Annual Report
2019

bancoctt

We are a Trusted Bank

Our history is short, but the trust that customers, partners and shareholders place in us encourages us to grow. Based on the values of simplicity, transparency and innovation, we focus daily on our commitments, and on delivering more and better, reinforcing the vote of confidence that is given to us.

Banco CTT, S.A.

Registered Office: Avenida D. João II, nº 13, Edifício Báltico, Piso 11º, 1999-001 Lisboa
Sole registration and taxpayer number at the Commercial Registry Office: 513 412 417
Share capital: € 286,400,000.00
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bancoctt.pt
(hereinafter "Bank", "Banco CTT" or "Company")

Disclaimer:

The Board of Directors unanimously resolved to approve the Management Report, the Financial Statements and the respective annexes and the Corporate Governance Report for the year of 2019, in a meeting that took place on March 13, 2020, by telematic means , under the terms and under the provisions of number 8 of article 410 of the Portuguese Companies Code and the respective internal operating regulations, following the pandemic outbreak of COVID-19. For this reason and in view of the current circumstances, it was not possible - until the present date - to obtain all the signatures of the members of the management and supervisory bodies in the annual report, having Banco CTT, SA opted to publish and report the approved version of the Annual Report, even if not fully signed.

Annual Report 2019

João
Moreira
Rato

Chairman
of the Board
of Directors

Chairman's Statement

On 13 September, the General Meeting of Banco CTT established a new Board of Directors which I have the honour of chairing.

This Board of Directors is distinguished by its independence. Of its seven non-executive members, four are independent and only two perform duties at CTT. This Board of Directors is extremely rich in terms of diversity of professional experience and accumulated knowledge both in financial institutions and in academic environments. We are an attentive Board of Directors and embrace the Board's meetings with a critical spirit. This is also a Board of Directors with a richer gender balance.

This Board is assisted in its supervisory duties by an Audit Committee composed of three independent members.

The Board of Directors shall oversee the implementation of the risk control system of Banco CTT and, when necessary, review the Bank's internal policies. The aim is to take into account the variety of stakeholders of Banco CTT, including the social and environmental impact of the Bank's activity. Not forgetting that the customers are the reason for the very existence of Banco CTT. This Board of Directors does not wish to be a mere observer, nor does it intend to spuriously get involved in daily management, which it delegates to the Executive Committee.

Banco CTT is currently a fully instated institution in the national financial system.

With over 500 thousand customers and having the surpassed the milestone of 1,500 million euros of customer funds, this brand enjoys significant recognition among the Portuguese population.

It is in this context that a new medium-term strategy was approved at the end of 2019. With reinvigorated ambition, Banco CTT now enters a cycle giving priority to profitability, boosting the core business of retail banking, making its subsidiaries flourish and starting to explore opportunities in small company segment.

The Board of Directors shall oversee this new stage with total dedication, highlighting its full confidence in the Executive Committee's capacity to achieve results in line with the strategic plan, as well as in all the employees of the Banco CTT Group.

João Moreira Rato
Chairman of the Board of Directors
13 March 2020

CEO's Statement

019 was yet another remarkable year for Banco CTT, with a significant acceleration of commercial activity, combined with inorganic growth making the institution more complete and more diversified.

In the retail business for individuals the growth of the customer base continues unceasingly. By the end of the year, Banco CTT had more than 500 thousand customers and more than 1,200 million euros of funds on the balance sheet, unequivocally manifesting its strength and distinctive nature in the national financial system.

With a network of over 212 branches and growing productivity gains, this last year was exceptional in terms of customer funds, with total of 750 million euros, 350 of which through the retirement savings plan (PPR) offer.

With this record, right in the first year of its offer, Banco CTT became a reference player in PPR, achieving a market share close to 10%.

On the credit side, the year was also one of affirmation. Once again, we were "Five Stars" in mortgage loans, repeating the recognition of the Portuguese population both in terms of our offer and the quality of the service provided. The impact of Banco CTT on the market is also outstanding for this product, with a television campaign having been carried out with a confirmed higher recall level.

In the mortgage loan area, the year was also marked by the launch of the first "partner portal", enabling the remote generation of processes by our network of intermediaries, promoting service flexibility and quality.

2019 was also a year of evolution in the payment subsidiary: Payshop. With a network that has grown to more than 4,800 agents, combined with CTT post offices and postal agencies, in 2019, Payshop returned to a trend of growth, with over 650 million euros processed. The programme of investment in the network of agents, the strengthening of market communication and the conquest of new institutional customers all contributed to these results.

But 2019 had even more novelties at Banco CTT.

In April of this year, Banco CTT completed the process of acquisition of 321 Crédito, a company specialised in used motor vehicle credit, consolidating its presence in a flourishing market segment with distinctive profitability levels. With 321 Crédito, Banco CTT is stronger and more balanced, having already captured an important funding synergy, optimising the use of liquidity obtained in the retail network and accelerating the loan-to-deposit ratio from 28% to 69%.

In 2019 we stopped being "yet another retail bank" to become a diversified financial group, based on 3 different business units, but with a synergetic value between them: **retail banking**, **specialised credit** and **payments**.

Is in this context that we accomplished our first financial goal: in 2019 we reached operational break-even, henceforth contributing positively to the EBITDA of the CTT Group.

If we have managed to cover this path in less than 4 years, what can we expect for the near future? In 2020 we shall enter into a new stage, absolutely focused on ensuring the profitability of the investment that has been made, now promoting our second goal: **achieving the first year of positive net income**.

In retail banking we shall increasingly be the "first bank" of our customers, deepening the relations that have been initiated and driving the profitability of the installed franchise. We shall be a Bank with considerable funds, we shall grow in consumer credit and prepare the Bank to enter the small company segment.

In specialised credit, 321 Crédito has already begun investment in commercial capacity, combined with the technological turn-around underway, enabling us to aspire to an unprecedented market position already in 2020.

In payments, 2020 is the year of the "refoundation of Payshop". The accomplishment of the technological plan shall enable our progressive entry into the "digital arena of payments", added to the strength of the network of agents, giving rise to a unique positioning in the market.

In sum, 2019 was a great year for Banco CTT, and we are now embarking on a new cycle with the same relentless pace. We shall not forget our foundational values. We shall create a simple, transparent, close bank, focused on our customers. We shall be a more diversified, complete financial group, driven by the creation of value.

I would like to finalise, on behalf of the Executive Committee and in my own name, by thanking the work and dedication of all who have participated in this Banco CTT project, from the central services, to the Retail Network, to the employees of Payshop and 321 Crédito.

I also extend my gratitude to the corporate bodies, to all our partners, credit intermediaries, Payshop agents and all other service providers. They are all also Banco CTT.

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

Together, we shall renew our commitment, on a daily basis, to make a different bank, which shall continue to merit the trust of our customers.

Luís Pereira Coutinho
Chairman of the Executive Committee
13 March 2020

Luís
Pereira
Coutinho

Chairman
of the Executive
Committee

Management Report

01

Information on the Banco CTT Group

We Grow in Customers

With us, trust grows in a close and prosperous community.

1.1 Banco CTT Group

History

2013

AUGUST — On 5 August 2013, CTT submitted request to Banco de Portugal to grant a concession for creation of the postal bank.

NOVEMBER — On 27 November 2013, Banco de Portugal issued authorisation for the creation of the postal bank.

2015

FEBRUARY — CTT's constitution of CTT Serviços, S.A. for purposes of development of the preparatory work as necessary and/or convenient for the constitution of the Bank.

AUGUST — On 24 August 2015, after authorisation of Banco de Portugal, CTT Serviços was transformed into Banco CTT, with share capital of 34 million euros.

NOVEMBER — On 18 November 2015, Banco CTT presented its corporate identity, with Proximity, Simplicity and Transparency being its main attributes.

Banco CTT started to operate on 27 November 2015, under the soft opening model available only for employees of CTT and Banco CTT.

2016

MARCH — Banco CTT opened to the public on 18 March, with 52 branches simultaneously, spread over the 18 districts of Portugal and with a strong presence in digital channels.

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

JULY — Banco CTT opened its one hundredth branch on 22 July.

OCTOBER — Share capital increase of 25 million euros, to 85 million euros.

DECEMBER — Banco CTT achieves a presence of 202 branches.

With 9 months of activity, Banco CTT reaches 100 thousand customers.

2017

JANUARY — Banco CTT launched Mortgage Lending, presenting a simple and low-cost solution for those wishing to purchase a house or move, maintaining the values associated to its launch: that of an accessible, comprehensive and useful offer.

APRIL — April 2017 Banco CTT received authorisation from ASF (Portuguese Insurance and Pension Funds Supervisory Authority) to present insurance products to its customers, enabling the offer of Life Insurance, Housing and Health Multi-Risk Insurance.

Share capital increase of 25 million euros, to 125 million euros.

2018

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

MARCH — Share capital increase of 25 million euros, to 156.4 million euros.

JULY — Banco CTT agreed to purchase 321 Crédito, a specialised consumer credit institution (used motor vehicles in the retail market), which has expanded the business portfolio of Banco CTT.

OCTOBER — Introduction of off-balance sheet saving products with the launch of the offer of PPR (Retirement Savings Plans).

2019

APRIL — Share capital increase of 110 million euros, to 266.4 million euros.

MAY — May 2019 On 2 May, Banco CTT completed the acquisition of the entirety of the share capital of 321 Crédito, a company granting loans for used motor vehicles to individuals.

Banco CTT reached 1,000 million euros of customer deposits.

DECEMBER — Share capital increase of 20 million euros, to 286.4 million euros.

Corporate Governance

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

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

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

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

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

Thus, the Bank's Board of Directors, in office as at 31 December 2019, was composed of 11 Directors, with 7 Non-Executive Directors (including the Chairman of The Board of Directors and 3 independent Directors) and 4 Executive Directors (including the Chairman of the Executive Committee), showing the following management organisation:

Board of Directors

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

CEO
Luís Pereira Coutinho

Executive Committee

CFO
Pedro Coimbra

CCO
João Mello Franco

COO
Nuno Fórneas

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

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

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

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

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

- Assure the Bank's operational capacity based on adequately dimensioned human, material and technical resources;
- Assure the provision of bank services to customers based on multi-employer staff in CTT's Retail Network, after completing a rigorous training programme and with the follow-up and support of the Bank's employees with previous banking experience;
- Articulate non-core functions (especially in terms of shared services) with CTT's structure; and

Create a "control environment" that is appropriate to the particularities of Banco CTT, supported by the institution's Code of Conduct, by the internal control and risk management policies and procedures, and by an internal organisation based on the model of three lines of defence.

Corporate Bodies[1]

Board of the General Meeting

Chairman
Rui Afonso Galvão Mexia de Almeida Fernandes

Board of Directors

Chairman
João de Almada Moreira Rato

Members
Luís Maria França de Castro Pereira Coutinho
João Maria de Magalhães Barros de Mello Franco
Pedro Rui Fontela Coimbra
Nuno Carlos Dias dos Santos Fórneas
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

Executive Committee

Chairman
Luís Maria França de Castro Pereira Coutinho (CEO)

Members
João Maria de Magalhães Barros de Mello Franco (CCO)
Pedro Rui Fontela Coimbra (CFO)
Nuno Carlos Dias dos Santos Fórneas (COO)

Audit Committee

Chairman
João Manuel de Matos Loureiro

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

Statutory Auditor

Statutory Auditor (ROC)
KPMG & Associados, SROC, S.A., representada por Vítor Manuel da Cunha Ribeirinho

Alternate Statutory Auditor
Maria Cristina Santos Ferreira

Company Secretary

Permanent
Catarina Morais Bastos Gonçalves de Oliveira

Alternate
Maria Filipa Rebelo Pereira de Matos Alves Torgo

[1] The members of the corporate bodies in office on the present date and as at 31 December 2019 are indicated herein.

Executive Committee

Pedro Coimbra
CFO

Luís Pereira Coutinho
CEO

João Mello Franco
CCO

Nuno Fórneas
COO

Brief Summary of the Year and Main Highlights

The year of 2019 was marked by the continuation of the consistent growth of the Bank's retail banking customer base, maintaining an opening rate of around 10 thousand accounts per month, with customer funds on the balance sheet (deposits) having reached the historical milestone of 1,000 million euros in May 2019, and ended the year with over 1,200 million euros.

Simultaneously with the capture of funds on the balance sheet in the year of the value of 400 million euros, the Bank mediated the capture of more than 300 million euros of the retirement savings plan (PPR) product, accounting for an impressive market share, elevating the amount of pro forma customer funds to 1,640 million euros, representing an increase of 80% year-on-year.

The gross credit portfolio increased during the year by 641 million euros, both via the gradual growth of the mortgage loan portfolio (167 million euros), and via auto loans, through the entrance of 321 Crédito into the consolidation perimeter of Grupo Banco CTT (473 million euros). The payments business, operated by the subsidiary Payshop, stands out due to the continued expansion of its network of agents and growth of 7%, above 30 million, of the number of payments processed, during 2019.

The year of 2019 was also marked by the accomplishment of the acquisition of 321 Crédito, successfully culminating a process initiated in July 2018. The suspensive conditions established in the purchase and sale agreement of 321 Crédito were met by CTT on 22 April 2019, including non-objection by the competent banking supervision entities and the Competition Authority, with the transaction having been completed on 2 May 2019.

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 from about 30% to more than 70%.

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.

The Elective General Meeting of the Corporate Bodies of Banco CTT for the period 2019/2021 was held on 13 September 2019.

January 2019

The Mortgage Lending of Banco CTT was considered to be a Five Star product by the Portuguese.

Among the five banks assessed in the same category, Banco CTT was awarded firs place in the criteria of satisfaction, price-quality, recommendation and innovation.

April 2019

Share capital increase of 110 million euros, fully underwritten and paid-up by the sole shareholder, CTT – Correios de Portugal, S.A., increasing the share capital to 266.4 million euros.

May 2019

On 2 May, Banco CTT completed the acquisition of the entirety of the share capital of 321 Crédito, a company granting loans for used motor vehicles to individuals.

Banco CTT reached 1,000 million euros of customer deposits.

September 2019

The Elective General Meeting of the Corporate Bodies of Banco CTT for the period 2019/2021 was held on 13 September 2019, with the following composition having been approved unanimously:

Board of Directors (term of office 2019/2021):
Chairman: João de Almada Moreira Rato, (com funções não executivas);
Members: Luís Maria França de Castro Pereira Coutinho; António Pedro Ferreira Vaz da Silva; Guy Patrick Guimarães de Goyri Pacheco; 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 Emídio Pessoa Corrêa d'Oliveira; João Manuel de Matos Loureiro; Susana Maria Morgado Gomez Smith.
Executive Committee:
Chairman: Luís Maria França de Castro Pereira Coutinho;
Members: João Maria de Magalhães Barros de Mello Franco; Pedro Rui Fontela Coimbra; Nuno Carlos Dias dos Santos Fórneas.
Audit Committee:
Chairman: João Manuel de Matos Loureiro;
Members: Clementina Maria Dâmaso de Jesus Silva Barroso e Susana Maria Morgado Gomez Smith.

December 2019

Share capital increase of 20 million euros, fully underwritten and paid-up by the sole shareholder, CTT – Correios de Portugal, S.A., increasing the share capital to 286.4 million euros.

Share capital increase of 110 million euros to 266.4 million euros

April

Closing of the acquisition deal of 321 Crédito

May

Elective GM of the Governing Bodies for the two-year period 2019/21

September

Share capital increase of 20 million euros to 286.4 million euros

December

1.2 Awards and Recognitions

Awards and Effectiveness of Communication 2019

In 2019, Banco CTT was distinguished with the Gold Effectiveness Award, in the category of Financial Services and Insurance, with the campaign "Crédito Habitação Sem Blá Blá Blá" (Mortgage Loans without Bla Bla Bla).

This award distinguishes the contribution of communication in the achievement of business goals.

Its award is based on a detailed assessment of the cases presented, including the strategy used and results attained, with the selection panel being composed of 12 members, including highly reputed professionals of advertising agencies, advertising companies, market research companies and the academic sphere.

The "Crédito Habitação Sem Blá, Blá, Blá" campaign, starring the actor Albano Jerónimo, was the most recalled campaign of the national banking system in 2019, having reached 1st place in confirmed TV recall and 2nd place in spontaneous recall.

As a consequence, in this period there was substantial growth in the number of mortgage loan simulations and proposals made at Banco CTT.

Banco CTT wins the Five Star Award for the 2nd year consecutively

The Mortgage Lending of Banco CTT was considered to be a Five Star product by the Portuguese.

Among the five banks assessed in the same category, Banco CTT was awarded first place, having received the overall grade of 74%.

The distinction of the Portuguese was based on the criteria that influence the purchase decision: Satisfaction-Experimentation, Price-Quality, Intended Recommendation, Innovation, and particularly Trust in the Brand.

The Five Star Award, attributed in the Mortgage Lending category by U-Scoot Lda., is a system of assessment of brands, products and services that measures the degree of satisfaction of the consumers, carried out by an independent entity, which uses a complete and rigorous method based on tests and market studies conducted during the 2nd semester of 2019.

Meios & Publicidade Marketing Awards 2019

The "Crédito Habitação Sem Blá, Blá, Blá" campaign was awarded twice in the Meios & Publicidade Marketing Awards: Gold in the Banking, Finance and Insurance category, and Silver in the Multi-media/integrated campaign category.

Every year, the Marketing Awards, promoted by Meios & Publicidade, distinguish the best marketing strategies, campaigns, actions and decisions that can make all the difference for brands and companies, thus contributing to their brand awareness, reputation and growth. The awards are given by the majority of the selection panel's votes.

The selection panel is composed of 17 professionals with a recognised career path in the areas of marketing, advertising and media, and chaired by the director of Meios & Publicidade.

1.3 Vision, Mission and Values of the Bank

Vision

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

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

Mission

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

Values to uphold

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

1.4 Key Figures

Consolidated Results

For the first time, the results of 2019 incorporate 321 Crédito - Instituição Financeira de Crédito, S.A., which is now included in the consolidation perimeter of Banco CTT following the acquisition that took place in May. Therefore, the negative consolidated net income of 8,011 thousand euros (2018: -17,487 thousand euros) includes the contribution of 3,101 thousand euros relative to Payshop and 12,537 thousand euros relative to à 321 Crédito.

Net interest income stood at 29,260 thousand euros (2018: 7,872 thousand euros), representing an increase of 21,388 thousand euros in relation to 2018 (growth of 272%), of which 19,620 thousand euros refer to auto loans, 7,120 thousand euros to interest from investment in securities and 3,317 thousand euros to interest from mortgage loans. The interest on deposits of customers that reached 974 thousand euros and 766 thousand euros of interest on securities issued represent the main items of interest and similar expenses.

Net commissions reached 15,455 thousand euros (2018: 11,082 thousand euros) corresponding to an increase of 4,373 thousand euros, in which special reference is made to the commissions received by the payment acceptance operations in the Payshop sphere of 8,241 thousand euros, the commissions of off-balance sheet savings products related to the retirement savings plan (PPR) offer with 1,131 thousand euros, and the commissions arising from the personal credit and credit card offer of the value of 2,310 thousand euros.

Operating income reached 45,819 thousand euros (2018: 18,542 thousand euros), representing an increase of 27,277 thousand euros which is due to i) the increase of banking activity (+8,646 thousand euros), and ii) the incorporation of 321 Crédito in the consolidation perimeter (+18,708 thousand euros).

Operating expenses reached 52,451 thousand euros (2018: 40,279 thousand euros) representing an increase of 12,172 thousand euros. This increase was basically the result of:

- inclusion of 321 Crédito in the consolidation perimeter, relative to 8 months of activity (Δ 18/19: +6,768 thousand euros);
- increase of general administrative expenses (Δ 18/19: +1,824 thousand euros) through the increased variable costs due to the larger banking operation;
- increased amortisation and depreciation (Δ 18/19: +1,621 thousand euros);
- increased staff costs (Δ 18/19: +1,757 thousand euros) which reflects the strengthening of team capacity-building.

Special note should be made of the Group's increased efficiency levels, with the cost-to-income ratio having improved from 217% in 2018 to 114% in 2019.

Net impairments amounted to 3,093 thousand euros in 2019 (2018: 362 thousand euros), of which 2,983 thousand are derived from the integration of 321 Crédito.

Consolidated Balance Sheet

As at 31 December 2019, the Bank's assets amounted to 1,665.878 thousand euros (2018: 1,001,774 thousand euros), with 211,355 thousand euros funded by equity (2018: 89,504 thousand euros) and 1,454,523 thousand euros by borrowed capital (2018: 912,270 thousand euros).

During 2019 there were 2 share capital increases of the aggregate amount of 130 million euros fully underwritten and paid-up by the sole shareholder, CTT – Correios de Portugal, S.A., where the first was carried out on 26 April 2019 involving a total of 110 million euros and the second was carried out on 23 December 2019 involving a total of 20 million euros.

Deposits of customers reached 1,283,567 thousand euros as at 31 December 2019 (2018: 883,950 thousand euros) representing an increase of 399,617 thousand euros (Δ: +45%) year-on-year, reflecting the ability and dynamism of attracting funds of the Banco CTT Retail Network. It should be noted in particular that the increased funds attracted are fundamentally non-remunerated demand deposits, demonstrating the confidence entrusted in the Bank by its customers, and that it is increasingly the customers' first bank.

Loans and advances to customers (gross) stood at 889,799 thousand euros as at 31 December 2019 (2018: 248,508 thousand euros), corresponding to an increase of 637,770 thousand euros, essentially explained by the increase of the gross auto loans portfolio of 447,708 thousand euros, arising from the acquisition of 321 Crédito and the evolution of mortgage loans with an annual variation of 166,501 thousand euros.

The portfolio of investment in securities had a net value of 451,360 thousand euros as at 31 December 2019 (2018: 454,102 thousand euros), of which around 90% are sovereign debt securities of the Eurozone.

The loan-to-deposit ratio stood at 69% in 2019 (2018: 28%) which reflects the full integration of the credit portfolio of 321 Crédito and the continuous increase of the capacity to create loans, despite the competitive environment observed in 2019 in the mortgage loan market.

Consolidated Indicators

(amounts in thousand euros)

		2019	2018 reported	Δ Abs.	Δ %.
Results	Net Interest Income	29,260	7,872	21,388	272%
	Operating Income	45,819	18,542	27,277	147%
	Operating Expenses	(52,451)	(40,279)	(12,172)	30%
	Impairment and Provisions	(2,869)	(342)	(2,527)	739%
	Income Tax	1,490	4,592	(3,102)	-68%
	Net Income	(8,011)	(17,487)	9,476	-54%
Balance Sheet	Total Assets	1,665,878	1,001,774	664,104	66%
	Deposits and Investments at Credit Institutions	151,313	228,478	(77,165)	-34%
	Investment in securities	456,411	454,102	2,309	1%
	Loans and Advances to Customers	885,821	248,049	637,772	257%
	Intangible Assets	27,624	24,981	2,643	11%
	Total Liabilities	1,454,523	912,270	542,253	59%
	Deposits from Customers	1,283,567	883,950	399,617	45%
	Total Equity	211,355	89,504	121,851	136%
Retail Banking for Individuals	No. of Branches opened	212	212	-	-
	No. of Accounts	461,271	347,941	113,330	33%
	Mortgage Loan Production	189,406	178,788	10,618	6%
	Mortgage Loan Stock (gross)	405,168	238,667	166,501	70%
	Retirement Savings Plan Stock (mediation)	356,557	25,605	330,952	1,293%
	Personal Credit Production (intermediation)	43,902	41,640	2,262	5%
	Customer funds (pro forma)*	1,640,124	909,555	730,569	80%
Point of Sale Specialised Credit Business	No. of agents	1,103	...	...	...
	Auto Loans Production **	143,104	...	...	...
	Auto Loans Stock (gross)	447,708	...	...	...
Payments Business	No. of Payshop agents	4,821	4,600	221	5%
	No. of payments processed - thousand	31,636	29,572	2,064	7%
Profitability and Efficiency	Loan-to-Deposit Ratio	69%	28%	41%	146%
	Cost-to-Income	114%	217%	-103%	-47%
	Return on Assets (ROA)	0%	-2%	1%	-72%
	Return on Equity (ROE)	-4%	-20%	16%	-81%
Funding and Liquidity	Own Funds	122,645	64,116	58,529	91%
	Risk-Weighted Assets (RWA)	646,266	274,706	371,560	56%
	Common Equity Tier 1 (fully implemented)	18.98%	23.34%	-4.36%	-23%
	Leverage Ratio (fully implemented)	7.6%	6.4%	1.20%	16%
	Liquidity Coverage Ratio (LCR)	1,896%	3,102%	-1,206%	-39%

** Includes deposits from customers and customer funds captured via mediation of the Retirement Savings Plan product (PPR).*
*** 8 months of activity.*

1.5 Macroeconomic Environment

International Economy

The global economy is estimated to have grown at 2.9%[1] in 2019, the slowest rate of the last 10 years, showing a slowdown in relation to the 3.6% of 2018. This slowdown was experienced in a synchronised manner in various countries, as a consequence of the barriers to international trade and geopolitical uncertainty, which significantly affected the global manufacturing sector, especially the production of motor vehicles. The increase and uncertainty of customs tariffs, in particular between the United States of America and China, have undermined confidence for new investments and global trade relations. According to OECD estimates, the real growth of international trade should slow down from 3.7% in 2018 to 1.2% in 2019[2]. In contrast, the service sector maintained its buoyancy, which enabled keeping the labour market with unemployment rates at low levels and signs of rising salaries, especially in the developed economies. Domestic demand was the main driver of growth, in particular private consumption. Despite the buoyancy in the labour market, in 2019, inflation remained at low levels, in most cases at rates below the targets of the Central Banks of each country, and this was a year marked by even more expansionary monetary policies.

Economic activity in the eurozone slowed down, particularly affected by the contraction of industrial activity, with visible effects on the contraction of the German economy in the second quarter of 2019. Exports declined, experiencing the weakening of demand by China. The uncertainty as to the United Kingdom staying in the European Union was a recurrent theme throughout 2019, and it was only in December, with the victory of the Conservatives, that the deadlock underway was broken. In Spain, after two elections in 2019, it was still not possible to form a government throughout the entire year. In Italy, the Five Star Movement and Lega government coalition came to an end, with a new coalition between the Five Star Movement and the Democratic Party having been formed, with the same Prime Minister.

In the United States, the economy slowed down from 2.9% growth in 2018 to around 2.3%[3] in 2019, with a particularly strong slowdown in the investment component. The greatest contribution came from private consumption, underpinned by an unemployment rate at minimum levels of the last 50 years and increased salaries.

