



Management Report

INFORMATION ON THE BANCO CTT GROUP

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

1.1 Banco CTT Group

History

2013	August	On 5 August 2013, CTT submitted request to Banco de Portugal to grant a concession for creation of the postal bank.
	November	On 27 November 2013, Banco de Portugal issued authorisation for the creation of the postal bank.
2015	February	CTT's constitution of CTT Serviços, S.A. for purposes of development of the preparatory work as necessary and/or convenient for the constitution of the Bank.
	August	On 24 August 2015, after authorisation of Banco de Portugal, CTT Serviços was transformed into Banco CTT, with share capital of 34 million euros.
	November	On 18 November 2015, Banco CTT presented its corporate identity, with Proximity, Simplicity and Transparency being its main attributes. Banco CTT started to operate on 27 November 2015, under the soft opening model available only for employees of CTT and Banco CTT.
2016	March	Banco CTT opened to the public on 18 March, with 52 branches simultaneously, spread over the 18 districts of Portugal and with a strong presence in digital channels.
	May	Share capital increase of 26 million euros, to 60 million euros.
	July	Banco CTT opened its one hundredth branch on 22 July.
	October	Share capital increase of 25 million euros, to 85 million euros.
	December	Banco CTT achieves a presence of 202 branches.
2017	January	With 9 months of activity, Banco CTT reaches 100 thousand customers. Banco CTT launched Mortgage Lending, presenting a simple and low-cost solution for those wishing to purchase a house or move, maintaining the values associated to its launch: that of an accessible, comprehensive and useful offer.
	April	Banco CTT received authorisation from ASF (Portuguese Insurance and Pension Funds Supervisory Authority) to present insurance products to its customers, enabling the offer of Life Insurance, Housing and Health Multi-Risk Insurance. Share capital increase of 25 million euros, to 125 million euros.
2018	January	Incorporation of Payshop (Portugal), S.A. in the consolidation perimeter of Banco CTT, through a share capital increase in kind of 6.4 million euros, fully underwritten and paid-up by the sole shareholder, CTT – Correios de Portugal, S.A., elevating the share capital to 131.4 million euros.
	March	Share capital increase of 25 million euros, to 156.4 million euros.
	July	Banco CTT agreed to purchase 321 Crédito, a specialised consumer credit institution (used motor vehicles in the retail market), which has expanded the business portfolio of Banco CTT.
	October	Introduction of off-balance sheet saving products with the launch of the offer of PPR (Retirement Savings Plans).
2019	April	Share capital increase of 110 million euros, to 266.4 million euros.
	May	On 2 May, Banco CTT completed the acquisition of the entirety of the share capital of 321 Crédito, a company granting loans for used motor vehicles to individuals. Banco CTT reached 1,000 million euros of customer deposits.
	December	Share capital increase of 20 million euros, to 286.4 million euros.
2020	September	Banco CTT enters the Business and Companies segment. Banco CTT created a simple, transparent and competitive commercial offer geared to the needs of SMEs and micro-enterprises, thus announcing its entry into a new Business and Companies segment. In this start-up phase, this new business area of Banco CTT will be supported by a complete offer of factoring solutions, to be later gradually and progressively extended to other products and services. For the implementation of this offer, Banco CTT entered into a partnership agreement with BNP Paribas Factor (a company of the BNP Paribas group).
	December	Banco CTT achieves break even, with a consolidated net income of 233,326 euros.

Corporate Governance

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

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

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

to establish the remuneration of the members of the Board of the General Meeting, the Board of Directors, the Audit Committee and the Statutory Auditor.

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

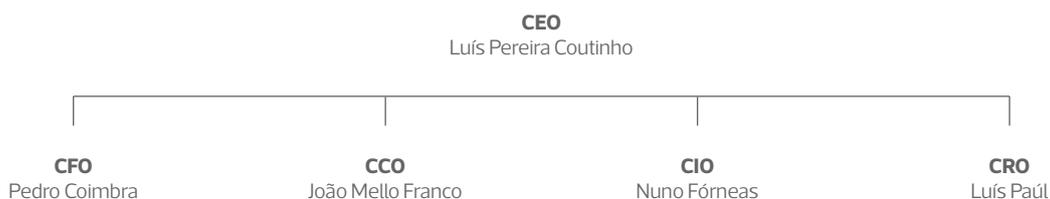
This governance structure also includes a Remuneration Committee created within the Board of Directors.

