ACCOUNTS AND NOTES TO THE ACCOUNTS

ACCOUNTS AND NOTES TO THE CONSOLIDATED ACCOUNTS OF 2021

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statements for the years ended on 31 December 2021 and 2020

(amounts in thousand euros)

	Notes	2021	2020
Interest and similar income calculated through the effective interest rate	4	57,815	45,963
Interest and similar expenses	4	(2,101)	(1,391)
Net Interest Income	4	**55,714**	**44,572**
Net fee and commission income	5	25,378	20,204
Net gains/(losses) of assets and liabilities at fair value through profit or loss	6	1,101	-
Net gains/(losses) of other financial assets at fair value through other comprehensive income	7	-	389
Results from financial assets and liabilities at amortised cost	8	17,777	34
Net gains/(losses) from divestment of other assets		(80)	(230)
Other operating income/(expenses)	9	776	1,004
Operating Income		**100,666**	**65,973**
Staff costs	10	(25,171)	(21,806)
General administrative expenses	11	(32,977)	(27,152)
Amortisation and depreciation for the year	21 and 22	(7,691)	(6,451)
Operating Costs		**(65,839)**	**(55,409)**
Operating Profit/(Loss) Before Provisions and Impairment		**34,827**	**10,564**
Credit impairment	16	(14,134)	(10,028)
Impairment of other financial assets	15, 17 and 19	92	171
Impairment of other assets	20, 22 and 24	12	833
Provisions net of annulments	27	507	(328)
Operating Profit/(Loss)		**21,304**	**1,212**
Profit/(Loss) Before Tax		**21,304**	**1,212**
Taxes			
Current	23	(4,883)	(766)
Deferred	23	(273)	(213)
Net Income for the Year		**16,148**	**233**
Earnings per share (in euros)			
Basic	12	0.05	0.00
Diluted	12	0.05	0.00

The accompanying notes form an integral part of these financial statements.

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

THE BOARD OF DIRECTORS

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira

Consolidated Comprehensive Income Statements for the years ended on 31 December 2021 and 2020

(amounts in thousand euros)

	Notes	2021	2020
Net Income for the Year		**16,148**	**233**
Comprehensive income recognized directly in Equity after taxes		**9**	**84**
Items that may be reclassified to the income statement			
Fair value reserve	30	(56)	67
Items that shall not be reclassified to the income statement			
Actuarial gains/(losses) for the year			
Employee benefits	36	65	17
Total Comprehensive Income for the Year		**16,157**	**317**

The accompanying notes form an integral part of these financial statements.

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

THE BOARD OF DIRECTORS

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira

Consolidated Balance Sheets as at 31 December 2021 and 2020

(amounts in thousand euros)

	Notes	2021	2020
Assets			
Cash and deposits at central banks	13	621,470	195,364
Deposits at other credit institutions	14	41,252	36,377
Financial assets at amortised cost			
Investments at credit institutions	15	13,771	38,902
Loans and advances to customers	16	1,541,908	1,093,282
Debt securities	17	334,161	498,251
Financial assets at fair value through profit or loss	18	27,261	2
Financial assets at fair value through other comprehensive income			
Debt securities	19	6,095	19,555
Non-current assets held for sale	20	606	966
Other tangible assets	21	7,205	3,872
Goodwill and intangible assets	22	87,957	89,911
Deferred tax assets	23	1,592	1,929
Other assets	24	20,708	21,468
Total Assets		**2,703,986**	**1,999,879**
Liabilities			
Financial liabilities at amortised cost			
Deposits from customers	25	2,121,511	1,688,465
Debt securities issued	26	277,796	44,518
Provisions	27	1,346	1,780
Current tax liabilities	23	1,362	1,363
Deferred tax liabilities	23	49	103
Other liabilities	28	64,092	51,977
Total Liabilities		**2,466,156**	**1,788,206**
Equity			
Share capital	29	296,400	286,400
Legal reserves	30	29	-
Fair value reserves	30	27	83
Other reserves and retained earnings	30	(74,774)	(75,043)
Net income for the year		16,148	233
Total Equity		**237,830**	**211,673**

The accompanying notes form an integral part of these financial statements.

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

THE BOARD OF DIRECTORS

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira

Statements of Changes in Consolidated Equity for the years ended 31 December 2021 and 2020

(amounts in thousand euros)

	Notes	Share Capital	Fair Value Reserves	Legal Reserves	Other Reserves	Retained Earnings	Net Income for the Year	Total Equity
Balance on 31 December 2019		**286,400**	**16**	**-**	**(902)**	**(66,148)**	**(8,011)**	**211,355**
Share capital increase		-	-	-	-	-	-	-
Appropriation of net income		-	-	-	-	(8,011)	8,011	-
Actuarial gains/(losses)		-	-	-	17	-	-	17
Other variations		-	-	-	1	-	-	1
Comprehensive income for the year								
Fair value reserves		-	67	-	-	-	-	67
Net income for the year		-	-	-	-	-	233	233
Balance on 31 December 2020		**286,400**	**83**	**-**	**(884)**	**(74,159)**	**233**	**211,673**
Share capital increase		10,000	-	-	-	-	-	10,000
Appropriation of net income		-	-	29	-	204	(233)	-
Actuarial gains/(losses)	36	-	-	-	65	-	-	65
Other variations		-	-	-	-	-	-	-
Comprehensive income for the year								
Fair value reserves	19	-	(56)	-	-	-	-	(56)
Net income for the year		-	-	-	-	-	16,148	16,148
Balance on 31 December 2021		**296,400**	**27**	**29**	**(819)**	**(73,955)**	**16,148**	**237,830**

The accompanying notes form an integral part of these financial statements.

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

THE BOARD OF DIRECTORS

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira

Consolidated Cash Flow Statements for the years ended on 31 December 2021 and 2020

(amounts in thousand euros)

	Notes	2021	2020
Cash flow from operating activities		**18,913**	**204,490**
Interest income received		52,810	42,205
Interest paid		(2,074)	(1,619)
Commissions income received		21,007	18,302
Commissions paid		(3,927)	(3,525)
Payments to employees		(23,217)	(21,180)
Income tax payments		(3,121)	(6,405)
Sectoral contributions		(373)	(518)
Other payments and revenues		(19,526)	(22,972)
Variation in operational assets and liabilities		(2,666)	200,203
Other operational assets and liabilities		*12,397*	*3,155*
Loans and advances to customers		*(448,172)*	*(208,132)*
Deposits from Customers		*433,109*	*405,180*
Cash flow from investment activities		**170,582**	**(65,157)**
Deposits at Banco de Portugal		(4,142)	10,128
Investment in securities		155,311	(65,699)
Investment		*(287,409)*	*(307,332)*
Repayment/divestment		*442,720*	*241,633*
Investments at credit institutions		25,145	(4,110)
Acquisitions of tangible fixed assets and intangible assets		(5,732)	(5,476)
Cash flow from financing activities		**239,915**	**(70,935)**
Share capital increases		10,000	-
Amounts owed to other credit institutions		-	(37,881)
Debt securities issued		231,369	(31,536)
Leases		(1,454)	(1,518)
Cash and cash equivalents at the beginning of the year		**212,371**	**143,973**
Net changes in cash and cash equivalents		**429,410**	**68,398**
Cash and cash equivalents at the end of the year		**641,781**	**212,371**

Cash and cash equivalents cover:		**641,781**	**212,371**
Cash	13	28,309	27,862
Demand deposits at Banco de Portugal	13	573,223	151,707
Deposits at credit institutions	14	40,249	32,802

The accompanying notes form an integral part of these financial statements.

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

THE BOARD OF DIRECTORS

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira

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.

IFRS includes accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation 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 Group 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 Banco CTT Group is composed of the following subsidiaries:

	2021		2020	
	Holding (%)	Voting rights (%)	Holding (%)	Voting rights (%)
Payshop (Portugal), S.A.	100%	100%	100%	100%
321 Crédito - Instituição Financeira de Crédito, S.A.	100%	100%	100%	100%

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

	Year of Incorporation	Place of Issue	Consolidation Method
Ulisses Finance No.1 (*)	2017	Portugal	Full
Chaves Funding No.8 (*)	2019	Portugal	Full
Ulisses Finance No.2 (*)	2021	Portugal	Full
Next Funding No.1	2021	Portugal	Full

(*) Entities incorporated under securitisation operations, recorded in the consolidated financial statements according to the Group's continued involvement, determined on the basis of the holding of the residual interests (equity pieces) of the respective vehicles and to the extent that the Group substantially holds all the risks and benefits associated with the underlying assets and has the capacity to affect those same risks and benefits (see Note 37 — Securitisation of assets).

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

(amounts in thousand euros)

	2021	2020
Cash and deposits at credit institutions	20,092	9,896
Financial assets at amortised cost – Loans and advances to customers	298,716	-
Financial liabilities at amortised cost – Debt securities issued (see Note 26)	277,796	44,518

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 2021, having been prepared in accordance with current IFRS as endorsed in the European Union by 31 December 2021.

The financial statements are expressed in thousands of euros and were prepared on a going concern basis and under the historical cost convention, with the exception of assets and liabilities recorded at their fair value. The Group has no projects or intentions for actions that could jeopardise the continuity of its operations.

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 14 March 2022.

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 2021 and 2020, 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 and is not subject to amortisation. Goodwill resulting from the acquisition of shareholdings in subsidiaries and associates is defined as the difference between the value of the acquisition cost and the total or proportional fair value of the acquiree's contingent assets and liabilities, depending on the option taken.

If the goodwill determined is negative, it is recorded directly in the results of the period in which the concentration of activities 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 amount of goodwill recorded in the Group's assets is analysed on an annual basis in the preparation of accounts with reference to the end of the year or whenever there is evidence of possible 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. Thus, a new goodwill is not calculated, and the Bank records the goodwill that existed, if any, in the accounts of the selling entity.

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 operation of these policies, including how the management strategy focuses on the receipt of contractual interest or the realisation of cash flows through the sale of assets;
- 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, information on sales should not be considered in isolation, but as part of an overall assessment of how the Group sets financial asset management objectives and how cash flows are obtained.

- evaluation whether 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 financial instruments where 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 may limit the Group's right to claim cash flows in relation to 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".

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 under the heading "Results from financial assets and liabilities 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", 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, operations are classified in 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 with operations classified at this stage correspond to the expected credit losses that result from a default event that may occur within a period of 12 months after the reporting date (credit losses expected 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 with operations classified at this stage correspond to the expected credit losses resulting from default events that may occur over the expected residual life of the operations (lifetime expected credit losses).

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

Forward Looking Information

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

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

Significant increase of credit risk (SICR)

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

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

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

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

Customers who meet at least one of the following criteria are considered in default:

- 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;

- Cross-default credits;

- Restructured loans due to financial difficulties;

- Default quarantined credits;

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

Estimated expected loan losses – Individual analysis

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

Financial Assets	Retail Offer	Mortgage Credit	Consists of the Bank's Mortgage loans 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.
		Motor Vehicle Credit	Includes the offer of used motor vehicle credit with reservation of ownership of 321 Crédito.
		Credit cards	Includes the Universo Credit Card offer
	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 collects performance and default indicators about its credit risk exposures with analysis by types of customers and products.

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, LTV (loan-to-value) ratios are a highly relevant parameter in determining 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 that derives 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 Moody's rating agency, and depending on whether the entity 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.

