appropriate means of protection;

ii. Preparing the operational response and maintaining the functioning of essential services; and

iii. Minimising the effects of any stoppage of labour activities and preparing the rapid re-establishment of the normal operation of the Bank.

In view of the scarcity of information up to date, on the severity both of the potential epidemic and the preventive measures that governments may impose, the uncertainty surrounding the severity and duration of the situation, on the date of this report ,it is extremely difficult to quantify, with a reasonable degree of confidence, any financial impacts.

The management shall continue to monitor the threats and their implications on the business, and provide all the necessary information to its stakeholders.

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 2019 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, 13 March 2020

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 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
António Emídio Pessoa Corrêa d'Oliveira

Member of the Board of Directors
Guy Patrick Guimarães de Goyri Pacheco

6.4 Annual Report of the Audit Committee

Report of the Audit Committee
Banco CTT, S.A.
for the financial year of 2019

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 2019, pursuant to article 423-F(g) of the Companies Code.

Notwithstanding any further powers bestowed upon it legally and statutorily, the Audit Committee is, in particular, responsible for:

(a) Monitoring and supervising the activities of the Board of Directors;
(b) Overseeing compliance with legal and statutory rules governing the Bank's activity;
(c) Continually supervising and safeguarding the solidity and effectiveness of the Bank's internal governance system;
(d) Supervising the effectiveness of the Bank's risk management, internal control and internal audit systems, in particular, monitoring the Bank's risk strategy and risk appetite;
(e) Receiving reports on irregularities presented by shareholders, Bank employees and others (whistleblowing);
(f) Monitoring and supervising the preparation and disclosure of financial information, including the conformity and accuracy of the financial reporting books, records and documents and other accounting documentation, as well as making recommendations to ensure their integrity;
(g) Supervising the Statutory Auditor's activities regarding the Bank's financial reporting documents and supervising its independence.

The Audit Committee, as a supervisory body, further acts as Banco CTT's risk committee, pursuant to and for the purposes of article 115-L of the Legal Framework of Credit Institutions and Financial Companies approved by Decree-Law 298/92 of 31 December, in

its current wording, as extent Banco CTT is not considered a significant credit institution in terms of size, internal organisation and nature, scope and complexity of its activities. In this regard, it is particularly 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 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. Activities carried out in 2019

During 2019, 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 the reports on irregularities (whistleblowing) submitted by shareholders, Bank employees and others;
g. Supervised and assessed the Statutory Auditor's activity;
h. Started 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 maintained with the Bank's Executive Committee and senior management, including the directors responsible for the control duties, and with the Statutory Auditor in office (KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A.); and (c) analysis of the available financial and business information, as well as correspondence exchanged between the Bank and the regulators/supervisors, especially, Banco de Portugal.

In exercising these powers and performing these duties, the Committee held 17 (seventeen) formal meetings during 2019, with minutes having been drawn up of all the meetings. The meetings 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 Operations and IT (COO), 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 of Compliance and the Director 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 the compliance and risk management control functions, respectively; (c) the AML Officer for topics related to Anti-Money Laundering and Terrorist Financing; (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 Director 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.

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 process of approval and review of the Bank's most relevant policies and procedures, in particular (i) the Policies on Remuneration of Credit Intermediaries, Credit, Conflicts of Interest and Transactions with Related Parties, Liquidity Contingency Operational Risk, Whistleblowing, Information Security, Management of Business Continuity and Outsourcing; (ii) the Operational Risk Manuals, Processes for Handling Whistleblowing, Business Continuity Management, Process for the Development of Audits, Rules for Revaluation of Collateral of the Real Estate Type, Compliance Risk Management, Processes for Business Continuity Management, Processes for Management of Suspicious Operations, Operational Risk and Internal Capital Adequacy Assessment Process (ICAAP) and Internal. Liquidity Adequacy Assessment Process (ILAAP); (iii) the Regulations of the Ethics Forum (in the context of the process for handling whistleblowing); (iv) the Code of Conduct for the Promoters of Banco CTT; and (iv) the Recovery Plan.

The Committee also followed the process of approval and review at the Bank of its internal control environment and governance model, in particular: (i) the change of the Bank's organisational structure model and, following this, the adoption of a new structure of committees and their regulations, including subsequent changes, when applicable (Capital and Risk Committee, Commercial and Product Committee, Credit Committee, Technology and Operational Efficiency Committee, Costs and Investments Committee, and Internal Control Committee); (ii) change of the delegation of powers and duties of the Board of Directors to the Executive Committee and respective regulations; and (iv) change of the Audit Committee's regulations.