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

Board of Directors

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

Executive Committee



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

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

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

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

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

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

Corporate Bodies and Internal Committees ¹

Board of the General Meeting

Chairman:

Rui Afonso Galvão Mexia de Almeida Fernandes

Board of Directors

Chairman:

João de Almada Moreira Rato

Members:

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

Executive Committee

Chairman:

Luís Maria França de Castro Pereira Coutinho (CEO)

Members:

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

Audit Committee

Chairman:

João Manuel de Matos Loureiro

Members:

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

Selection and Salary Committee

Chairman:

Raúl Catarino Galamba de Oliveira

Members:

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

Remuneration Committee

Chairman:

João de Almada Moreira Rato

Members:

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

Statutory Auditor ²

Statutory Auditor (ROC):

KPMG & Associados, SROC, S.A., represented by
Vitor Manuel da Cunha Ribeirinho

Alternate Statutory Auditor:

Maria Cristina Santos Ferreira

Company Secretary

Permanent:

Catarina Morais Bastos Gonçalves de Oliveira

Alternate:

Maria Filipa Rebelo Pereira de Matos Alves Torgo

¹ The members of the corporate bodies and internal committees in office on the present date and as at 31 December 2020 are indicated herein.

² After the end of the 2020 financial year, he took office as **STATUTORY AUDITOR** for the term of office 2021-2023

Statutory Auditor (ROC): Ernst & Young Audit & Associados - SROC, S.A., represented by Sílvia Maria Teixeira da Silva

Alternate Statutory Auditor: Ana Rosa Ribeiro Salcedas Montes Pinto.

Nuno
Fórneas
CIO



Pedro
Coimbra
CFO



Luís Pereira
Coutinho
CEO



João Mello
Franco
CCO

Luís
Paúl
CRO



Brief Summary of the Year and Main Highlights

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

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

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

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

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

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

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

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

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

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

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

March 2020

Intensification of tests aimed at the widespread adoption of teleworking.

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

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

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

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

June 2020

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

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

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

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

September 2020

Banco CTT enters the Business and Companies segment.

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

December 2020

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



1.2 Awards and Recognitions

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



ECSI Award 2020

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

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

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



Deco Proteste Right Choice

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

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



Five Stars 2020 Award, in the Mortgage Lending category

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

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

1.3 Vision, Mission, Principles and Values of The Bank

Vision

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

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

Principles

> Customer Orientation

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

> Enthusiasm

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

> Trust

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

> Excellence

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

> Innovation

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

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

> Simplicity

> Efficiency

> Proximity

> Trust

> Solidity

1.4 Key Figures

Consolidated Results

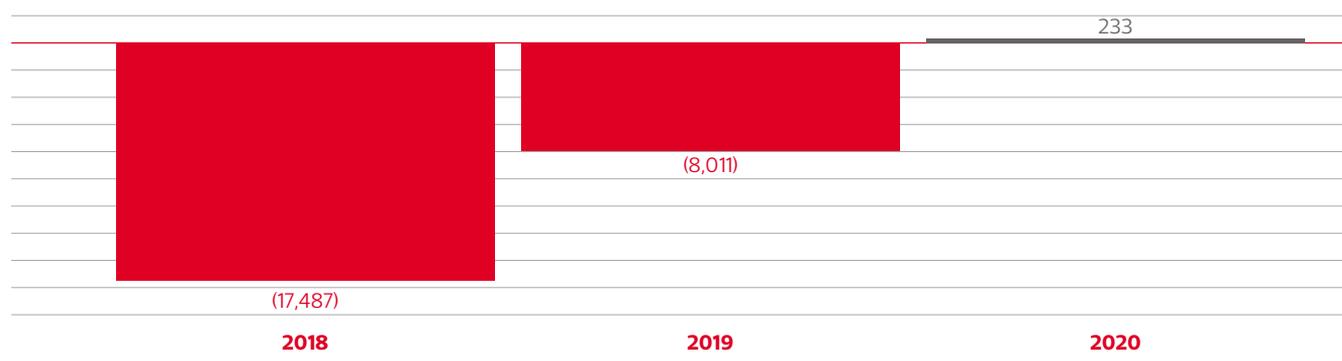
Net Income

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

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

Consolidated Net Income

(amounts in thousand euros)