2.3.3 Derivative financial instruments

Derivative financial instruments are recorded at fair value on the date the Group negotiates contracts and are subsequently measured at fair value. Fair value is obtained through market prices quoted on active markets, including recent market transactions, and valuation models, namely: discounted cash flow models and options valuation models. Derivatives are considered assets when their fair value is positive and as liabilities when their fair value is negative. Revaluation results are recognised in "Results from assets and liabilities at fair value through profit or loss".

Certain derivatives embedded in other financial instruments, such as the indexation of returns on debt instruments to the value of shares or share indices, are bifurcated and treated as separate derivatives when their risk and economic characteristics are not clearly related to those of the host contract and the host contract is not measured at fair value with changes recognised in profit or loss. These embedded derivatives are measured at fair value, with subsequent changes recognised in the income statement.

Derivatives are also recorded in off-balance sheet accounts at their theoretical value (notional value).

2.4 Offsetting financial instruments

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

2.5 Equity Instruments

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

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

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

2.6 Tangible Assets

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

(i) the purchase price of the asset;

(ii) the expenses directly imputable to the purchase.

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

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

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

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

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

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

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

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

2.7 Intangible Assets

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

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

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

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

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

2.8 Leases

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

- the contract involves the use of an identified asset – which could be specified explicitly or implicitly and should be physically distinctive or substantially represent all the capacity of a physically distinctive asset. Even if the asset is specified, the Group does not have the right to use an identified asset if the supplier has the substantive right to replace this asset during its period of use;

- the Group has the right to substantially receive all the economic benefits from the use of the identified asset, throughout its entire period of use; and

- the Group has the right to direct the use of the identified asset. The Group has this right when it has the most relevant decision-making rights to change the way and purpose with which the asset is used throughout its entire period of use. In cases where the decision on how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if:

  - The Group has the right to make use of the asset (or order others to make use of the asset in the manner that the Group determines) throughout its entire period of use, where the supplier does not have the right to change these instructions on the asset's use; or

  - The Group designed the asset (or specific aspects of the asset) in a manner that previously determines how and for what purpose the asset shall be used throughout its entire period of use.

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

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

2.8.1 As lessee

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

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

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

The lease payments included in the measurement of the lease liability consist of the following:

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

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

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

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

Short-term leases and low-value leases

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

2.8.2 As lessor

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

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

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

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

2.9 Income Tax

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

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

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

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

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

The Bank and its subsidiaries – more than 75% held directly or indirectly, and for more than 1 year by the parent company CTT – are covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 75% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC). In this regard, and until 2020 inclusive, 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. As of 2021, the Banco CTT Group is considered to be a "tax sub-consolidated" entity within the Regime in which CTT - Correios de Portugal, S.A. is the dominant company. In this way, Banco CTT's subsidiaries make corporate income tax (IRC) settlements to Banco CTT, and Banco CTT pays or receives the net amount determined for the Banco CTT Group to/from that dominant company. In the event that there are historical amounts receivable from CTT by the Group, any IRC payments to CTT are settled through the use/reduction of the amount receivable, with effective payment only after there are no historical amounts receivable.

2.10 Provisions

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

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

2.11 Recognition of Interest

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

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

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

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

2.12 Recognition of Income of Services, Fees and Commissions

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

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

2.13 Earnings per Share

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

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

2.14 Cash and Cash Equivalents

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

Cash and cash equivalents exclude restricted balances with central banks.

2.15 Provision of Insurance Mediation Services

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

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

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

2.16 Employee Benefits

Career Bonus

Pursuant to Clause 69 of the collective bargaining agreement (ACT) of the banking sector, published in the Bulleting of Work and Employment (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 Bulletin of Work and Employment (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. For the calculation the values of Annex III in the collective bargaining agreement (ACT) are considered, including the growth rate of the salary table for the counting of length of service, taking into account the seniority date in the group.

The value of the Group's liabilities related to the defined benefit plans for employees are calculated based on the Projected Unit Credit method, subject to annual review by independent actuaries. The actuarial assumptions used are based on expectations of future salary increases and mortality tables. The discount rate is determined according to the Group's analysis of the evolution of the macroeconomic context and constant need to adjust the actuarial and financial assumptions to that context.

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

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

Variable remunerations of the employees

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

2.17 Non-Current Assets held for Sale

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

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

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

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

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

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

2.18 Securitisation operations

The Group has three consumer credit securitisation operations in progress (Ulisses Finance No.1, Chaves Funding No. 8 and Ulisses Finance No. 2) and one financial lease securitisation operation (Fénix 1), in which it originated the securitised assets. Regarding the operations Ulisses Finance No.1, Chaves Funding No. 8 and Ulisses Finance No. 2, the Group maintained control over assets and liabilities to the extent that it acquired their residual tranches. These entities are consolidated in the Group's financial statements in accordance with accounting policy 2.1.

In addition, the Banco CTT Group is the sole investor in the Next Funding No.1 securitisation operation, which has as underlying asset the credit card balances originated by the Universo credit card issued by Sonae Financial Services. This entity is 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 involves judgements and estimates relative to the following aspects, among others:

Significant increase of credit risk

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

Definition of group of assets with common credit risk features

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

Probability of default

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

Loss given default

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

3.2 Provisions

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

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

3.3 Goodwill impairment

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

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

The general spread of vaccination in the second half of 2021 allowed for a gradual lifting of the restriction measures that were imposed throughout 2021. The evolution of business activity is expected to be conditioned in the short term by a new wave of the pandemic in Europe and by problems in global supply chains. The reintroduction of restrictive measures to contain the pandemic, including on international mobility, alongside increased uncertainty, will impact the pace of recovery, in particular for tourism-related services. In addition, disruptions in global supply chains, which have been reflected in the scarcity of raw materials and other goods and an increase in their costs, are assumed to dissipate from the second half of 2022 onwards. In the light of the above, management will continue to monitor the threat and its implications on the business and provide all necessary information to its stakeholders and act in accordance with the recommendations issued by the World Health Organisation and public health authorities.

Note 4 – Net Interest Income

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Interest and similar income calculated through the effective interest rate	**57,815**	**45,963**
Interest on financial assets at amortised cost		
Investments at credit institutions	282	417
Loans and advances to customers	51,972	37,853
Debt securities	5,461	7,520
Interest on financial assets at fair value through other comprehensive income		
Debt securities	102	175
Other interest	(2)	(2)
Interest and similar expenses	**2,101**	**1,391**
Interest on financial liabilities at amortised cost		
Amounts owed to other credit institutions	1	2
Deposits from Customers	472	863
Debt securities issued	528	460
Interest on deposits at Banco de Portugal (assets)	1,000	19
Other interest	100	47
Net Interest Income	**55,714**	**44,572**

The heading "Interest and similar income" for the year ended on 31 December 2021 presents a total of 2,229 thousand euros (2020: 1,365 thousand euros) related to impaired financial assets (Stage 3) as at the reference date.

The heading "Interest on loans and advances to customers" includes the amount of -9,689 thousand euros (2020: -7,394 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 item Interest on deposits at Banco de Portugal (assets) has a value of 1,000 thousand euros (2020): 19 thousand euros) which represents interest expenses for amounts deposited with the Central Bank that exceed the minimum reserve requirements. From the reserve counting period started on 30 October 2019, the ECB introduced the tiering regime, in which the balance with the Central Bank in excess of the minimum cash reserves, up to a calculated maximum of 6 times the reserves, is remunerated at the central bank's lending rate.

Note 5 – Net Fee and Commission Income

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Fees and commissions received	**31,729**	**26,055**
Due to payment operations	9,936	9,554
Due to banking services provided	14,058	10,450
Due to credit intermediation services	1,766	1,748
Due to insurance mediation services	5,969	4,304
Other fees and commissions received	-	(1)
Fees and commissions paid	**6,351**	**5,851**
Due to banking services provided by third parties	3,805	3,391
Due to payment operations	2,397	2,302
Dues to operations with securities	117	108
Other fees and commissions paid	32	50
Net Fee and Commission Income	**25,378**	**20,204**

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 – Results from Assets and Liabilities at Fair Value Through Profit or Loss

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Earnings on transactions with assets and liabilities at fair value through profit or loss	**1,102**	**-**
Derivatives	1,102	-
Losses on transactions with assets and liabilities at fair value through profit or loss	**(1)**	**-**
Investment fund units	(1)	-
Results from Assets and Liabilities at Fair Value Through Profit or Loss	**1,101**	**-**

Earnings on transactions with assets and liabilities at fair value through profit or loss refer to the change in the fair value of derivatives associated with the securitisation operations Ulisses Finance No.1 and Ulisses Finance No.2.

Note 7 – Net Gains/(Losses) of Other Financial Assets at Fair Value Through Other Comprehensive Income

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Earnings on transactions with other financial assets at fair value against other comprehensive income	**-**	**389**
Debt securities	-	389
Net Gains/(Losses) of Other Financial Assets at Fair Value Through Other Comprehensive Income	**-**	**389**

Note 8 – Results from Financial Assets and Liabilities at Amortised Cost

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Earnings on operations with financial assets and liabilities at amortised cost	**17,916**	**34**
Debt securities	17,916	34
Losses on operations with financial assets and liabilities at amortised cost	**(139)**	**-**
Debt securities	(139)	-
Results from Financial Assets and Liabilities at Amortised Cost	**17,777**	**34**

During 2021, the Group made sales of securities at amortised cost, resulting in a gain of 17,777 thousand euros. These sales of securities resulted from the Group's balance sheet management in the context of the entry into a new business segment (credit cards) resulting from the partnership with Sonae Financial Services.

Note 9 – Other Operating Income/(Expenses)

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Operating income	**3,914**	**3,794**
Credit recovery	1,281	1,297
Other operating income	2,633	2,497
Operating expenses	**3,138**	**2,790**
Royalties	191	238
Levies and donations	53	68
Contribution of the banking sector	127	304
Contribution to the Single Resolution Fund	185	82
Contribution to the Resolution Fund	47	128
Annual supervisory fees (SSM)	7	-
Taxes	182	138
Annual supervisory fees (ASF)	4	2
Contribution to the Deposit Guarantee Fund	4	3
Other operating expenses	2,338	1,827
Other Operating Income/(Expenses)	**776**	**1,004**

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 10 – Staff Costs

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Remuneration	15,152	14,301
Social charges on remunerations	3,659	3,435
Employees with a multiple employer arrangement	3,328	1,843
Incentives and performance bonuses	2,357	1,624
Occupational accident and disease insurance	484	378
Other costs	191	225
Staff costs	**25,171**	**21,806**

The total amount of fixed remunerations attributed to the Management and Supervisory Bodies of Banco CTT, during 2021, recorded in the heading "Remunerations", reached 1,640 thousand euros (2020: 1,501 thousand euros). During 2021, costs related to Social Security contributions of the Management and Supervisory Bodies were also paid of the value of 388 thousand euros (2020: 353 thousand euros). As at 31 December 2021, the heading "Incentives and performance bonuses" includes 689 thousand euros of bonuses attributable to the Management Bodies (2020: 133 thousand euros). In 2021, the Bank recorded under the heading "Other costs" 35 thousand euros of costs related to retirement savings plans attributed to Management Bodies (2020: 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 2021 the cost related to these employees shared with CTT amounted to 3,240 thousand euros (2020: 1,843 thousand euros).

In 2021 the Management Bodies were paid 226 thousand euros of variable remuneration (2020: 202 thousand euros).