Monetary Policy in the eurozone became even more expansionary in 2019. After the end of the asset purchase programme of the European Central Bank (ECB) in 2018, the expectations for 2019 pointed to a period of normalisation and possible increase in reference interest rates of the single currency. This did not actually take place, with the ECB having cut the interest rate on deposits by 0.1% to -0.50% in September, resuming the purchase of assets for an indefinite period at a rate of 20 billion euros per month and announcing a new programme of targeted longer-term refinancing operations (TLTRO), with slightly lower rates and longer maturities. In order to mitigate the adverse effects of negative interest rates, the European Central Bank decided that a current multiple of 6 times the minimum bank reserves would not be subject to the deposit interest rate. The leadership of the European Central Bank changed, with Mário Draghi ending his term of office and being replaced by Christine Lagarde, who announced that during 2020 there would be a strategic review of the remit and clarification of ECB goals.

In the United States of America, the monetary policy also became more expansionary, reversing the increase rate rises of 2018. The Federal Reserve cut the reference interest rate by 0.75%, ending the year in the range of 1.50%-1.75%. The gradual reduction of the Federal Reserve Balance sheet was suspended, with the Federal Reserve starting to buy short-term assets following some difficulties in the repo market in September.

[1] *OECD Economic Outlook, Interim Report March 2020*
[2] *OECD Economic Outlook, Volume 2019 Issue 2*
[3] *OECD Economic Outlook, Interim Report March 2020*

National Economy

The Portuguese economy recorded growth of 2.2%[1] in 2019, after growth of 2.6% in 2018. This slowdown reflects an approximation to the potential growth rate of the economy. The external context became less favourable in 2019, with a slowdown of exports and industry. The service sector remained relatively immune, which enabled maintaining the positive trend in the labour market. Domestic demand, in particular investment, was the main contributor to the growth of the national economy. The buoyancy of domestic demand elevated the growth rate of imports and the lower external demand, especially of countries outside the eurozone, slowed down the growth rate of exports, which would lead Portugal to return to a deficit in the Balance of Trade in Goods and Services in 2019, after the surpluses recorded between 2013 and 2018.

Budget implementation in 2019 maintained its trend of improvement, with an estimated almost balanced public budget. Public debt levels also maintained their downward trend, with a lower implicit interest rate and a longer redemption profile. In 2019, the rating agencies Standard & Poor's and Fitch upgraded the risk rating and the agency Moody's changed the outlook to Positive.

The labour market continued to show a positive trend, with the unemployment rate at historically low levels and job creation increasing. The growth of employment reflects an absorption of workers coming from situations of unemployment and an increase, albeit minor, of the active population, due to the higher female participation, increased retirement age and a positive migration balance.

The inflation rate in 2019 is estimated to have slowed down to 0.3%[2], especially influenced by the evolution of energy products, affected by the reduction of the price of oil and the lower electricity and gas prices due to administrative measures in regulated pricing and lower tax rate. The inflation rate, excluding energy products, also decelerated, with various legislative measures significantly reducing the price of some goods and services.

Financial Markets

The year of 2019 was a positive in practically all classes of assets. During 2019, the trade negotiations between the USA and China, the accommodative turnaround of the Central Banks, Brexit and the fears of slowdown of economic growth dictated both the improvements and devaluations in the markets.

In the stock market, the main stock exchanges of the advanced economies showed gains above 20% and the emerging markets had gains above 10%. Part of these appreciations were a recovery of the devaluations occurred at the end of 2018, a particularly volatile period, but even so the share indices significantly surpassed the historical peaks recorded in the summer of 2018. The FTSE Global ALL Cap Total Return Index, which includes developed and emerging markets, appreciated by 27.09% in 2019 and 7.28% in relation to the peaks recorded in 2018[3].

The bond market was marked by the changes in the expectations of the Central Banks. During 2019 the Bund interest rate at 10 years in German fell from 0.43% to -0.19%, and in the United States the Treasury interest rate at 10 years fell from 0.77% to 1.92%. It should be noted that this movement was not linear, with sharp decreases up to August, at which time the Bund reached -0.71% and the entire German yield curve traded at negative interest rates, followed by a rise in the interest rate in the last 4 months of the year. In the month of August, the Bloomberg Barclays Global Aggregate index, which only includes debt with investment rating in various currencies, recorded more than USD 17 billion of securities with a yield below zero to maturity, around 30% of total issuances.

The Portuguese credit spread at 10 years, compared to Germany, decreased by 0.85%, ending the year at 0.63%, a figure below the spread at 10 years of Spain. The Italian spread showed high volatility during 2019, having recorded a maximum of 2.87% after the elections for the European Parliament in May, a period of rapid spread widening in August with the heightening of expectations of early elections, followed by a period of reduction when the new parliamentary coalition of the Democratic Party and Five Stars Movement formed a government, ending the year at 1.60% compared to Germany.

The European credit spread, observed by the CDS Markit iTraxx Europe Senior index at 5 years, showed a reverse performance to that of 2018 in this last year: the regular rise from 45 bps to 87 bps during 2018 was fully reversed, also in a relatively regular form, to 44 bps at the end of 2019. The trend of the credit spread of issuers of speculative level in euros was identical, ending the year at historical minimum figures of around 200 bps in the iTraxx Crossover 5Y index. The credit spreads of financial debt in euros fell by more than half, with senior debt falling by 56 bps to 52 bps and subordinated debt falling by 115 bps to 114 bps throughout the year.

The barrel of Brent appreciated by 23% to $66 per barrel, in particular due to OPEC's decision in December to prolong the production cuts and reduce the production quotas by more than 500 thousand barrels a day. Copper showed a lower appreciation of 6.3% and gold stood out by its 18% appreciation, when observing the price per ounce in dollars, having reached historical maximum figures when observing the price per ounce in euros.

The euro devalued by 1.60% in relation to the 19 currencies of the main trading partners of the eurozone[1]. The euro devalued by 1.95% in relation to the North American dollar, and by 5.76% in relation to the pound sterling, a movement exacerbated by the result of the elections in the English Parliament and reduction of the uncertainty enshrouding Brexit. Special note should also be made of the renminbi, with the Chinese currency having devalued in relation to the dollar, surpassing the psychological barrier of 7 yuan per USD in August and ending the year at 6.96, after the expectations of concordance and signing of the first phase agreement between the two countries.

[1] National Accounts - 4th Quarter of 2019 and Year of 2019 - National Institute of Statistics (INE)
[2] Consumer Price Index - December 2019 - National Institute of Statistics (INE)
[3] Source: Bloomberg

Portuguese Banking System[2]

In 2019, the Portuguese banking system continued to consolidate the progress that has been observed over the last year. There was an increase of profitability, reflecting factors of structural nature and developments partly of more circumstantial nature, such as the reduction of costs related to provisions and impairments.

The non-performing loan ratio (NPL) continued on the downward trend started in June 2016, essentially reflecting the reduction of its volume on the balance sheet, in line with the guidelines and plans to reduce non-performing assets submitted to the supervisory authorities, which have been progressively implemented by the banks.

Special reference should be made to the fact that the banking system continued the trend of strengthening its capital ratios. The increase of own funds was essentially the result of the evolution of common equity tier 1 (CET 1), reflecting, in particular, the evolution of the components of retained earnings and other comprehensive income.

In a context of downward revision of the economic growth forecasts in the eurozone and persistence of inflation below the target, the ECB announced a package of monetary stimulus measures in September 2019, embodied in lower interest rates for a more prolonged period (lower-for-longer). The reduction of medium and long-term interest rates signals that the Euribor should only return to positive figures in a considerably longer horizon.

The context of very low interest rates has been reflected in funding costs at a global level, being particularly favourable to economic agents with high debt levels, enabling, on the one hand, the relief of debt service, but also improving capacity for their funding at lower costs and/or at longer maturities.

In contrast to this scenario of short-term gains, the maintenance of the environment of lower-for longer interest rates could constitute a challenge to the sustainability of the net interest income of new loans, exacerbating the need for the expansion of loan granting, aimed at an offsetting quantity effect.

In Portugal there has been a differentiation of interest rate spreads by risk class in new loans to non-financial companies by the main banks of the system. There has also been a progressive improvement of the risk profile of new loans. In the case of individuals, new mortgage loans have also been granted to customers with lower risk profiles, following the indications of the macroprudential policy measure endorsed by Banco de Portugal. In the consumer credit segment, two factors should be highlighted, the stock has maintained a high annual variation rate (close to 10%), but on the other hand, the new consumer credit, especially personal credit, has interrupted the decelerating trajectory observed since mid-2018. Furthermore, the prolongation of maturity periods associated to new auto credit and personal credit has continued to be observed.

Banco de Portugal announced that it shall continue to monitor the developments in the credit market, appraising, as a factor able to enhance vulnerability, especially in consumer credit, the ongoing increase of maturities in auto credit and personal credit.

The Portuguese banking sector is materially exposed to some asset classes the value of which could be affected in the event of an abrupt and significant revaluation of risk premiums in international financial markets, with potential to negatively affect the profitability and capital of the sector. These assets include real estate assets, exposures secured by real estate and public debt securities, in particular domestic sovereign debt but also of other European geographies whose values show high correlation in markets. Concerning public debt, not only has there been an increase of exposure to these securities, but also an extension of their maturities and average duration, which implies greater sensitivity to market risks. Moreover, the majority of these assets are stated at fair value, with impact on capital. Therefore, notwithstanding the more favourable regulatory treatment of this exposure, it is crucial for banks to have suitable capital buffers for the possible materialisation of this risk, which could also be mitigated by the adoption of hedge mechanisms.

With respect to the exposure to assets of real estate nature or backing, it should be noted that the evolution of prices in the real estate market has benefited from the strong dynamics of tourism and direct investment by non-resident, thus continuing to increase market sensitivity to the action of non-residents. It should also be noted that, in the more recent quarters, there is continued evidence of overvaluation in residential real estate in aggregate terms, which advises particular prudence in carrying out operations that have assets of this nature as security, where it should be ensure that the credit granting criteria are appropriate to the risk incurred.

Additionally, banks are encouraged to adjust their business models, in particular via investment in digitalisation, in order to remain technologically efficient and competitive, especially in view of the entry of new participants in the financial intermediation activity (Bigtechs). Reflecting not only the technological developments associated to the access, maintenance and management of information, but also regulatory changes, this investment will be an essential route to the preservation of the utility of the traditional operators for customers of financial services and, accordingly, the value of their activity. The strengthening of investment in information technology could

[1] 1 ECB Daily Nominal EER-19 Euro Effective Exchange Rate
[2] Financial Stability Report - December 2019

be complemented by the development of partnerships with the new players that could add value to the development of the activity, by making the most of economies of scale, experience and range. Technological security aspects should be protected appropriately (minimising cyber risk, more likely to occur in the new context, where communication and information technologies will become increasingly prominent), as well as risk management in general and internal control.

Likewise, the adequacy of the internal control systems allocated to the prevention of money laundering and terrorist financing is extremely important. In this context, special reference is made to the completion, expected to be soon, of the exercise taking place at a national level, of updating the national assessment of the risks of money laundering and terrorist financing. This exercise should enable a mapping of the main national threats in this sphere, combined with an assessment of the main vulnerabilities and sector controls, based on which response measures shall be defined to correct the detected weaknesses.

Regulatory Framework

A decade after the financial crisis, the regulatory reforms implemented as a consequence of this crisis are practically completed and the agendas of the regulators now seem to be focused on the challenges posed by the technological changes, on the growing concern with security and privacy and with environmental sustainability.

Indeed, although the European regulatory agenda was dominated by Brexit in 2019, the attention of the regulators of the financial sector has also been directed to new areas, in response to the growing digitalisation of the banking sector and consequently to its greater vulnerability to cybercrime, to incidents related to failures in IT or excessive dependence on service providers under outsourcing arrangements.

Concerns related to the prevention of money laundering and terrorist financing also grew in the last year, in particular in view of the failures that were detected in various European institutions, leading to the scrutiny of the regulators and the proposed measures being increasingly challenging for the financial sector.

At a national level, 2019 started with the publication of the Insurance and Reinsurance Distribution law (Law 7/2019, of 16 January) which significantly changed the legal framework on distribution of insurance and reinsurance, considerably strengthening the series of rules and procedures applicable transversally to the sector, with special impact on the organisation and activity of insurance mediators. A large number of regulatory interventions are foreseen by the Insurance and Pension Funds Supervisory Authority; hence, more novelties are awaited that shall complete this system. It is important to highlight the additional requirements of vocational training, in particular the new requirements of continuous professional enhancement, as well as the reinforcement of the obligations related to the policies of design and approval of insurance products, duties of pre-contractual information and the special duty of the insurance distributor appraising the suitability of the product to the insured person. With respect to investment products based on insurance, a more exacting framework is established, in view of the nature of the products and without prejudice to compliance with the obligations arising from Regulation (EU) 1286/2014 (Legal System of Packaged Retail and Insurance-based Investment Products (PRIIPs)) and Law 35/2018, of 20 July. In the marketing of these products and according to the type of marketing (sale without advice or sale with advice), the mediators should comply with specific duties, identical to those defined in the Markets in Financial Instruments Directive (MiFID II).

A review was also made of the system of mandatory reporting of financial information (Law 17/2019, of 14 February), extending the requirement that financial institutions report, to the Tax Authority, the accounts held by residents in Portugal, when the balance or aggregate value exceeds 50,000 euros at the end of each year.

Regarding the protection of bank deposits, with Law 23/2019, of 13 March, prior ranking is now given to most deposits in relation to all other ordinary credit (it should be noted that the previous system prior ranking only benefited deposits up to the amount covered by the Deposit Guarantee Fund and the deposits of individuals and micro, small and medium-sized enterprises for the amount that exceeded this limit). Thus, the deposits, still classified as ordinary or subordinated, of the so-called "large depositors" now also benefit from prior ranking (although they continue to be classified at a lower level in the credit hierarchy, in case of insolvency, relative to credit due to deposits that currently already benefit from prior ranking). A category of «non-privileged» senior debt has been created, which should have a priority position, in the insolvency hierarchy, higher than that of equity instruments and subordinated liabilities that are not considered equity instruments, but lower than that of other senior liabilities.

The regulatory technical rules of the duties of reporting of financing operations through real estate values (referred to as Securities Financing Transactions Regulation - SFTR) were published in April 2019, and shall enter into force from April 2020.

Concerning outsourcing, the European Banking Authority Guidelines (GL/2019/02) were published and entered into force, specifying the provisions on internal governance, including healthy risk management, that the institutions should implement when outsourcing duties, in particular when outsourcing essential and important duties.

Law 58/2019, of 8 August, was finally published on the topic of Data Protection, seeking to enforce certain aspects of the General Data Protection Regulation (GDPR), amending the law that regulates the organisation and operation of the National Data Protection Commission (CNPD) and (explicitly) revoking Law 67/98, of 26 June (Data Protection Law). Special reference is made to the fact that

the new Law adds various duties to the data protection officer established in the GDPR, namely, "ensure the conduct of audits, both periodic and unscheduled; raise the awareness of the users on the importance of the time detection of security incidents and on the need to immediately inform the security manager; and ensure relations with the data subjects on issues covered by the GDPR and by the national legislation on data protection issues".

2019 was also the first year of effective application of the revised Payment Services Directive (PSD2), transposed to Portugal by Decree-Law 91/2018, of 12 November, which approved the Legal System of Payment Services and Electronic Currency currently in force. In this context, the banks completed the development of the Application Programming Interfaces (APIs) that enable access to payment accounts and the initiation of payments of third party entities, and implemented the new requirements on strong authentication. In this regard, it is important to highlight the postponement of the application of the customer's strong authentication for card-based payments through the Internet (following the publication of the Opinion of the European Banking Authority on 16 October), from 14 September 2019 to 31 December 2020, due to the complexity of the adaptations that will need to be done by the card issuers, as well as by the merchants that accept this method of payment in online shopping.

1.6 Business Model

Retail Banking for Individuals

2019, the year of consolidation of the banking offer

Providing a simple and competitive offer, Banco CTT has consistently increased its customer base, maintaining the opening rate of around 10 thousand accounts per month, during 2019.

The value proposition, based on accessible pricing, has proved appealing to all age cohorts, especially the population that is younger and of active age, that together represent 86% of the customer base of Banco CTT.

Focused on an offer designed for the majority of the needs of Portuguese families, Banco CTT provides solutions for daily life, which includes demand deposits and the respective means of transaction, plus term deposits, free saving accounts and retirement savings plans, in the areas of personal loans, credit cards and mortgage loans.

Moreover, seeking to respond to the wishes of its customers and aimed at deepening its commercial relations, also at the end of 2018 and during 2019, Banco CTT continued to expand its line of products, while never overlooking the principles of simplicity and accessibility of the commercial offer. Thus, 2019 was marked by enormous success in the placement of the retirement savings plan product "PPR Poupança BCTT", developed in partnership with the insurer Zurich, with a subscription volume of more than 350 million euros, confirming the trust and confidence in the Banco CTT brand and its vocation to attract savings in the retail market for individuals.

Furthermore, in the saving category, the retirement savings plan "PPR Mais Banco CTT" was launched at the end of 2019, one again in partnership with Zurich, maintaining a conservative risk profile, but giving Banco CTT customers the possibility to invest in a product with higher returns and without guaranteed capital.

In 2019 there was also evolution in the mortgage loan product, extending the offer to Construction Works thus giving the customers the possibility of taking out home equity loans, based on real estate properties already held.

In Mortgage Lending, the year was also marked by the launch of the first "Portal de Parceiros" (Portal of Partners) in Portugal, enabling the creation of requests for mortgage loans by the intermediaries of Banco CTT.

Finally, 2019 was also the year when Banco CTT enlarged its insurance offer, and now offers a complete line of products. Thus, added to the life and multi-risk insurance, associated to mortgage loans, and Multicare health insurance, in partnership with Fidelidade, Banco CTT now begins to deliver motor vehicle insurance in partnership with Generali, as well as personal accident insurance in partnership with Mapfre.

Daily life, savings, loans and insurance, Banco CTT ends 2019 with a competitive offer, driven by the needs of the customers and promoting the Bank's core values: transparency, simplicity and accessibility.

Presential channel, promotion of the principle of proximity

Proximity, based on human relations and on a capillary network of branches, is also one of the founding principles of Banco CTT.

Since its opening, in March 2016, Banco CTT is present in all Portuguese districts.

With a network of 212 branches, Banco CTT operates during extended working hours, from 9:00 to 18:00, sharing the branch's physical space with the postal attendance operation, but maintaining segregated attendance, promoting greater specialisation in financial services and assuring higher quality of service.

Digital Channels, Banco CTT available 24/7

Complementing the physical and presential channel, digital channels are one of the key elements of the service proposition of Banco CTT.

Through the digital channels, Banco CTT customers can access the Bank at any time of the day or night, whether through their mobile app, available for iOS and Android, or through Home Banking, optimised for personal computers and tablets.

Confirming the success of these platforms, around half of the Bank's customers are frequent users of the digital solutions provided by the Bank, which also includes the MBway service.

Use through mobile devices is increasingly significant, representing 85% of accesses. Half of the transfers and payments of the Bank's customers are carried out by Digital Channels and, in the case of the constitution of term deposits, this figure already surpasses 80%.

It is in this context that the Bank shall continue to reinforce its digital agenda, by strengthening the technology supporting the channels, which shall enable higher speed in the launch of new functionalities, as well as significant evolutions in user interfaces and user experience.

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

Payments

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

Payshop is primarily based on the offer of an attendance service in person, in cash, that enables carrying out payments (invoices, toll charges, taxes, purchases online), reloading (mobile phones, public transport tickets) and purchases (vouchers and other pre-paid items).

The services are available at an enormous Network of Payshop Agents, which surpasses the milestone of 4,800 points of sale throughout the entire country, as well as in CTT Post Offices and many Postal Agencies.

In 2019, the Payshop Network processed over 30 million transactions, involving more than 650 million euros, thus returning to a trend of growth, through the offer of new services and the conquest of new institutional customers.

This year, the Network also benefited from various investments in improvements, such as the launch of new image articles at the agents and the implementation of advertising campaigns promoting Payshop services.

In 2020, Payshop shall follow its strategy of diversification of the offer, channels and means of payment.

To this end, the implementation of a new transaction system is underway, which shall serve all the Group's payment businesses, and shall enable strengthening the provision of integrated payment solutions to our institutional customers, as well as the launch of digital channels and the introduction of payments by debit card of the services offered at the Network of Agents.

Specialised Credit at the Point of Sale

A synergetic acquisition

2019 was also marked by the acquisition of 321 Crédito, a company specialising in auto loans at the point of sale.

In May, after authorisations of Banco de Portugal and the Competition Authority, Banco CTT acquired 100% of the equity of 321 Crédito in an operation with a total value of 110,782 thousand euros, entirely funded by a share capital increase of the shareholder.

With this acquisition, Banco CTT consolidates its presence in consumer credit, a market segment undergoing accelerated growth with distinctive profitability levels. Specifically, this operation enables the immediate capture of a significant funding synergy, accelerating the loan-to-deposit ratio of Banco CTT from 28% to 69%, optimising the use of the enormous low-cost funding synergy obtained through the retail banking network.

321 Crédito, reference in auto loans in Portugal

321 Crédito is one of the largest national players in the used motor-vehicle credit market, specialising in operations at point of sale.

With a business based on partnerships with more than 1,000 dealers of used motor vehicles, 321 Crédito achieved a production of new credit of more than 200 million euros, corresponding to a market share already above 10%.

In 2020 and in the following years, now in the Banco CTT context, 321 Crédito shall grow to a new threshold, accomplishing its vocation of proximity and its capacity to develop business with its partners, credit intermediaries.

This growth shall be materialised through a much larger commercial footprint and with a technological evolution already in course, which shall enable reaching a new level of excellence and response speed in credit processes.

With 321 Crédito, Banco CTT has become more solid and diversified, accelerating its credit management capacity and taking a significant step towards ensuring the profitability of the investment that has been made.

Outlook for 2020

The year of 2019 was marked by the consolidation and diversification of the Banco CTT project.

On the one hand, the retail banking offer was completed, maintaining the high rate of capture of accounts and continuing the deepening of productive commercial relations.

On the other hand, the year was characterised by inorganic growth brought by the acquisition of 321 Crédito, enabling an important acceleration in credit stocks.

The year of 2020, merely the fourth full year in the history of Banco CTT, shall bring new challenges, transversal to the 3 business units that now comprise the Banco CTT Group:

- In **retail banking**, continuation of the deepening of the banking relations that have already been achieved, promoting the positioning of Banco CTT as the "first Bank" of its customers, thus boosting the profitability of the created franchise, both in terms of savings – in particular the retirement savings plan offer – and in terms of credit;
- In the **payments business**, acceleration in the Payshop transformation programme, accomplishing the planned technological investments, which shall enable repositioning the company for the "digital era", while strengthening the extraction of value from its enormous network of agents;
- In **specialised credit at point of sale**, acceleration to an unprecedented level of production at 321 Crédito, from now onwards financed by the funding pool of Banco CTT, and achieved through a reinforcement of the commercial capacity and the consolidation of the new credit workflows.

1.7 People

During 2019, the focus of the Banco CTT Group continued to be based on Talent Management. In order to build the capacity of the Employees to respond more effectively to the challenges placed before them, the Banco CTT Group has focused on the development of skills through the definition of an ambitious continuous training plan.

In this regard, special reference is made to the specific training in Banking Activity particularly focused on regulatory matters, namely concerning the Personal Data Protection Regulation, the Marketing of Mortgage Loans and Credit Intermediation, training of Persons Directly Involved in Insurance Mediation Activity, the Code of Conduct and Ethics, the Prevention of Money Laundering and Terrorist Financing, Awareness-Raising on Ethics and Fraud, Awareness-Raising on Information Security, among others.

The Banco CTT Group also invested in training in soft skills during 2019, where particular reference is made to the areas of Communication, Teamwork and Emotional Intelligence.

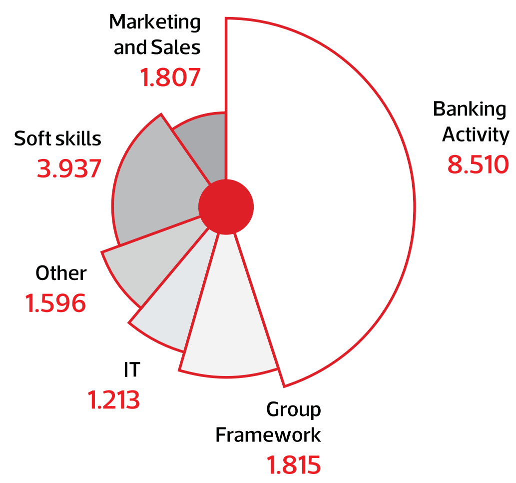
Concerning the training of the CTT Retail Network, the Banco CTT team maintained intense collaboration both in designing and ministering various training actions focused on banking topics.

A total of 18,878 hours of training were given to the Employees of the Banco CTT Group, 17% more than in the previous year. In 2019, the average number of training hours per Employee was 48 hours.

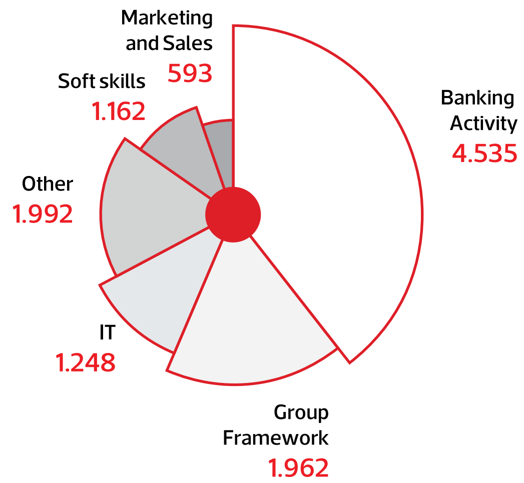
In order to implement a structure of functions able to support the accomplishment of the goals of Banco CTT, the existing functions at the Bank were mapped, with a description of each function, so as to clarify the structure of responsibilities and the expected performance of the Employees in each function, by delineating their scope of action and the expected behaviours.

At 321 Crédito, 2019 was the year of consolidation of the Performance Assessment model implemented in the previous year, with a new HR – Upward Feedback process also having been implemented, with a view to the Assessment of the Line Managers by their direct Employees.