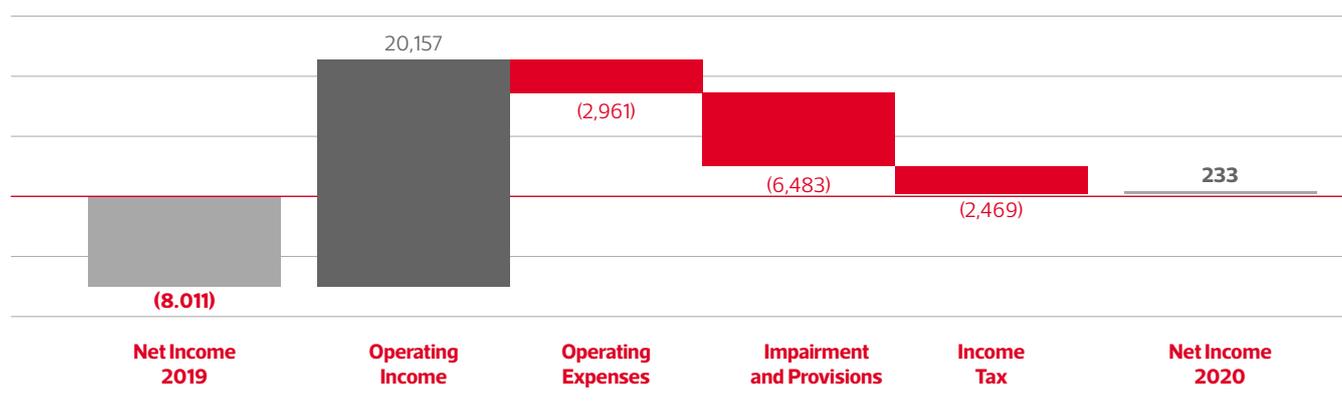


The 2019 results incorporated, for the first time, the contribution of 8 months of activity of 321 Crédito - Instituição Financeira de Crédito, S.A., which became part of Banco CTT's consolidation perimeter following its acquisition in May 2019. 321 Crédito contributed with 9,057 thousand euros (2019: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

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

Change in Net Income

(amounts in thousand euros)



Operating Income

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

The increase in Operating Income stems mainly from:

Net Interest Income

- > Net Interest Income reached 44,572 thousand euros (2019: 29,260 thousand euros), which represents an increase of 15,312 thousand euros (+52%).
- > **Interest on car credit** amounted to 33,311 thousand euros (2019: 19,620 thousand euros), representing an increase of 13,691 thousand euros.
- > **Interest on mortgage lending** reached 4,156 thousand euros (2019: 3,317 thousand euros), representing an increase of 839 thousand euros.
- > **Interest on debt securities** amounted to 7,695 thousand euros (2019: 7,121 thousand euros), representing an increase of 574 thousand euros.

Net Fee and Commission Income

- > Net commissions reached 20,204 thousand euros (2019: 15,455 thousand euros), which represents an increase of 4,749 thousand euros (+31%).
- > **Commissions on payment operations**, amounting to 9,554 thousand euros (2019: 10,697 thousand euros) fell 1,143 thousand euros, which is explained by the reduction in the activity of Payshop agents and the decrease in mobility resulting from the confinement actions due to the pandemic situation.
- > **Commissions on banking services provided** reached 10,450 thousand euros (2019: 6,467 thousand euros) which represents an increase of 3,983 thousand euros, mainly justified by:
 - > The extension of the debit card commission to the first card in 2020 (+ 2.6 million euros)
 - > Increase in transactional / interbank fees explained by the gradual increase in customer involvement with Banco CTT and, consequently, the greater use of the Banco CTT account for day-to-day management (+1 million euros)
 - > Increase in the contribution of commissions charged in the specialised credit business at the point of sale through 321 Crédito (+1.2 million euros)

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

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

Other operating income/(expenses)

- > Other operating income/(expenses) reached 1,004 thousand euros (2019: 1,070 thousand euros), representing a decrease of 66 thousand euros.
- > The heading "Other operating income", which records expenses charged to customers on account of costs incurred, namely administrative expenses, expenses related to lawsuits, dossier expenses and postage costs, came to 2,497 thousand euros (2019: 1,479 thousand euros).
- > The heading "Credit recovery", which refers to values recovered, via judicial or other means, of contracts written off from the assets, and which came to 1,297 thousand euros (2019: 1,272 thousand euros) was negatively impacted by the deterioration of the economic situation of households due to the pandemic situation.

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

Operating Costs

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

Staff costs

- > Staff costs reached 21,806 thousand euros (2019: 19,428 thousand euros), representing an increase of 2,378 thousand euros.
- > The increase is mainly explained by the additional contribution of 4 months of 321 Crédito in 2020, since 321 Crédito joined the consolidation perimeter in May 2019.

General Administrative Expenses

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

- > Excluding 321 Crédito's contribution of 4,378 thousand euros (2019: 2,875 thousand euros), the reduction in general administrative expenses came to 1,849 thousand euros.

Amortisation and depreciation for the year

- > Amortisation of intangible assets for the year came to 4,700 thousand euros (2019: 3,876 thousand euros).
- > **Depreciation of other tangible assets for the year** amounted to 1,752 thousand euros (2019: 1,649 thousand euros).