For the performance assessment cycle relative to 2019, the Audit Committee also appraised: (i) the proposed annual review of the Remuneration Policy for Members of the Management and Supervisory Bodes and Relevant Employees, as well as the Performance

Assessment Models for Members of the Executive Committee and Key Employees; (ii) the proposed Remuneration Policy for Multi-Employer Staff in the Retail Network; (iii) the Policy of Remuneration of Employees (excluding Key Employees and Multi-Employer Staff), as well as the respective Performance Assessment Model; and (iv) the list of identification of key employees. Also concerning remuneration, the Audit Committee appraised the verification of the adjustment mechanisms for members of the Executive Committee, Key Employees and all other Employees that could lead to the reduction or non-attribution of variable remuneration relative to the assessment cycle of 2018 and, when applicable, the deferred component of variable remuneration relative to previous assessment cycles.

The Audit Committee was informed and took account of the reports on activities and self-assessment of the Remuneration Committee and the Selection and Remuneration Committee. The Audit Committee also analysed the minutes that were submitted to it for appraisal regarding the meetings of the Executive Committee held in 2019, as well as those of the internal committees (Credit and Investments Committee, Financial Risk Committee, Commercial and Product Committee, IT Project Committee, Internal Control Committee and, from 13 September 2019 onwards, as a result of the change of the structure of committees, Capital and Risk Committee, Commercial and Product Committee, Credit Committee, Technology and Operational Efficiency Committee, Costs and Investments Committee, and Internal Control Committee).

b. Monitoring of developments of the Bank's activity throughout 2019

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 activity and development of the IT platform.

Furthermore, the Audit Committee also analysed, discussed and monitored the Bank's strategic projects, of organic and inorganic nature, including the operation for the acquisition of the entire share capital of 321 Crédito – Instituição Financeira de Crédito, S.A. ("321 Crédito") accomplished on 2 May 2019, and issued a favourable opinion on the share capital increase of this affiliate conducted on 20 December 2019.

c. Supervision of the Bank's conclusion of agreements and other transactions with related parties

During 2019, the Committee appraised and issued a favourable opinion on the Bank's conclusion of contracts and transactions with related parties (companies of the CTT Group), including (i) the provision of postal services on credit by CTT; (ii) the provision of transport and information handling services; (iii) the provision of printing and finishing services; (iv) the provision of physical and digital archiving services; and (v) the distribution of insurance by CTT at its post offices without the presence of Banco CTT.

d. Supervision of the preparation of financial information and verified the adopted accounting policies, in particular regarding the annual financial reporting documents

AThe 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 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 midterm information reported as at 31 March, 30 June and 30 September 2019, 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 2018 and as at 30 June 2019. Using the financial year of 2018 as a reference, in 2019 the Committee analysed the annual financial statements and the proposed appropriation of net income in the Annual Report for 2018, having issued the corresponding Opinion. In 2020, the Committee carried out similar analyses with the financial year of 2019 being the reference, with a view to the issue of the respective Opinion.

e. Supervision of the effectiveness of the Bank's risk management, internal control and internal audit systems

During 2019, the Audit Committee monitored the implementation of the action plans adopted to eliminate the flaws detected in the Internal Control System (SCI). The Audit Committee also appraised the conclusions of the exercise of self-assessment of the internal control system, having monitored the preparation of the Annual Report on the Internal Control System sent to the supervisor in June 2019, for which it issued the opinion stipulated in Banco de Portugal Notice 5/2008. During 2019, 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 sent to the supervisor in April 2019.

The Audit Committee monitored the activity of the Compliance Department, having appraised the respective annual activity plan, including the Compliance Plan and the Plan of Activities related to Prevention of Money Laundering and Terrorist Financing, proposed by this Department for 2019.

The Audit Committee monitored the activity of the Risk Department, having appraised its annual activities plan for 2019.

The Audit Committee monitored the activity of the Internal Audit Department, having appraised the Audit Plan proposed for 2020, as well as the review of the Audit Statutes and the changes to the internal audit methodology.

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.

By reference to 2019, in 2020 the Audit Committee approved the Annual Report on Whistleblowing, to be submitted to Banco de Portugal under the terms and for the effects of number 7 of article 116-AA of the Legal Framework of Credit Institutions and Financial Companies. This Report describes the process of receiving and handling irregularities endorsed by Banco CTT, as well as the irregularities reported in the reference period.

g. Supervision and assessment of the Statutory Auditor's activity

Throughout 2019, the Audit Committee held meetings with the Statutory Auditor on various occasions and for various purposes. One of the aspects discussed with the Statutory Auditor was the model of relations between KPMG and the Bank's supervisory board, in particular with respect to the monitoring of the work developed by the Statutory Auditor and the reporting and discussion of the corresponding findings and conclusions.