Training hours in 2019



Training hours in 2018



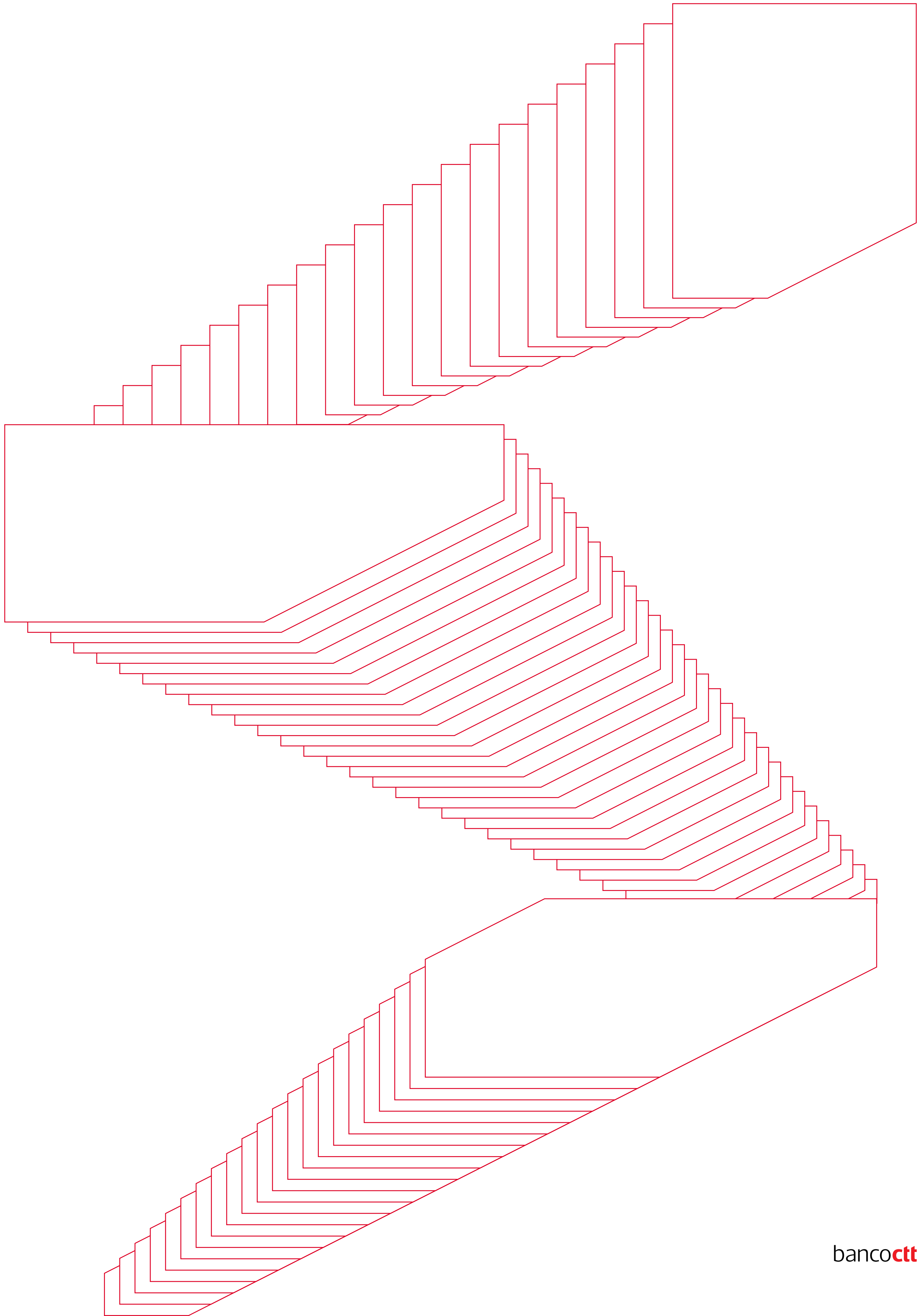
In order to better understand the experience/satisfaction of the Employees at their workplace and aimed at creating an increasingly prosperous workplace, where all the Employees feel motivated, challenged and competent, 321 Crédito carried out an Organisational Climate study. The results, despite being very satisfactory, enabled identifying opportunities for improvement which the companies have strongly considered and sought to address.

Under the Corporate Voluntary project, Banco CTT maintained the agreement with Crevide – Creche Popular de Moscavide, a non-profit making association, with an activity plan having been defined with the participation and involvement of all the Employees, thus encouraging in-house mobilisation directed outwards in favour of community service. Particular reference is made to the initiatives "Não deixes nenhuma criança de fora" (Don't leave any child out), relative to fund-raising for works to be carried out on Crevide premises, with the Bank having tripled the value of the Employees' donation, the support to stimulating the Arraial da Crevide (Crevide Festivities) as well as the offer of baskets of food and hygiene products during the Christmas season to the families supported by Crevide.

The strengthening of the Banco CTT Group's team continued to be a concern within the remit of Human Resources. As at 31 December 2019, the staff was composed of 397 Employees, 60% more than in the previous year. The hiring of 64 new Employees was conducted for the different areas, maintaining high standards of qualification, different levels of seniority and expertise, and observing criteria on diversity, especially related to gender.

Characterisation of the Banco CTT Group Personnel as at 31 December 2019 and 2018

Level of Qualification	2019	2018
Elementary Education	2%	1%
Secondary Education	32%	26%
Bachelors	4%	1%
Licentiate Degree	44%	55%
Postgraduation/Masters	18%	17%
Gender	**2019**	**2018**
Female	50%	49%
Male	50%	51%
Age group	**2019**	**2018**
< 30 years	10%	11%
30 – 34 years	16%	28%
35 – 44 years	45%	44%
>= 45 years	29%	17%



02

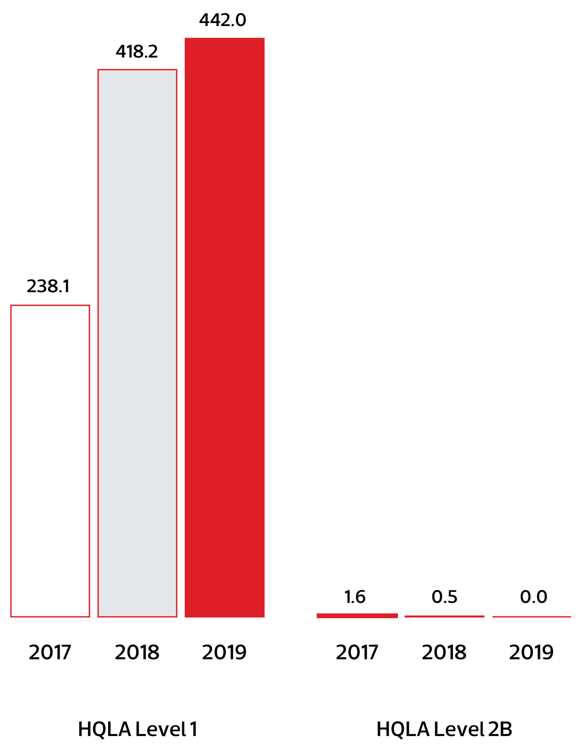
Liquidity and Capital Management

We Grow as a Team

With us, confidence grows with a professional, ambitious and visionary team.

2.1 Liquidity and funding

One of the main components of liquidity management is its investment and financing policy, which prioritises diversification by country and sector. Thus, the investment policy in 2019 enabled the creation of a portfolio of eligible assets for the Eurosystem amounting to close to 442.0 million euros as at 31 December 2019 (2018: 418.8 million euros).



The liquidity indicator, Liquidity Coverage Ratio (LCR) reached a comfortable figure of 1,896% (3,102% at the end of 2018), significantly higher than the minimum requirements and reflecting the Bank's investment policy during 2019.

In view of the high liquidity, during 2019, the Bank prioritised the funding of its assets through Customer deposits which amounted to around 1,284 million euros as at 31 December 2019 (2018: 884 million euros), also using repos as balance sheet optimisation instruments. Despite not having experienced the need to use the funding line established by the ECB, the Bank occasionally tests its access to these liquidity sources.

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

Liquidity risk management is conducted considering:

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

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

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

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

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

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

The Capital and Risk Committee, and its predecessor, the Financial Risk Committee, that held 12 meetings in 2019, analyses the Bank's liquidity position, namely, the evolution of the balance sheet, the analysis of gaps and key activity indicators (liquidity and commercial gaps, deposit and credit rates). In brief, a comprehensive assessment is carried out of liquidity risk and its evolution, with special focus on current liquidity buffers and the generation/maintenance of eligible assets.

2.2 Securitisation Activities

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

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

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

As an investor, the Group does not hold significant positions in credit securitisation operations originated by third parties or in securities arising from re-securitisation operations originated by third parties. However, in order to comply with the provisions in subparagraph f) of article 449 of the Capital Requirements Regulation (CRR), the Bank developed and implemented a risk management and control process which includes the monitoring of the credit risk and market risk of the securitisation positions held in its balance sheet. Furthermore, and in this context, there are no hedge operations or any other type of personal protection contracted for the purpose of reducing the risk in these positions.

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

As investor

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

As originator

As at 31 December 2019, the Group had in course 3 asset securitisation operations originated by 321 Crédito:

Ulisses Finance No. 1

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

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

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

Chaves Funding No. 8

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

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

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

Fénix 1

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

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

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

As at 31 December 2019, there are no credit portfolios pending securitisation.

As servicer

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

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

(amounts in thousand euros)

	Chaves Funding No.8	Ulisses Finance No.1	Fenix
Objective of the Securitisation Operation	Obtain Funding	Obtain Funding	Obtain Funding
Type of Securitisation Operation	Traditional securitisation	Traditional securitisation	Traditional securitisation
Sponsors	Tagus (Issuer) Deutsche Bank (Transaction Manager, Paying Agent and Transaction Accounts Bank)	Sagres (Issuer) Citibank (Transaction Manager, Paying Agent and Transaction Accounts Bank) Law Debenture (Common Representative), Servdebt (Backup Servicer)	Gamma (Issuer) Banco Efisa (Arranger, Transaction Manager and Paying Agent) Santander (Transaction Accounts Bank)
Information on the Securitisation:			
Start Date	28/11/2019	10/07/2017	12/12/2014
Legal Maturity	01/11/2034	10/07/2033	30/06/2037
Step-up Date			
Revolving Period (years)	2	1	-
Securitised Assets (initial)	310,500	141,300	75,052
Value in Debt (closing of 2019)	323,048	86,638	40,401
Value in Debt of the Securities			
Class A / Single Class	312,588	120,100	40,401
Class B	16,952	7,000	n.a
Class C	n.a.	7,100	n.a
Class D	n.a.	7,100	n.a
Class E	n.a.	3,500	n.a
Existence of situations of "implicit support" pursuant to Art. 449 (r) of the CRR	No	No	No
Percentage of assets assigned	95%	93%	100%
Initial gains/Value of first loss positions reacquired	16,025	3,500	-

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

Chaves Funding No.7

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

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

Chaves Funding No. 8:

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

Risks underlying the securitisation operations

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

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

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

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

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

During 2019, the group did not act in securitisations, in compliance with the Capital Requirements Regulation (CRR), as an investor.

For the positions, as an investor in the securitisation operations originated by 321 Crédito, at an individual level, the Bank, as there is no attributed external rating, which has detailed knowledge of the underlying credit portfolio, made the look-through, treating them in accordance with the provisions defined in subparagraph 1 of article 253 of the CRR. As at 31 December 2019, these positions amounted to 327,306 thousand euros.

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

2.3 Capital Management

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

ICAAP

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

The Group carries out an annual self-assessment exercise to determine the adequate capital levels given the business model. This process is regulated by Banco de Portugal Instruction 3/2019 and by the EBA guidelines, and complies with the Pillar II goals of the Basel II Accord, to ensure the risks that institutions are exposed to are correctly assessed and that the internal capital available to them is adequate given their respective risk profile.

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

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

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

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

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

** These risks are treated together with Operational Risk*

Regulatory Capital

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

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

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

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

As at 31 December 2019 and 31 December 2018, own funds and consolidated capital ratios are as follows:

(amounts in thousand euros)

	2019		2018	
	CRR Phasing in	CRR Fully Implemented	CRR Phasing in	CRR Fully Implemented
OWN FUNDS				
Share capital	286,400	286,400	156,400	156,400
Retained earnings	(66,148)	(66,148)	(48,661)	(48,661)
Other Reserves	(207)	(207)	(53)	(53)
Prudential Filters	15	15	(1)	(1)
Fair value reserves (1)	16	16	-	-
Additional Valuation Adjustment (AVA) (2)	(1)	(1)	(1)	(1)
Deductions to common equity tier 1	(96,825)	(97,415)	(42,909)	(43,569)
Losses for the period	(8,011)	(8,011)	(17,487)	(17,487)
Intangible assets	(27,624)	(27,624)	(24,981)	(24,981)
Goodwill	(61,085)	(61,085)	(406)	(406)
Adoption of IFRS 9	(104)	(695)	(35)	(695)
Items not deducted from Equity pursuant to article 437 of the CRR	2,094	2,094	-	-
Deferred tax assets	2,094	2,094	-	-
Holdings in financial entities	-	-	-	-
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	646,601	646,266	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%
REGULATORY MINIMUM RATIOS				
Common Equity Tier 1	7.00%	7.00%	6.375%	7.000%
Tier 1 Ratio	8.50%	8.50%	7.875%	8.500%
Total Capital Ratio	10.50%	10.50%	9.875%	10.500%

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

Regarding common equity tier 1, special note should be made of the positive contribution, in 2019, of the share capital increase carried out, and the impact in the reverse direction on the net income recorded and the increase of goodwill due to the acquisition of 321 Crédito. Concerning capital requirements, we highlight the significant increase of the value of the risk-weighted assets of exposures with credit risk, which includes the incorporation of 321 Crédito.

As at 31 December 2019, the risk-weighted assets amounted to 643,064 thousand euros (31 December 2018: 274,393 thousand euros) of which 596,761 thousand euros (31 December 2018: 257,829 thousand euros) refer to credit risk.

The following table shows the geographic distribution of the relevant exposures for calculating the countercyclical buffer. It is also important to note that as at 31 December 2019, Banco CTT has no relevant exposure to geographic regions whose countercyclical buffer is different from zero.

(amounts in thousand euros)

Exposures	2019	2018
Spain	-	807
Luxembourg	-	262
Portugal	536,158	133,089

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

(amounts in thousand euros)

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

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

(amounts in thousand euros)

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

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

Use of External Ratings

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

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

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

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

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

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

(amounts in thousand euros)

	2019		2018	
Degree of Credit Quality	Institutions, residual maturity >3m	Companies	Institutions, residual maturity >3m	Companies
1	-	-	-	-
2	-	14,620	203	25,300
3	4,350	-	28,922	109
4	-	-	38,862	262
5	-	-	-	-
6	-	-	-	506
No rating	30,480	-	56,368	9,906

Leverage Ratio

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

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

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

As at 31 December 2019, the leverage ratio stood at 7.7% (31 December 2018: 6,5%), above the regulatory limit of 3%. The ratio is calculated using Tier 1 Capital.

The exposures used to calculate the leverage ratio, as at 31 December 2019 and 31 December 2018, are presented in the table below:

(amounts in thousand euros)

Summary of the reconciliation of the book value and the exposures of the leverage ratio	2019	2018
Total assets recorded in the financial statements	**1,665,878**	**1,001,774**
Intangible assets	(88,709)	(25,387)
Adjustment for derivative financial instruments	1,414	-
Revaluation reserves	(16)	-
Adjustment for securities financing transactions (SFT)	-	-
Adjustment for off-balance sheet items	30,620	20,881
Other adjustments	457	591
Total exposure to the leverage ratio - transitional	**1,609,644**	997,859

(amounts in thousand euros)

Leverage Ratio	2019	2018
Value of positions at risk		
Off-balance sheet exposures pursuant to article 429, no. 10 of the CRR	30,620	20,881
Other assets pursuant to article 429, no. 5 of the CRR	1,579,024	978,700
Value of the deducted assets - Tier 1 capital - full implemented	(457)	(480)
Total exposure to the leverage ratio - fully implemented	1,609,187	997,378
Total exposure to the leverage ratio - transitional	1,609,644	997,859
Capital and regulatory adjustments		
Tier 1 capital - fully phased-in definition	122,646	64,116
Tier 1 capital - transitional definition	123,236	64,776
Leverage ratio - fully implemented tier 1 capital	7.6%	6.4%
Leverage ratio - transitional tier 1 capital	7.7%	6.5%

In 2019 the transitional leverage ratio increased by 1.2 percentage points, explained by the increase of capital having been proportionally higher than the growth of assets.

03

Internal Control System

We Grow in Results

With us, trust grows based on the value of transparency.

Internal Control System

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

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

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

Goals of the Internal Control System

Performance and Operational

- Efficient and profitable business performance in the medium/ long-term
- Business continuity
- Risk management and control
- Asset & liability prudent assessment
- Protection against fraud

Information and Reporting

- Existence of complete, pertinent, reliable and timely **financial information**
- Existence of complete, pertinent, reliable and timely **management information** to support decision-making

Compliance

- Respect for the legal and regulatory provisions, standards, professional and ethical practices, for the Code of Conduct and all other internal and statutory rules

In general terms, the internal control system should enable the appropriate management of the risks of the Group's activity, in view of the risk profile defined by the Board of Directors, and promote a strong culture regarding risk and ethical behaviour.

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

Governance Model of the Internal Control System

Board of Directors

Ensures the independence and autonomy of internal control functions (Risk, Compliance and Audit) and that these have the needed status to significantly influence the institution's analysis and decision-making process.

Audit Committee

Direct reporting lines with internal control functions, in order for you to have regular access to the information needed for the execution of your supervisory responsibilities.

Internal Control Committee

Monitors the evolution of Internal Control deficiencies detected by following up on the progress of the defined Action Plans.

Internal Audit
3rd Defence line

Ensures that all the other functions within the institution function as expected. You must perform your duties in a completely independent way.

Risk and Compliance
2nd Defence line

Develop policies and methodologies for risk management. They must have a significant intervention in the analysis and decision on risk-taking and the definition of the risk profile for the institution. They perform efficiency evaluation of 1st line controls.

Other Areas / Process Owners
1st Defence line

The business lines are the ones who, on a daily basis, expose the Bank to a set of risks, and it is up to them to defend the institution from the unwanted risk-taking, carrying out the defined controls and procedures and reporting to the 2nd line of defence of any identified faults.

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

- A second line of defence, entrusted with monitoring risk, advising and supporting the first line of defence in identifying risks and controls. Compliance and Risk, responsible for monitoring the process and conducting regular tests on the effectiveness of the first line controls, and Planning and Control, Security, Legal, as well as the Human Resources and the Resource and Process Organisation areas are part of the second line of defence.

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

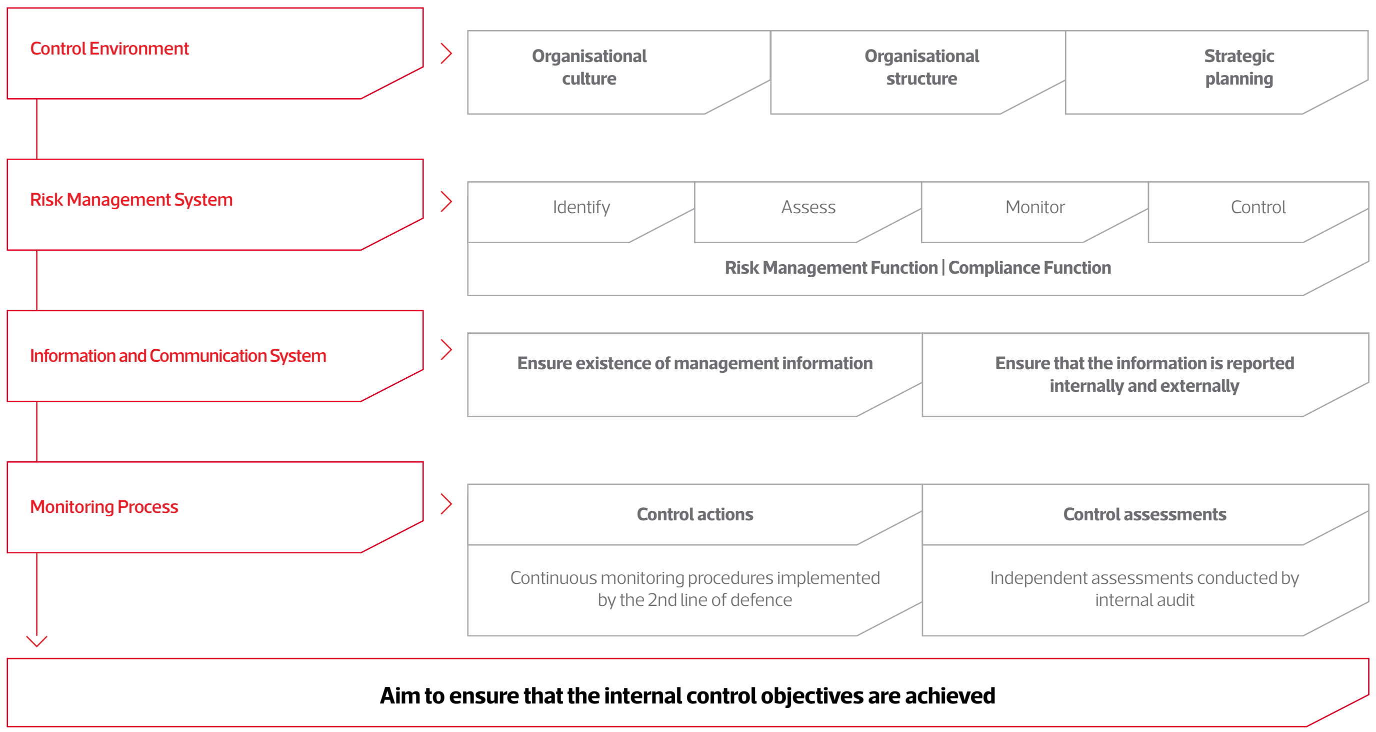
The Board of Directors is ultimately responsible for the internal control system, being responsible for defining, implementing, supervising and periodically reviewing the implemented governance model and ensuring its optimisation and efficacy. The Board of Directors is also responsible for monitoring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

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

The Internal Control Committee is the body responsible for defining the criteria and implementation of the non-financial risk management instruments (operational, compliance and reputational risk) and for the monitoring and continuous assessment of the efficacy of the internal control system, namely by following-up on any detected flaws. This body seeks to support the Board of Directors and Executive Committee on the issues referred to above, being composed by all the members of the Executive Committee, with the managers responsible for Risk, Compliance and Internal Audit participating in it on a permanent basis. In 2019 the Committee held monthly meetings.

In line with the regulatory requirements and best practices, the Group's internal control system is based on four components:

Components of the Internal Control System



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

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

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

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

The governance model of the Group's internal control system is duly documented and is in line with the requirements of Banco de Portugal Notice 5/2008, and with the Guidelines of the European Banking Authority on the internal governance of institutions which entered into force on 21 March 2018 (EBA/GL/2017/11). In fact, following the methods adopted in previous years, a self-assessment exercise was also conducted in the first semester of 2019 of the Bank's compliance with the requirements of Banco de Portugal Notice 5/2008 and the recent Guidelines of the European Banking Authority (EBA) on the internal governance of institutions (GL 11). The results of this exercise were analysed by the Internal Control Committee and reported to the Bank's management and supervisory bodies. It should be noted that around 280 requirements were assessed, with Banco CTT proving to be highly compliant with most of the internal governance requirements of the national (Banco de Portugal or BdP) and European (EBA) regulators. Without prejudice to the above, the implementation of the opportunities for improvement identified shall also enable fine-tuning any aspects of the Group's internal control system.

An organisational model project was started in 2019 aimed at enhancing the robustness of the corporate internal control system. The development of the initiatives for greater integration of the Group's control functions is also underway, namely for the establishment of common services in the areas where there are synergies, where the General Policy on Internal Control and Risk Management already defines the framework, at a group level, in which the internal control system of Banco CTT and its affiliates should be managed.

04

Risk Management

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With us, trust grows digitally with new solutions with access anywhere.

4.1 Risk Management

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

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

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

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

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

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

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

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

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

Governance of Risk Management

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

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

In order to make the control of the Board of Directors' strategic decisions more efficient, as well as the preparation of those decisions, specific committees have been created, with recurring meetings for

risk management purposes which, in line with the Board of Directors' decisions, perform an important role in the management and control of financial and non-financial risks.

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

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

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

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

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

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

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

The following table presents information on the Group's exposures to credit risk (net of impairment and including off-balance sheet exposures) as at 31 December 2019 and 31 December 2018:

(amounts in thousand euros)

	2019	2018
Central Authorities or Central Banks	471,295	424,294
Credit institutions	166,289	235,525
Companies	18,041	44,840
Retail customers	467,468	4,341
Loans secured by immovable assets	421,748	247,042
Non-performing loans	7,291	128
Other items	57,072	40,850
Risk Headings	**1,609,204**	998,921

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

(amounts in thousand euros)

	Central Authorities or Central Banks	Credit institutions	Companies	Retail customers	Loans secured by immovable assets	Non-performing loans	Other items	Total
2019								
Portugal	317,036	114,240	18,041	467,468	421,748	7,291	57,072	1,402,896
Spain	54,924	47,374	-	-	-	-	-	102,298
France	6,492	29	-	-	-	-	-	6,522
Italy	87,172	-	-	-	-	-	-	87,172
Ireland	5,671	-	-	-	-	-	-	5,671
United Kingdom	-	3,230	-	-	-	-	-	3,230
Germany	-	1,416	-	-	-	-	-	1,416
Total	**471,295**	**166,289**	**18,041**	**467,468**	**421,748**	**7,291**	**57,072**	**1,609,294**
2018								
Portugal	303,127	143,452	44,090	4,341	247,042	128	40,850	783,030
Spain	45,039	85,402	489	-	-	-	-	130,929
France	6,550	-	-	-	-	-	-	6,550
Italy	63,703	-	-	-	-	-	-	63,703
Austria	-	8,469	-	-	-	-	-	8,469
Luxembourg	-	-	261	-	-	-	-	261
Ireland	5,776	-	-	-	-	-	-	5,776
Netherlands	-	203	-	-	-	-	-	203
Total	**424,194**	**237,525**	**44,840**	**4,341**	**247,042**	**128**	**40,850**	**998,921**

The exposures by activity sector are as follows:

(amounts in thousand euros)

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

The Bank's exposures have the following maturity profiles:

(amounts in thousand euros)

Residual Maturity	Central Authorities or Central Banks	Credit institutions	Companies	Retail customers	Loans secured by immovable assets	Securitisation	Non-performing loans	Other items	Total
2019									
Up to 1 year	29,505	134,013	3,427	461,839	-	-	-	-	628,784
1 to 5 years	204,688	18,716	14,614	-	-	-	-	-	238,018
More than 5 years	237,102	-	-	-	410,568	-	-	-	647,670
Undetermined *	-	13,560	-	5,629	11,180	-	7,291	57,072	94,732
Total	**471,295**	**166,289**	**18,041**	**467,468**	**421,748**	**-**	**7,291**	**57,072**	**1,609,204**
2018									
Up to 1 year	15,511	120,138	10,757	569	-	-	-	-	146,975
1 to 5 years	149,847	69,580	34,083	-	-	-	-	-	253,510
More than 5 years	258,837	40,682	-	-	237,058	-	-	-	536,577
Undetermined *	-	7,125	-	3,772	9,984	-	128	40,850	61,858
Total	**424,194**	**237,525**	**44,840**	**4,341**	**247,042**	**-**	**128**	**40,850**	**998,921**

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

Impairment Model

During 2019, the Group used an impairment model based on IFRS 9 and the respective benchmark criteria of Banco de Portugal defined in Circular Letter 62/2018. Moreover, the model also takes into account definitions and criteria that that have been published by the EBA.