Impairment and Provisions

Credit Impairment

- > The net allocation of impairments in 2020 came to 10,028 thousand euros (2019: 3,054 thousand euros), representing an increase of 6,974 thousand euros.
- > This increase stems from i) the organic increase in the credit portfolio, ii) the fact that 321 Crédito contributed only 8 months in 2019 and iii) the effects arising from the Covid-19 pandemic situation.

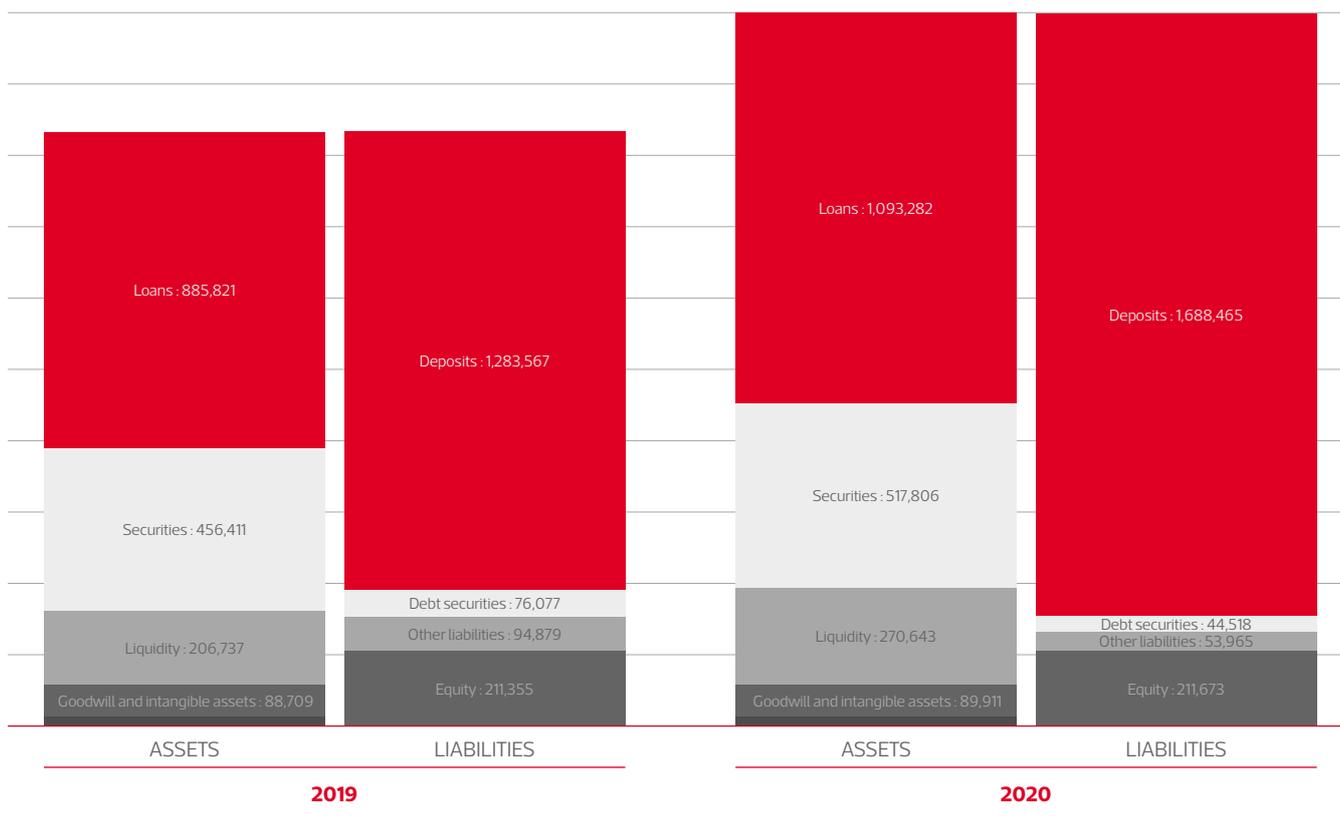
Other Impairments

- > In **impairments of other financial assets** there was a net reversal of 171 thousand euros (2019: net reversal of 257 thousand euros).
- > In **impairments for other assets** there was a net reversal of 833 thousand euros, compared to a net allocation of 297 thousand euros in 2018.