On the date of the end of 2021 and 2020, the permanent staff, excluding employees under the multiple employer arrangement, distributed by major professional category, was as follows:

	2021	2020
Administration	12	12
Executive	*5*	*5*
Non-executive	*7*	*7*
of which: Audit Committee	*3*	*3*
Corporate Bodies (subsidiaries)	5	6
of which: Supervisory Bodies	*4*	*4*
Heads of functional areas	44	41
Technical and secretarial staff	383	366
	444	**425**

The heading Other costs includes, at 31 December 2021, 121 thousand euros (2020: 113 thousand euros) relative to defined benefit plans, as referred to in Note 36.

Note 11 – General Administrative Expenses

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Water, electricity and fuel	254	212
Consumables	151	172
Hygiene and cleaning supplies	10	27
Rental and hire charges	276	360
Communications	2,092	2,012
Travel, hotel and representation costs	499	429
Advertising	1,774	1,371
Maintenance and related services	296	34
Training costs	175	97
Insurance	122	140
IT	10,580	9,279
Consulting and advisory services	2,514	2,232
Other specialised services	3,263	3,083
Other supplies and services	10,971	7,704
General Administrative Expenses	**32,977**	**27,152**

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

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

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

The heading "Other supplies and services" records, among others, costs related to the use of the CTT Retail Network, servicing of banking operations and use of payments networks. The cost of using the physical and technical resources of the CTT Post Office Network amounted to 3,713 thousand euros (2020: 2,745 thousand euros).

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

(amounts in thousand euros)

	2021	2020
Review of accounts services	281	285
Reliability assurance services	109	260
Services other than review of accounts	-	83
	390	**628**

Note 12 – Earnings per Share

Earnings per share are calculated as follows:

	2021	2020
Net income for the year (thousand euros)	16,148	233
Average number of shares	295,742,466	286,400,000
Basic earnings per share (euros)	0,05	0,00
Diluted earnings per share (euros)	0,05	0,00

The Bank's share capital stands at 296,400,000 euros, represented by 296,400,000 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 2021 and 2020, 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 13 – Cash and Deposits at Central Banks

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Cash	28,310	27,862
Demand deposits at Banco de Portugal	593,160	167,502
Cash and Deposits at Central Banks	**621,470**	**195,364**

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

The heading "Demand deposits at Banco de Portugal" includes mandatory deposits with a view to meeting the minimum cash reserve requirements. As at 31 December 2021, the amount of the minimum cash reserves was 19,938 thousand euros.

Pursuant to Regulation (EU) 1358/2011 of the European Central Bank, of 14 December 2011, the minimum cash requirements kept as demand deposits at Banco de Portugal correspond to 1% of the deposits and other liabilities. From the reserve counting period started on 30 October 2019, the ECB introduced the tiering regime, in which the balance with the Central Bank in excess of the minimum cash reserves, up to a calculated maximum of 6 times the reserves, is remunerated at the central bank's lending rate.

Note 14 – Deposits at Other Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Credit institutions in Portugal	20,158	22,906
Credit institutions abroad	20,092	9,896
Cheques for collection	1,002	3,575
Impairment for deposits at other credit institutions	-	-
Deposits at Other Credit Institutions	**41,252**	**36,377**

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

Note 15 – Financial Assets at Amortised Cost – Investments at Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Investments at credit institutions in Portugal	2,350	10,000
Loans to credit institutions in Portugal	11,425	18,929
Investments at credit institutions abroad	-	10,000
Impairment for investments in credit institutions	(4)	(27)
Investments at Credit Institutions	**13,771**	**38,902**

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

(amounts in thousand euros)

	2021	2020
Up to 3 months	2,338	12,871
3 to 12 months	6,198	14,633
1 to 3 years	5,239	10,463
More than 3 years	-	962
Investments at Credit Institutions	**13,775**	**38,929**

The heading "Investments at credit institutions" showed an annual average rate of 1.191% in 2020 (2019: 1.179%).

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**27**	**216**
Movement for the period:		
Financial assets originated or acquired	1	23
Variations due to change in exposure or risk parameters	(1)	(162)
Derecognised financial assets excluding write-offs	(23)	(50)
Impairment of investments in credit institutions	**4**	**27**

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**27**	**216**
Movement for the period:		
Variations in the expected credit loss of the Portfolio	(23)	(189)
Impairment of investments in credit institutions	**4**	**27**

Note 16 – Financial Assets at Amortised Cost – Loans and Advances to Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Mortgage credit	595,420	525,083
Motor vehicle credit	660,983	568,273
Credit cards	297,944	-
Finance leases	4,975	6,937
Overdrafts	1,331	1,148
Outstanding loans	**1,560,653**	**1,101,441**
Overdue loans - less than 90 days	1,165	1,009
Overdue loans - more than 90 days	11,180	7,497
Overdue loans	**12,345**	**8,506**
Impairment for credit risk	**(31,090)**	**(16,665)**
Loans and Advances to Customers	**1,541,908**	**1,093,282**

The credit cards item represents the portfolio of credit cards acquired under the Universo Partnership with Sonae Financial Services. As mentioned in note 37 (Securitisation of Assets), this portfolio has been recognised in the Group's financial statements to the extent that the Group is the sole investor in the Next Funding No.1 securitisation operation and therefore subject to the conditions set out in IFRS 10 (Consolidated Financial Statements)) the securitisation operation is consolidated.

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

(amounts in thousand euros)

	2021						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Overdue loans	Total
Mortgage credit	-	4,529	13,058	35,360	542,473	-	595,420
Motor vehicle credit	-	27,206	73,257	188,259	372,261	9,611	670,594
Credit cards	-	297,944	-	-	-	773	298,717
Finance leases	-	460	1,281	2,717	517	77	5,052
Other loans	-	-	-	-	-	606	606
Overdrafts	1,331	-	-	-	-	1,278	2,609
Loans and Advances to Customers	**1,331**	**330,139**	**87,596**	**226,336**	**915,251**	**12,345**	**1,572,998**

(amounts in thousand euros)

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

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

(amounts in thousand euros)

	2021	2020
Fixed rate	926,351	528,331
Variable rate	646,647	581,616
Loans and Advances to Customers	**1,572,998**	**1,109,947**

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

(amounts in thousand euros)

	2021				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Asset-backed loans	600,434	1,510	601,944	(2,409)	599,535
Personal guaranteed loans	645,072	4,776	649,848	(17,150)	632,698
Unsecured loans	315,147	6,059	321,206	(11,531)	309,675
	1,560,653	**12,345**	**1,572,998**	**(31,090)**	**1,541,908**

(amounts in thousand euros)

	2020				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Asset-backed loans	531,955	924	532,879	(1,513)	531,366
Personal guaranteed loans	562,615	3,768	566,383	(10,184)	556,199
Unsecured loans	6,871	3,814	10,685	(4,968)	5,717
	1,101,441	**8,506**	**1,109,947**	**(16,665)**	**1,093,282**

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

(amounts in thousand euros)

	2021				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Mortgage credit	595,420	-	595,420	(596)	594,824
Motor vehicle credit	660,983	9,611	670,594	(22,024)	648,570
Credit cards	297,944	773	298,717	(6,618)	292,099
Finance leases	4,975	77	5,052	(98)	4,954
Other loans	-	606	606	(606)	-
Overdrafts	1,331	1,278	2,609	(1,148)	1,461
	1,560,653	**12,345**	**1,572,998**	**(31,090)**	**1,541,908**

(amounts in thousand euros)

	2020				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Mortgage credit	525,083	-	525,083	(499)	524,584
Motor vehicle credit	568,273	6,624	574,897	(14,657)	560,240
Finance leases	6,937	210	7,147	(282)	6,865
Other loans	-	627	627	(122)	505
Overdrafts	1,148	1,045	2,193	(1,105)	1,088
	1,101,441	**8,506**	**1,109,947**	**(16,665)**	**1,093,282**

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

(amounts in thousand euros)

	2021				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Companies					
Agriculture, forestry, animal husbandry and fisheries	4,234	39	4,273	(132)	4,141
Mining industry	695	-	695	(5)	690
Manufacturing industries	6,007	137	6,144	(174)	5,970
Water	124	-	124	-	124
Construction	9,894	301	10,195	(387)	9,808
Wholesale and retail trade	10,126	428	10,554	(531)	10,023
Transport and storage	4,168	88	4,256	(115)	4,141
Restaurants and hotels	4,182	91	4,273	(146)	4,127
Information and communication	645	-	645	(5)	640
Financial and insurance sector	308	2	310	(4)	306
Real estate activities	1,707	2	1,709	(21)	1,688
Professional, scientific and technical activities	1,657	8	1,665	(46)	1,619
Administrative and support services	3,471	329	3,800	(380)	3,420
Education	721	1	722	(10)	712
Health services and social assistance	1,305	15	1,320	(23)	1,297
Artistic, sports and recreational activities	897	73	970	(66)	904
Other services	5,867	71	5,938	(183)	5,755
Individuals					
Mortgage loans	595,516	-	595,516	(598)	594,918
Consumer	909,129	10,760	919,889	(28,264)	891,625
	1,560,653	**12,345**	**1,572,998**	**(31,090)**	**1,541,908**

(amounts in thousand euros)

	2020				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Companies					
Agriculture, forestry, animal husbandry and fisheries	1,571	20	1,591	(47)	1,544
Mining industry	257	-	257	(5)	252
Manufacturing industries	3,048	94	3,142	(105)	3,037
Water	144	6	150	(6)	144
Construction	6,186	325	6,511	(292)	6,219
Wholesale and retail trade	4,781	471	5,252	(253)	4,999
Transport and storage	1,325	56	1,381	(80)	1,301
Restaurants and hotels	1,639	23	1,662	(67)	1,595
Information and communication	252	2	254	(3)	251
Financial and insurance sector	171	2	173	(3)	170
Real estate activities	1,354	11	1,365	(17)	1,348
Professional, scientific and technical activities	885	5	890	(32)	858
Administrative and support services	1,408	294	1,702	(95)	1,607
Education	573	1	574	(9)	565
Health services and social assistance	806	15	821	(34)	787
Artistic, sports and recreational activities	411	31	442	(37)	405
Other services	23,392	121	23,513	(453)	23,060
Individuals					
Mortgage loans	525,083	-	525,083	(499)	524,584
Consumer	528,155	7,029	535,184	(14,628)	520,556
	1,101,441	**8,506**	**1,109,947**	**(16,665)**	**1,093,282**

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

(amounts in thousand euros)

	2021			
	Stage 1	Stage 2	Stage 3	Total
Opening balance	**4,161**	**2,225**	**10,279**	**16,665**
Movement for the period:				
Financial assets originated or acquired	3,754	2,937	2,507	9,198
Variations due to change in exposure or risk parameters	(1,623)	(370)	8,187	6,194
Derecognised financial assets excluding write-offs	(407)	(155)	(696)	(1,258)
Write-offs	-	-	(685)	(685)
Transfers to:				
Stage 1	1,012	(361)	(651)	-
Stage 2	(204)	1,687	(1,483)	-
Stage 3	(164)	(1,482)	1,646	-
Other movements	(55)	121	910	976
Credit impairment	**6,474**	**4,602**	**20,014**	**31,090**
Of which: POCI	*-*	*-*	*1,463*	*1,463*

(amounts in thousand euros)

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

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

(amounts in thousand euros)

	2021			
	Stage 1	Stage 2	Stage 3	Total
Opening balance	**4,161**	**2,225**	**10,279**	**16,665**
Movement for the period:				
Variations in the expected credit loss of the credit portfolio	1,724	2,412	9,998	14,134
Transfers of Stage (net)	644	(156)	(488)	-
Write-offs	-	-	(685)	(685)
Other movements	(55)	121	910	976
Credit impairment	**6,474**	**4,602**	**20,014**	**31,090**

(amounts in thousand euros)

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

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

(amounts in thousand euros)

	2021	2020
Stage 1	**1,428,288**	**1,026,605**
Gross Value	1,434,762	1,030,766
Impairment	(6,474)	(4,161)
Stage 2	**82,565**	**49,989**
Gross Value	87,167	52,214
Impairment	(4,602)	(2,225)
Stage 3	**31,055**	**16,688**
Gross Value	51,069	26,967
Impairment	(20,014)	(10,279)
	1,541,908	**1,093,282**

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

Moratoria

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

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

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

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

As at 31 December 2021, the Banco CTT Group has no active moratorium on any credit segment.