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

The use of benchmarks has some pertinent implications:

- The data are obtained at the portfolio level, and in order to convert them into parameters by stage of impairment, Banco CTT assumes distributions considered to be its expected mature portfolio;
- Potential particularities of Banco CTT, negative or positive, are not captured by these benchmarks;
- As the 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.
- Banco CTT transforms the annual PD and LGD into Lifetime Expected Losses using a survival rate method to calculate the PD of each period of the life of the instrument which is multiplied by the Loss Given Default (LGD), which in turn will depend on the expected exposure in each period and of the existing collateral in the operation. Finally, the Bank updates the expected value of all the periods considered.

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

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

- Probability of Default (PD):

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

- Loss Given Default (LGD):

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

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

- Exposure at Default (EAD):

  EAD represents the expected exposure in the event that the exposer and/or customer enters into default. The Company 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.

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

Financial Assets	Retail Offer	Mortgage Loans	Consists of the Bank's mortgage lending offer which has residential real estate property as collateral, regardless of the degree of completion of its construction.
		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.

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

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

Rating	Expected Loss	
	Corporate	Sovereign debt
AAA	0.019%	0.005%
AA+	0.025%	0.006%
AA	0.031%	0.008%
AA-	0.035%	0.009%
A+	0.039%	0.010%
A	0.043%	0.011%
A-	0.074%	0.019%
BBB+	0.105%	0.027%
BBB	0.136%	0.035%
BBB-	0.256%	0.118%
BB+	0.376%	0.202%
BB	0.496%	0.285%
BB-	0.986%	0.403%
B+	1.476%	0.522%
B	1.965%	0.640%
B-	7.778%	2.795%
CCC/C	13.590%	4.950%
No Rating	0.986%	0.403%

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

	Auto Loans		Other	
	PD	LGD	PD	LGD
Stage 1	1.86%	35.42%	1.84%	35.42%
Stage 2	18.03%	35.42%	7.97%	35.42%
Stage 3	100.00%	49.76%	100.00%	98.58%

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

(amounts in thousand euros)

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

Operational Risk

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

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

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

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

Governance of operational risk management

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

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

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

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

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

In the operational risk management framework, the main operational risk management instruments involve the identification and recording of operational risk events, the process of self-assessment of risks and controls (RSA) processes and the identification and quantification of Key Risk Indicators (KRIs). These procedures enable the detection, assessment, monitoring and mitigation of operational risk, thereby ensuring minimum losses associated to this risk and promoting the effective management of operational risk.

Collection of operational risk management events

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

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

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

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

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

Fraud Risk

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

The defined fraud management model covers various stages, namely prevention, detection, investigation and monitoring. This approach to fraud management, at an initial stage primarily focuses on prevention and detection, in terms of definition of processes, procedures and controls, as well as the implementation of tools. These phases contribute to the effectiveness of the fraud management process, namely in the prevention stage, thereby minimising the impact of any losses associated with fraud risk events.

Compliance Risk

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

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

In view of the compliance risk management cycle defined in the Compliance Policy, a manual of specific procedures was approved in 2019 for the identification, mitigation and management of potential or existing compliance risks, which complemented the existing procedural manual for the management of the risk of financial crime. The compliance risk management process enables the Bank to understand its exposure to risk, including the probability of occurrence of a risk event and the severity of its impact.

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

- **Identification**: the identification of compliance risks implies the identification of all the compliance requirements that the Bank should fulfil, whether derived from applicable legal and regulatory provisions or from rules contained in codes of conduct, policies or procedures defined internally. The Compliance Department is responsible for the systematisation of "compliance requirements" and their associated risks.

- **Assessment**: the potential risks associated to the identified "compliance requirements" should be assessed in order to know their inherent and residual risk.

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

- **Monitoring**: compliance with requirements is monitored on an on-going basis by the Compliance Department, ensuring that any detected breaches are identified and acted upon in a timely fashion.

- **Reporting**: the overall state of the Bank's compliance with the legal and regulatory requirements is periodically reported to the supervisory and management bodies.

Compliance risks are classified by the Bank into the four categories defined in the General Policy on Risk Management and Internal Control:

- **Regulatory Risk:** derived from non-compliance with the legal and regulatory rules that discipline the pursuit of activity or provision of financial services or insurance, including those related to rules on competition, advertising or data protection, including breach of specific determinations of the respective Supervision Authorities, as well as failure to obtain or maintain the required authorisations, permits or records for the pursuit or provision of these services.

- **Risk of Financial Crime**: associated to non-compliance with the legal and regulatory rules on anti-money laundering and terrorist financing, as well as the restrictive measures endorsed by International Organisations. This also includes risk associated to abusive market practice (market manipulation and abuse of privileged information), and the risk of the Group's involvement in bribery and corruption activities.

- **Governance Risk**: associated to non-compliance with the rules on good corporate governance, namely with respect to the rules on the suitability, professional qualification, independence and availability of its governing bodies, and adequacy and suitability of the management and other employees. This also includes the risk of inappropriate internal governance practice, in particular situations of non-compliance with the delegation of duties and powers, insufficient separation of duties, unsuitability of the design of the organisational structure and of the reporting and defence lines, inadequate attribution of duties and responsibilities or the lack of means, autonomy and independence of the control functions or failures in the internal whistleblowing mechanisms. Likewise, this also includes the insufficiency of internal policies or disrespect for the existing internal policies, as well as the inadequate management of relations with the Supervision Authorities.

- **Conduct Risk**: associated to non-compliance with codes of conduct, internal policies, procedures and regulations, instituted practices or ethical principles, including. Namely, unauthorised trading practices (aggressive sales), manipulation of the accounts to create fictitious operations, manipulation of documents, lack of transparency concerning customers, other employees or management bodies, misselling practices or situations of conflict of interests.

Regarding, in particular, the risk of financial crime, in 2019 the Compliance Department made an assessment of the risk of money laundering and terrorist financing, and non-compliance with sanctions. In 2019 the Compliance Department also carried out an exercise of assessment of its policies aimed at the prevention, management and control of compliance and reputational risks, as a consequence having reviewed the Whistleblowing Policy, the Policy on Conflicts of Interest and Transactions with Related Parties, and promoted the preparation and approval of a Policy on Outsourcing aligned with the recent Guidelines of the European Banking Authority on this topic.

Compliance risk management also involves the ongoing follow-up of the regulatory initiatives with greatest impact on the Bank, where special reference is made, concerning 2019, to the projects of regulatory nature associated to the implementation of the new regulatory legislation of Banco de Portugal on anti-money laundering issues, as well as the new regulatory framework of payment services derived from the transposition into the national legal system, through Decree-Law 91/2018, of 12 November, of Directive (EU) 2015/2366 of the European Parliament and of the Council, of 25 November (revised Payment Services Directive, or PSD 2).

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

The management of compliance monitoring actions and testing of first line controls completes the compliance risk management cycle. In this regard, particular note should be made of the monitoring, in 2019, of the process of approval of new products and services, of the granting of loans to members of the corporate bodies, to the procedures of control of transactions with related parties, of the first line controls for account opening and of the remuneration policies.

Market Risks

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

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

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

Interest Rate Risk

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

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

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

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

Liquidity Risk

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

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

Management Practices

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

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

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

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

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

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

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

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

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

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

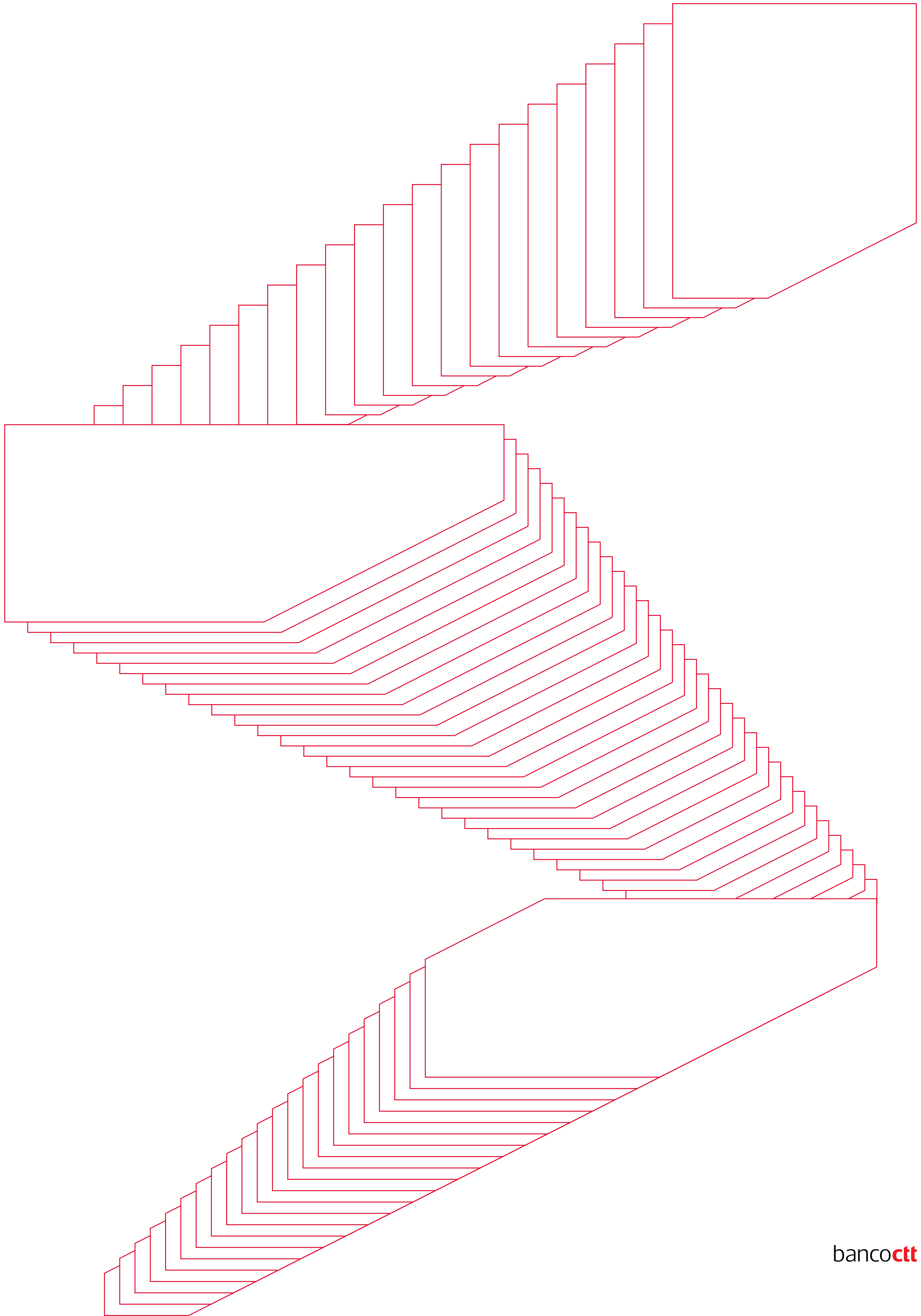
Analysis of Liquidity Risk

The Liquidity Coverage Ratio (LCR) reached a comfortable figure of 1.896% (3.102% at the end of 2018), significantly higher than the minimum requirements and in line with the Group's investment policy during 2019.

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

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.



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

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

Lisbon, 13 March 2020

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

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

Concise risk appetite statement:

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

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

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

The RAS is reviewed at least on an annual basis, both in terms of risk assessment and identification of the materials, and in terms of choice of relevant indicators and the established limits.

In its 2020-22 version, approved by the Board of Directors in December 2019, the RAS includes 17 indicators as limits that the Group considers essential for its sustainability in various aspects of its business: capital, liquidity risks, operational, credit, interest rate, reputational, compliance and information systems management.

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

	2019	2018
Common equity tier 1 ratio (CRR)	19.1%	23.5%
Total own funds ratio (CRR)	19.1%	23.5%
Leverage ratio (CRR)	7.7%	6.5%
Liquidity coverage ratio (CRR)	1,896%	3,102%
Net stable funding ratio (CRR)	162%	331%

Lisbon, 13 March 2020

The Board of Directors

João de Almada Moreira Rato

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05 Supplementary Information

We Grow with Recognition

With us, we grow to be a trusted bank.
From people to satisfied people.

5.1 Consolidated Financial Statements of 2019

Consolidated Income Statement for the year ended on 31 December 2019

(amounts in thousand euros)

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

Consolidated Balance Sheet as at 31 December 2019

(amounts in thousand euros)

	2019	restated 2018	restated 1 January 2018
Assets			
Cash and deposits at central banks	55,424	31,679	58,064
Deposits at other credit institutions	116,698	108,667	176,975
Financial assets at amortised cost			
Investments at credit institutions	34,615	119,811	101,912
Loans and advances to customers	885,821	248,049	79,347
Debt securities	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	542	1,489	5,751
Non-current assets held for sale	806	-	-
Other tangible assets	3,913	2,342	987
Goodwill and intangible assets	88,709	25,387	21,000
Current tax assets	70	-	-
Deferred tax assets	2,093	530	209
Other assets	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	37,851	-	-
Deposits from customers	1,283,567	883,950	619,230
Debt securities issued	76,077	-	-
Provisions	1,723	51	86
Current tax liabilities	4,118	-	-
Deferred tax liabilities	83	-	-
Other liabilities	51,104	29,968	25,890
Total Liabilities	**1,454,523**	**913,969**	**645,206**
Equity			
Share capital	286,400	156,400	125,000
Fair value reserves	16	-	50
Other reserves and retained earnings	(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**

5.2 Application of Results

Whereas:

For the financial year of 2019, Banco CTT S.A. recorded a loss of 8,011,086.97 euros,

we propose:

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

Lisbon, 13 March 2020

The Board of Directors

João de Almada Moreira Rato

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Susana Maria Morgado Gomez Smith

Clementina Maria Dâmaso de Jesus Silva Barroso

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

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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

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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

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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

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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

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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

Classification, initial recognition and subsequent measurement

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

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

The classification takes into account the following aspects:

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

Assessment of the Business Model

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

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

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

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

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

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

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

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

Reclassifications between financial instruments categories

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

2.3.1.1 Financial assets at amortised cost

Classification

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

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

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

Initial recognition and subsequent measurement

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

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

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

Gains or losses generated at the time of their derecognition are recorded in the heading "Net gains/(losses) from the derecognition of financial assets at amortised cost".

2.3.1.2 Financial assets at fair value through other comprehensive income

Classification

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

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

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

Initial recognition and subsequent measurement

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

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

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

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

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

2.3.1.3 Financial assets at fair value through profit or loss

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

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

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

2.3.1.4 Derecognition of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

2.3.1.6 *Impairment losses*

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

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

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

- Stage 3: operations in a situation of impairment are classified as being at this stage. The impairment losses associated to operations classified at this stage correspond to expected lifetime loan losses. Operations acquired or originated in situations of impairment (Purchased or Originated Credit-Impaired – POCI) are also classified under stage 3.

<u>Forward Looking Information</u>

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

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

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

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

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

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

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

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

- Existence of instalments of principal or interest overdue for more than 90 days;

- Debtors in a situation of bankruptcy, insolvency or liquidation;

- Loans in litigation;

- Loans in cross-default;

- Restructured loans due to financial difficulties;

- Loans in default quarantine;

- Loans over involving suspected fraud or confirmed fraud.

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

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

- Individual customers 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 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.

2.11Recognition 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**

	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.

<u>Non-current assets held for sale</u>

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.

<u>Other tangible assets</u>

The estimated fair value corresponds to the net book value.

<u>Intangible assets</u>

The estimated fair value corresponds to the net book value.

<u>Deferred tax assets</u>

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.

<u>Other assets</u>

The estimated fair value corresponds to the net book value.

<u>Amounts owed to other credit institutions</u>

The estimated fair value corresponds to the net book value.

<u>Customer funds and other funding</u>

The estimated fair value corresponds to the net book value.

<u>Financial liabilities associated to transferred assets</u>

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

<u>Provisions</u>

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

<u>Current tax liabilities</u>

The estimated fair value corresponds to the net book value.

<u>Deferred tax liabilities</u>

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".

<u>Other liabilities</u>

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%.

Mortality table:

Sensitivity analysis was also carried out with a view to measuring the impact on liabilities of a variation of the mortality table in which mortality table TV 73/77 (-2) was considered for men and TV 88/90 (-3) for women.

This change of the tables could be reflected in an increase of liabilities due to past services by approximately 2.2%, 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.

Type of Leases

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.

Incremental interest rate

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

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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**

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

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The Board of Directors

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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

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Notes to the Individual Financial Statements

Note 1 – Basis of Presentation

Pursuant to Regulation (EC) 1606/2002 of the European Parliament and Council, of 19 July 2002 and Banco de Portugal Notice 5/2015, the financial statements of Banco

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

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

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

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

The Bank's financial statements, presented herein, refer to the year ended on 31 December 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.

Forward Looking Information

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.

Significant increase of credit risk (SICR)

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

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

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

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

- Existence of instalments of principal or interest overdue for more than 90 days;
- Debtors in a situation of bankruptcy, insolvency or liquidation;
- Loans in litigation;
- Loans in cross-default;
- Restructured loans due to financial difficulties;
- Loans in default quarantine;
- Loans over involving suspected fraud or confirmed fraud.

Estimated expected loan losses – Individual analysis

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

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

Estimated expected loan losses – Individual analysis

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

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

Type of Leases

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.

Incremental interest rate

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

Credit concession – mortgage loans – Banco CTT	
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.	
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 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.

KPMG

Impairment for loans to customers – auto loans and leasing	
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.	
Risk	**Our Response**
For the purpose of impairment calculation, the financial assets measured at amortised cost are classified into three stages (1, 2 or 3) taking into account the identification or not of a significant deterioration in credit risk, since 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.	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.

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

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;

KPMG

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

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

KPMG

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

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

- We were first appointed as auditors of the Entity in the shareholders general assembly held on 24 August 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)

Corporate Governance Report

Table of Contents

A. Shareholder Structure

I. Capital structure

The share capital of Banco CTT, S.A. ("Bank" or "Banco CTT") is 286,400,000.00 euros, fully underwritten and paid-up, represented by 286,400,000 ordinary registered, book-entry shares, with no nominal value (where there are no different categories of shares).

During 2019, the Bank registered two share capital increases, fully underwritten and paid up in cash by the sole shareholder CTT-Correios de Portugal, S.A. ("CTT"), on 26 April (from €156,400.00 to €266,400.00) and on 23 December 2019 (from €266,400.00 to €286,400.00).

As mentioned above, the Bank's shares are entirely held by CTT and are not subject to any limitations (whether legal or statutory) regarding their transfer or ownership, or the number of votes that may be exercised.

Although the Bank's and CTT's shares are freely transferable, their acquisition implies, from the date of their commercial registration at Banco CTT (credit institution entirely held by CTT), compliance with the legal requirements on matters of direct or indirect qualifying holdings established in the Legal Framework of Credit Institutions and Financial Companies presented in Decree-Law 298/92, of 31 December, in its current version ("RGICSF").

In particular, and under the terms of article 102 of the RGICSF, persons wishing to hold a qualifying stake in CTT and indirectly in Banco CTT (i.e. direct or indirect stake equal to or greater than 10% of the share capital or voting rights that, for any reason, enables exerting significant influence on the management) should previous inform Banco de Portugal on their project for the purpose of its non-objection. In turn, acts or facts that give rise to the acquisition of a stake of at least 5% of the capital or voting rights of CTT and indirectly of Banco CTT, should be communicated to Banco de Portugal, within 15 days counted from its occurrence, pursuant to article 104 of the RGICSF.

As at 31 December 2019 and up to the date of this report, the Bank did not have any of its own shares, with no transactions having been carried out by the Bank relative to its own shares.

II. Shareholdings and Bonds held

As at 31 December 2019, the members of the Bank's management and supervisory bodies did not hold any shares issued by the Bank, nor did they enter into any transactions involving those securities in 2019 relevant for the purposes of article 447 of the Portuguese Companies Code ("CSC"), in its current version.

Also under number 5 of article 447 of the CSC, during 2019 and according to the communications made to the Company, the number of shares representing the share capital of companies in a controlling or group relationship with the Bank held by members of the Bank's management and supervisory bodies and their closely related parties pursuant to that provision, as well as all their acquisitions, encumbrances or disposals of ownership, were as indicated in the following lists:

Board of Directors (a)	No. of Shares as at 31/12/2018 (j)	Date	Acquisition	Encumbrance	Divestment	Price	No. of Shares as at 31//2019 (j)
João de Almada Moreira Rato (b)	-	-	-	-	-	-	-
Francisco José Queiroz de Barros de Lacerda (c)	67,982	-	-	-	-	-	67,982
Luís Maria França de Castro Pereira Coutinho	500	-	-	-	-	-	500
Luís Miguel Agoas Correia Amado (d)	-	-	-	-	-	-	-
João Maria de Magalhães Barros de Mello Franco	-	-	-	-	-	-	-
Pedro Rui Fontela Coimbra	-	-	-	-	-	-	-
Nuno Carlos Dias dos Santos Fórneas (e)	-	-	-	-	-	-	-
José Manuel Gonçalves de Morais Cabral (f)	-	-	-	-	-	-	-
Rui Afonso Galvão Mexia de Almeida Fernandes (g)	-	-	-	-	-	-	-
João Manuel de Matos Loureiro (h)	-	-	-	-	-	-	-
Clementina Maria Dâmaso de Jesus Silva Barroso	-	-	-	-	-	-	-
Susana Maria Morgado Gomez Smith (i)	-	-	-	-	-	-	-
António Pedro Ferreira Vaz da Silva	-	Annex II	Annex II	-	Annex II	Annex II	3,500 (k)
António Emídio Pessoa Corrêa d'Oliveira	20,000	-	-	-	-	-	20,000
Guy Patrick Guimarães de Goyri Pacheco	-	Annex II	Annex II	-	-	-	6,000 (k)

Pessoa estreitamente relacionada	No. of Shares as at 31/12/2018 (j)	Date	Acquisition	Encumbrance	Divestment	Price	No. of Shares as at 31//2019 (j)
Manuel Champalimaud, SGPS, S.A. (l)	18,465,215	Annex II	Annex II	-	Annex II	Annex II	19,146,815 (k)

Revisor Oficial de Contas	No. of Shares as at 31/12/2018 (j)	Date	Acquisition	Encumbrance	Divestment	Price	No. of Shares as at 31//2019 (j)
KPMG & Associados SROC, S.A.	-	-	-	-	-	-	-
Vítor Manuel da Cunha Ribeirinho	-	-	-	-	-	-	-
Maria Cristina Santos Ferreira	-	-	-	-	-	-	-

a) Includes the members of the Executive Committee and Audit Committee.
b) Appointed as Chairman of the Board of Directors on 13 September 2019.
c) Francisco José Queiroz de Barros de Lacerda performed duties during 2019, having resigned from the position of Chairman of the Board of Directors of Banco CTT on 10 May 2019 taking effect on 30 June 2019. Neither this member of the Board of Directors nor any person closely related to him informed Banco CTT, up to that date, of any transaction of acquisition, encumbrance or termination of ownership, for any reason, of shares and bonds of the Company or companies with which Banco CTT is in a controlling or group relationship, under the terms and for the purposes of article 447 of the CSC.
d) Luís Miguel Agoas Correia Amado performed duties during 2019, having resigned from the position of Member of the Board of Directors and of the Executive Committee of Banco CTT on 13 September 2019. Neither this member of the Board of Directors nor any person closely related to him informed Banco CTT, up to that date, of any transaction of acquisition, encumbrance or termination of ownership, for any reason, of shares and bonds of the Company or companies with which Banco CTT is in a controlling or group relationship, under the terms and for the purposes of article 447 of the CSC.
e) Appointed as Member of the Board of Directors and of the Executive Committee on 13 September 2019.
f) José Manuel Gonçalves de Morais Cabral performed duties during 2019, having resigned from the position of Member of the Board of Directors and Chairman of the Audit Committee of Banco CTT on 13 September 2019. Neither this member of the Board of Directors nor any person closely related to him informed Banco CTT, up to that date, of any transaction of acquisition, encumbrance or termination of ownership, for any reason, of shares and bonds of the Company or companies with which Banco CTT is in a controlling or group relationship, under the terms and for the purposes of article 447 of the CSC.
g)Rui Afonso Galvão Mexia de Almeida Fernandes performed duties during 2019, having resigned from the position of Member of the Board of Directors and of the Audit Committee of Banco CTT on 13 September 2019. Neither this member of the Board of Directors nor any person closely related to him informed Banco CTT, up to that date, of any transaction of acquisition, encumbrance or termination of ownership, for any reason, of shares and bonds of the Company or companies with which Banco CTT is in a controlling or group relationship, under the terms and for the purposes of article 447 of the CSC.
h) Appointed as Member of the Board of Directors and Chairman of the Audit Committee on 13 September 2019.
i) Appointed as Member of the Board of Directors and of the Audit Committee on 13 September 2019.
j) Transaction in question conducted in a regulated market on shares of CTT – Correios de Portugal, S.A.
k) Annex II presents the details relative to the acquisitions and/or divestments made in 2019, as disclosed to the Company.
l) Person/entity closely related to António Emídio Pessoa Corrêa d'Oliveira (Member of the Board of Directors and of the Executive Committee (CFO) of Manuel Champalimaud, SGPS, S.A., as at 31 December 2019.

In 2019 neither Banco CTT nor the companies in a controlling or group relationship with it issued any bonds.