Consolidated Balance Sheet

Consolidated Balance Sheet

(amounts in thousand euros)



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

Loans and advances to customers

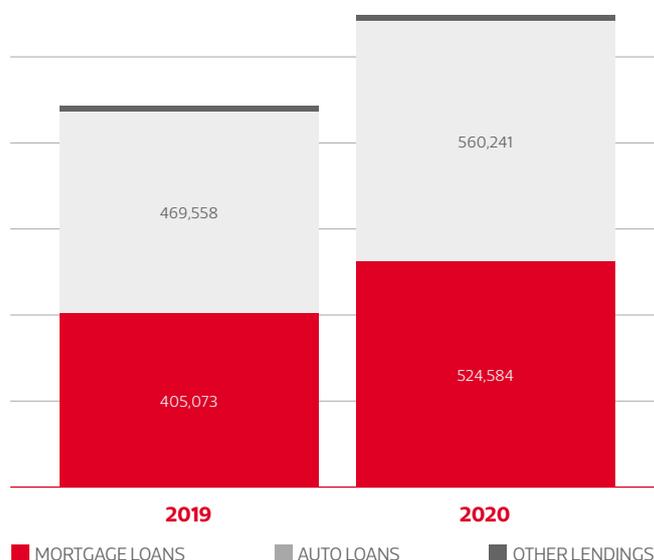
Loans and advances to customers (gross) stood at 1,109,948 thousand euros as at 31 December 2020 (2019: 889,799 thousand euros), representing an increase of 220,149 thousand euros (+25%), of which 119,915 thousand euros are from mortgage lending and 102,001 thousand euros are from car credit. The 25%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

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

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

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

Loans and Advances to Customers (net) (amounts in thousand euros)



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

Investment in securities

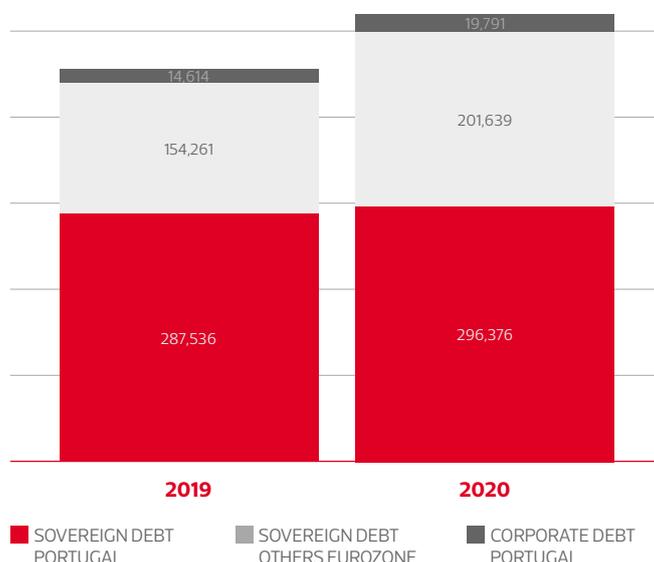
The portfolio of investment in securities had a net value of 517,806

thousand euros as at 31 December 2020 (2019: 456,411 thousand euros), of which around 96% are sovereign debt securities of the Eurozone.

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

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

Investment in Securities (amounts in thousand euros)