In accordance with the EBA Guidelines on the reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis (EBA/GL/2020/07), the total number of moratorium requests, moratoriums assigned and gross carrying amount of loans and advances as at 31 December 2021 and 2020: are presented below:

(amounts in thousand euros)

	2021								
		Gross carrying amount							
	Number of debtors	Total	Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
Loans and advances which have been offered a moratorium	7,080	81,279							
Loans and advances subject to a moratorium (applied)	4,424	64,019	42,220	64,019	-	-	-	-	-
of which: households		54,496	33,041	54,496	-	-	-	-	-
of which: secured by residential property		33,023	33,023	33,023	-	-	-	-	-
of which: non-financial corporations		9,523	9,179	9,523	-	-	-	-	-
of which: small and medium-sized enterprises		8,011	7,684	8,011	-	-	-	-	-
of which: secured by commercial real estate		2,610	2,610	2,610	-	-	-	-	-

(amounts in thousand euros)

	2020								
		Gross carrying amount							
	Number of debtors		Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
Loans and advances which have been offered a moratorium	7,018	103,470							
Loans and advances subject to a moratorium (applied)	4,364	82,151	54,213	41,761	9,423	389	30,578	-	-
of which: households		71,837	44,356	40,719	152	389	30,578	-	-
of which: secured by residential property		44,335	44,335	13,223	146	389	30,578	-	-
of which: non-financial corporations		10,313	9,857	1,042	9,271	-	-	-	-
of which: small and medium-sized enterprises		9,131	8,674	1,015	8,115	-	-	-	-
of which: secured by commercial real estate		2,958	2,958	165	2,794	-	-	-	-

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

(amounts in thousand euros)

	2021	2020
Value of future minimum payments	5,352	7,458
Interest not yet due	(377)	(521)
Present value	**4,975**	**6,937**

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

(amounts in thousand euros)

	2021	2020
Up to 1 year	2,107	1,763
1 to 5 years	2,727	4,602
More than 5 years	518	1,093
Value of future minimum payments	**5,352**	**7,458**

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

(amounts in thousand euros)

	2021	2020
Individuals	**623**	**773**
Mortgage	91	96
Other	532	677
Companies	**4,352**	**6,164**
Furniture	199	315
Real estate	4,153	5,849
	4,975	**6,937**

Note 17 – Financial Assets at Amortised Cost – Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Public debt securities		
Portuguese	185,545	288,879
Foreign	148,350	201,696
Bonds of other issuers		
Portuguese	387	7,858
Impairment	(121)	(182)
Financial Assets at Amortised Cost – Debt Securities	**334,161**	**498,251**

During 2021, sales amounting to 204 million euros (nominal value) were made, resulting in a gain of 17,777 thousand euros (note 8).

The financial assets in this portfolio are managed based on a business model whose objective is the receipt of its contractual cash flows (note 2.3.1.1).

The analysis of investments in securities as at 31 December 2021 and 2020, by residual maturity, is as follows:

(amounts in thousand euros)

	2021				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	2,521	22,264	38,565	122,195	185,545
Foreign	1,013	12,997	11,098	123,242	148,350
Bonds of other issuers					
Portuguese	387	-	-	-	387
Financial Assets at Amortised Cost – Debt Securities	**3,921**	**35,261**	**49,663**	**245,437**	**334,282**

(amounts in thousand euros)

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

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**182**	**173**
Movement for the period:		
Financial assets originated or acquired	35	11
Variations due to change in exposure or risk parameters	(78)	2
Derecognised financial assets excluding write-offs	(18)	(4)
Impairment of debt securities at amortised cost	**121**	**182**

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**182**	**173**
Movement for the period:		
Variations in the expected credit loss of the portfolio	(61)	9
Impairment of debt securities at amortised cost	**121**	**182**

Note 18 – Financial Assets at Fair Value Through Profit or Loss

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Derivatives	2,262	2
Investment fund units	24,999	-
Real-estate Investment Funds	24,999	-
Financial Assets at Fair Value Through Profit and Loss	**27,261**	**2**

The item Derivatives represents the fair value of derivative financial instruments whose objective is the mitigation of interest rate risk for securitisation operations and their investors, as detailed in note 37.

The item Real Estate Investment Funds in the amount of 24,999 thousand euros refers to an investment in an open-ended real estate investment fund domiciled in Portugal, representing 10.7% of the total units issued on 31 December 2021.

Note 19 – Financial Assets at Fair Value through Other Comprehensive Income - Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Public debt securities		
Portuguese	849	7,621
Bonds of other issuers		
Portuguese	5,246	11,934
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	**6,095**	**19,555**

Fair value changes are reflected in other comprehensive income, as described in note 2.3.1.2. (see note 30).

The analysis of investments in securities as at 31 December 2021 and 2020, by residual maturity, is as follows:

(amounts in thousand euros)

	2021				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	4	845	-	-	849
Bonds of other issuers					
Portuguese	339	-	4,907	-	5,246
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	**343**	**845**	**4,907**	**-**	**6,095**

(amounts in thousand euros)

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

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**9**	**-**
Movement for the period:		
Financial assets originated or acquired	-	9
Variations due to change in exposure or risk parameters	(4)	-
Derecognised financial assets excluding write-offs	(2)	-
Impairment of debt securities at fair value through other comprehensive income	**3**	**9**

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**9**	**-**
Movement for the period:		
Variations in the expected credit loss of the portfolio	(6)	9
Impairment of debt securities at fair value through other comprehensive income	**3**	**9**

The impairment of these assets is reflected in other comprehensive income, as described in note 2.3.1.2. (see note 30).

Note 20 – Non-Current Assets Held for Sale

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Assets	**771**	**1,249**
Real estate properties	770	1,248
Equipment	1	1
Impairment	**(165)**	**(283)**
Real estate properties	(164)	(282)
Equipment	(1)	(1)
Non-Current Assets Held for Sale	**606**	**966**

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 2021 is presented as follows:

(amounts in thousand euros)

	2020			Additions	Divestment and Write-off	Transfers	Impairment for the year	2021		
	Gross value	Accumulated impairment	Net value					Gross value	Accumulated impairment	Net value
Real estate properties	1,248	(282)	966	29	(478)	(29)	118	770	(164)	606
Equipment	1	(1)	-	-	-	-	-	1	(1)	-
	1,249	**(283)**	**966**	**29**	**(478)**	**(29)**	**118**	**771**	**(165)**	**606**

The movement during 2020 is presented as follows:

(amounts in thousand euros)

	2019			Additions	Divestment and Write-off	Transfers	Impairment for the year	2020		
	Gross value	Accumulated impairment	Net value					Gross value	Accumulated impairment	Net value
Real estate properties	990	(184)	806	258	-	-	(98)	1,248	(282)	966
Equipment	1	(1)	-	-	-	-	-	1	(1)	-
	991	**(185)**	**806**	**258**	**-**	**-**	**(98)**	**1,249**	**(283)**	**966**

The movements in impairment for non-current assets held for sale are analysed as follows:

(amounts in thousand euros)

	2021	2020
Opening balance	**283**	**185**
Allocation for the period	15	99
Reversal for the period	(133)	(1)
Impairment for non-current assets held for sale	**165**	**283**

Note 21 – Other Tangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Acquisition Cost	**13,953**	**9,640**
Real estate properties		
Works in rented properties	493	522
Equipment		
Furniture	621	599
Machinery and tools	3,791	2,941
Computer equipment	687	1,003
Interior installations	14	14
Transport material	6	6
Security equipment	132	130
Other equipment	104	101
Rights of use		
Real estate properties	6,587	3,042
Motor vehicles	1,507	1,279
Other tangible assets	11	3
Accumulated Depreciation	**(6,748)**	**(5,768)**
Related to previous years	(4,852)	(4,016)
Related to the current year	(1,896)	(1,752)
Other Tangible Assets	**7,205**	**3,872**

The movement of the heading "Other Tangible Assets" during 2021 is analysed as follows:

(amounts in thousand euros)

	2021					
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Other variations	Balance on 31 December
Acquisition cost	**9,640**	**5,161**	**-**	**(1,070)**	**222**	**13,953**
Real estate properties						
Works in rented properties	522	5	-	(34)	-	493
Equipment						
Furniture	599	22	-	-	-	621
Machinery and tools	2,941	858	-	(8)	-	3,791
Computer equipment	1,003	81	-	(397)	-	687
Interior installations	14	-	-	-	-	14
Transport material	6	-	-	-	-	6
Security equipment	130	2	-	-	-	132
Other equipment	101	3	-	-	-	104
Rights of use						
Real estate properties	3,042	3,698	-	(375)	222	6,587
Motor vehicles	1,279	484	-	(256)	-	1,507
Other tangible assets	3	8	-	-	-	11
Accumulated depreciation	**(5,768)**	**(1,896)**	**-**	**916**	**-**	**(6,748)**
Real estate properties						
Works in rented properties	(311)	(40)	-	34	-	(317)
Equipment						
Furniture	(536)	(11)	-	-	-	(547)
Machinery and tools	(2,406)	(196)	-	8	-	(2,594)
Computer equipment	(893)	(98)	-	397	-	(594)
Interior installations	(7)	-	-	-	-	(7)
Transport material	(6)	-	-	-	-	(6)
Security equipment	(95)	(8)	-	-	-	(103)
Other equipment	(71)	(3)	-	-	-	(74)
Rights of use						
Real estate properties	(924)	(1,190)	-	235	-	(1,879)
Motor vehicles	(518)	(349)	-	242	-	(625)
Other tangible assets	(1)	(1)	-	-	-	(2)
Other Tangible Assets	**3,872**	**3,265**	**-**	**(154)**	**222**	**7,205**

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

(amounts in thousand euros)

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

Note 22 – *Goodwill and Intangible Assets*

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Goodwill	**61,085**	**61,085**
Payshop (Portugal), S.A.	406	406
321 Crédito – Instituição Financeira de Crédito, S.A.	60,679	60,679
Intangible Assets	**26,872**	**28,826**
Acquisition Cost	**49,757**	**45,958**
Software in use	47,161	41,387
Other intangible assets	542	645
Software in progress	2,054	3,926
Impairment	**(61)**	**-**
Accumulated Amortisation	**(22,824)**	**(17,132)**
Related to previous years	(17,029)	(12,433)
Related to the current year	(5,795)	(4,699)
Goodwill and Intangible Assets	**87,957**	**89,911**

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 2021 is analysed as follows:

(amounts in thousand euros)