B. Corporate Bodies and Committees

I. General Meeting

Pursuant to the Bank's Articles of Association, the Board of the General Meeting is composed of a Chairman, elected at the General Meeting. Pursuant to that same provision, the Chairman of the Board of the General Meeting is assisted by the Secretary of the Company, duties performed in 2019 and currently by Catarina Morais Bastos Gonçalves de Oliveira. As at 31 December 2019, the Chairman of the Board of the General Meeting was Afonso Galvão Mexia de Almeida Fernandes, appointed for the term of office 2019/2021 at the General Meeting of 13 September 2019.

The Bank's Selection and Salary Committee, resulting from the merger of the previous Selection Committee and Salary Committee, elected at the General Meeting of 13 September 2019 had, as at 31 December 2019, the following composition (members appointed for the term of office coincident with that of the corporate bodies):

Members	Position
António Sarmento Gomes Mota	Chairman
João Afonso Ramalho Sopas Pereira Bento	Member
José Manuel Baptista Fino	Member

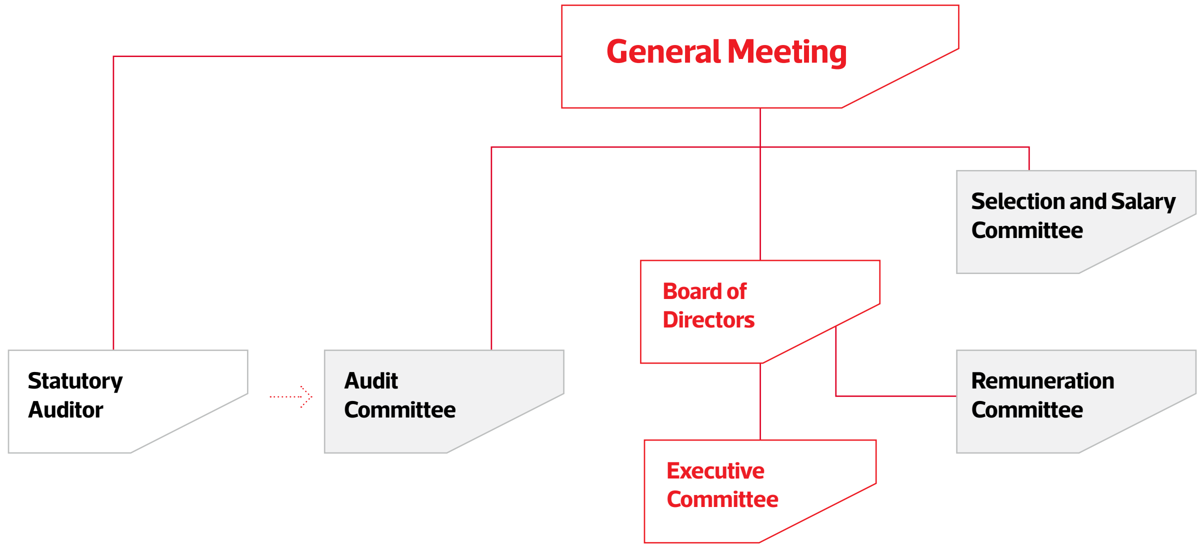
Pursuant to the Policy on Selection and Assessment of the Adequacy of the Members of the Management and Supervisory Bodies and of the Holders of Key Position, as approved in the General Meeting of 24 August 2015, amended by the same body on 10 March 2016 and subsequently amended by the Board of Directors and the General Meeting on 22 and 24 January 2019, respectively ("Selection Policy"), with the Remuneration Policy for Management and Supervisory Body Members and Relevant Employees approved by the General Meeting and the Board of Directors on 25 November 2015, as amended by resolutions of the same bodies on 22 July 2016, 4 April 2017, 21 March 2018 and on 10 April 2019 ("Salary Policy") and its Internal Regulation, all in force on 31 December 2019, the Selection and Salary Committee is particularly responsible for:

- Identifying, selecting and recommending possible members of management and supervisory bodies and holders of key positions, checking whether these candidates meet the necessary adequacy requisites (both individual and collective);
- Preparing the individual and collective adequacy assessment and reassessment models, preparing the adequacy assessment and reassessment reports and preparing the processing of requests for authorisation and registration with the Bank of Portugal;
- Ensuring the representation of men and women and the diversity of qualifications and skills, professional experience, age and geographical origin necessary for the performance of their duties;
- Assessing at least annually the Selection Policy;
- Assessing at least once every two years the structure and size of the management and supervisory bodies, the suitability, professional qualification, independence, diversity and availability, as well as the performance in terms of adequacy of its members and holders of key positions;
- Assessing and discussing the annual training plan with the competent bodies and committees;
- Establishing the remuneration of the members of the Board of the General Meeting, the Board of Directors, the Audit Committee and the Statutory Auditor;
- Approving and reviewing at least annually the Remuneration Policy, namely defining its various components and possible benefits.

II. Management and Supervision

1) Adopted governance model

Banco CTT has adopted a governance model of Anglo-Saxon nature, according to which the Board of Directors is responsible for the Company's administration, and the Audit Committee (composed of non-executive and independent Directors) and the Statutory Auditor are responsible for its supervision.



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

In this regard, the General Meeting is responsible for: (i) electing the members of the corporate bodies (including the members of the Board of the General Meeting, the Board of Directors and the Audit Committee as well as the Statutory Auditor, this last body being upon proposal of the Audit Committee), (ii) appraising the annual report of the Board of Directors and the opinion of the Audit Committee, (iii) deciding on the application of results and (iv) deliberating on amendments to the Articles of Association; and (iv) establishing the remuneration of the members of the corporate bodies or, alternatively, establishing a Selection and Salary Committee and electing its members. In this sense, the General Meeting established, on 13 September 2019, a Selection and Salary Committee composed of three independent members, under the terms of the Bank's Selection Policy, and which is also responsible for identifying, selecting and assessing the adequacy of persons to be appointed as members of the management and supervisory bodies and holders of key functions of the Bank (as described in point B.I. above).

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

The Audit Committee (currently exclusively composed of independent members), together with the Statutory Auditor, perform the duties of supervision that arise from the applicable legal and regulatory provisions, where the Audit Committee is responsible for promoting the independence of the Statutory Auditor and the company's internal audit, with a view to contributing to the quality of the financial information and the efficacy of the internal control, risk management and internal audit systems (as described in point B.III. below).

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

2) Board of Directors and internal committees

Pursuant to the Bank's Articles of Association, the Board of Directors is composed of 7 to 11 members and the Executive Committee is composed of 3 to 5 Directors, appointed for three-year terms of office.

The Company's Board of Directors in office as at 31 December 2019 was composed of the following 11 Directors, appointed for the term of office of 2019/2021, whose curricula are presented in Annex I attached herewith:

Members	Board of Directors	Executive Committee	Independent Audit	Committee [1]
João de Almada Moreira Rato [2]	Chairman			Yes
Luís Maria França de Castro Pereira Coutinho	Member	Chairman (CEO)		
João Maria de Magalhães Barros de Mello Franco	Member	Member (CCO)		
Pedro Rui Fontela Coimbra	Member	Member (CFO)		
Nuno Carlos Dias dos Santos Fórneas [2]	Member	Member (COO)		
João Manuel de Matos Loureiro [2]	Member		Chairman	Yes
Clementina Maria Dâmaso de Jesus Silva Barroso	Member		Member	Yes
Susana Maria Morgado Gomez Smith [2]	Member		Member	Yes
António Pedro Ferreira Vaz da Silva	Member			
António Emídio Pessoa Corrêa d'Oliveira	Member			
Guy Patrick Guimarães de Goyri Pacheco	Member			

1) According to the criteria established in number 5 of article 414 of the CSC (applicable by virtue of number 3 of article 31-A of the RGICSF).
2) Elected at the General Meeting of 13 September 2019

The Board of Directors is the governing body responsible for the Company's management and representation, under the legal and statutory terms, being entrusted to practice all acts and operations relative to the corporate object that are outside the competence attributed to other bodies of the Bank.

Pursuant to the Articles of Association and its Internal Regulation, the Board of Directors is responsible, among other aspects, for:

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

b) Defining the strategic guidelines (including the approval of the strategic plans, activities and businesses), policies and the Bank's corporate structures;

c) Approving the budgets and investment and financial plans;

d) Passing resolutions on merger, demerger and transformation projects, important expansions or down-sizing of the Bank's operations, the establishment, termination or amendment of any partnership, cooperation, sharing or joint venture agreements that are long-lasting and important;

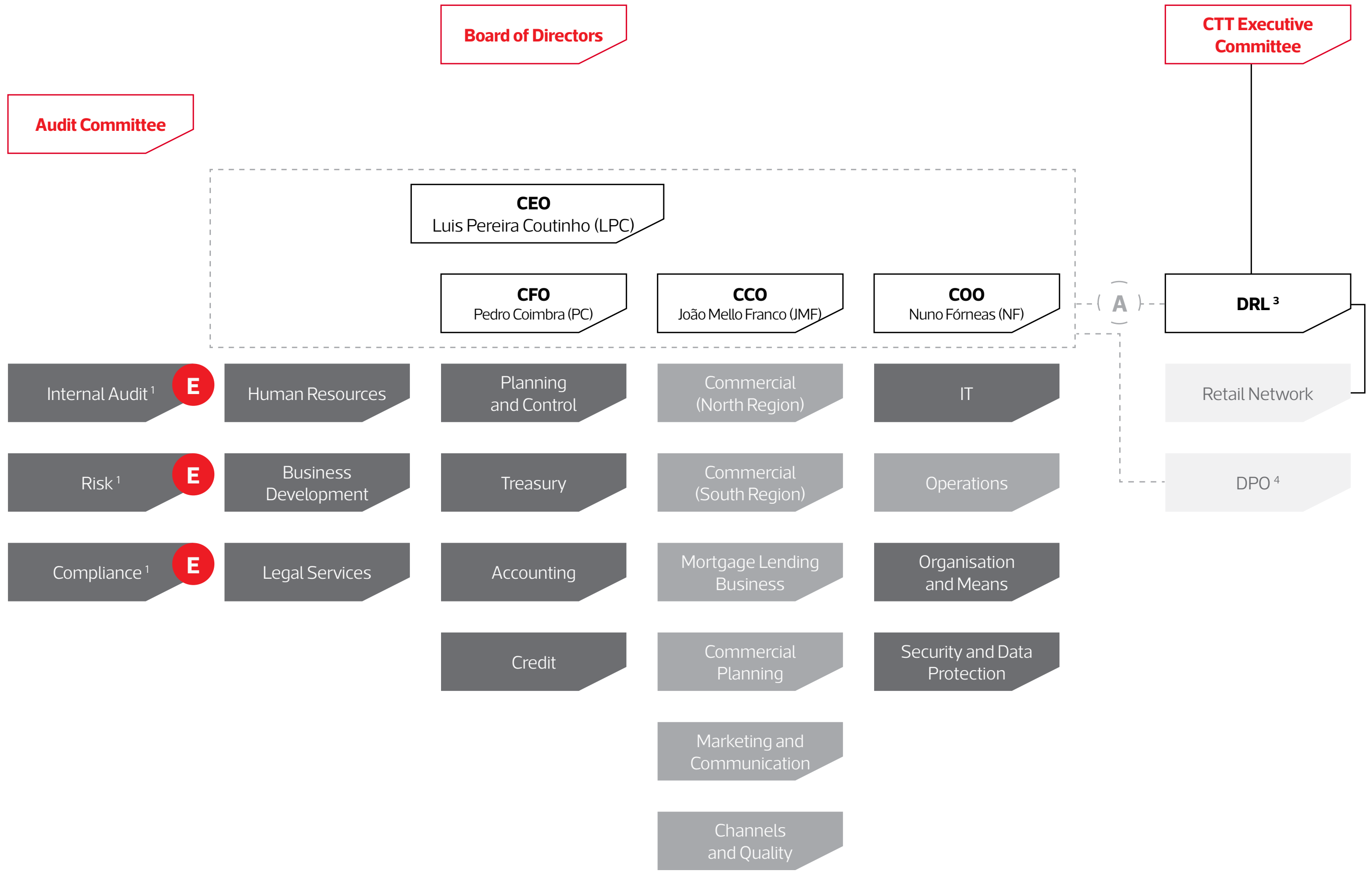
e) Supervising and ensuring the Bank is equipped with effective systems for internal control and internal audit and for information processing and disclosure and compliance with information duties with the Bank of Portugal, as well as risk identification, management, control and communication processes;

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

g) Appointing and removing those responsible for risk management, compliance and internal audit ("Control Functions"), under recommendation of the Selection and Salary Committee and upon prior assessment of the Audit Committee, as well as stipulating their remuneration and assessing the performance of those responsible for the Control Functions, under proposal of the Salary Committee and upon prior assessment of the Audit Committee.

The Board of Directors delegated day-to-day management of the Company to the Executive Committee (having authorised one or more of its members to undertake certain matters and to sub-delegate the exercise of certain powers to one or more of its members). In line with the law and best practices, this delegation excludes, in addition to matters reserved by law and others detailed in the Internal Regulation of the Board of Directors, the matters set out in the subparagraphs of the preceding paragraph, as well as acts and operations that give rise to liabilities/obligations for the Bank above certain thresholds.

As at 31 December 2019, the areas of responsibility of the Bank's Executive Committee and its organisational structure were distributed as follows:



Subsidiaries of Banco CTT Group

	LPC	JMF	PC	NF
321 C	(*)	Member of BD	Member of BD	-
Payshop	-	Chairman of BD (*)	Member of BD	-

(*) Director with special responsibility for the Subsidiary

Executive Committee
Senior Management
Senior Management Cross-Functional to Banco CTT Group
E Key Position
A Retail Network plays the role of implementing the strategy defined by Banco CTT

[1] The line of reporting of Internal Audit, Risk and Compliance hierarchically to the BoD and operations to the CAud, as well as the current monitoring by the EC are detailed in the following pages.
[2] Special Project Units may be formed by decision of Executive Committee the when approved projects that due to their complexity and duration, justify this.
[3] RND - Retail Network Directors: corresponds to the top of the Retail Network structure with a multi-employer scheme with CTT, hierarchical relations with CEO and functional relations with all the other EC areas and control positions.
[4] DPO–Data Protection Officer of CTT Group.

After defining the governance model, the Bank's Board of Directors created six internal committees, in order to ensure better coordination among the different departments, better involvement in the decision-making process and better support for the Executive Committee's management activities. The committees are the Capital and Risk Committee, the Commercial and Product Committee, the Credit Committee, the Technology and Operational Efficiency Committee, the Costs and Investments Committee and the Internal Control Committee.

With respect to the management of relations with CTT under the contracts concluded between CTT and the Bank, on which the respective CTT / Bank engagement model is based, there are three discussion forums that are external to the Bank. These were created in the context of the referenced agreements and cover the multiple-employer arrangement, availability of resources in the Retail Network and CTT Channel partnership, as well as the provision of services. They are the Business Coordination Committee, the Shared Services Committee and the Partnership Governing Committee.

As at 31 December 2019, the existing Committee structure, both in terms of the Bank's Executive Committee and regarding governance of the partnership with CTT, was as follows:

Committees supporting the Executive Committee	Capital and Risk Committee
	Commercial and Product Committee
	Credit Committee
	Technology and Operational Efficiency Committee
	Costs and Investments Committee
	Internal Control Committee
Committees governing the partnership with CTT	Partnership Governance Committee
	Business Coordination Committee
	Shared Services Committee

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

III. Oversight

Pursuant to the Bank's Articles of Association, the Audit Committee is composed of 3 directors, one of which will be its Chairman. All are elected at the General Meeting (for the current 3-year term of office), together with all the other Directors. The proposed lists for the composition of the Board of Directors should detail the members that are intended to be part of the Audit Committee and indicate its Chairman.

The Bank's Audit Committee, in office as at 31 December 2019, was composed of the following members (appointed for the term of office 2019/2021):

Members	Position
João Manuel de Matos Loureiro	Chairman
Clementina Maria Dâmaso de Jesus Silva Barroso	Member
Susana Maria Morgado Gomez Smith	Member

All the members referred to above are independent, pursuant to number 5 of article 414 of the CSC, by virtue of number 3 of article 31-A of the RGICSF, and have higher education and skills appropriate to their duties and responsibilities. Together, they have the necessary experience, according to the law and the Bank's Articles of Association and Selection Policy and at least one member has accounting knowledge.

The Audit Committee was entrusted by law, the Articles of Association and its Internal Regulation in force on 31 December 2019 with the following main powers:

a) Supervising the Bank's management;

b) Verifying the accuracy of the financial statements;

c) Supervising the process of preparation and disclosure of financial information;

d) Supervising the effectiveness of the risk management system, internal control system and internal audit system;

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

f) Overseeing the review of accounts of the financial statements of the Bank; and

g) Overseeing the independence of the Statutory Auditor, in particular with respect to the provision of additional services.

Under these powers, the Audit Committee is particularly responsible for:

a) Supervising the activity of the Control Functions and prior appraisal of the appointment, destitution, salary and assessment of the performance of the Control Officers;

b) Overseeing the implementation of the Bank's strategic objectives, the strategy on risk and internal governance and, at least annually, assessing their efficacy;

c) Supervising the Bank's policy and processes of identification, management, control and communication of risks;

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

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

f) Assessing whether the adopted accounting policies and procedures and valuation criteria are consistent with accounting principles that are generally accepted and suitable for the correct presentation and valuation of the Bank's assets, liabilities and results;

g) Supervising compliance with and the correct application of the accounting principles and standards in force, the evolution of the relevant financial indicators and significant exposure to contingent risks or liabilities; and

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

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

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

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

(c) Examining if incentives set out in the Bank's remuneration policy take into account risk, capital, liquidity and expectations regarding results.

IV. Statutory Auditor

As at 31 December 2019 and for the term of office 2019/2020, KPMG & Associados, SROC, S.A. ("KPMG"), Chartered Accountant Firm number 189, represented by the partner Vítor Manuel da Cunha Ribeirinho (Chartered Accountant number 1081), provided the services of permanent Statutory Auditor to the Company, with the alternate Statutory Auditor being Maria Cristina Santos Ferreira (Chartered Accountant number 1010).

On 24 January 2019, the Bank's General Meeting resolved to change the duration of the term of office of the Statutory Auditor from the three-year period corresponding to 2019/2021 to the two-year period corresponding to 2019/2020, with the Articles of Association of Banco CTT having been amended accordingly.

The rules to be followed in engaging audit and non-audit services / additional services from the Statutory Auditor are established in the Regulation on the Provision of Services by the Statutory Auditor, adopted by Banco CTT ("Regulation"), approved in line with the provisions in Law 140/2015 of 7 September and Law 148/2015 of 9 September, which review the Statute of the Portuguese Chartered Accountants Association and the Legal Framework for Audit Supervision, respectively. The understanding expressed by the CMVM on 9 September 2019 was also taken into account, which updated the "Answers to the most frequently asked questions on the entry into force of the new Statute of the Portuguese Chartered Accountants Association and the Legal Framework for Audit Supervision".

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

In 2019, the Banco CTT Group hired KPMG to carry out the following non-audit services (considering the understanding expressed by the CMVM on 9 September 2019 through the updating of the "Answers to the most frequently asked questions about the entry into force of the new Statute of the Chartered Accountants Association and the Legal Framework on Audit Supervision"), hereinafter "Non-Audit Services Engaged in 2019":

- Limited review of the financial statements of Banco CTT, Payshop (Portugal), S.A. ("Payshop) and 321 Crédito, Instituição Financeira de Crédito, S.A. ("321 Crédito") for the periods ended on 30 June 2019 and 2020;
- Adequacy of the process of quantification of the impairment of the credit portfolio of the Bank and of 321 Crédito and the reasonableness of the individual and collective impairment pursuant to Banco de Portugal Instruction 5/2013;
- Issue of the opinion of the statutory auditor defined under the terms of subparagraph b) of number 5 of article 25 of Banco de Portugal Notice 5/2008, regarding the internal control system of the Bank, Payshop and 321 Crédito, under the terms of subparagraph c) of number 4 of article 26 of Banco de Portugal Notice 5/2008, of the Banco CTT Group.
- Issue of the opinion of the supervisory body defined under the terms of subparagraph a) of number 5 of article 25 of Banco de Portugal Notice 5/2008, regarding the internal control system of Payshop;
- Issue of the opinion of the supervisory body required by Banco de Portugal Notice 2/2018, regarding the adequacy and effectiveness of Payshop's internal control system for preventing money laundering and combating the terrorism financing;
- Prevention of money laundering and terrorist financing ("PBCFT"), including technical support in defining the strategy for the remediation of PBCFT monitoring alerts and support in remediation in a secondment format.

The Regulation includes procedures for the engagement of non-audit / additional services by Banco CTT and subjects them to the prior authorisation of both Banco CTT's Audit Committee and CTT's Audit Committee. These were verified regarding the non-audit services engaged in 2017 indicated above, with the following elements, in particular, having been analysed and confirmed: (i) that the services in question do not fall under the list of prohibited services and do not pose a threat to the Statutory Auditor's independence and impartiality, regarding the statutory audit, namely the provision of such services does not entail any risk of self-assessment, of personal interest, nor participation in decision-making in any Group CTT company subject to legal review of accounts; (ii) that the proposed fees do not exceed the fee caps for (non-prohibited) non-audit services as provided by law and (iii) that the issue of the opinion of the statutory auditor regarding the internal control system as required by Banco de Portugal Notice 5/2018 and the assessment of the adequacy of the process of quantification of the impairment of the loan portfolio, as required by Banco de Portugal Notice 5/2013,is a service required by law from the Statutory Auditor that carries out the legal review of the accounts of an Entity of Public Interest, and does not require the obtaining of prior authorisation by the supervisory body. As a result, the

Bank considers itself exempt, in relation to this service, from carrying out the necessary tests and checks for purposes of investigation of independence and objectivity for legal review of accounts to be carried out by the Statutory Auditor.

The table below shows the values corresponding to the fees of KPMG for statutory audit, assurance, tax consultancy and non-audit services hired, accounted for and paid/invoiced in 2019, relative to Banco CTT, Payshop and 321 Crédito, as entities that are fully part of the Group:

	Engaged Services[1]		Accounted Services[2]		Paid Services[3]	
	Amount (€)	%	Amount (€)	%	Amount (€)	%
By the Company	**305,655**	**69%**	**357,289**	**74%**	**286,934**	**83%**
Value of the audit services	209,100	47%	233,263	48%	198,374	57%
Value of the reliability assurance services	84,255	19%	108,651	22%	88,560	26%
Value of the tax advisory services	-	0%	-	0%	-	0%
Value of non-audit services	12,300	3%	15,375	3%	-	0%
By entities that are part of the Group[4]	**137,145**	**31%**	**127,853**	**26%**	**59,901**	**17%**
Value of the audit services	70,725	16%	67,383	14%	16,236	5%
Value of the reliability assurance services	66,420	15%	60,470	12%	43,665	13%
Value of the tax advisory services	-	0%	-	0%	-	0%
Value of non-audit services	-	0%	-	0%	-	0%
TOTAL	**442,800**	**100%**	**485,142**	**100%**	**346,835**	**100%**
Value of the audit services	*279,825*	*63%*	*300,646*	*62%*	*214,610*	*62%*
Value of non-audit services	*162,975*	*37%*	*184,496*	*38%*	*132,225*	*38%*

[1] Includes VAT at the legal rate in force.
[2] Includes invoiced values and values accrued in the year.
[3] The paid services refer to services hired in 2019 as well as in previous years whose conditions of payment occurred in 2019.
[4] Payshop and 321 Crédito

C. Internal Organisation

I. Articles of Association

The Bank's Articles of Association (available on the Bank's website www.bancoctt.pt) and their amendment are entrusted to the General Meeting.

II. Communication of irregularities (whistleblowing)

The RGICSF and the European Banking Authority (EBA) Guidelines on Internal Governance (EBA/GL/2017/11) require credit institutions to implement specific, independent and autonomous means to receive, handle and file serious irregularity reports related to their management, accounting organisation and internal oversight, as well as signs of serious breaches of duties related thereto, namely regarding conduct, professional secrecy, capital, risks or disclosure of information.

As result of these requirements, the Bank's Code of Conduct, in section 7.4, provides mechanisms for reporting irregularities on matters of accounting, internal accounting controls, the Bank's internal management or supervision, prudential requirements, risk control, insider dealing, fraud or anti-corruption, banking and financial crime, money laundering or the financing of terrorism, involving shareholders, employees, customers, suppliers, based on the specific rules defined by the Bank, namely in its Whistleblowing Policy.

As at 31 December 2019, the Bank has a Whistleblowing Policy (resulting from the review, on 1 April 2019, of the previously named Policy for Communication of Irregularities) aimed at operationalising the rules established in its Code of Conduct. Pursuant to what is defined in this Policy, any irregularities can be communicated by employees of the Banco CTT Group and by any stakeholders, namely shareholders, partners, suppliers, service providers or customers, through the "Channel of Ethics". The Whistleblowing Model, through the Channel of Ethics, guarantees the confidentiality of the communications received and the protection of the personal data of the whistleblower and suspect, pursuant to applicable legislation. On the other hand, the Group may not dismiss, threaten, suspend, reprimand, harass, withhold or suspend payments of salaries and/or benefits, or take any retaliatory action against anyone legally reporting an irregularity or providing any information or assistance in the investigation of the reports of irregularities presented and these reports may not in themselves serve as grounds for any disciplinary, civil or criminal proceedings against the whistleblower, unless they are deliberate and manifestly unfounded.

In 2019, the Manual on Handling of Reports of Irregularities - Channel of Ethics was also created, which aims to define and detail the process and the responsibilities in the context of the handling of reports of irregularities. The Manual is divided into three parts, the first part refers to sorting, the second part refers to the handling of reports of irregularities concerning harassment and discrimination and the third part refers to the treatment of the remaining irregularities covered by the Whistleblowing Policy.

Under the terms of the identified Policy, the Audit Committee delegated to the Compliance Department support functions related to the management of the Channel of Ethics and to the Ethics Forum the handling of reports of irregularities in matters of its competence, being, in any case, that supervisory body responsible for the reception and registration of the reports, as well as the final decision regarding the filing or adoption of other measures.

The Whistleblowing Policy further establishes that, without prejudice to other reporting duties established by law: (i) the Audit Committee or any member of the management or supervisory bodies, as well as the holders of qualified holdings, shall immediately report to Banco de Portugal any serious irregularity of which they become aware relating to the management, accounting organisation and internal auditing of the Bank and which is likely to place it in a situation of financial imbalance; and (ii) employees of the areas responsible for control functions (internal audit, risk management and compliance) shall report to the Audit Committee any serious irregularity of which they become aware related to the management, accounting organisation and internal supervision of the Bank or indications of breaches of duties established in the RGICSF or Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June, which is likely to place it in a situation of financial imbalance.