The Committee conducted the prior appraisal of the proposed provision of services to be hired by the companies of the Banco CTT Group and CTT from KPMG, both concerning audit services and non-audit services, having decided under the terms of the International Regulations of the Audit Committee and of the Regulations on the Provision of Services by the Statutory Auditor. In conformity with the Regulations and in accordance with the applicable legislation, comments were issued on the respective approval/authorisation.

The non-audit services received the prior approval/authorisation of the Audit Committee following 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; and (iv) that the services in question constitute services 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.

During 2019, the Audit Committee analysed the reports on the activities carried out by the Statutory Auditor and, in 2020, analysed the conclusions of the review of the Bank's individual and consolidated financial statements for 2019.

The Committee made an assessment of the Statutory Auditor's performance in the term of office corresponding to the four-year period 2015-2018, having decided to recommend and propose to the General Meeting that KPMG should be renewed as the Bank's Statutory Auditor for the term of office corresponding to the two-year period 2019-2020.

Throughout 2019, and in an ongoing manner, the Audit Committee supervised the activity and assessed the independence of KPMG as the Bank's Statutory Auditor. In 2020, the Committee made a formal assessment of KPMG, having concluded that its activity was pursued in an independent manner and that its performance was positive and in line with the expectations of the Committee and the Bank. This assessment included questionnaires to the Bank's Administers and Directors who work very closely with the Statutory Auditor, as well as the statement provided by KPMG in which it confirmed its independence.

h. Conduct of the process of selection of the Statutory Auditor for the term of office 2021 2023

Considering that the current term of office of the Statutory Auditor ends in 2020, the Audit Committee appointed a committee to monitor the process of selection of the Statutory Auditor for the term of office 2021-2023, composed of all the members of the Audit Committee and by the Directors of the Control Functions (Internal Audit, Compliance and Risk) and by the Director of Accounting. To this end, this committee carried out various procedures, including the scheduling of the process and the preparation of a consultation programme and terms of reference.

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.

The Committee favourably appraised and recommended to the Board of Directors the approval of the Risk Appetite Statement – RAS 2020-2022, having also appraised the incentives established in the Bank's remuneration policies.

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, 13 March 2020

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 2019

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 2019, 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. 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:

- Granting of mortgage loans; and
- Impairments for loans and advances to customers – auto loans and finance leases.

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 number 6 of article 420 of the Portuguese Companies Code, applicable by reference to number 2 of article 423-F 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 2019, 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 2019.

Lisbon, 13 March 2020

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 External Auditors' Report

Legal Certification of the Accounts (Consolidated)

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 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 2019 (showing a total of 1,665,878 thousand euros and total equity of 211,355 thousand euros, including a loss for the year of 8,011 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 2019 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.

KPMG

<table>
<tr><td colspan="2">Credit concession – mortgage loans – Banco CTT</td></tr>
<tr><td colspan="2">As at 31 December 2019, the caption Loans to clients (mortgage and overdrafts) amounts to 406,322 thousand euro, 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 405,168 thousand euro relating to mortgage loans.</td></tr>
<tr><td>Risk</td><td>Our Response</td></tr>
<tr><td>The Bank started in March 2017 to grant mortgage credit to its customers.

This process was developed by the Bank from the ground up, based on a workflow developed in partnership with an external partner.

Having in consideration the recent integration of this process in the Bank, the objectives defined for the management and the importance in the operational activity of the Bank, we considered this area as a significant matter for our audit.</td><td>Our audit procedures included, among others, the following:
– Obtaining an understanding of the credit granting process, from the reception of the credit proposals to the final accounting record and the related financial reporting, identifying the respective risk points and associated controls;
– Analysis of the Credit Committee minutes, where are discussed the credit proposals with higher risk and defined the guidelines of the concession process;
– Analysis of the integration processes between the Banks' systems and the partner's systems, as well as between the operations and accounting systems;
– Evaluation of the design and implementation and operational effectiveness of the controls associated with the process of credit granting and to the impairment model implemented by the Bank in order to comply with IFRS 9;
– Analysis of the documentation that supports the credit analysis, on a sample basis and the accounting records of the loans, including the contract deeds;
– Testing of interest of the period and accrued interest;
– Testing of impairment calculated according to IFRS 9 and,
– Evaluation of the disclosures made by the Entity, in accordance with applicable accounting rules.</td></tr>
</table>

2

KPMG

<table>
<tr><td colspan="2">Impairment for loans to customers – auto loans and leasing</td></tr>
<tr><td colspan="2">As at 31 December 2019, as disclosed in note 14 of the accompanying notes to the financial statements, the credit do customers portfolio - auto loans and leasing amounts to 482,319 thousand euros. Auto loans and leasing includes the loans originated by the Group, with the intention to hold them to collect the contractual cash-flows (capital and interest) in specific dates.