	2021				
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Goodwill	**61,085**	**-**	**-**	**-**	**61,085**
Consolidation and revaluation differences	61,085	-	-	-	61,085
Impairment	-	-	-	-	-
Intangible Assets	**28,826**	**(1,954)**	**-**	**-**	**26,872**
Acquisition Cost	**45,958**	**3,902**	**-**	**(103)**	**49,757**
Software in use	41,387	144	5,630	-	47,161
Other intangible assets	645	-	-	(103)	542
Software in progress	3,926	3,758	(5,630)	-	2,054
Impairment	**-**	**(61)**	**-**	**-**	**(61)**
Accumulated amortisation	**(17,132)**	**(5,795)**	**-**	**103**	**(22,824)**
Software in use	(16,532)	(5,780)	-	-	(22,312)
Other intangible assets	(600)	(15)	-	103	(512)
Goodwill and Intangible Assets	**89,911**	**(1,954)**	**-**	**-**	**87,957**

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

(amounts in thousand euros)

	2020				
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Goodwill	**61,085**	**-**	**-**	**-**	**61,085**
Consolidation and revaluation differences	61,085	-	-	-	61,085
Impairment	-	-	-	-	-
Intangible Assets	**27,624**	**1,283**	**-**	**(81)**	**28,826**
Acquisition Cost	**40,515**	**5,982**	**-**	**(539)**	**45,958**
Software in use	33,959	113	7,723	(408)	41,387
Other intangible assets	680	16	-	(51)	645
Software in progress	5,876	5,853	(7,723)	(80)	3,926
Accumulated amortisation	**(12,891)**	**(4,699)**	**-**	**458**	**(17,132)**
Software in use	(12,272)	(4,668)	-	408	(16,532)
Other intangible assets	(619)	(31)	-	50	(600)
Goodwill and Intangible Assets	**88,710**	**1,282**	**-**	**(81)**	**89,911**

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 2021 and 31 December 2020, based on the following assumptions:

	2021			
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	7.6%	1.4%
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	9 years	10.0%	1.5%

	2020			
Corporate Name	Basis of determination of recoverable amount	Explicit period for cash flows	Discount rate	Growth rate in perpetuity
Payshop (Portugal), S.A.	Equity Value / DCF	10 years	10.0%	1.5%
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	10 years	10.0%	1.5%

Payshop (Portugal), S.A.

Cash flows were estimated based on historical performance and the 5-year business plan.

Sensitivity analyses were performed on the results of these impairment tests, namely regarding the following key assumptions: (i) reduction of 50 basis points in the growth rate in perpetuity and (ii) increase of 50 basis points in the different discount rates used.

As a result of the impairment test performed, as well as the sensitivity analyses carried out, no impairment loss was identified in the goodwill recorded on 31 December 2021.

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

Cash flows were estimated on the basis of projections of results and of evolution of activity based on the entity's business plan. This business plan covers a period up to 2030 and considers an annual compound growth rate of 7.5% of assets over this period.

Sensitivity analyses were performed on the results of these impairment tests, namely regarding the following key assumptions: (i) reduction/increase of 0.5% in the target of the CET1 ratio (ii) an increase of 50 points in the different discount rates used.

As a result of the impairment test performed, as well as the sensitivity analyses carried out, no impairment loss was identified in the goodwill recorded on 31 December 2021.

Note 23 – 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 2021 and 2020 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)

	2021	2020
Profit/(Loss) before tax	21,304	1,212
Current tax rate	21%	21%
Expected income tax	**4,474**	**255**
Surcharges	930	656
Total expected tax	**5,404**	**911**
Accruals/(deductions) for calculation purposes	(110)	(104)
Autonomous tax	78	72
Other adjustments	(201)	(7)
Recorded current tax for the year	**5,171**	**872**
Recorded deferred tax	**273**	**213**
Recorded total tax	**5,444**	**1,085**
Effective rate	**25.6%**	**89.5%**
Corrections relative to previous years	**(288)**	**(106)**
Taxes	**5,156**	**979**

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 24 and 28).

The heading "Current tax liabilities", in the amount of 1,362 thousand euros (2020: 1,363 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)

	2021	2020
Opening balance	**1,929**	**2,093**
Change of the consolidation perimeter	-	-
Recognised through profit or loss	(313)	(213)
Recognised through other reserves	(24)	49
Deferred Tax Assets	**1,592**	**1,929**

The value of deferred tax assets as at 31 December 2021 and 2020 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)

	2021	2020
Opening balance	**103**	**83**
Change of the consolidation perimeter	(40)	-
Recognised through other reserves	(14)	20
Deferred Tax Liabilities	**49**	**103**

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.

In the financial year 2018, the Group incurred R&D expenses of approximately 17,153 euros, for which it benefited from a tax credit - deferred in 2021 - under corporate income tax (IRC) in the amount of 14,152 euros.

In the financial year 2019, the Group incurred R&D expenses of approximately 197,803 euros, for which it benefited from a tax credit - deferred in 2021 - under corporate income tax (IRC) in the amount of 158,900 euros.

In the financial year 2020, the Group incurred R&D expenses of approximately 441,186 euros for which it will benefit - deferred in 2022 - from a tax credit under corporate income tax (IRC) in the amount of 310,239 euros.

As for the 2021 financial year, the Group is still identifying and quantifying the expenses incurred with R&D that will integrate the applications that will be submitted during 2022.

Note 24 – Other Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
IRC RETGS	11,796	13,651
Receivables due to payment operations	1,834	1,560
Operations to be cleared	1,185	1,953
Escrow accounts	318	320
Other receivables	2,875	6,139
Expenses with deferred charges	2,059	792
Administrative Public Sector	1,034	1,161
Receivables due to advances	5	106
Income receivable	2,410	52
Impairment of other assets	(2,808)	(4,266)
Other assets	**20,708**	**21,468**

The heading "Other Assets" includes the amount of 11,796 thousand euros (2020: 13,651 thousand euros) for corporate income tax as a result of the application of the special regime applicable to the taxation of groups of companies (RETGS), pursuant to point 2.9 of Note 2. This amount is classified as a financial instrument at amortised cost, being remunerated at a market rate.

The heading "Receivables due to payment operations" primarily consists of amounts receivable from Payshop agents.

The heading "Other receivables" essentially records the amounts receivable due to credit intermediation and insurance mediation operations. This also includes overdue and uncollected amounts related to credit agreements granted to customers, namely, amounts for administrative expenses and Value Added Tax (VAT) on monthly finance lease payments totalling 1,804 thousand euros (2020: 3,262 thousand euros).

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

(amounts in thousand euros)

	2021	2020
Opening balance	**4,266**	**4,789**
Allocation for the period	109	73
Reversal for the period	(63)	(1,004)
Usage for the period	(1,504)	(217)
Transfers	-	625
Impairment of other assets	**2,808**	**4,266**

Note 25 – Financial Liabilities at Amortised Cost – Deposits from Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Demand deposits	1,485,970	1,207,038
Term deposits	223,067	178,176
Saving accounts	412,474	303,251
Financial Liabilities at Amortised Cost – Deposits from Customers	**2,121,511**	**1,688,465**

In 2021, the average rate of return on deposits from customers was 0.02% (2020: 0.06%).

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

(amounts in thousand euros)

	2021	2020
Demand deposits and saving accounts	1,898,444	1,510,289
Term deposits		
Up to 3 months	106,310	81,534
3 to 12 months	116,757	96,642
Financial Liabilities at Amortised Cost – Deposits from Customers	**2,121,511**	**1,688,465**

Note 26 – Financial Liabilities at Amortised Cost – Debt Securities Issued

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Securitisations (see note 37)	277,796	44,518
Financial Liabilities at Amortised Cost – Debt Securities Issued	**277,796**	**44,518**

As at 31 December 2021, debt securities issued and not retained are analysed as follows:

(amounts in thousand euros)

	2021				
Name	Issue date	Redemption date	Remuneration	Nominal value	Book value
Ulisses Finance No.1				**24,521**	**24,533**
Ulisses Finance No.1 – Class A	July 2017	March 2033	Euribor 1M + 85 bps	10,421	10,424
Ulisses Finance No.1 – Class B	July 2017	March 2033	Euribor 1M + 160 bps	7,000	7,002
Ulisses Finance No.1 – Class C	July 2017	March 2033	Euribor 1M + 375 bps	7,100	7,107
Ulisses Finance No.2				**251,275**	**253,263**
Ulisses Finance No.2 – Class A	September 2021	September 2038	Euribor 1M + 70 bps	203,700	205,736
Ulisses Finance No.2 – Class B	September 2021	September 2038	Euribor 1M + 80 bps	10,000	9,987
Ulisses Finance No.2 – Class C	September 2021	September 2038	Euribor 1M + 135 bps	20,000	19,976
Ulisses Finance No.2 – Class D	September 2021	September 2038	Euribor 1M + 285 bps	11,300	11,291
Ulisses Finance No.2 – Class E	September 2021	September 2038	Euribor 1M + 368 bps	3,700	3,698
Ulisses Finance No.2 – Class F	September 2021	September 2038	Euribor 1M + 549 bps	1,300	1,300
Ulisses Finance No.2 – Class G	September 2021	September 2038	Euribor 1M + 500 bps	1,275	1,275
				275,796	**277,796**

As at 31 December 2020, the debt securities issued are analysed as follows:

(amounts in thousand euros)

	2020				
Name	**Issue date**	**Redemption date**	**Remuneration**	**Nominal value**	**Book value**
Ulisses Finance No.1				**44,502**	**44,518**
Ulisses Finance No.1 – Class A	July 2017	March 2033	Euribor 1M + 85 bps	30,402	30,429
Ulisses Finance No.1 – Class B	July 2017	March 2033	Euribor 1M + 160 bps	7,000	6,992
Ulisses Finance No.1 – Class C	July 2017	March 2033	Euribor 1M + 375 bps	7,100	7,097
				44,502	**44,518**

The movement of this heading for 2021 is presented as follows:

(amounts in thousand euros)

	2021				
Name	**Opening balance**	**Emissions**	**Redemptions**	**Other movements**	**Closing balance**
Ulisses Finance No.1	44,518	-	(19,981)	(5)	24,532
Ulisses Finance No.2	-	251,500	(225)	1,989	253,264
	44,518	**251,500**	**(20,206)**	**1,984**	**277,796**

The movement of this heading for 2020 is presented as follows:

(amounts in thousand euros)

	2020				
Name	**Opening balance**	**Emissions**	**Redemptions**	**Other movements**	**Closing balance**
Ulisses Finance No.1	76,077	-	(31,148)	(411)	44,518
	76,077	**-**	**(31,148)**	**(411)**	**44,518**

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

(amounts in thousand euros)

	2021				
	Up to 3 months	**3 to 12 months**	**1 to 3 years**	**More than 3 years**	**Total**
Securitisations	35	-	-	277,761	277,796
	35	**-**	**-**	**277,761**	**277,796**

(amounts in thousand euros)

	2020				
	Up to 3 months	**3 to 12 months**	**1 to 3 years**	**More than 3 years**	**Total**
Securitisations	11	-	-	44,507	44,518
	11	**-**	**-**	**44,507**	**44,518**

Note 27 – Provisions

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Provisions for other risks and charges	1,032	1,780
Provisions for commitments	314	-
Provisions	**1,346**	**1,780**

The provisions for other risks and charges were established in order to cover contingencies related to the Group's activity and whose payment is considered probable.

Provisions for commitments refer to provisions for indirect credit. In 2021, a credit impairment transfer of 170 thousand euros (note 16) was made to provisions.

On each reporting date, the Group reassess 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)

	2021	2020
Opening balance	**1,780**	**1,723**
Allocation for the period	508	1,084
Reversal for the period	(1,015)	(756)
Uses	(79)	-
Transfers	152	(271)
Provisions	**1,346**	**1,780**

The transfer of 271 thousand euros in 2020 is a reclassification to the heading impairment of other assets relating to values recorded under the heading of administrative public sector (note 24).