During 2019, 10 potential irregularities were reported, of which 6 referred to customer complaints and were treated as such. Of the 4 reports that effectively corresponded to situations of potential irregularities, the handling of 3 of them was concluded and only the internal investigation process regarding the remaining reported irregularity is in progress.

III. Internal control and risk management

From the outset, Banco CTT's management and supervisory bodies have attributed a structural importance to its internal control, risk management and internal audit systems. On this issue, please see the section above of this Annual Report entitled "Internal Control System" and "Risk Management".

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

IV. Investor Support

Because it is not a listed company with shares listed for trading, Banco CTT does not have an investor support office.

However, the Bank's sole shareholder, as a company issuing shares listed for trading on regulated markets, has an Investor Relations Department, whose mission is to ensure a solid and lasting relationship with, on one hand, shareholders, investors and analysts, the Portuguese Securities Market Commission (CMVM), Euronext Lisbon - Sociedade Gestora de Mercados Regulamentados, S.A. (Euronext Lisbon) and the capital markets in general and, on the other, the company and its corporate bodies. It provides timely, clear and transparent information on CTT's current evolution in economic, financial and governance terms. Moreover, this Department ensures the proactive articulation of the Company's strategy with investors and research analysts, and that the Company knows the market's perceptions of it.

V. Website

Banco CTT's website address is as follows: www.bancoctt.pt.

D. Remuneration

I. Powers of determination

Pursuant to the Bank's Articles of Association, the General Meeting or Remuneration Committee elected by the General Meeting are competent to determine the remunerations of corporate body members. In the General Meeting held on 13 September 2019, a Bank Selection and Salary Committee was elected, resulting from the merger of the former Selection Committee and Remuneration Committee.

The General Meeting and the Selection and Salary Committee receive support in such duties from the Remuneration Committee mentioned in section D.II. below.

Members	Position
João de Almada Moreira Rato	Chairman
Clementina Maria Dâmaso de Jesus Silva Barroso	Member
Susana Maria Morgado Gomez Smith	Member

Under its Internal Regulation in force on 31 December 2019, this Committee is responsible, among other aspects, for:

- Preparing proposals and recommendations for General Meeting decisions on matters of remuneration of governing body members (notwithstanding delegation to the Salary Committee), as well as for Board of Directors decisions (notwithstanding delegation to the Executive Committee) on the remuneration of relevant employees pursuant to article 115-C of the RGICSF. This includes decisions on the remuneration policies and decisions affecting the Bank's risk and risk management;
- Analysing and assessing, at least annually, the remuneration policies for corporate body members and the mentioned relevant employees, especially their effect on the institution's management of risk, capital and liquidity; and
- Preparing proposals and recommendations for the competent bodies on the stipulation, calculation and payment of the variable remuneration component and on proposals, assessing whether or not goals under that model have been met.

III. Remuneration structure

1. Annual statement on the remuneration policy of management and supervisory body members in 2019

The statement on the remuneration policy of the Bank's management and supervisory bodies:

"Annual statement on the remuneration policy of the Members of the Management and Supervisory Bodies of Banco CTT, S.A." – Financial year of 2019 –

a) Introduction

The present annual statement for 2019 was approved by the Remuneration Committee and by the Board of Directors of Banco CTT, S.A. ("Bank" or "Company"), pursuant to their respective powers and under the terms and for the purposes of Law 28/2009 of 19 June of the Legal Framework of Credit Institutions and Financial Companies ("RGICSF") and Banco de Portugal Notice 10/2011 ("Notice 10/2011"), for its approval by the Bank's Annual General Meeting.

This statement concerns the remuneration of members of the Bank's management and supervisory bodies ("Remuneration Policy") that was approved by the Bank's General Meeting on 25 November 2015 following the Bank's special registration and was amended on 22 July 2016, on 4 April 2017, on 21 March 2018 and on 10 April 2019, by resolution of the Bank's Salary Committee, based on a Remuneration Committee proposal/recommendation. It should be noted that the control, human resources and legal officers participated in this last meeting, after appraisal by the Audit Committee under its respective powers. The updated version of the Remuneration Policy is available on the Bank's website at www.bancoctt.pt.

The Bank's Remuneration Committee, created within the Board of Directors and with its term of office matching that of the Board of Directors (2019/2021), had the following composition as at 31 December 2019:

Members	*Position*
João de Almada Moreira Rato	*Chairman*
Clementina Maria Dâmaso de Jesus Silva Barroso	*Member*
Susana Maria Morgado Gomez Smith	*Member*

In 2019, the General Meeting held two meetings in which it deliberated on remuneration matters, and the Remuneration Committee / Selection and Salary Committee (on 13 September 2019, the Selection Committee and the Remuneration Committee of Banco CTT became a single Committee designated as the Selection and Salary Committee) held two meetings on this type of matters and the Remuneration Committee held six meetings on remuneration matters.

The Remuneration Policy was established in light of the Bank's activity, structure and size (in particular, given its size, internal organisation and nature, scope and complexity of its operations), as well as market practices, for 2019/ 2021 (notwithstanding its possible amendment given the nature, scope and complexity of the Bank's activity, its structure, size and any possible regulatory developments).

The Remuneration Policy was defined by Banco CTT, as the parent company of the Banco CTT Group (meaning the "Banco CTT Group" or "Group", Banco CTT and all the subsidiaries included in the respective consolidation perimeter), and is made available to all the subsidiaries, establishing the references applicable in the Group, which all the subsidiaries must adopt and approve in the respective bodies, being able to make the adaptations that may be necessary to their concrete realities or to comply with the regulatory requirements and/or the recommendations of the supervisory entities that may be applicable to them. It should be noted, however, that the adoption of the Policy by each subsidiary will depend on approval by the respective competent bodies.

b) General principles and components of the remuneration of Board of Directors and Executive Committee members

The Remuneration Policy aims to attain the following goals, among others:

I. Attract, motivate and retain highly talented employees, that enable the creation of long-term value and an increase in the organisation's productivity;

II. Foster people's commitment and motivation and enhance excellent performance by acknowledging and rewarding merit, rewarding professional responsibility and ensuring internal equity and external competitiveness;

III. Create incentives that ensure risk-taking is compatible with the credit institution's strategy, tolerance and risk culture, as well as the sound and prudent management of risk, by discouraging risk-taking beyond the credit institution's tolerated risk level;

IV. Accomplish the Bank's long-term strategic goals, values and interests, in a sustainable manner and compatible with its strategy (namely with the business plan, financial model and budget, and the Code of Conduct);

V. Include measures preventing conflicts of interest;

VI. Develop an offer that meets the banking and financial needs of depositors and customers, aligned with high levels of banking availability and financial inclusion; and

VII. Create long-term value for shareholders and other institution stakeholders.

In view of its responsibilities and dedication to the performance of these duties, the Remuneration Policy distinguishes members of the Audit Committee (as non-executive members with a supervisory duty), and all other non-executive members of the Board of Directors, members of the Executive Committee (for their role in implementing the strategy defined for the institution) and the respective members that chair and / or carry out duties as members of the Board of Directors' internal committees.

The remuneration of Audit Committee members and of the remaining non-executive members of the Board of Directors shall only include a fixed component, paid 14 times a year, regardless of and unrelated in any way to the institution's performance or results.

The amount of that fixed remuneration is stipulated by the General Meeting or Selection and Salary Committee in light of the skills, responsibilities, dedication, availability, experience and professional qualifications associated to the performance of each position.

The remuneration of members of the Executive Committee shall include, in addition to the fixed component, a variable component, under the terms set out in the Remuneration Policy and further detailed in section III. below. This variable component: (i) shall not limit the Bank's ability to reinforce its capital base and will take into account, when awarded, all types of risk, both present and future; (ii) shall be subject to a number of conditions, criteria, assumptions and limitations; and (iii) shall serve to align interests of management body members with the Bank's interests, in line with the Bank's risk strategy, tolerance and culture.

Other benefits may be granted to members of the Executive Committee under terms specified by the General Meeting or Selection and Salary Committee, including, among others, benefits related to insurance, vehicles and meal allowances. No supplementary pension or early retirement schemes have been provided for.

In the event members of the Board of Directors terminate office, the compensation rules prescribed by law shall apply, as no compensation clauses were agreed upon or established in the remuneration policy. No compensation was paid or became payable to members of the Bank's Board of Directors related to the termination of their office during the financial year of 2019.

I. Variable component of the remuneration of Executive Committee members

The Remuneration Policy foresees the existence of a variable component of the remuneration of Executive Directors.

The variable remuneration in question is paid in cash. Nevertheless, until the full or partial payment of the variable remuneration and at the Bank's exclusive initiative, an alternative model may be implemented in this regard by the General Meeting or Salary Committee, where half of that variable remuneration (including the deferred portion described below) shall be paid in financial instruments and subject to a lock-up policy.

Pursuant to the Remuneration Policy, the variable remuneration component is subject to the rules set out therein, as well as to the criteria, assumptions and limitations provided in the EC Performance Assessment Model approved for 2019 by the Selection and Salary Committee. This follows a Remuneration Committee recommendation, in consultation with the control, human resources and legal officers, and an Audit Committee assessment under its respective powers, as briefly described below:

a) Pursuant to the Remuneration Policy, this component depends on a number of performance assessment criteria being met (of both a qualitative and quantitative nature, as well as financial and non-financial). These shall be analysed on an annual and multiannual basis, as set out in the EC Performance Assessment Model;

b) Also pursuant to the terms of the Remuneration Policy, the fixed remuneration component shall represent at least 50% of the total annual remuneration of each member (where this ratio, under the legal terms, can be revised to up to 100%, on an annual basis, for the following performance period, by the General Meeting or Selection and Salary Committee) and the variable remuneration component shall not exceed, in each year, 100% of the annual fixed remuneration of each Executive Committee member (where this ratio, under the legal terms, can be revised to up to 200%, on an annual basis, for the following performance period, by the General Meeting or Salary Committee);

c) In addition, according to the Bank's Articles of Association, a variable component may be added to the fixed remuneration, as provided by law, in a maximum percentage of consolidated profits for that financial year of no more than 10% annually;

d) In turn, the EC Performance Assessment Model provides for two distinct remuneration systems that depend on differentiated conditions and criteria (qualitative, quantitative and non-communicating) corresponding to "Corporate Performance VR" with a 70% weight in the total annual variable remuneration and to "Individual Performance VR" with a 30% weight in the total annual variable remuneration;

e) Notwithstanding these two separate remuneration systems, the awarding of variable remuneration under any of these systems is subject to awarding eligibility conditions related to: (i) a minimum level of attainment of the goals identified in the EC Assessment Model; and (ii) the starting date and continued duties in the Bank and beneficiary commitments, as required under section q) below;

f) In order to discourage excessive risk-taking and encourage alignment with the institution's interests, the awarding of variable remuneration under any of the referenced systems is subject, as defined in the EC Performance Assessment Model for 2019, to benchmark total targets (equivalent to 100% compliance with the Corporate KPIs and level 3 of the scale of assessment of Skills, under, respectively of the Corporate Performance VR (70%) and Individual Performance VR (30%)), as well as the maximum total targets (equivalent to 120% compliance with the Corporate KPIs and level 5 of the scale of assessment of Skills, under, respectively of the Corporate Performance VR (70%) and Individual Performance VR (30%)), notwithstanding its award depending on various levels of attainment of the performance criteria and assessment levels established therein: (i) in relation to the Chairman of the Executive Committee, variable remuneration shall not exceed 50% and 75% of annual basic remuneration in the event of achievement of the benchmark total target and maximum total target respectively; and (ii) in relation to members of the Executive Committee, variable remuneration shall not exceed 35% and 52.5% of total annual remuneration in the event of achievement of the benchmark total target and maximum total target respectively;

g) The award of Corporate Performance VR depends on and its amount is calculated according to the weighted average of attainment of the following quantitative indicators/goals exclusively related to the Bank's performance ("Corporate KPIs") with distinct weights: (i) consolidated net income, (i) loan production (mortgage loans and personal loans), (iii) changes in the volume of resources (deposits and savings products), (iv) net operating income, (v) operating expenses, (vi) impairments, provisions and losses, (vii) complaints, (viii) internal control indicator;

h) The award of Individual Performance VR depends on and the respective amount is calculated based on the weighted average of skill assessment (associated with qualitative performance criteria) of each Executive Director ("Skills") weighted differently and related to: leadership; strategic vision and knowledge of the business and activity; composition and image; quality of the activity; contribution to *the Bank's reputation; relationship with stakeholders; alignment with the Bank's risk appetite; and business and activity expertise in the respective areas of activity;*

i) The determination of variable remuneration also considers adjustment mechanisms that may limit its award and payment on a multi-annual basis (namely, taking into consideration the types of risk exposure, the cost of capital and the institution's liquidity needs and sustainability, given the financial situation), as detailed in the RE Performance Assessment Model;

j) Therefore and in line with the Remuneration Policy, the annual and multi-annual assessment for 2019 under the EC Performance Assessment Model takes into account (i) the institution's performance (in a manner fitting its long-term risk profile and aligned with the business plan, financial model and budget), (ii) the performance of the structural unit of which the beneficiary is part and (iii) the beneficiary's individual performance in light of her/his goals, in order to promote the institution's sustainability, the creation of long-term value and the beneficiary's surpassing what is required of her/him;

k) The calculation of Corporate Performance VR and Individual Performance VR is carried out under the mentioned model by the Remuneration Committee, whose proposal shall be put to the approval of the General Meeting or Salary Committee;

l) Corporate Performance VR and Individual Performance VR are awarded within 60 days as of the General Meeting that approves the 2019 accounts, notwithstanding the applicable adjustment and deferral rules;

m) The payment of half of the awarded variable remuneration (whether Corporate Performance VR or Individual Performance VR) is made within 60 days of the General Meeting or Remuneration Committee resolution awarding it, pursuant to paragraphs k) and l). In order to align the variable component with the institution's long-term performance, the remaining amount is deferred over a minimum of three years as of the payment date of the non-deferred portion of the Corporate Performance VR and Individual Performance VR;

n) The right to payment of the deferred portion is vested proportionally throughout the deferral period and is conditional during that three-year period on (i) the Bank's positive performance and the Bank's sustainable financial situation, to the extent there is a positive evolution of both the Bank's net position and net results in each of those financial years as compared to the preceding year (based on the accounts relative to the assessment periods), notwithstanding any adjustments or revision of this payment condition as approved by the General Meeting or Salary Committee, following a favourable Remuneration Committee proposal/recommendation; and (ii) a positive assessment of the beneficiary's performance; in both cases as specified in the EC Performance Assessment Model;

o) The variable remuneration has therefore been subject, to the extent applicable by law and regulation and pursuant to the referenced model, to mechanisms that may totally or partially reduce the awarded and deferred component, whose payment is not yet an acquired right (malus) and that may reverse remuneration already paid or whose payment has already become an acquired right (clawback);

p) As further regards adjustments, the conditions and mechanisms referenced in paragraphs i), n) and o) above are especially taken into consideration, namely, the following situations pertaining to the beneficiary and detailed in the EC Performance Assessment Model: (i) action that resulted in significant losses for the Bank and approval (whether individual or within the structural unit of which the beneficiary is a part) of transactions or acts that have resulted in significant losses for the Bank; (ii) failure to comply with adequacy and integrity criteria, pursuant to the selection and assessment policy in force at any time; (iii) serious breach of the Bank's code of conduct or internal rules; (iv) false statements in the Bank's financial statements and/or materially relevant errors or omissions in the Bank's financial statements; (v) the Bank being subject to a penalty with a significant impact thereon to which the objective conduct of the beneficiary made a decisive contribution; (vi) significant deviation/depreciation in the evolution of the Bank's net position; (vii) serious failure in the Bank's or structural unit's control or risk management; (viii) failure to comply with capital and liquidity ratios and/or limits to the ability to reinforce its capital; for all the previously referenced situations, pursuant to the RE Performance Assessment Model;

q) The award of variable remuneration depends on the beneficiary's commitment to: (i) accepting the mechanisms referenced in paragraph o); and (ii) refraining from entering into agreements to hedge / transfer risk or for payment via special purpose vehicles or similar methods.

II. Conclusions

Pursuant to numbers 4 and 6 of article 115-C of the RGICSF and articles 7 and 14 of Notice 10/2011, the Bank's Remuneration Committee carried out the annual review of the Remuneration Policy described above and in particular of its implementation. It took into account that the policy was approved under the Bank's opening for business on 25 November 2015 and was amended on 22 July 2016, in the context of the approval of the EC Performance Assessment Model, on 4 April 2017, on 21 March 2018 and on 10 April 2019, in view of the know-how gained from the implementation experience, by way of a Selection and Salary Committee resolution. For this purpose, it consulted the Bank's control officers, who actively participated in developing the referenced assessment exercise, and submitted the assessment report and present statement to the Bank's Board of Directors, within its duties and for the purpose of obtaining approval of the Bank's General Meeting.

In turn, and pursuant to number 1 of article 2 of Law 28/2009 of 19 June and number 4 of article 115-C of the RGICSF, the Bank's Board of Directors submits the present statement on the remuneration policy of members of the Bank's management and supervisory bodies (also presented in the Bank's Corporate Governance Report) to the approval of the General Meeting."

2. Annual statement on the remuneration policy of relevant employees relative to 2019

I. Introduction

The present statement concerns the remuneration policy for the following Bank employees:

a) Bank employees that carry out executive duties and report directly (first line) to the Board of Directors and Executive Committee for day-to-day management, except for employees that fall under all of the remaining sub-paragraphs ("Senior Managers");

b) Bank employees responsible for taking-on risk ("Risk Takers");

c) Bank employees responsible for control duties or that carry out risk management duties ("Control Officers" or "Risk Officers");

d) Bank employees whose total remuneration places them in the same remuneration bracket as provided for the management or supervisory bodies or the categories referenced in paragraphs a) or b), as long as the respective professional activities have a material impact on the credit institution's risk profile ("Other Risk Takers");

In all cases, excluding employees under the multiple-employer arrangement. Hereinafter, all the categories listed above shall be jointly referred to as "Relevant Employees".

The process of identifying Relevant Employees will take place at least annually, with a view to ensuring the complete identification of all the Group's Relevant Employees, reflecting the risk levels of the different activities of the Bank and its subsidiaries. The Human Resources are responsible for coordinating the process of identifying Relevant Employees, in articulation with the Legal, Risk and Compliance Departments, with the latter two departments ensuring the supervision of the process. The document containing the list of Relevant Employees identified or excluded because their duties have been assessed as not having a significant impact on the Bank's risk profile, must be submitted by the Remuneration Committee, on a proposal from the Executive Committee (in turn, prepared on the basis of a proposal from Human Resources, in conjunction with the Legal, Risk and Compliance Departments) for prior appraisal by the Audit Committee and approval by the Board of Directors, taking into account their respective powers.

This statement concerns the remuneration policy approved by the Bank's General Meeting on 17 November 2015, following the Bank's special registration and was amended on 21 July 2016, on 22 March 2017, on 21 March 2018 and on 10 April 2019, by resolution of the Board of Directors, based on the proposal/recommendation of the Remuneration Committee. It should be noted that the control, human resources and legal officers participated in this last meeting, after appraisal by the Audit Committee under its respective powers. This policy is available on the Bank's website at www.bancoctt.pt.

II. General principles and components of the remuneration of Relevant Employees

Pursuant to the policy referred to above, Relevant Employees receive a fixed monthly remuneration paid out 14 times a year, under their individual employment contracts and the applicable labour regime. The fixed remuneration is established by the Board of Directors or Executive Committee to the extent of the delegation of powers, pursuant to a favourable Remuneration Committee proposal/recommendation.

The establishment of the referenced fixed remuneration should be a sufficiently high proportion of the total remuneration to make the application of the policy fully flexible as regards variable remuneration (including the possibility of its non-payment). Furthermore, it shall essentially take into account the relevant professional experience, organisational responsibility and nature of the employee's duties, as well as the size of the respective structural unit.

Senior Managers, Risk Takers and Other Risk Takers may receive variable remuneration, if a resolution in this regard is passed by the Board of Directors or the Executive Committee to the extent of their delegated powers. This resolution shall be proposed/recommended by the Remuneration Committee, namely in view of Banco CTT's sustainable performance, the performance of its structural unit and individual performance, as well as each employee's responsibilities and duties.

Risk Officers and Control Officers may receive variable remuneration, if a resolution in that regard is passed by the Board of Directors, pursuant to a Remuneration Committee proposal/recommendation. The possible awarding of this component shall comply with the following principles: (i) remuneration shall be mainly based on the fixed component; and (ii) the variable component shall be stipulated mainly depending on the individual attainment of specific goals associated with her/his duties and independently from the performance of the structural units under her/his control.

Relevant Employees responsible for assessing solvency, risk analysis and credit decision making ("Credit Decision Officers") may receive a variable remuneration component, if a resolution in that regard is passed by the Board of Directors or the Executive Committee to the extent of their delegated powers, and pursuant to a Remuneration Committee proposal/recommendation. Any allocation of this component may not depend, directly or indirectly, on quantitative targets relating to approved credit applications, concluded credit agreements or other indicators that may conflict with a process of prudent assessment of the solvency of consumers.

The variable remuneration in question is paid in cash. Nevertheless, until the full or partial payment of the variable remuneration and at the Bank's exclusive initiative, an alternative model may be implemented in this regard defined by the competent bodies, where half of that variable remuneration (including the deferred portion described below) can be paid in financial instruments and subject to a lock-up policy.

Relevant Employees may receive other benefits under the terms that may be approved by the Board of Directors or the Executive Committee to the extent of its delegated powers. For the financial year underway, those benefits, as regards first line Managers, entailed the use of a vehicle (including a fuel ceiling) and healthcare insurance.

III. Variable component of the remuneration of Relevant Employees

Pursuant to the approved remuneration policy, and notwithstanding the provisions of individual employment agreements and the applicable labour regime, any award of a variable remuneration component to Relevant Employees is subject to the principles and rules set out above for the variable remuneration of Executive Committee members, as well as the criteria, assumptions and limitations provided in the RE Performance Assessment Model approved for 2019 by the Board of Directors, following a favourable Remuneration Committee assessment, in consultation with the control, human resources and legal officers and the Audit Committee, under their respective powers, as briefly described below:

a) This component depends on a number of performance assessment criteria being met (of both a qualitative and quantitative nature, as well as financial and non-financial). These shall be analysed on an annual and multiannual basis, as set out in the RE Performance Assessment Model;

b) Also pursuant to the terms of the Remuneration Policy, the fixed remuneration component shall represent at least 50% of the total annual remuneration of each Relevant Employee (where this ratio, under the legal terms, can be revised to up to 100%, on an annual basis, for the following performance period, by the competent bodies) and the variable remuneration component shall not exceed, in each year, 100% of the annual fixed remuneration of each Relevant Employee (where this ratio, under the legal terms, can be revised to up to 200%, on an annual basis, for the following performance period, by the competent bodies);

c) In turn, the EC Performance Assessment Model provides for two distinct remuneration systems that depend on differentiated conditions and criteria (qualitative, quantitative and non-communicating) corresponding to "Corporate Performance VR" (based on quantitative criteria) with a 40% weight in the total annual variable remuneration and to "Individual Performance VR" with a 60% weight in the total annual variable remuneration (except in the case of the control officers and risk officer where these relative weights correspond, respectively, to 20% and 80%);

d) Notwithstanding these two separate remuneration systems, the awarding of variable remuneration under either of these systems is subject to the award eligibility conditions referred to above under the statement on the remuneration policy of members of the management and supervisory bodies;

e) In order to discourage excessive risk-taking and encourage alignment with the institution's interests, the awarding of variable remuneration under any of the referenced systems is subject, as defined in the RE Performance Assessment Model for 2018, to benchmark total targets (equivalent to 100% compliance with the Corporate KPIs, the Structural Unit KPIs and level 3 of the scale of assessment of Skills, under, respectively of the Corporate Performance VR and Individual Performance VR, as well as the maximum total targets (equivalent to 120% compliance with the Corporate KPIs, the Structural Unit KPIs and level 5 of the scale of assessment of Skills, under, respectively of the Corporate Performance VR and Individual Performance VR), notwithstanding its award depending on various levels of attainment of the performance criteria and assessment levels established therein: (i) in relation to the control officers and risk officers, variable remuneration shall not exceed 15% and 22.5% of annual basic remuneration in the event of achievement of the benchmark total target and maximum total target respectively; and (ii) in relation to all other Relevant Employees, variable remuneration shall not exceed 20% and 30% of annual basic remuneration in the event of achievement of the benchmark total target and maximum total target respectively;

f) The award of Corporate Performance VR depends on and its amount is calculated according to the weighted average of attainment of the Corporate KPIs referred to above under the statement on the remuneration policy of the members of the management and supervisory bodies (and for the Credit Decision Officers, the weight of the KPI regarding the contracted volume of mortgage loans is distributed in percentage terms among the remaining Corporate KPIs);

g) The award of Individual Performance VR depends on and the respective amount is calculated based on the weighted average of the assessment (a) of a number of quantitative performance indicators/goals of the structural unit of which the employee is a part ("Structural Unit KPIs"), weighted 30% in the total Individual Performance VR (except for Control Officers e Risk Officers, where the relative weight is 40%) and (b) a number of skills (related to qualitative performance criteria) of each employee ("Skills") weighted 30% in total Individual Performance VR, mainly regarding leadership and resilience, collaboration, focus on results, focus on clients and a culture of control, as further detailed in the referenced RE Performance Assessment Model and pursuant to the considerations set out therein for Relevant Employees who are commercial officers and other officers;

h) The determination of variable remuneration also considers adjustment mechanisms that may limit its award and payment on a multi-annual basis (namely, taking into consideration the types of risk exposure, the cost of capital and the institution's liquidity needs and sustainability, given the financial situation), as detailed in the RE Performance Assessment Model;

i) Therefore and in line with the remuneration policy, the annual and multi-annual assessment for 2019 under the RE Performance Assessment Model takes into account (i) the institution's performance (in a manner fitting its long-term risk profile and aligned with the business plan, financial model and budget), (ii) the performance of the structural unit of which the beneficiary is part and (iii) the beneficiary's individual performance in light of her/his goals, in order to promote the institution's sustainability, the creation of long-term value and the beneficiary's surpassing what is required of her/him;

j) The calculation of Corporate Performance VR and Individual Performance VR under the mentioned model is (i) as regards variable remuneration to be awarded to control officers and risk officers, carried out by the Remuneration Committee (starting with operational reporting assessment) under a proposal put to the approval of the Board of Directors and (ii) as regards all other Relevant Employees, subject to an Executive Committee resolution (starting with an assessment by the Director responsible for this area), subject to a favourable opinion/recommendation of the Remuneration Committee;

k) Corporate Performance VR and Individual Performance VR are awarded within 60 days as of the General Meeting that approves the 2019 accounts, notwithstanding the applicable adjustment and deferral rules;

l) The payment of half of the awarded variable remuneration (whether Corporate Performance VR or Individual Performance VR) is made within 60 days counted from the resolution to approve and award it referred to in paragraphs j) and k). In order to align the variable component with the institution's long-term performance, the remaining amount is deferred over a minimum of three years as of the payment date of the non-deferred portion of the Corporate Performance VR and Individual Performance VR;

m) The right to payment of the deferred portion is acquired proportionally throughout the deferral period and is conditional on the Bank's sustainable financial situation and the positive assessment of its beneficiary's performance, in both cases following the RE Performance Assessment Model;

n) The variable remuneration is therefore subject, to the extent applicable by law and regulation and pursuant to the referenced model, to mechanisms that may totally or partially reduce the awarded and deferred component, whose payment is not yet an acquired right (malus) and which may reverse remuneration already paid or whose payment has already become an acquired right (clawback);

o) As further regards adjustments, the conditions and mechanisms referenced in paragraphs h), m) and n) above are especially taken into consideration, namely, the following situations pertaining to the beneficiary and detailed in the RE Performance Assessment Model: (i) action that resulted in significant losses for the Bank and approval (whether individual or within the structural unit of which the beneficiary is a part) of transactions or acts that have resulted in significant losses for the Bank; (ii) as applicable, failure to comply with adequacy and integrity criteria, pursuant to the selection and assessment policy in force at any time; (iii) serious breach of the Bank's code of conduct or internal rules; (iv) false statements in the Bank's financial statements and/or materially relevant errors or omissions in the Bank's financial statements; (v) the Bank being subject to a penalty with a significant impact thereon to which the objective conduct of the beneficiary made a decisive contribution; (vi) significant deviation/depreciation in the evolution of the Bank's net position; (vii) serious failure in the Bank's or structural unit's control or risk management; (viii) failure to comply with capital and liquidity ratios and/or limits to the ability to reinforce its capital; for all the previously referenced situations, pursuant to the RE Performance Assessment Model;

p) The award of variable remuneration depends, to the extent applicable by law and regulation (in particular considering mandatory labour provisions), on the beneficiary: (i) accepting the mechanisms referred to in paragraph n); and (ii) refraining from entering into agreements to hedge / transfer risk or for payment via special purpose vehicles or similar methods.