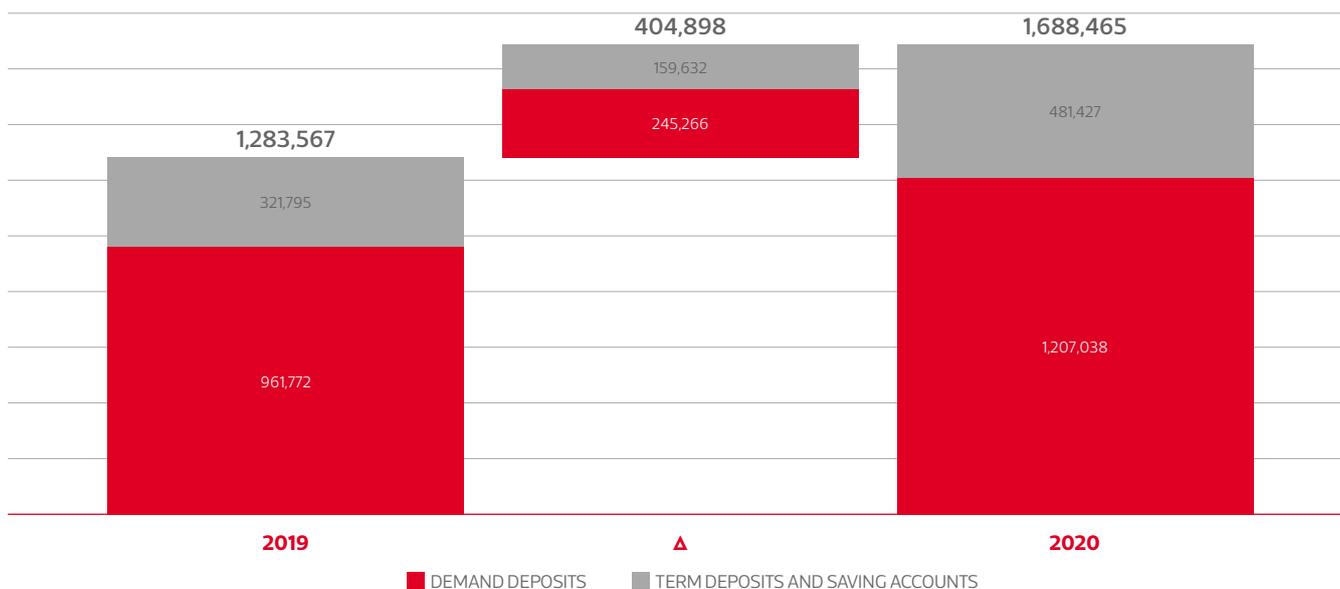
Deposits from customers

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

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

Deposits from Customers

(amounts in thousand euros)



Consolidated Indicators

(amounts in thousand euros)

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

^{*} Includes deposits from customers and customer funds captured via mediation of savings products.

^{**} 8 months of activity in 2019.

1.5 Macroeconomic Environment

International Economy

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

Banco de Portugal¹ estimates world GDP to have shrunk by 3.5% in 2020, following 2.7% growth in 2019. The first half of 2020 was marked by a contraction of 9.4% compared to 2019, with economic activity recovering in the summer months. In the third quarter GDP grew by 7.3% quarter-on-quarter, but the resurgence of contagion in the last quarter of 2020, particularly in developed economies, point to a further contraction in economic activity.

In the Eurozone², economic activity is expected to have contracted by 7.3% in 2020, a development marked by a 15% fall in the first half and a 12.5% recovery in the 3rd quarter with the lifting of some confinement restrictions. In the context of the European Union's Recovery and Resilience Plan, 2020 will be marked by the agreement at the European Council of the Next Generation EU, a 750 billion euros instrument (about 5% of the European Union's 2019 GDP) to stimulate economic recovery from 2021 onwards and financed by the European Commission's own debt issuance.

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

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

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

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

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

¹Economic Bulletin December 2020 – Banco de Portugal

²Eurosystem staff macroeconomic projections for the euro area, December 2020

National Economy

In 2020 Portuguese GDP contracted by 7.6% in volume (2.5% growth in 2019), reflecting the markedly adverse effects of the Covid-19 pandemic on economic activity. For this change in GDP, domestic demand had a significant negative contribution (-4.6 p.p. compared to +2.8 p.p. in 2019), mainly due to the contraction of private consumption. The negative contribution of net external demand increased in 2020, reflecting the unprecedented decrease in tourism exports¹.

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

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

Employment fell 2.0% in 2020, which is a smaller decrease than would be expected given the fall in output. Support measures for companies, in particular the simplified lay-off scheme and support for the self-employed, contributed to the resilience in the unemployment rate, which increased from 6.5% in 2019 to 6.8% in 2020. Around 750,000 workers, almost 15% of the labour force, benefited from such forms of support at the peak of the crisis².

Inflation as measured by the Consumer Price Index was -0.2% in 2020. The pandemic created a combination of supply and demand shocks in opposite directions, with the negative effects prevailing and the fall in oil prices contributing to lower energy costs, lowering the inflation rate. Even so, it is estimated that, excluding energy goods, the inflation rate was 0.3%. It is important to mention the slowdown in service prices and the more pronounced fall in non-energy industrial goods prices, in contrast to the rise in food prices¹.

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

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

¹ National Institute of Statistics

² European Economic Forecast Autumn 2020 - European Commission

Financial Markets¹

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

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

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

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

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

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

caused the average price for the year to be USD 39, compared to USD 57 for 2019.

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

In the foreign exchange market, the Euro devalued by 5.4% in relation to the 19 currencies of the main trading partners of the Eurozone². It appreciated 8.9% against the US dollar and 5.78% against the Pound sterling.

¹ Source: Bloomberg

² ECB Daily Nominal EER-19 Euro Effective Exchange Rate

Portuguese Banking System¹

The analysis of the data² of the first 9 months of 2020, when compared with those of the same period of 2019, reveal a decrease in net interest income of 4.6%, resulting from a reduction in interest received greater than the reduction in interest paid, explained by the price effect of the interest rate differential. Interest received decreased more significantly in loans granted to individuals and NFCs and in public debt securities. The volume effect (change in interest earning assets or liabilities) was positive, albeit reduced. Net commissions declined 5.9%, reflecting the lower volume of transactions and the reduction of financial intermediation activity in some segments. Operating income decreased by 6.9%. Staff costs decreased by 5% and the cost-to-income ratio decreased to 58.4%.