Note 28 – Other Liabilities

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Payables		
Suppliers	13,514	12,076
Related parties	1,073	1,066
Other payables	3,360	2,114
Staff costs	7,159	6,201
Operations to be cleared	26,987	21,475
Revenue with deferred charge	288	428
Payables due to payment operations	4,078	3,736
IRC RETGS	-	74
Administrative Public Sector	1,735	1,635
Escrow accounts	265	263
Lease liabilities	5,633	2,909
Other Liabilities	**64,092**	**51,977**

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 "Lease liabilities" corresponds to the lease liabilities recognised under IFRS 16, as described in accounting policy 2.8.

Note 29 – Share Capital

The share capital stands at 296,400,000 euros, represented by 296,400,000 ordinary shares without nominal value, and is fully underwritten and paid-up.

An increase of the Company's share capital was carried out on 25 January 2021 from 286.400.000 euros (two hundred and eighty-six million and four hundred thousand euros) to 296.400.000 euros (two hundred and ninety-six million and four hundred thousand euros), via a new cash entry by the Sole Shareholder (CTT – Correios de Portugal, S.A.), of the value of 10,000,000 euros (ten million euros) giving rise to the issue of 10,000,000 new ordinary, registered shares without nominal value with the issue value of 1 euro each.

As at 31 December 2021, the Bank's share capital is 100% held by CTT – Correios de Portugal, S.A. (public company).

Note 30 – Fair Value Reserves, Other Reserves and Retained Earnings

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Fair value reserves		
Other financial assets at fair value through other comprehensive income	27	83
Legal reserves	29	-
Other reserves	(820)	(884)
Retained earnings	(73,954)	(74,159)
Reserves and Retained Earnings	**(74,718)**	**(74,960)**

Note 31 – Guarantees and Other Commitments

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Guarantees provided	21,988	17,050
Guarantees received	1,832,086	1,533,342
Commitments to third parties		
Revocable commitments		
Credit lines	567,603	32,294
Irrevocable commitments		
Credit lines	16,344	11,330
Commitments from third parties		
Revocable commitments		
Credit line	16,137	12,690

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

The amount recorded as Guarantees Received basically includes sureties and mortgages on properties for collateralization of operations mortgage loans.

The revocable and irrevocable commitments present contractual agreements for the granting of credit to the Group's customers (for example, undrawn credit card facilities and bank overdrafts) which are generally contracted for fixed terms 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.

Provisions for commitments made to third parties are disclosed in note 27.

Note 32 – Transactions with Related Parties

All the business and operations carried out by the Group with related parties are cumulatively concluded under normal market conditions for similar operations and are part of the Group's current activity.

For all due purposes, the concept of related parties is provided in Chapter 4 of the Banco CTT Group's Policy on Transactions with Related Parties (which refers to the provisions of IAS 24, the RGICSF and Banco de Portugal Notice 3/2020), available for consultation at https://www.bancoctt.pt/sobre-o-banco-ctt/governo-da-sociedade/estatutos-e-regulamentos.

As at 31 December 2021, 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)

	2021			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Operating costs	Operating income
CTT – Correios de Portugal, S.A.	12,893	3,887	6,292	3,103
CTT Expresso – Serviços Postais e Logística, S.A.	12	12	91	-
CTT Contacto, S.A.	-	21	-	-
	12,905	**3,920**	**6,383**	**3,103**

As at 31 December 2020, the value of the Group's transactions with related parties, as well as the respective costs and income recognised for the year, were as follows:

(amounts in thousand euros)

	2020			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Operating costs	Operating income
CTT – Correios de Portugal, S.A.	14,372	1,724	5,279	2,694
CTT Expresso – Serviços Postais e Logística, S.A.	1	12	113	41
CTT Contacto, S.A.	-	18	238	-
	14,373	**1,754**	**5,630**	**2,735**

As at 31 December 2021, the value of the deposits placed by the members of the Corporate Bodies at the Group amounted to 253 thousand euros (2020: 150 thousand euros).

Note 33 – Fair Value

The fair value of the financial assets and liabilities, as at 31 December 2021, is analysed as follows:

(amounts in thousand euros)

	2021				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair Value
Cash and deposits at central banks	-	-	621,470	621,470	621,470
Deposits at other credit institutions	-	-	41,252	41,252	41,252
Financial assets at amortised cost					
Investments at credit institutions	-	-	13,771	13,771	13,771
Loans and advances to customers	-	-	1,541,908	1,541,908	1,541,382
Debt securities	-	-	334,161	334,161	348,482
Bonds issued by public entities	-	-	*333,774*	*333,774*	*348,100*
Bonds of other issuers	-	-	*386*	*386*	*382*
Financial assets at fair value through profit or loss					
Derivatives	2,262	-	-	2,262	2,262
Investment fund units	24,999	-	-	24,999	24,999
Financial assets at fair value through other comprehensive income					
Debt securities	-	6,095	-	6,095	6,095
Bonds issued by public entities	-	*849*	-	*849*	*849*
Bonds of other issuers	-	*5,246*	-	*5,246*	*5,246*
Financial Assets	**27,261**	**6,095**	**2,552,562**	**2,585,918**	**2,599,713**
Financial liabilities at amortised cost					
Deposits from Customers	-	-	2,121,511	2,121,511	2,121,511
Debt securities issued	-	-	277,796	277,796	277,392
Financial liabilities	**-**	**-**	**2,399,307**	**2,399,307**	**2,398,903**

The fair value of the financial assets and liabilities, as at 31 December 2020, is analysed as follows:

(amounts in thousand euros)

	2020				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair Value
Cash and deposits at central banks	-	-	195,364	195,364	195,364
Deposits at other credit institutions	-	-	36,377	36,377	36,377
Financial assets at amortised cost					
Investments at credit institutions	-	-	38,902	38,902	38,902
Loans and advances to customers	-	-	1,093,282	1,093,282	1,098,652
Debt securities	-	-	498,251	498,251	543,316
Bonds issued by public entities	-	-	*490,394*	*490,394*	*535,452*
Bonds of other issuers	-	-	*7,856*	*7,856*	*7,865*
Financial assets at fair value through profit or loss					
Derivatives	2	-	-	2	2
Financial assets at fair value through other comprehensive income					
Debt securities	-	19,555	-	19,555	19,555
Bonds issued by public entities	-	*7,621*	-	*7,621*	*7,620*
Bonds of other issuers	-	*11,934*	-	*11,934*	*11,934*
Financial Assets	**2**	**19,555**	**1,862,176**	**1,881,733**	**1,932,168**
Financial liabilities at amortised cost					
Deposits from Customers	-	-	1,688,465	1,688,465	1,688,465
Debt securities issued	-	-	44,518	44,518	44,518
Financial liabilities	**-**	**-**	**1,732,983**	**1,732,983**	**1,732,983**

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 2021:

(amounts in thousand euros)

	2021			
	Valuation methods			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	621,470	-	-	621,470
Deposits at other credit institutions	41,252	-	-	41,252
Financial assets at amortised cost				
Investments at credit institutions	-	-	13,771	13,771
Loans and advances to customers	-	-	1,541,382	1,541,382
Debt securities	348,100	382	-	348,482
Bonds issued by public entities	*348,100*	-	-	*348,100*
Bonds of other issuers	-	*382*	-	*382*
Financial assets at fair value through profit or loss				
Derivatives	-	-	2,262	2,262
Investment fund units	-	-	24,999	24,999
Financial assets at fair value through other comprehensive income				
Debt securities	849	5,246	-	6,095
Bonds issued by public entities	*849*	-	-	*849*
Bonds of other issuers	-	*5,246*	-	*5,246*
Financial Assets	**1,011,671**	**5,628**	**1,582,414**	**2,599,713**
Financial liabilities at amortised cost				
Deposits from Customers	-	-	2,121,511	2,121,511
Debt securities issued	-	277,392	-	277,392
Financial liabilities	**-**	**277,392**	**2,121,511**	**2,398,903**

Sensitivity analysis

The Loans and advances to customers item which, as at 31 December 2021, has a fair value of 1,541,382 thousand euros has a sensitivity of +9,170 thousand euros and -26,042 thousand euros to an interest rate change of -10% and +10%, respectively.

The table below summarises, by valuation levels, the fair value of the financial assets and liabilities, as at 31 December 2020:

(amounts in thousand euros)

	2020			
	Valuation methods			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	195,364	-	-	195,364
Deposits at other credit institutions	36,377	-	-	36,377
Financial assets at amortised cost				
Investments at credit institutions	-	-	38,902	38,902
Loans and advances to customers	-	-	1,098,652	1,098,652
Debt securities	535,451	4,065	3,800	543,316
Bonds issued by public entities	*535,452*	-	-	*535,452*
Bonds of other issuers	-	*4,065*	*3,800*	*7,865*
Financial assets at fair value through profit or loss				
Derivatives	-	-	2	2
Financial assets at fair value through other comprehensive income				
Debt securities	8,135	11,420	-	19,555
Bonds issued by public entities	*7,620*	-	-	*7,620*
Bonds of other issuers	*515*	*11,419*	-	*11,934*
Financial Assets	**775,327**	**15,485**	**1,141,356**	**1,932,168**
Financial liabilities at amortised cost				
Deposits from Customers	-	-	1,688,465	1,688,465
Debt securities issued	-	44,518	-	44,518
Financial liabilities	**-**	**44,518**	**1,688,465**	**1,732,983**

The main methods and assumptions used to estimate the fair value of the financial assets and liabilities recorded in the balanced sheet 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 financial instruments are very short-term, so the balance sheet value is a reasonable estimate of their fair value.

Investment securities measured at amortised cost

The fair value of these financial instruments is based on market prices, when available. If market prices do not exist, their fair value is estimated based on the expected future principal and interest cash flows for these instruments.

Loans and advances to customers

Loans and advances to customers with defined maturity date

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.

Loans and advances to customers without a defined maturity date

Considering the short-term nature of this type of instrument, the conditions of this portfolio are similar to those prevailing at the reporting date, and so its book value is considered a reasonable estimate of its fair value.

Financial assets at fair value through profit or loss (except derivatives)

These financial assets are accounted for at fair value. Fair value is based on market prices, when available. If they do not exist, the calculation of the fair value is based on i) the use of numerical models, namely discounted cash-flows of expected future capital and interest for these instruments or ii) the Net Asset Value (NAV) provided by the fund management companies.

Financial assets at fair value through profit or loss (Derivatives)

All derivatives are accounted for at their fair value. In the case of those that are quoted on organised markets, the respective market price is used. In the case of over-the-counter (OTC) derivatives, numerical models based on discounted cash flow techniques and option valuation models considering market and other variables are applied.

Financial assets at fair value through other comprehensive income

The fair value of these instruments is estimated 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.

Amounts owed to central banks and other credit institutions

These financial instruments are very short-term and therefore 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.

Debt securities issued

The fair value of these instruments is estimated 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.

Note 34 – Risk Management

The Group is exposed to various risks during the course of its business activity.

The Group's Policy on Risk Management and Internal Control aims to ensure the effective application of the risk management system, through the ongoing follow-up of its adequacy and efficacy, seeking to identify, assess, monitor and control all the materially relevant risks to which the institution is exposed, both internally and externally.

In this context, it is important to monitor and control the main types of financial risks – credit, liquidity, interest rate, market and operational – faced by the Group's activity.