IV. Conclusions

Pursuant to numbers 5 and 6 of article 115-C of the RGICSF and articles 7 and 14 of Notice 10/2011, the Bank's Remuneration Committee carried out the annual review of the remuneration policy for the Relevant Employees and in particular its implementation. It took into account that the policy was approved under the Bank's opening for business on 17 November 2015, amended on 21 July 2016, in the context of the approval of the RE Performance Assessment Model, on 22 March 2017, on 21 March 2018 and on 10 April 2019, in view of the know-how gained from the implementation experience, by resolution of the Board of Directors. For this purpose, it consulted the Bank's control officers, who actively participated in developing the referenced assessment exercise, and submitted the assessment report and present statement to the Bank's Board of Directors, under its powers.

IV. Disclosure of remuneration

The following table shows the aggregate and individual gross amounts of remuneration payable, with reference to the period from 1 January 2019 to 31 December 2019, to Board of Directors and Audit Committee members. During 2019:

- The Chairman of the Board of Directors Francisco José Queiroz de Barros de Lacerda ceased functions on 30 June 2019;
- The Non-Executive Member of the Board of Directors and Chairman of the Audit Committee José Manuel Gonçalves de Morais Cabral ceased functions on 13 September 2019;
- The Non-Executive Member of the Board of Directors and Audit Committee Rui Afonso Galvão Mexia de Almeida Fernandes ceased functions on 13 September 2019.

Remuneration of the non-executive members of the Board of Directors and Audit Committee

(amounts in euros)

Members	Position	Fixed Remuneration (1)
João Manuel de Matos Loureiro	Non-Executive Director and Chairman of the Audit Committee (since 13.09.2019)	27,000.01
Clementina Maria Dâmaso de Jesus Silva Barroso	Non-Executive Director, Member of the Audit Committee and Member of the Remuneration Committee	62,214.26
Susana Maria Morgado Gomez Smith	Non-Executive Director, Member of the Audit Committee and Member of the Remuneration Committee (since13.09.2019)	19,500.02
José Manuel Gonçalves de Morais Cabral	Non-Executive Director, Chairman of the Audit Committee and Member of the Remuneration Committee (up to 13.09.2019)	49,180.37
Rui Afonso Galvão Mexia de Almeida Fernandes	Non-Executive Director, Member of the Audit Committee and Member of the Remuneration Committee (since 13.09.2019)	42,154.54
Total of the Audit Committee	**200,049.20**	**200,049.20**
João de Almada Moreira Rato	Chairman of the Board of Directors and of the Remuneration Committee (since 13.09.2019)	37,500.01
António Pedro Ferreira Vaz da Silva	Non-Executive Director	No remuneration paid by the Bank
António Emídio Corrêa d'Oliveira	Non-Executive Director	43,476.16
Guy Patrick Guimarães de Goyri Pacheco	Non-Executive Director	No remuneration paid by the Bank
Francisco José Queiroz de Barros de Lacerda	Chairman of the Board of Directors and of the Remuneration Committee (up to 30.06.2019)	No remuneration paid by the Bank
Total of the Remuneration of the Non-Executive Directors who are not part of the Audit Committee	**80,976.17**	**80,976.17**
Total Non-Executive Directors	**281,025.37**	**281,025:37**

(1) Amount of fixed remuneration of the Non-Executive Directors and members of the Audit Committee, who do not earn any variable remuneration in accordance with the Remuneration Policy in force as at 31 December 2019.

Remuneration of Executive Committee members in 2019

(amounts in euros)

Members	Position	Fixed Remuneration (1)	Variable Remuneration paid in 2019 (2)	Deferred Variable Remuneration payable in 2020 (2)	Deferred Variable Remuneration payable in 2021 (2)	Deferred Variable Remuneration payable in 2022 (2)	Total Variable Remuneration awarded in 2019 (2)	Total Fixed Remuneration 2019 and Variable 2018 paid in 2019	Total Remuneration awarded in 2019
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	399,195.92	53,550.00	17,850.00	17,850.00	17,850.00	107,100.00	452,745.92	506,295.92
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CCO)	216,811.08	39,028.50	13,009.50	13,009.50	13,009.50	78,057.00	255,839.58	294,868.08
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	217,426.20	39,028.50	13,009.50	13,009.50	13,009.50	78,057.00	256,454.70	295,483.20
Nuno Carlos Dias dos Santos Fórneas	Member of the Executive Committee (COO) since 13.09.2019	61,245.66	-	-	-	-	-	61,245.66	61,245.66
Luís Miguel Agoas Correia Amado	Member of the Executive Committee (COO) up to 13.09.2019	122,444.18	17,992.80	5,997.60	5,997.60	5,997.60	35,985.60	140,436.98	158,429.78
Total of the Executive Committee		**1.017,123.04**	**149,599.80**	**49,866.60**	**49,866.60**	**49,866.60**	**299,199.60**	**1,166,722.84**	**1,136,322.64**

(1) Includes fixed basic remuneration, amount for annual meal allowance and, when applicable, the fixed amount paid monthly for allocation to a Retirement Savings Plan (PPR), health insurance, life insurance and personal accident insurance (including travel) and amount of payment in kind relative to permanent vehicle use.
(2) Variable Remuneration relative to 2018.

Variable Remuneration of Executive Committee members relative to 2016

(amounts in euros)

Members	Position	Variable Remuneration paid in 2017	Deferred Variable Remuneration paid in 2018	Deferred Variable Remuneration paid in 2019	Deferred Variable Remuneration payable in 2020	Total Variable Remuneration
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	77,350	25,783	25,783	25,783	154,700
Luís Miguel Agoas Correia Amado	Member of the Executive Committee (COO)	20,257	6,752	6,752	6,752	40,513
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CMO)	31,333	10,444	10,444	10,444	62,666
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	14,670	4,890	4,890	4,890	29,339
Total of the Executive Committee		**143,610**	**47,869**	**47,869**	**47,869**	**287,218**

Variable Remuneration of Executive Committee members relative to 2017

(amounts in euros)

Members	Position	Variable Remuneration paid in 2018	Deferred Variable Remuneration paid in 2019	Deferred Variable Remuneration payable in 2020	Deferred Variable Remuneration payable in 2021	Total Variable Remuneration
Luís Maria França de Castro Pereira Coutinho	Chairman of the Executive Committee (CEO)	47,513	15,838	15,838	15,838	95,027
Luís Miguel Agoas Correia Amado	Member of the Executive Committee (COO)	23,020	7,673	7,673	7,673	46,039
João Maria Magalhães Barros Mello Franco	Member of the Executive Committee (CMO)	30,980	10,327	10,327	10,327	61,961
Pedro Rui Fontela Coimbra	Member of the Executive Committee (CFO)	30,980	10,327	10,327	10,327	61,961
Total of the Executive Committee		**132,493**	**44,165**	**44,165**	**44,165**	**264,988**

In 2019 there is no deferred remuneration subject to reduction as a result of adjustments made according to the individual performance of Executive Committee members.

No compensation was paid or became payable to members of the Bank's Executive Committee related to the termination of their office during the financial year of 2019.

Remuneration of Relevant Employees

The gross remuneration payable to Relevant Employees, with reference to the period from 1 January 2019 to 31 December 2019, as defined in the Remuneration Policy in force on 31 December 2019 (corresponding to 19 Relevant Employees of the Bank, one of whom ceased functions and another was elected a member of the Board of Directors in 2019), amounted, in aggregate terms, to € 1,884,461.00. The distribution of this remuneration was as follows:

Remuneration of Relevant Employees in 2019

(amounts in euros)

Relevant Employees [1]	Fixed Remuneration [2]	Variable Remuneration paid in 2019 [3]	Deferred Variable Remuneration payable in 2020 [3]	Deferred Variable Remuneration payable in 2021 [3]	Deferred Variable Remuneration payable in 2022 [3]	Total Variable Remuneration awarded in 2019 [3]	Total Fixed Remuneration 2019 and Variable 2018 paid in 2019	Total Remuneration awarded in 2019
A – Risk-Taking Officers and Control Officers (3 employees)	255,299	20,210	6,737	6,737	6,737	40,419	275,509	295,719
B – Other Senior Management Employees (16 employees)(a)	1,372,702	108,020	36,007	36,007	36,007	216,040	1,480,722	1,588,742
Total Relevant Employees	**1,628,002**	**128,230**	**42,743**	**42 ,743**	**42,743**	**256,459**	**1,756 231**	**1,884,461**

(a) Includes one Relevant Employee who ceased functions in November 2019 and one Relevant Employee who was elected a member of the Board of Directors
(1) For the purpose of defining Relevant Employees, the employees identified under the "process of identification of Relevant Employees" set out in the Remuneration Policy were considered.
(2) Includes fixed basic remuneration relative to the annual meal allowance and, when applicable, amount of payment in kind derived from permanent vehicle use, and health insurance from the appointment date.
(3) Variable Remuneration relative to 2018

Variable Remuneration of Relevant Employees relative to 2016

(amounts in euros)

Relevant Employees [1]	Variable Remuneration paid in 2017	Deferred Variable Remuneration paid in 2018	Deferred Variable Remuneration paid in 2019	Deferred Variable Remuneration payable in 2020	Total Variable Remuneration
A – Risk-Taking Officers and Control Officers (3 employees)	18,693	6,231	6,231	6,231	37,386
B – Other Senior Management Employees (13 employees (a))	80,214	26,738	26,738	26,738	160,428
Total Relevant Employees	**98,907**	**32,969**	**32,969**	**32,969**	**197,814**

(a) Includes 2 Relevant Employees who ceased functions in June 2017 and February 2018.
1) The definition of Relevant Employees considered employees appointed by the Bank's competent corporate bodies to perform the duties in question

Variable Remuneration of Relevant Employees relative to 2017

(amounts in euros)

Relevant Employees [1]	Variable Remuneration paid in 2018	Deferred Variable Remuneration paid in 2019	Deferred Variable Remuneration payable in 2020	Deferred Variable Remuneration payable in 2021	Total Variable Remuneration
A – Risk-Taking Officers and Control Officers (3 employees)	21,631	7,210	7,210	7,210	43,261
B - Other Relevant Employees (13 employees)	99,417	33,139	33,139	33,139	198,834
Total Relevant Employees	**121,048**	**40,349**	**40,349**	**40,349**	**242,096**

(1) The definition of Relevant Employees considered employees appointed by the Bank's competent corporate bodies to perform the duties in question.

In 2019 there is no deferred remuneration subject to reduction as a result of adjustments made according to the individual performance of Relevant Employees.

In 2019 there were no payments due to early termination of employment contract relative to Relevant Employees.

V. Agreements affecting remuneration

According to the Remuneration Policy, the award of variable remuneration to executive members of the Board of Directors and to Relevant Employees depends on prior written commitment by its beneficiary that this person will refrain from entering into risk hedging or risk transfer agreements in relation to any deferred portion that may minimise the risk alignment effects inherent to the framework that applies to the referenced remuneration component or through the payment of the variable remuneration component through special purpose vehicles or other similar methods.

VI. Share allocation or stock option plans

Also according to the Remuneration Policy, namely defined in terms of the nature, scope and complexity of the Bank's activity, the variable remuneration of executive members of the Board of Directors and of Relevant Employees will be paid in cash. Notwithstanding, at the Bank's exclusive initiative and until partial or full payment of the variable remuneration, an alternative model may therefore be implemented as defined by the competent bodies, where half of that variable remuneration (including the deferred portion) shall be paid in financial instruments subject to a lock-up policy.

E. Transactions with Related Parties

a) Control mechanisms and procedures

According to the Conflicts of Interest and Related Parties Policy, the Executive Committee and/or the Board of Directors submits to the appreciation of the Audit Committee any transaction with a related party (understood as (i) the holders of qualified shareholdings, (ii) members of the corporate bodies and of the structure bodies; (iii) third parties related to any of these through relevant "commercial or personal interests" (pursuant to the terms in IAS 24) and also (iv) subsidiaries, associated companies and joint ventures). The Audit Committee's assessment is carried out at two levels:

(i) Prior opinion on:

a) Significant Transactions (any Transaction with a Related Party of a value above 200,000 euros relative to a single business or to a series of business deals conducted in each economic year), except for transactions carried out between Banco CTT and subsidiaries whose capital is 100% directly or indirectly held by CTT;

b) Transactions to be entered into with members of the management bodies of Banco CTT or with relevant third parties (defined as the spouse or person living with him/her in a de facto union, relatives or kin in the 1st degree, or companies or other collective entities that one or the other directly or indirectly controls), regardless of their value, under the terms and for the purposes of Articles 397 and 423-H of the Commercial Companies Code.

(II) Subsequent appraisal: applicable to all "Transactions with Related Parties" that are not subject to a prior opinion.

The Executive Committee and/or the Board of Directors shall also submit in advance the Transactions to be entered into with the members of the management body of Banco CTT or with Relevant Third Parties, pursuant to articles 397 and 423-H of the Commercial Companies Code.

Also pursuant to these legal rules and without prejudice to the application of the other provisions of this Policy, transactions included in the Company's own business and in which no special advantage is granted to the director or person involved (as stated in the grounds presented when the decision was taken) are exempt from this provision.

In this context, the main terms and conditions, the objectives and opportunity of the business, the amount of the transaction, the contracting process, respect for the interests of the Bank, market conditions and the rules in force and other mechanisms for preventing and correcting conflicts of interest are appraised.

b) Business information

Relevant business transactions with related parties are described in Note 30 (Related party transactions), attached to the consolidated financial statements in the Annual Report.

Annex I

Curricula of the Management and Supervisory Body Members

João de Almada Moreira Rato

Presidente do Conselho de Administração

Data de nascimento: 29 de setembro de 1971, Portugal
Data da 1ª designação: 13 de setembro de 2019
Mandato: 2019 / 2021

João de Almada Moreira Rato

Chairman of the Board of Directors

Date of birth: 29 September 1971, Portugal
Date of 1st appointment: 13 September 2019
Term of office: 2019 / 2021

Education

- **1995 - 2000**: PhD in Economics (specialising in financial subjects and economic mathematics), University of Chicago (USA)
- **1989 - 1993**: Degree in Economics, Nova School of Business and Economics

Internal management and supervisory positions

- **2019 - ...:** Non-executive chairman of the Board of Directors of Banco CTT, S.A.

Other internal positions

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Professional experience

For over 20 years, he has held positions in the financial sector, including several positions in Portugal and abroad in the areas of investment banking, capital markets, public debt management, commercial banking and financial sector advisory.

He also works as a lecturer, both in Portugal and abroad, with a special focus on the financial and economic areas, and has given specialised training, especially in the areas of economics, corporate finance, financial derivatives, financial management for sovereigns and portfolio management, along this career path.

Management and supervisory positions in other companies (last 5 years)

- **2018 - 2020**: Non-executive member of the Board of Directors of Omtel, Estruturas de Comunicações, S.A.

Other external positions

- **2016 - ...:** External Consultant / Expert at Oliver Wyman (United Kingdom and Dubai)
- **2016 - ...:** Research Associate at the Systemic Risk Centre of the London School of Economics
- **2015 - ...:** Senior Advisor at Morgan Stanley (United Kingdom) and Executive Director between 2010 and 2012
- **2015 - 2016**: Senior Advisor at Incus Capital Advisors (Spain)
- **2014 - ...:** Guest Associate Professor at Nova School of Business and Economics, Nova Law School and Nova Information Management School
- **2014**: Member of the Board of Directors and Executive Committee (Chief Financial Officer) at Novo Banco, S.A.
- **July 2014**: Member of the Board of Directors and Executive Committee (Chief Financial Officer) at Banco Espírito Santo, S.A.
- **2012 - 2014**: Chairman of the Board of Directors of IGCP (Portuguese Treasury and Public Debt Management Agency)
- **2008 - 2010**: Partner in Nau Capital, head of risk and operational areas (United Kingdom)
- **2003 - 2008**: Executive Director at Lehman Brothers (United Kingdom)
- **2000 - 2003**: Associate at Goldman Sachs (United Kingdom)
- **1999**: Lecturer at the College and Teaching Assistant on the PhD programme of the University of Chicago (USA) between 1996 and 1997.
- **1997 - 1998**: Associate at Banco Bozano (Brazil)

Luís Maria França de Castro Pereira Coutinho

CEO, Chairman of the Executive Committee

Date of birth: 02 March 1962, Portugal
Date of 1st appointment: 24 August 2015 (1)
Term of office: 2019 / 2021

Education

- **2015 - 2016**: Training Programme for Senior Managers of Banco CTT, S.A., Institute of Bank Management
- **2001 - 2002**: Senior Business Management Programme, AESE Business School
- **1979 - 1984**: Degree in Economics, Universidade Católica Portuguesa

Internal management and supervisory positions

- **2015 - ...**: Member of the Board of Directors and Chairman of the Executive Committee (CEO) of Banco CTT, S.A.

Other internal positions

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Professional experience

For more than 30 years he has performed functions in various areas in the banking sector in Portugal. He has also performed executive functions of leadership and strategy in international operations, namely in Bank Millennium SA (Poland), as well as non-executive functions in several operations of the Banco Comercial Português, S.A. universe. (Greece, Romania, Turkey, United States of America and Switzerland)
In Portugal, in the years before moving to Banco CTT, he performed executive management functions at Banco Comercial Português, S. A., in the areas of private and corporate banking, and digital banking at ActivoBank, S.A.

Management and supervisory positions in other companies (last 5 years)

- **2012 - 2015**: Member of the Board of Directors and of the Executive Committee of Banco Comercial Português, S.A.
- **2012 - 2015**: Chairman of the Board of Directors of Banco ActivoBank, S.A.
- **2014 - 2015**: Member of the Board of Directors of Pensões Gere – Sociedade Gestora de Fundos de Pensões, S.A.
- **2014 - 2015**: Member of the Board of Directors of Millennium BCP Ageas, Grupo Segurador, SGPS, S.A.
- **2014 - 2015**: Member of the Board of Directors of Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.
- **2014 - 2015**: Chairman of the Board of Directors of BCP Capital - Sociedade de Capital de Risco, S.A.
- **2009 - 2015**: Member of the Supervisory Board of Bank Millennium, S.A. (Poland)
- **2008 - 2015**: Chairman of the Board of Directors of Banca Millennium, S.A. (Romania)

Other external positions (last 20 years)

- **2017 - ...**: Chairman of the Supervisory Board of the Portuguese Banking Association in representation of Banco CTT, S.A.
- **2011 - 2013**: Member of the Board of Directors of Millennium Bank, S.A. (Greece)
- **2008 - 2013**: Chairman of the Board of Directors of Banque Privée BCP (Suisse), S.A.
- **2008 - 2012**: Member of the Executive Board of Directors of Banco Comercial Português, S.A.
- **2008 - 2012**: Member of the Board of Directors of the Millennium BCP Foundation
- **2010 - 2011**: Chairman of the Board of Directors of Millennium Bank, S.A. (Greece)
- **2003 - 2009**: Vice-Chairman of the Executive Board of Directors of Bank Millennium, S.A. (Poland)
- **2008 - 2010**: Vice-Chairman of the Board of Directors of Millennium Bank, S.A. (Greece)
- **2008 - 2010**: Chairman of the Board of Directors of BCP Holdings (USA) INC.
- **2008 - 2009**: Member of the Board of Directors of Banco ActivoBank, S.A.
- **2008 - 2009**: Member of the Board of Directors of Millennium BCP – Prestação de Serviços, ACE
- **2003 - 2009**: Member of the Supervisory Board of Millennium Lease Sp Zoo (Poland)
- **2003 - 2009**: Member of the Supervisory Board of Millennium Dom Maklerski, S.A. (Poland)
- **2003 - 2009**: Member of the Supervisory Board of Millennium Leasing Sp Zoo (Poland)
- **1995 - 2000**: Member of the Executive Committee (Vice-Chairman of the Executive Committee since 1998) and member of the Board of Directors of Banco Mello S.A.

(1) Date of appointment after the incorporation of Banco CTT, S.A.

João Maria de Magalhães Barros de Mello Franco

CCO, Executive Director

Date of birth: 03 March 1972, Portugal
Date of 1st appointment: 14 January 2016
Term of office: 2019 / 2021

Education

- **1998**: Master in Business Administration (MBA), INSEAD (France)
- **1990 - 1995**: Degree in Economics, Universidade Católica Portuguesa

Internal management and supervisory positions

- **2019 - ...**: Member of the Board of Directors of 321 Crédito, Sociedade Financeira de Crédito, S.A.
- **2018 - ...**: Chairman of the Board of Directors of Payshop (Portugal) S.A.
- **2016 - ...**: Member of the Board of Directors and of the Executive Committee (CCO) of Banco CTT, S.A.

Other internal positions

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Professional experience

For more than 20 years, he has held positions in marketing, products and channels in the banking sector, namely coordinating consulting projects in this sector for 8 years (1995-2003 at McKinsey & Company); as a senior officer at Banco Espírito Santo, S.A. and Novobanco, S.A. for 12 years, focusing on the retail market, namely marketing, product, digital and face-to-face channels and innovation and participation in committees responsible mainly for product and risk areas. He has also held management duties in credit institutions, including as Chief Marketing Officer and Chief Risk Officer at Novo Banco, S.A.

Management and supervisory positions in other companies (last 5 years)

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Other external positions

- **2014:** Member of the Board of Directors and of the Executive Committee of Novobanco, S.A. (Chief Marketing Officer and Chief Risk Officer)
- **2008 - 2014:** Non-Executive Director of the Board of Directors of Novo Banco dos Açores, S.A.
- **2014 - 2015**: General Manager of Retail Banking and Remote Channels at Novobanco, S.A.
- **2013 - 2014**: Coordinating Manager of the Department of Marketing, Innovation and Channels at Banco Espírito Santo, S.A.
- **2007 - 2012**: Coordinating Manager of the Department of Marketing for Retail and Business Clients at Banco Espírito Santo, S.A.
- **2003 - 2006**: Coordinating Manager of the Department of Strategic Marketing at Banco Espírito Santo, S.A.
- **1995 - 2003**: Associate Partner at Mckinsey & Company

Pedro Rui Fontela Coimbra

CFO, Executive Director

Date of birth: 11 June 1974, Portugal
Date of 1st appointment: 04 August 2016
Term of office: 2019 / 2021

Education

- **2017**: Compliance Risk Management by Euromoney (United Kingdom)
- **2006**: Master in Business Administration (MBA), INSEAD (France)
- **2001 - 2003**: Chartered Financial Analyst (CFA) by CFA Institute
- **1992 - 1997**: Degree in Business Administration and Management, Universidade Católica Portuguesa

Internal management and supervisory positions

- **2019 - ...:** Member of the Board of Directors of 321 Crédito, Sociedade Financeira de Crédito, S.A.
- **2018 - ...:** Member of the Board of Directors of Payshop (Portugal) S.A.
- **2016 - ...:** Member of the Board of Directors and of the Executive Committee (CFO) of Banco CTT, S.A.

Other internal positions

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Professional experience

For over 20 years he has held positions essentially in the banking sector, more specifically in the finance area, as a financial analyst conducting institutional research in the banking sector, as well as positions involving the management of corporate projects related to mergers and acquisitions, asset valuation and share capital increases, at Millennium BCP. Also in that Group, he carried out duties as member of the Board of Directors and Executive Committee (CFO) at Banco Millennium BCP Angola. He was also Corporate Banking Manager of the Portuguese Branch of Barclays Bank. More recently he was a member of the Board of Directors and of the Executive Committee (CFO) at Global Media Group, S.A. with responsibilities in the financial and administrative area, planning and management of assets at the level of the Group and its subsidiaries.