The credit do customers portfolio - auto loans and leasing, net of impairment, represent approximately 29% of the Group's total assets as at 31 December 2019.

This financial asset is recognized when the credit is granted to the borrower, being the capital the respective fair value, along with the gains and losses related to the transaction and is subsequently measured at amortised cost.</td></tr>
<tr><td>Risk</td><td>Our Response</td></tr>
<tr><td>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 their initial recognition or if these are assets with impairment. For the Group, determining 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 2.3.7.3 and 30 of the Financial Statements.

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').

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.</td><td>Our audit procedures included, among others, the following:
– 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 ECL estimation process;
– For credits whose impairment losses are determined on a collective basis, test, with the support of our experts 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.</td></tr>
</table>

3

KPMG

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 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.	

Responsibilities of Management and the Supervisory Body for the Consolidated Financial Statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards as adopted by the European Union;
- the preparation of the management report in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and,
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

KPMG

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 scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;

- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment of the Group, we have not identified any material misstatements.

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

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were first appointed as auditors of Banco CTT, S.A. (parent Entity of the Group) in the shareholders general assembly held on 24 August 2015 for a first mandate from 2015 to 2018. We were reappointed as auditors in the shareholders general assembly held on 25 de 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 scepticism, and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement 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 13 March 2020.
- 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 Entity with the following services as permitted by law and regulations in force:
  - 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;
  - Reports, according to the terms of Instruction nr. 18/2018 from the Bank of Portugal, regarding the impairment of the credit portfolio.

13 March 2020

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 2019 (showing a total of 1,560,861 thousand euros and total equity of 211,355 thousand euros, including a loss for the year of 8,011 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 2019 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.

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A. Capital Social: 3.916.000 Euros – Pessoa Colectiva Nº PT 502 161 078 – Inscrito na O.R.O.C. Nº 189 – Inscrito na C.M.V.M. Nº 20161489 Matriculada na Conservatória do registo Comercial de Lisboa sob o Nº PT 502 161 078

KPMG

Credit concession	
As at 31 December 2019, the caption Loans to clients amounts to 406,322 thousand euro, 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 405,168 thousand euro relating to mortgage loans.	
Risk	**Our Response**
The Bank started in March 2017 to grant mortgage credit to its customers. This process was developed by the Bank from the ground up, based on a workflow developed in partnership with an external partner. Having in consideration the recent integration of this process in the Bank, the objectives defined for the management and the importance in the operational activity of the Bank, we considered this area as a significant matter for our audit.	Our procedures included, among other: - Obtaining an understanding of the credit granting process, from the reception of the credit proposals to the final accounting record and the related financial reporting, identifying the respective risk points and associated controls; - Analysis of the Credit Committee minutes, where are discussed the credit proposals with higher risk and defined the guidelines of the concession process; - Analysis of the integration processes between the Banks' systems and the partner's systems, as well as between the operations and accounting systems; - Evaluation of the design and implementation and operational effectiveness of the controls associated with the process of credit granting and to the impairment model implemented by the Bank in order to comply with IFRS 9; - Analysis of the documentation that supports the credit analysis, on a sample basis and the accounting records of the loans, including the contract deeds; - Testing of interest of the period and accrued interest; - Testing of impairment calculated according to IFRS 9 and, - Evaluation of the disclosures made by the Entity, in accordance with applicable accounting rules.

KPMG

Responsibilities of Management and the Supervisory Body for the Financial Statements

Management is responsible for:

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

The supervisory body is responsible for overseeing the Entity's financial reporting process.

Auditor´s Responsibilities for the Audit of the Financial Statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment of the Entity, we have not identified any material misstatements

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 2014 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 13 March 2020.
- We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Entity in conducting the audit.
- We inform that, in addition to the audit, we provided to the Entity with the following services as permitted by law and regulations in force:
  - Opinion, according to the terms of paragraph b) of nr. 5 of article 25 of Aviso nr. 5/2008 from Bank of Portugal, regarding the internal control system of the Entity;
  - Report, according to the terms of Instruction nr. 18/2018 from the Bank of Portugal, regarding the impairment of the credit portfolio.

13 March 2020

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)