Credit Risk

Credit risk reflects the degree of uncertainty of the expected returns, due to the inability either of the borrower, or of the counterpart of a contract, to comply with the respective obligations.

At the Group, credit risk management includes the identification, measurement, assessment and monitoring of the different credit exposures, ensuring risk management throughout the successive phases of the life of the credit process.

The monitoring and follow-up of credit risk, in particular with respect to the evolution of credit exposures and monitoring of losses, is regularly conducted by the Risk Department and by the Capital and Risk Committee.

As at 31 December 2021, the exposure of the mortgage loan product (net of impairment and including off-balance sheet exposures) is 611,167 thousand euros (535,914 thousand euros as at 31 December 2020).

Credit in the retail segment, more specifically in motor vehicle credit at the point of sale, is 653,782 thousand euros of exposure (net of impairment and including off-balance sheet exposures) which compares to 567,827 thousand euros in 2020.

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 and Spain), debt instruments of other issuers (credit institutions and companies), securitisation operations relative to the tariff deficit and other portfolios of 321 Crédito that are essentially at a run-off stage.

In order to mitigate credit risk, the mortgage lending operations have associated collateral, namely mortgages. Except in situations of default, the Bank, under its activity, does not have permission to sell or pledge this collateral. The fair value of this collateral is determined as at the date of the granting of the loan, with its value being checked periodically.

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

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

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

(amounts in thousand euros)

	2021		2020	
	Loans and advances to customers	Fair value of the collateral	Loans and advances to customers	Fair value of the collateral
Mortgage loans	595,420	1,021,371	520,340	879,528
Motor vehicle credit	670,594	713,328	538,971	561,938
Credit cards	298,717	-	-	-
Other	8,267	23,764	50,636	27,384
	1,572,998	**1,758,463**	**1,109,947**	**1,468,850**

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 2021 and 31 December 2020:

(amounts in thousand euros)

	2021	2020
Central Authorities or Central Banks	927,785	660,474
Regional governments or local authorities	-	5,043
Credit institutions	39,520	100,724
Companies	322,647	25,886
Retail customers	627,393	546,768
Loans secured by immovable assets	610,488	537,960
Collective investment undertakings (CIUs)	24,999	-
Non-performing loans	27,808	16,690
Other items	71,645	69,223
Risk Headings	**2,652,285**	**1,962,768**

The information on the risk headings (including off-balance sheet) as at 31 December 2021 and 31 December 2020 is detailed as follows:

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	593,161	-	593,161	167,502	-	167,502
Other financial assets at fair value through other comprehensive income	850	-	850	7,623	(2)	7,621
Investment securities measured at amortised cost	333,895	(121)	333,774	485,526	(175)	485,351
Central Authorities or Central Banks	**927,906**	**(121)**	**927,785**	**660,651**	**(177)**	**660,474**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Investment securities measured at amortised cost	-	-	-	5,048	(5)	5,043
Regional governments or local authorities	**-**	**-**	**-**	**5,048**	**(5)**	**5,043**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	25,750	-	25,750	36,411	(34)	36,377
Investments at financial institutions	13,774	(4)	13,770	64,030	(28)	64,002
Other	-	-	-	345	-	345
Credit institutions	**39,524**	**(4)**	**39,520**	**100,786**	**(62)**	**100,724**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Other financial assets at fair value through other comprehensive income	5,249	(3)	5,246	6,214	(46)	6,168
Investment securities measured at amortised cost	324,218	(6,817)	317,401	19,727	(9)	19,718
Companies	**329,467**	**(6,820)**	**322,647**	**25,941**	**(55)**	**25,886**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	633,231	(5,838)	627,393	552,506	(5,738)	546,768
Retail customers	**633,231**	**(5,838)**	**627,393**	**552,506**	**(5,738)**	**546,768**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	611,134	(646)	610,488	538,555	(595)	537,960
Loans secured by immovable assets	**611,134**	**(646)**	**610,488**	**538,555**	**(595)**	**537,960**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Financial assets at fair value through profit or loss	24,999	-	24,999	-	-	-
Collective investment undertakings (CIUs)	**24,999**	**-**	**24,999**	**-**	**-**	**-**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	45,912	(18,104)	27,808	26,975	(10,285)	16,690
Non-performing loans	**45,912**	**(18,104)**	**27,808**	**26,975**	**(10,285)**	**16,690**

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

(amounts in thousand euros)

	2021			2020		
	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	849	185,468	186,317	7,620	288,754	296,374
Spain	-	75,163	75,163	-	94,407	94,407
Italy	-	73,143	73,143	-	95,233	95,233
France	-	-	-	-	6,434	6,434
Ireland	-	-	-	-	5,565	5,565
	849	**333,774**	**334,623**	**7,620**	**490,393**	**498,013**

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

(amounts in thousand euros)

	2021					2020				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Deposits at Central Banks and other credit institutions	634,412	-	-	-	634,412	203,879	-	-	-	203,879
Impairment losses	-	-	-	-	-	-	-	-	-	-
Net value	**634,412**	**-**	**-**	**-**	**634,412**	**203,879**	**-**	**-**	**-**	**203,879**
Investments at credit institutions	13,775	-	-	-	13,775	38,929	-	-	-	38,929
Impairment losses	(4)	-	-	-	(4)	(27)	-	-	-	(27)
Net value	**13,771**	**-**	**-**	**-**	**13,771**	**38,902**	**-**	**-**	**-**	**38,902**
Financial assets at fair value through other comprehensive income – Debt securities	6,098	-	-	-	6,098	19,564	-	-	-	19,564
Impairment losses	(3)	-	-	-	(3)	(9)	-	-	-	(9)
Net value	**6,095**	**-**	**-**	**-**	**6,095**	**19,555**	**-**	**-**	**-**	**19,555**
Financial assets at amortised cost – Debt securities	334,282	-	-	-	334,282	498,433	-	-	-	498,433
Impairment losses	(121)	-	-	-	(121)	(182)	-	-	-	(182)
Net value	**334,161**	**-**	**-**	**-**	**334,161**	**498,251**	**-**	**-**	**-**	**498,251**
Financial assets at amortised cost – Loans and advances to customers	1,434,762	87,167	51,069	4,173	1,577,171	1,030,766	52,214	26,967	5,239	1,109,947
Impairment losses	(6,474)	(4,602)	(20,014)	(1,463)	(32,553)	(4,161)	(2,225)	(10,279)	(922)	(16,665)
Net value	**1,428,288**	**82,565**	**31,055**	**2,710**	**1,544,618**	**1,026,605**	**49,989**	**16,688**	**4,317**	**1,093,282**

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 2021, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2021						
	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	621,470	-	-	-	-	-	**621,470**
Deposits at other credit institutions	41,252	-	-	-	-	-	**41,252**
Financial assets at amortised cost							
Investments at credit institutions	-	2,338	6,198	5,239	-	-	**13,775**
Loans and advances to customers	1,333	330,139	87,596	226,336	915,249	12,345	**1,572,998**
Debt securities	-	3,921	35,261	49,663	245,437	-	**334,282**
Financial assets at fair value through profit or loss							
Derivatives	-	-	-	-	2,262	-	**2,262**
Investment fund units	-	-	-	-	-	24,999	**24,999**
Financial assets at fair value through other comprehensive income							
Debt securities	-	343	845	4,907	-	-	**6,095**
Total Assets	**664,055**	**336,741**	**129,900**	**286,145**	**1,162,948**	**37,344**	**2,617,133**
Liabilities							
Financial liabilities at amortised cost							
Deposits from Customers	1,898,444	106,310	116,757	-	-	-	**2,121,511**
Debt securities issued	-	35	-	-	277,761	-	**277,796**
Total Liabilities	**1,898,444**	**106,345**	**116,757**	**-**	**277,761**	**-**	**2,399,307**
Gap (Assets-Liabilities)	**(1,234,389)**	**230,396**	**13,143**	**286,145**	**885,187**	**37,344**	**217,826**
Accumulated Gap	**(1,234,389)**	**(1,003,993)**	**(990,850)**	**(704,705)**	**180,482**	**217,826**	

As at 31 December 2020, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2020						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Undetermined maturity	Total
Assets							
Cash and deposits at central banks	195,364	-	-	-	-	-	**195,364**
Deposits at other credit institutions	36,377	-	-	-	-	-	**36,377**
Financial assets at amortised cost							
Investments at credit institutions	-	12,871	14,633	10,463	962	-	**38,929**
Loans and advances to customers	1,148	28,715	74,977	196,174	800,427	8,506	**1,109,947**
Debt securities	-	10,679	34,487	87,808	365,459	-	**498,433**
Financial assets at fair value through profit or loss							
Financial assets held for trading	-	-	-	-	2	-	**2**
Financial assets at fair value through other comprehensive income							
Debt securities	-	566	6,715	12,274	-	-	**19,555**
Total Assets	**232,889**	**52,831**	**130,812**	**306,719**	**1,166,850**	**8,506**	**1,898,607**
Liabilities							
Financial liabilities at amortised cost							
Deposits from Customers	1,510,289	81,534	96,642	-	-	-	**1,688,465**
Debt securities issued	-	11	-	-	44,507	-	**44,518**
Total Liabilities	**1,510,289**	**81,545**	**96,642**	**-**	**44,507**	**-**	**1,732,983**
Gap (Assets-Liabilities)	**(1,277,400)**	**(28,714)**	**34,170**	**306,719**	**1,122,343**	**8,506**	**165,624**
Accumulated Gap	**(1,277,400)**	**(1,306,114)**	**(1,271,944)**	**(965,225)**	**157,118**	**165,624**	

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 2021, the ALMM shows a positive liquidity mismatch (difference between contracted outflows and inflows) of 128,810 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 2021, 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 into 19 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 2021, 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)

2021						
Timeframe	**Assets**	**Liabilities**	**Off-Balance Sheet**	**Net Position**	**Economic Value Delta (+200 bps)**	**Economic Value Delta (-200 bps)**
At sight	778,434	607,321	471,785	642,898	(36)	8
At sight – 1 month	114,383	350,265	16,063	(219,819)	195	(44)
1 – 3 months	128,357	84,526	487	44,318	(147)	33
3 – 6 months	192,350	104,017	1,931	90,264	(673)	146
6 – 9 months	198,284	86,491	1,699	113,492	(1,405)	397
9 – 12 months	233,016	87,244	2,398	148,170	(2,564)	737
1 – 1.5 years	97,752	90,360	1,853	9,245	(227)	83
1.5 – 2 years	107,562	90,367	-	17,195	(587)	248
2 – 3 years	166,907	169,113	-	(2,206)	106	(53)
3 – 4 years	140,622	142,835	-	(2,213)	147	(80)
4 – 5 years	397,348	119,030	-	278,318	(23,390)	13,200
5 – 6 years	80,540	95,652	-	(15,112)	1,527	(887)
6 – 7 years	63,407	81,611	-	(18,204)	2,133	(1,299)
7 – 8 years	51,813	62,512	-	(10,699)	1,413	(926)
8 – 9 years	41,403	51,844	-	(10,441)	1,521	(1,090)
9 – 10 years	8,756	42,215	-	(33,459)	5,297	(4,069)
10 – 15 years	92,529	201,536	-	(109,007)	21,195	(16,829)
15 – 20 years	3,848	-	-	3,848	(973)	588
> 20 years	2,509	-	-	2,509	(879)	250
Total	**2,899,820**	**2,466,939**	**496,216**	**929,097**	**2,653**	**(9,587)**