Management and supervisory positions in other companies (last 5 years)

- **2015 - 2016**: Manager of Notícias Direct - Distribuição ao Domicílio, Lda.
- **2015 - 2016**: Manager of Empresa Gráfica Funchalense, Lda.
- **2015 - 2016**: Manager of Urcaldas - Empreendimentos Urbanísticos, Lda
- **2014 - 2016**: Member of the Board of Directors and of the Executive Committee (Chief Financial Officer) of Global Notícias – Media Group, S.A.
- **2014 - 2016**: Member of the Board of Directors of Global Notícias Publicações, S.A.
- **2014 - 2016**: Member of the Board of Directors of Global Notícias - Agência de Informação e Imagens, S.A.
- **2014 - 2016**: Member of the Board of Directors of Rádio Notícias – Produção e Publicidade S.A.
- **2014 - 2016**: Manager of RJN - Rádio Jornal do Norte, Lda.
- **2014 - 2016**: Manager of TSF - Rádio Jornal de Lisboa, Lda.
- **2014 - 2016**: Manager of Difusão de Ideias – Sociedade de Radiodifusão, Lda.
- **2014 - 2016**: Member of the Board of Directors of TSF - Cooperativa Rádio Jornal do Algarve, CRL
- **2014 - 2016**: Member of the Board of Directors of Naveprinter – Indústria Gráfica do Norte, S.A.
- **2014 - 2016**: Member of the Board of Directors of Açormédia - Comunicação Multimédia e Edição de Publicações, S.A.
- **2014 - 2016**: Manager of Jornal do Fundão Editora, Lda.

Other external positions

- **2011 - 2014**: Corporate Banking Manager of the Portuguese Branch of Barclays Bank
- **2009 - 2011**: Member of the Board of Directors and Executive Committee (CFO) at Banco Millennium,..
- **2007 - 2009**: Director at the Corporate Centre at Banco Millennium BCP
- **2003 – 2005**: Director responsible for Structured Products at BCP Investimento - Banco Comercial Português Investimento, S.A. (later designated Millennium BCP Investimento)

Nuno Carlos Dias dos Santos Fórneas

COO, Executive Director

Date of birth: 24 February 1967, Portugal
Date of 1st appointment: 13 September 2019
Term of office: 2019 / 2021

Education

- **1994 - 1995**: Master in Business Administration (MBA), Institute of Economics and Management of Universidade Técnica de Lisboa
- **1984 - 1989**: Degree in Electrical and Computer Engineering, Instituto Superior Técnico, Universidade Técnica de Lisboa

Internal management and supervisory positions

- **2019 - ...:** Member of the Board of Directors and of the Executive Committee (COO) of Banco CTT, S.A.

Other internal positions

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Professional experience

For over 30 years, he has developed his professional career in the areas of systems engineering, process and systems consulting and the development of solutions and information technologies (particularly in the financial sector, in Portugal and abroad, with emphasis on Spain and the United Kingdom).
The technical and management skills developed, as well as the professional experience of more than 17 years in executive management positions, with emphasis on the positions held in the Novabase and Glintt Groups, are also noteworthy.

Management and supervisory positions in other companies (last 5 years)

- **2018:** Head of the Advanced Analytics Competence Center at the National Association of Pharmacies (ANF)
- **2017 – 2018**: Member of the Board of Directors and of the Executive Committee at Glintt – Global Intelligent Technologies, S.A.
- **2017 - 2018**: Member of the Board of Directors of Glintt UK, Limited
- **2017 - 2018**: Member of the Board of Directors of Glintt Ireland Solutions, Limited
- **2016 - 2018**: Member of the Management Board of Glintt - Business Solutions, Lda.
- **2016 - 2018**: Member of the Board of Directors of Glintt – Healthcare Solutions, S.A.
- **2014 - 2016**: Manager of Livian Techonoloies, Lda
- **2012 - 2016**: Manager at Binómio - Máquinas e Sistemas de Informação, Lda.
- **2003 - 2016**: Member of the Board of Directors of NOVABASE Business Solutions, S.A. (formerly Novabase Consulting S.A.)
- **2009 - 2015**: Member of the Board of Directors of Novabase SGPS, S.A.
- **2009 - 2015**: Member of the Board of Directors and of the Executive Committee of Novabase Serviços – Serviços de Gestão e Consultoria, S.A.
- **2009 - 2015**: Non-executive member of the Board of Directors of NOVABASE Infraestruturas SGPS, S.A.
- **2009 - 2015**: Member of the Board of Directors of NOVABASE Infraestructuras e Integración de Sistemas, S.A.

Other external positions

- **2012 – 2013**: Member of the Board of Directors of NOVABASE Consulting, SA (Spain)

João Manuel de Matos Loureiro

Non-Executive Director, Chairman of the Audit Committee

Date of birth: 04 October 1959, Portugal
Date of 1st appointment: 13 September 2019
Term of office: 2019 / 2021

Education

- **2017 – 2018**: Specialised training: Corporate Governance Program, AESE Business School
- **1987 - 1992**: PhD in Economics, specialising in International Macroeconomics and Finance, School of Economics and Commercial Law, University of Gothenburg, Sweden
- **1978 - 1983**: Licentiate degree in Economics, Faculty of Economics, Universidade do Porto

Internal management and supervisory positions

- **2019 - ...**: Member of the Board of Directors and Chairman of the Audit Committee of Banco CTT, S.A.

Other internal positions

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Professional experience

In the last 35 years, he has been a teacher in the area of Economics, namely in programmes and curricular units of macroeconomics and finance at the Faculty of Economics of Universidade do Porto and in more specialised programmes for executives at Porto Business School. As an author he has published several works in those fields.

In parallel with his academic career he has maintained another professional activity, namely in the banking sector. In the last 10 years, he has held non-executive management and supervisory positions at BCP bank, where he was Chairman of the Audit Committee (previously Financial Matters Committee) between 2009 and 2018. In the BCP Group he also performed supervisory functions in subsidiaries.

Management and supervisory positions in other companies (last 5 years)

- **2008 - ...**: Lecturer and held academic/university management positions at Porto Business School
- **1983 - ...**: Lecturer and held academic/university management positions at the Faculty of Economics, Universidade do Porto
- **2012 - 2018**: Member of the Board of Directors and Chairman of the Audit Committee of Banco Comercial Português, S.A.

Other external positions

- **2012**: Member of the Board of Directors of the Millenniumbcp Foundation
- **2010 - 2012**: Chairman of the Audit Board of Banco BII - Banco de Investimento Imobiliário, S.A.
- **2009 - 2012**: Chairman of the Supervisory Board of Banco ActivoBank, S.A.
- **2009 - 2012**: Member of the General and Supervisory Board and Chairman of the Financial Matters Committee of Banco Comercial Português, S.A.

Clementina Maria Dâmaso de Jesus Silva Barroso

Non-Executive Director and member of the Audit Committee

Date of birth: 10 May 1958, Angola
Date of 1st appointment: 24 August 2015(1)
Term of office: 2019 / 2021

Education

- **2017**: The Internal Control Functions - Risk Management System, Banking Training Institute
- **2015 - 2016**: Training Programme for Senior Managers of Banco CTT, S.A., Instituto Superior de Gestão Bancária and Portuguese Banking Association
- **2015**: PhD in Applied Business Management, ISCTE - Instituto Universitário de Lisboa
- **1984 - 1985**: Master's in Business Organisation and Management (attendance of lectures), ISEG - Lisboa School of Economics & Management
- **1976 - 1981**: Degree in Business Organisation and Management, ISCTE - Instituto Universitário de Lisboa

Internal management and supervisory positions

- **2015 - ...**: Member of the Board of Directors and of the Audit Committee of Banco CTT, S.A.

Other internal positions

- **2015 - ...**: Member of the Remuneration Committee (within the Board of Directors) of Banco CTT, S.A.

Professional experience

For 35 years, she has held academic positions, namely in the fields of management, financial management, marketing, finance and accounting, risk management, human resource management and remuneration practices. Associate Guest Professor at ISCTE - Instituto Universitário de Lisboa since 1982. She has performed duties as a statutory auditor (Chartered Accountant number 734 since 1990) and has carried out supervisory duties in financial sector companies.

Management and supervisory positions in other companies (last 5 years)

- **2018 - ...**: Member of the General and Supervisory Board and of the Financial Matters Committee of EDP – Energias de Portugal, S.A.
- **2016 - 2019:** Non-executive member of the Board of Directors and Chairman of the Audit Committee of Fundbox, Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.
- **2012 - 2016**: Non-executive member of the Board of Directors and member of the Audit Committee of Fundbox, Sociedade Gestora de Fundos de Investimento Imobiliário, S.A.
- **2011 - 2016**: Non-executive member of the Board of Directors and of the Audit Committee of Fundbox, Sociedade Gestora de Fundos de Investimento Mobiliário, S.A.

Other external positions

- **2016 - ...**: Member of the Board of IPCG – Instituto Português de Corporate Governance
- **2014 - ...**: Chairman of the Board of the General Meeting of Science4you, S.A.
- **2008 - 2014**: Board of the Management Degree of ISCTE Business School
- **2001 - 2013**: Member of the Board of the Institute for Business Management Development (INDEG/PROJETOS)
- **1999 - 2013**: General Manager and Member of the Board of the Institute for Business Management Development (INDEG/ISCTE)

(1) *Date of appointment after the incorporation of Banco CTT, S.A.*

Susana Maria Morgado Gomez Smith

Non-Executive Director and member of the Audit Committee

Date of birth: 20 February 1973, Portugal
Date of 1st appointment: 13 September 2019
Term of office: 2019 / 2021

Education

- **2018**: Advanced Programme for Non-Executive Directors, IPCG – Instituto Português de Corporate Governance
- **2017**: Certification in Non-Executive Administration, CASS Business School - CITY University of London
- **2017**: Certification in Non-Executive Administration, ICSA - The Governance Institute (UK)
- **2016**: International Directors Program, INSEAD
- **2012**: Investor Relations Certification, IR Society - Investor Relations Society
- **2011 - 2013**: Post-graduation in Risk Management, College of Business and Finance - HKU The University of Hong Kong
- **2004 - 2006**: Post-graduation in Political Science and International Relations, Universidade Católica Portuguesa
- **1995 - 1998**: Master's in Monetary and Financial Economics, Institute of Economics and Management - Universidade Técnica de Lisboa
- **1991 - 1995**: Licentiate degree in Economics, Faculty of Economics, Universidade Nova de Lisboa

Internal management and supervisory positions

- **2019 - ...**: Member of the Board of Directors and of the Audit Committee of Banco CTT, S.A.

Other internal positions

- **2019 - ...**: Member of the Remuneration Committee (within the Board of Directors) of Banco CTT, S.A.

Professional experience

Currently Non-Executive Director in the financial sector in Portugal and Switzerland. For more than 20 years, she has performed executive functions in the financial sector, in Portugal and abroad, particularly in the areas of investment banking, capital markets and corporate banking, as well as in strategic change, strengthening of risk environments, regulatory compliance, internal governance, control and operational efficiency.
She also worked as a lecturer for about 5 years at the beginning of her career, having obtained specialised training in economics and management throughout her career.

Management and supervisory positions in other companies (last 5 years)

- **2019 - ...** Member of the Board of Directors and of the Remuneration and Nominating Committee of Leonteq AG

Other external positions

- **2013 - 2018**: Managing Director at Santander UK plc (Santander Global Corporate Banking)
- **2017 - ...**: Volunteer (Ambassador to the International Directorship Network - Portugal; Mentoring Committee of the Mentoring Program), INSEAD
- **2016 - 2019**: Member of the Board of Directors (Trustee), Mind in Camden
- **2012 - 2013**: Advisor at Banco Nacional Ultramarino Macau, S.A. (BNU)
- **2007 - 2012**: Director at Citigroup Global Markets Asia Limited
- **2005 - 2006**: Member of the Board of Directors - representing Citibank International Plc, Portugal Branch - and Treasurer, Junior Achievements Portugal
- **2002 - 2007**: Vice President at Citibank International plc - Portuguese branch (now Citibank Europe Plc - Portuguese branch)
- **1998 - 2002**: Director at Banco Espírito Santo de Investimento, S.A. (now Haitong Bank, S.A.)
- **1998 - 2000**: Assistant Professor, Universidade Católica Portuguesa
- **1995 - 1998**: Assistant Professor,Universidade Lusíada

António Pedro Ferreira Vaz da Silva

Non-Executive Director

Date of birth: 13 November 1966, Portugal
Date of 1st appointment: 01 September 2017
Term of office: 2019 / 2021

Education

- **2015 - 2016**: Training Programme for Senior Managers of Banco CTT, S.A., Instituto Superior de Gestão Bancária and Portuguese Banking Association
- **2014**: Business Management Programme, AESE Business School
- **1972 - 1984**: Secondary Education, Amadora Secondary School

Internal management and supervisory positions

- **2018 - ...**: Member of the Board of Directors of Payshop (Portugal) S.A.
- **2017 - ...**: Member of the Board of Directors and of the Executive Committee of CTT-Correios de Portugal, S.A.
- **2017 - ...**: Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A.
- **2017 - ...**: Non-executive member of the Board of Directors of Banco CTT, S.A.

Other internal positions

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Professional experience

He is currently responsible for the Mail P&L, Retail and Postal Financial Services P&L, B2C Commercial and Human Resources, which include the Philately, B2C External Channel Management, Own Post Offices Management, Retail Product Management, Savings and Payments, Mail Product Management, B2C Segment Management, Human Resources (Management of) and B2C Commercial Support Departments of CTT - Correios de Portugal, S.A.
With a professional career of 20 years in commercial and retail banking at Millennium BCP, he has held various positions within the group in Portugal and was part of the Private and Business team of Millennium BCP in 2000.
In 2004 he entered CTT- Correios de Portugal, S.A. as a Commercial Manager, having been responsible for the operations and sales of the south zone of the Retail Network. He successfully developed his career at CTT having taken up the position of Director of the Retail Network in 2013, acquiring extensive experience in management and motivation of teams and Human Resources as well as in sales of marketing of the different products placed through the Retail Network (from Mail, to Express & Parcels and to Financial Services, as well as services of general interest). Throughout this period of 12 years, he was involved in various initiatives and key projects related to the optimisation and rationalisation of the Retail Network and its portfolio, as well as the promotion of the proximity and capillarity associated to this network.
His long history at CTT- Correios de Portugal, S.A. has contributed to making the Retail Network a channel of sales and services of increasing importance in the growth of CTT's revenues in all business units, and a national platform of convenience and multiple services. More recently, he played an active role in the launch of Banco CTT in 2016 which is supported by this Network. He is also a member of the Business Coordination Committee created jointly by CTT and Banco CTT (which is a key forum for discussing and agreeing on issues related to the CTT / Banco CTT partnership related to Retail Network Channel).

Management and supervisory positions in other companies (last 5 years)

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Other external positions

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António Emídio Pessoa Corrêa d'Oliveira
Non-Executive Director

Date of birth: 30 October 1976, Portugal
Date of 1st appointment: 01 September 2017
Term of office: 2019 / 2021

Education
- **2018 - 2019:** Training Programme for Senior Managers, Bank Training Institute, Portuguese Banking Association
- **2010**: Breakthrough Program for Senior Executives (BPSE), IMD Business School (Lausanne, Switzerland)
- **1994 - 1999**: Degree in Business Management, ISCTE - Instituto Universitário de Lisboa

Internal management and supervisory positions
- **2017 - ...:** Non-executive member of the Board of Directors of Banco CTT, S.A.

Other internal positions
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Professional experience
After 6 years as a consultant at Deloitte, he took on senior duties in the Gestmin Group (currently Manuel Champalimaud Group) in 2005 in the areas of corporate finance and business development, focused on the planning, identification, structuring, financing and implementation of the Manuel Champalimaud Group's investments and on management of the portfolio of assets held by the Group. Between 2016 and 2020, these senior duties also focused on the financial area, as Chief Financial Officer of Manuel Champalimaud SGPS, S.A. ( )

Management and supervisory positions in other companies (last 5 years)
- **2016 - 2020**: Member of the Board of Directors and of the Executive Committee (CFO) of Manuel Champalimaud SGPS, S.A.(1)
- **2016 - 2020**: Manager at Gestmin - Serviços, Unipessoal, Lda
- **2017 - 2020**: Member of the Board of Directors of Sogestão – Administração e Gerência, S.A.
- **2016 - 2017**: Non-executive member of the Board of Directors of OZ Energia, S.A.
- **2015 - 2017**: Non-executive member of the Board of Directors of GLN - Engineering, Molding and Plastics, S.A.
- **2015 - 2017**: Manager at GLN México, S. de R.L. de C.V. (Sociedade de Responsabilidad Limitada de Capital Variable)
- **2015 - 2016**: Non-executive member of the Board of Directors of GLNmolds, S.A.
- ***2015 - 2016***: Non-executive manager at T.P.S. – Engenharia de Moldes, Lda
- **2015**: Non-executive member of the Board of Directors of GLNplast, S.A.

Other external positions
- **2011 - 2013**: Chairman of the Board of Directors of OZ Energia Gás, S.A.
- **2010 - 2013**: Manager at OZ Energia Canalizado, Lda
- **2009 - 2013**: Manager at Gestmin - Serviços, Unipessoal, Lda
- **2009 - 2013**: Manager at OZ Energia Jet, Unipessoal, Lda
- **2009 - 2013**: Manager at OZ Energia Fuels, Unipessoal, Lda
- **2009 - 2013**: Manager at Silos de Leixões – Unipessoal, Lda
- **2008 -2010**: Member of the Board of Directors of Gestfin SGPS, S.A.
- **2007 - 2012**: Non-executive member of the Board of Directors of Winreason - S.A.
- **2007 - 2010**: Non-executive member of the Board of Directors of Oni SGPS, S.A.

(1) Named Gestmin SGPS, S.A. up to 28 February 2019, when the change of corporate name took effect.

Guy Patrick Guimarães de Goyri Pacheco
Non-Executive Director

Date of birth: 25 May 1977, Portugal
Date of 1st appointment: 15 June 2018
Term of office: 2019 / 2021

Education
- **2018 - 2019**: Training Programme for Senior Managers, Bank Training Institute, Portuguese Banking Association
- **2011**: Leaders who transform, The Lisbon MBA – Católica/Nova
- **2010**: Leadership Executive Program, Universidade Católica Portuguesa
- **1995 - 2000**: Licentiate degree in Economics, Faculty of Economics, Universidade do Porto

Internal management and supervisory positions
- **2018 - ...:** Non-executive member of the Board of Directors of Banco CTT, S.A.
- **2018 - 2019**: Member of the Board of Directors of Tourline Express Mensajería, S.L.U.
- **2017 - ...:** Member of the Board of Directors and of the Executive Committee (CFO) of CTT– Correios de Portugal, S.A.
- **2017 - ...:** Member of the Board of Directors of CTT Expresso, S.A.

Other internal positions
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Professional experience
He is currently responsible at CTT for the areas of Finance, Risk and M&A, Investor Relations, Procurement and Logistics, Accounting and Tax, Transformation, Planning and Control, Physical Resources and IT.
His main professional occupation from 2015 to 2017 was CFO of PT Portugal, SGPS, S.A. and from 2011 to 2015 he was Director of Planning and Control of Portugal Telecom, SGPS, S.A. (company listed on the stock exchange).
He has skills in the financial, planning and control, financial reporting and operational areas, having held management and senior management positions in these fields within the PT universe over the course of 17 years.
With extensive experience and a transformational profile in positions related to strategic transformation in the sector of telecommunications and digital business, with national and international presence (having worked from 2001 to 2017 in markets marked by a challenging regulatory, technological and competition context, and having been especially involved, from 2007 to 2011, in projects of continuous improvement and transformation) and, more recently, leading as CFO for close to 2 years, plans for optimisation and rationalisation of costs in the same sector.

Management and supervisory positions in other companies (last 5 years)
- **2017 - ...:** Non-executive member of the Board of Directors of Finerge, S.A.
- **2017 - 2019**: Non-executive member of the Board of Directors of Âncora Wind – Energia Eólica, S.A.
- **2017 - 2018**: Non-executive member of the Board of Directors of First State Wind Energy Investments, S.A.
- **2017 - 2017**: Non-executive member of the Board of Directors of Sport TV Portugal, S.A.
- **2016 - 2017**: Non-executive chairman of the Board of Directors of Janela Digital – Informática e Telecomunicações, S.A.
- **2016 - 2017**: Non-executive member of the Board of Directors of Capital Criativo, SCR, S.A.
- **2015 - 2017**: Member of the Executive Committee (Chief Financial Officer) of PT Portugal, SGPS, S.A.
- **2015 - 2017**: Chairman of the Supervisory Board of Hungaro Digitel Plc.
- **2015 - 2017**: Chairman of the Supervisory Board of Fibroglobal – Comunicações Electrónicas, S.A.
- **2015 - 2017**: Member of the Board of Directors of PT Pay, S.A.
- **2013 - 2015**: Member of the Board of Directors of PT Centro Corporativo, S.A.
- **2013 - 2015**: Member of the Supervisory Board of Fundação Portugal Telecom

Other external positions
- **2018 - ...:** Member of the Board of AEM (Association of Companies Issuing Listed Securities)
- **2011 - 2014**: Non-executive member of the Board of Directors of PT PRO – Serviços Administrativos e de Gestão Partilhados, S.A.

Annex II

Transactions Involving CTT Shares in 2019

Details of transactions by Directors and closely related parties during 2019, as disclosed to the Company.

Manuel Champalimaud, SGPS, S.A.:

Transaction type	Place	Unit price (€)	Quantity	Transaction date
Acquisition	XLIS	2,170	11 658	15.05.2019
Acquisition	XLIS	2,174	10 000	15.05.2019
Acquisition	XLIS	2,178	486	15.05.2019
Acquisition	XLIS	2,198	4 756	15.05.2019
Acquisition	XLIS	2,204	12 600	15.05.2019
Acquisition	XLIS	2,194	5 000	16.05.2019
Acquisition	XLIS	2,196	4 500	16.05.2019
Acquisition	XLIS	2,198	5 000	16.05.2019
Acquisition	XLIS	2,200	5 000	16.05.2019
Acquisition	XLIS	2,202	5 000	16.05.2019
Acquisition	XLIS	2,206	5 187	16.05.2019
Acquisition	XLIS	2,210	14 656	16.05.2019
Acquisition	XLIS	2,212	4 999	16.05.2019
Acquisition	XLIS	2,214	7 158	16.05.2019
Acquisition	XLIS	2,220	10 000	16.05.2019
Acquisition	XLIS	2,152	2 500	17.05.2019
Acquisition	XLIS	2,166	7 500	17.05.2019
Acquisition	XLIS	2,172	2 500	17.05.2019
Acquisition	XLIS	2,174	5 000	17.05.2019
Acquisition	XLIS	2,176	2 500	17.05.2019
Acquisition	XLIS	2,180	25 000	17.05.2019
Acquisition	XLIS	2,182	4 840	17.05.2019
Acquisition	XLIS	2,188	9 360	17.05.2019
Acquisition	XLIS	2,194	5 000	17.05.2019
Acquisition	XLIS	2,198	2 500	17.05.2019
Acquisition	XLIS	2,200	7 500	17.05.2019
Acquisition	XLIS	2,204	10 000	17.05.2019
Acquisition	XLIS	2,210	2 500	17.05.2019
Acquisition	XLIS	2,194	2 005	20.05.2019
Acquisition	XLIS	2,200	5 000	20.05.2019
Acquisition	XLIS	2,204	13 556	20.05.2019
Acquisition	XLIS	2,206	61 444	20.05.2019
Acquisition	XLIS	2,210	22 500	20.05.2019
Acquisition	XLIS	2,212	5 000	20.05.2019
Acquisition	XLIS	2,220	17 995	20.05.2019
Acquisition	XLIS	2,236	7 500	20.05.2019
Acquisition	XLIS	2,196	6 650	21.05.2019
Acquisition	XLIS	2,200	22 500	21.05.2019
Acquisition	XLIS	2,206	6 287	21.05.2019
Acquisition	XLIS	2,208	2 500	21.05.2019
Acquisition	XLIS	2,214	2 500	21.05.2019
Acquisition	XLIS	2,220	2 500	21.05.2019
Acquisition	XLIS	2,230	22 192	21.05.2019

Transaction type	Place	Unit price (€)	Quantity	Transaction date
Acquisition	XLIS	2,236	5 000	21.05.2019
Acquisition	XLIS	2,238	5 000	21.05.2019
Acquisition	XLIS	2,240	25 609	21.05.2019
Acquisition	XLIS	2,248	1 762	21.05.2019
Acquisition	XLIS	2,250	4 500	22.05.2019
Acquisition	XLIS	2,252	2 500	22.05.2019
Acquisition	XLIS	2,256	3 000	22.05.2019
Acquisition	XLIS	2,258	5 000	22.05.2019
Acquisition	XLIS	2,268	3 600	22.05.2019
Acquisition	XLIS	2,282	7 500	22.05.2019
Acquisition	XLIS	2,286	3 294	22.05.2019
Acquisition	XLIS	2,288	1 709	22.05.2019
Acquisition	XLIS	2,290	6 397	22.05.2019
Acquisition	XLIS	2,292	8 446	22.05.2019
Acquisition	XLIS	2,294	2 500	22.05.2019
Acquisition	XLIS	2,298	595	22.05.2019
Acquisition	XLIS	2,300	18 459	22.05.2019
Acquisition	XLIS	2,302	25 000	22.05.2019
Acquisition	XLIS	2,306	21 000	22.05.2019
Acquisition	XLIS	2,308	10 000	22.05.2019
Acquisition	XLIS	2,310	12 900	22.05.2019
Acquisition	XLIS	2,312	9 500	22.05.2019
Acquisition	XLIS	2,314	5 500	22.05.2019
Acquisition	XLIS	2,270	2 500	23.05.2019
Acquisition	XLIS	2,274	2 500	23.05.2019
Acquisition	XLIS	2,280	2 500	23.05.2019
Acquisition	XLIS	2,286	5 000	23.05.2019
Acquisition	XLIS	2,290	5 000	23.05.2019
Acquisition	XLIS	2,292	5 000	23.05.2019
Acquisition	XLIS	2,294	7 500	23.05.2019
Acquisition	XLIS	2,296	7 500	23.05.2019
Acquisition	XLIS	2,298	25 000	23.05.2019
Acquisition	XLIS	2,300	31 969	23.05.2019
Acquisition	XLIS	2,302	531	23.05.2019
Acquisition	XLIS	2,304	5 000	23.05.2019

António Pedro Ferreira Vaz da Silva

Transaction type	Place	Unit price (€)	Quantity	Transaction date
Acquisition	XLIS	3,083	3 500	28.11.2019

Guy Patrick Guimarães de Goyri Pacheco

Transaction type	Place	Unit price (€)	Quantity	Transaction date
Acquisition	XLIS	2,260	1 000	29.05.2019
Acquisition	XLIS	2,284	1 000	29.05.2019
Acquisition	XLIS	2,280	3 000	29.05.2019
Acquisition	XLIS	2,290	1 000	29.05.2019

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