In the same period, total assets of the Portuguese banking system increased by 5.4%. The loan-to-deposit ratio decreased to 85.2% from 87.1% in 2019, as a result of an increase in deposits exceeding that of net loans (3.8% vs. 1.5%). It should be noted, however, that between March and September 2020, new loan operations to companies increased 15% when compared with the same period of the previous year, with around 38% of the new loans granted having a public guarantee³.

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

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

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

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

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

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

¹ Portuguese Banking System: recent developments 3rd Quarter 2020 – Banco de Portugal

² BPSStat – Domain: Information on the banking system – Banco de Portugal

³ Financial Stability Report December 2020 – Banco de Portugal

Regulatory Framework

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

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

At European level, the European Banking Authority (EBA) also published the Guidelines on public and private moratoria on credit operations in the context of the Covid-19 pandemic, in April 2020, which were incorporated by Banco de Portugal in Circular Letter CC/2020/0000022. These Guidelines set out the terms and conditions that the extension of payment periods inherent to credit operations, associated with public or private moratoria created in the context of the Covid-19 pandemic, must comply with in order not to lead to the occurrence of a default of the debtor, nor to the verification of the concept of a restructuring measure, pursuant to and for the purposes of Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 ("CRR") and the EBA Guidelines on, in particular, the application of the definition of default under Article 178 of the CRR.

IFRS 9 - Financial Instruments, which replaced IAS 39 - Financial Instruments: Recognition and Measurement - adopted by the European Union in November 2016 and effective for periods beginning on or after 1 January 2018 - established new rules for accounting for financial instruments, with significant changes especially with regard to impairment requirements. Considering that the application of IFRS 9 could result in a sudden and significant increase in impairment and, consequently, a decrease in Common Equity Tier 1, Regulation (EU) 2017/2395 of the European Parliament and of the Council (December 2017), amending Regulation (EU) 575/2013 of the European Parliament and of the Council (June 2013), introduced a regime that establishes transitional provisions. These amendments aim to mitigate the effect of the possible negative impact arising from the accounting of expected credit losses, allowing a

progressive introduction of the impact of the impairment requirements of IFRS 9 on regulatory capital and leverage ratios, for a period of 5 years. With implementation planned for the end of 2022, the proportion of the impairment increase, included in CET1 capital (as an offsetting effect) would progressively decrease over time. Considering that the economic contraction caused by the Covid-19 pandemic could lead to a sudden and significant increase in impairment and in order to limit the possible volatility of regulatory capital, the transitional regime was extended for 2 years, until the end of 2024.

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

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

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

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

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

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

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

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

1.6 Business Model

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payshop

321 crédito

Retail Banking for Individuals

Offer

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

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

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

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



Banco CTT Website

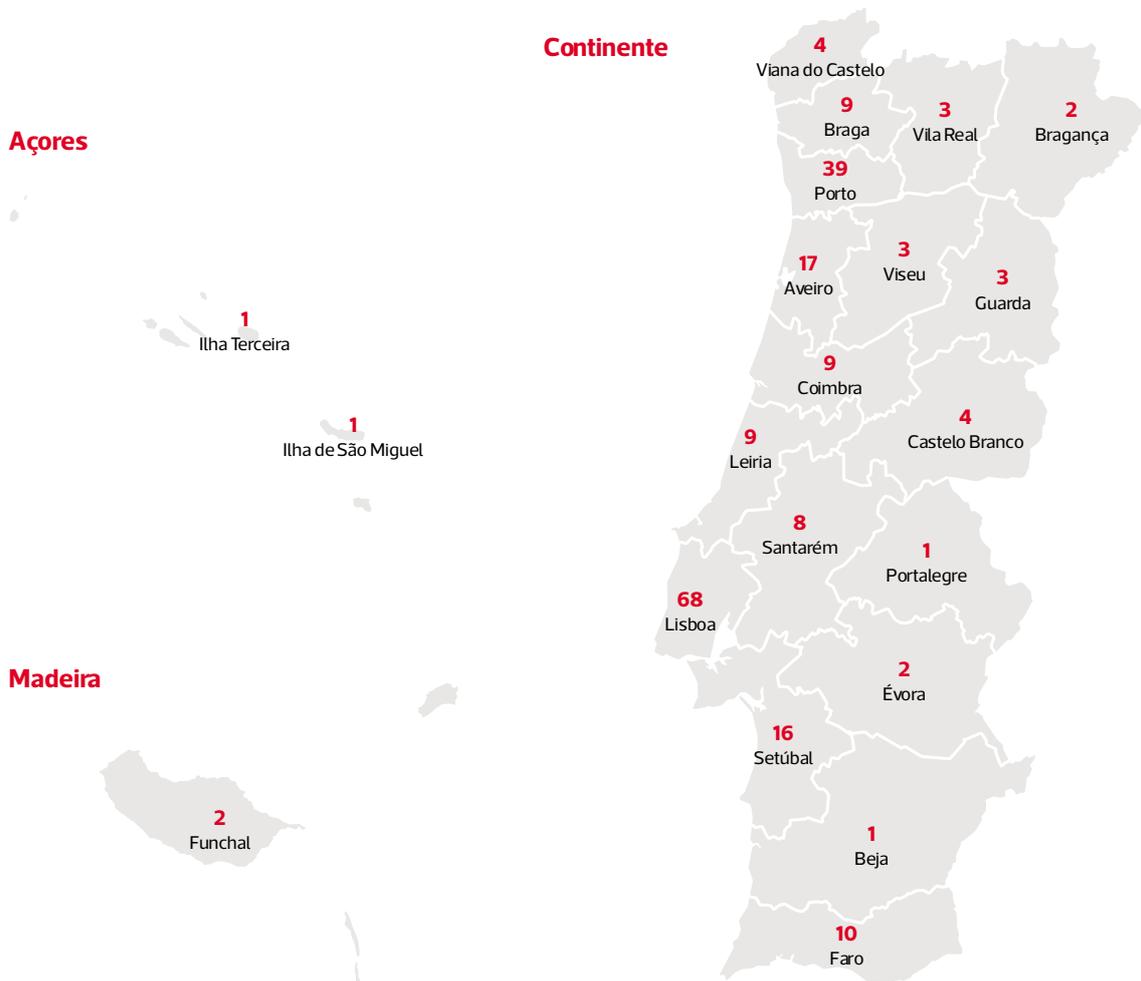
Presential Channel

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

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

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

Network of Branches



Digital Channels

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

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

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

Payments

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

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

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

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



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

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

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



Payshop Website

Specialised Credit at the Point of Sale

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

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

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

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

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

Outlook for 2021

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

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

- > **In retail banking**, continuation of the deepening of the banking relations that have already been achieved, promoting the positioning of Banco CTT as the "first Bank" of its customers, thus boosting the profitability of the created franchise;
- > **In the payments business**, the implementation of a new transaction system is underway, which shall serve all the CTT Group's payment businesses, and shall enable strengthening the provision of integrated payment solutions to institutional customers, as well as the launch of digital channels and the introduction of payments by debit card of the services offered in the Network of Agents;
- > **In specialised credit at the point of sale**, sustained growth is expected in the operation, now based on a new technological platform and a strengthened sales force, taking advantage of the anticipated economic recovery.



321 Crédito Website

1.7 People

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

Assess and Recognise

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

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

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

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

Internal Customer satisfaction was therefore assessed by department (not all 321 Crédito departments have received this indicator yet) with the contribution of all employees who interact with other areas to perform their duties, in order to identify opportunities to improve and optimise processes and procedures. Given the impor-

tance that Banco CTT Group attributes to this topic, this survey is one of the objectives for each Employee.

Benefits

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

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

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

Training

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

It is in this context that, in 2020, one of the concerns was to continue to provide specific training of a regulatory nature, namely concerning the Personal Data Protection Regulation, the Marketing of Mortgage Lending or Consumer Credit of Credit Intermediation, training of Persons Directly Involved in the Activity of Insurance Agents, in the Code of Conduct and Ethics, in the Prevention of Money Lau-

dering and Terrorist Financing, in Ethics and Fraud Awareness, in Information Security Awareness, Conflicts of Interest and Related-Party Transactions, Selection and Appointment of the Statutory Auditor/Audit Company and contracting of non-prohibited services, among others.

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

- > Training on Banking with the objective of providing the participants with essential knowledge about the different areas of banking activity regarding the main products marketed, namely on Banking and Financial Products, Credit to companies and individuals as well as the identification of which is the accounting treatment of the main banking operations that reflect the specificity of its activity emphasizing the importance of Accounting as an information and management system;
- > One-year access to an international distance training platform that allows employees to take technical and behavioural training courses in a flexible manner, with the major advantage that each employee can define his or her own training path.

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

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

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

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

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

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

Internal Recruitment and Mobility

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

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

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

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

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

Community Support

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

Culture / Internal Communication

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

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

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

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

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

To make up for the impossibility of gathering employees in a Christmas event as in previous years, a Christmas video was made with

the participation of employees and their families, where messages of Season's Greetings were transmitted with much creativity. This video, released on Christmas Eve, allowed the Christmas spirit, characteristic of the season, to be felt by all despite the physical distance.

Staff¹

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

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

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

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

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

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

¹ Not considering employees with a multiple employer arrangement