As at 31 December 2020, the distribution of assets, liabilities and off-balance sheet items sensitive to the interest rate, according to the 19 timeframes and respective impact on economic value, are as follows:

(amounts in thousand euros)

2020						
Timeframe	**Assets**	**Liabilities**	**Off-Balance Sheet**	**Net Position**	**Economic Value Delta (+200 bps)**	**Economic Value Delta (-200 bps)**
At sight	306,048	294,927	(49,951)	(38,830)	2	(1)
At sight – 1 month	107,392	98,774	7,022	15,640	(14)	3
1 – 3 months	108,765	67,037	66	41,724	(139)	32
3 – 6 months	160,359	86,225	157	74,291	(554)	126
6 – 9 months	170,258	68,865	136	101,529	(1,260)	283
9 – 12 months	202,972	73,019	546	130,499	(2,265)	478
1 – 1.5 years	67,983	87,644	10,564	(9,097)	225	(47)
1.5 – 2 years	78,555	87,644	-	(9,089)	314	(65)
2 – 3 years	134,743	172,257	-	(37,514)	1,843	(372)
3 – 4 years	119,503	154,121	-	(34,618)	2,365	(468)
4 – 5 years	98,388	151,089	-	(52,701)	4,590	(944)
5 – 6 years	86,877	108,633	-	(21,756)	2,291	(510)
6 – 7 years	82,037	96,563	-	(14,526)	1,783	(448)
7 – 8 years	69,707	96,563	-	(26,856)	3,743	(1,056)
8 – 9 years	48,703	72,422	-	(23,719)	3,681	(1,156)
9 – 10 years	67,629	72,422	-	(4,793)	814	(287)
10 – 15 years	47	-	-	47	(10)	4
15 – 20 years	-	-	-	-	-	-
> 20 years	-	-	-	-	-	-
Total	**1,909,966**	**1,788,205**	**(31,460)**	**90,301**	**17,409**	**(4,428)**

In view of the interest rate gaps observed, as at 31 December 2021, the impact on the economic value of instantaneous and parallel shifts of the interest rates by -200 basis points is -9,587 thousand euros (2020: -4,428 thousand euros).

The main assumptions used in 2020 in the Group's analyses were the following:

- 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;
- Motor Vehicle Credit: constant annual pre-payment rate of 10%.

In 2021 they were revised, and the following changes were introduced:

- For Demand Deposits: 25.21% at sight, 74.79% distributed non-linearly over 15 years, giving rise to a duration of 3.7 years;
- Saving Accounts: 39.49% at sight, 60.51% distributed non-linearly over 15 years, giving rise to a duration of 2.9 years;
- Introduction of an annual mortgage prepayment rate of 8.59%, distributed proportionally by each time bucket interval;

Market Risk

Market Risk generally represents the possible loss resulting from an adverse change in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, share, commodity, or real estate prices, volatility and credit spreads.

The Group 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, with the main risk arising from its investments being credit risk rather than market risk. In addition, the Bank holds participation units totalling 25 million euros in a real estate investment fund which is accounted at fair value through profit and loss.

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.

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)

	2021			
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Equity instruments	-	-	24,999	24,999
Debt securities	17,845	19,206	322,411	329,622
Other assets	276,464	n/a	2,062,267	n/a
	294,309		**2,409,677**	

(amounts in thousand euros)

	2020			
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Debt securities	14,055	14,055	503,751	548,635
Other assets	52,988	n/a	1,429,085	n/a
	67,043		**1,932,836**	

(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	
	2021	2020	2021	2020
Collateral received	**406,367**	**527,266**	**1,156,138**	**969,000**
Debt securities	-	-	-	-
Other collateral received	406,367	527,266	1,156,138	969,000
Own Debt Securities Issued other than Covered Own Bonds or ABS	-	-	-	-

(amounts in thousand euros)

	Book value of the selected financial liabilities	
	2021	2020
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	-	-

The encumbered assets relate primarily to guarantees provided to the Central Bank (Debt securities) and to the value of the contracts securitised under the securitisation operations (Other Assets).

The encumbered collateral received essentially refers to the collateral of the securitised contracts under securitisation operations.

The collateral received that is able to be encumbered essentially refers to the collateral received in non-securitised credit operations, namely in mortgage loan and motor vehicle credit contracts.

Of the total unencumbered total assets of the value of 1,777,800 thousand euros (2020: 983,426 thousand euros), approximately 5% (2020: 10%) refer to items that cannot be encumbered (other tangible assets, intangible assets, current and deferred taxes).

Note 35 – 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 Group's Common Equity Tier 1 includes: a) paid-up capital, reserves and retained earnings; b) regulatory deductions related to intangible assets, goodwill and losses relative to the year in progress; and c) prudential filters. The Group does not have any additional tier 1 capital or tier 2 capital.

The legislation in force establishes a transition period between capital requirements pursuant to national legislation and that calculated pursuant to Community legislation in a phased fashion both for the non-inclusion/exclusion of items considered previously (phased-out) and the inclusion/deduction of new items (phased-in). At a prudential framework level, institutions should report Common Equity Tier 1, tier 1 and totals not below 7%, 8.5% and 10.5%, respectively, including a conservation buffer of 2.5% and a countercyclical buffer of 0%, in the case of the Bank, 0%.

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

In the course of 2020, several measures were disclosed - by the national supervisor and the European Union - easing regulatory and supervisory requirements to alleviate the contingency situation arising from the Covid-19 outbreak, by reducing regulatory capital requirements, including macro-prudential capital buffers.

Banco de Portugal Notice 10/2017 regulates the transitional arrangement established in the CRR concerning own funds, namely with respect to deductions related to deferred taxes generated before 2014 and to subordinated debt and hybrid instruments that are not eligible, both non-applicable to Banco CTT.

With the introduction of IFRS 9, the Bank opted for the phased recognition of the respective impacts of the static component pursuant to Article 473-A of the CRR.

As at 31 December 2021 and 31 December 2020, the Group presented the following capital ratios, calculated in accordance with the transitional provisions established in the CRR:

(amounts in thousand euros)

	2021		2020		
	CRR Phased-in	*CRR Fully Implemented*	*CRR Phased-in*	*CRR Fully Implemented*	Notes
OWN FUNDS					
Share capital	**296,400**	**296,400**	**286,400**	**286,400**	29
Retained earnings	**(73,954)**	**(73,954)**	**(74,159)**	**(74,159)**	30
Legal reserve	**29**	**29**	**-**	**-**	
Eligible results (1)	**16,148**	**16,148**	**-**	**-**	
Other Reserves	**(126)**	**(126)**	**(190)**	**(190)**	
Prudential Filters	**21**	**21**	**64**	**64**	30
Fair value reserves (2)	27	27	83	83	
Additional Valuation Adjustment (AVA) (3)	(6)	(6)	(19)	(19)	
Deductions to common equity tier 1	**(71,406)**	**(79,117)**	**(81,213)**	**(81,699)**	
Losses for the period	-	-	-	-	
Intangible assets	(17,336)	(17,336)	(19,919)	(19,919)	22
Goodwill	(61,085)	(61,085)	(61,085)	(61,085)	
Adoption of IFRS 9	7,016	(695)	(209)	(695)	
Securitisation deduction (1250%)	(1)	(1)	-	-	
Items not deducted from Equity pursuant to article 437 of the CRR	**1,817**	**1,817**	**1,929**	**1,929**	23
Deferred tax assets	1,817	1,817	1,929	1,929	
Common Equity Tier 1	**167,112**	**159,401**	**130,902**	**130,416**	
Tier 1 Capital	**167,112**	**159,401**	**130,902**	**130,416**	
Total Own Funds	**167,112**	**159,401**	**130,902**	**130,416**	
RWA	**1,043,231**	**1,036,419**	**780,104**	**779,672**	
Credit Risk	918,727	918,727	695,218	695,218	
Operational Risk	124,504	124,504	84,768	84,768	
Market Risk	-	-	118	118	
IFRS 9 adjustments	-	(6,812)	-	(432)	
CAPITAL RATIOS					
Common Equity Tier 1	16.02%	15.38%	16.78%	16.73%	
Tier 1 Ratio	16.02%	15.38%	16.78%	16.73%	
Total Capital Ratio	16.02%	15.38%	16.78%	16.73%	

(1) Includes net result for the year in 2021.
(2) Fair value reserve relative to gains or losses of financial assets stated at fair value.
(3) Additional value adjustments required to adjust the assets and liabilities stated at fair value.

Note 36 – Employee Benefits

As mentioned in Note 2.16, pursuant to the collective bargaining agreement (ACT) of the banking sector, published in the Bulletin of Work and Employment (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 December 2021 and 31 December 2020.

The main actuarial assumptions used in the calculation of the liabilities are as follows:

(amounts in thousand euros)

	2021	2020
Financial assumptions		
Discount rate	1.42%	1.30%
Salary growth rate (considering progressions)	1.25%	1.25%
Average inflation rate	1.00%	1.00%
Demographic assumptions		
Rate of death due to work accidents	0.000035	0.000035
Mortality table	Men: TV 88/90 Women: TV 88 / 90 (-1)	Men: TV 88/90 Women: TV 88 / 90 (-1)
Disability table	Swiss RE	Swiss RE
Retirement Age	67*	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 1.42% (2020: 1.30%).

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 2021 and 2020, is presented below:

(amounts in thousand euros)

	2021			2020		
	Healthcare – SAMS	Other post-employment benefits	Total	Healthcare – SAMS	Other post-employment benefits	Total
Opening balance	**1,432**	**216**	**1,648**	**1,286**	**198**	**1,484**
Change of the consolidation perimeter	-	-	-	-	-	-
Cost of the current service	107	14	121	97	16	113
Cost of interest (note 4)	19	3	22	19	2	21
Benefits paid	(1)	-	(1)	(1)	-	(1)
Actuarial gains and losses for the year	(89)	(29)	(118)	31	-	31
Closing balance	**1,468**	**204**	**1,672**	**1,432**	**216**	**1,648**

The best estimate that the Group has at this date for expenses to be recognised in 2022 with employee benefits is about -89 thousand euros for Health Care (SAMS) and about -29 thousand euros with other post-employment benefits.

In the period ended on 31 December 2021 and 2020, 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)

	2021	2020
Expenses recognised in the income statement		
Healthcare – SAMS	126	116
Other post-retirement benefits	16	18
	142	**134**
Actuarial deviations recorded under the balance sheet heading "Other changes in equity"		
Healthcare – SAMS	73	162
Other post-retirement benefits	14	14
	87	**176**

The average duration of the liabilities related to Healthcare (SAMS) and other employee benefits is approximately 24.55 years (2020: 24.75 years).

Sensitivity Analysis

The analysis of sensitivity to change in assumptions, pursuant to IAS 19, is as follows:

Discount rate:

(amounts in thousand euros)

2021	Discount rate		Δ	
	1.50%	1.75%	Value	%
Liabilities	1,672	1,574	(98)	-5.9%

(amounts in thousand euros)

2020	Discount rate		Δ	
	1.30%	1.75%	Value	%
Liabilities	1,648	1,551	(97)	-5.9%

Analysis of the table above enables us to conclude that an increase of 25 b.p.in the discount rate, ceteris paribus, could be reflected in a reduction of the liabilities due to past services by approximately 5.9%. (2020: 5.9%).

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 6.2% (2020: 6.3%).

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 2.4% (2020: 2.3%), increasing to 1,711 thousand euros (2020: 1,686 thousand euros).

(amounts in thousand euros)

2021	Mortality Table		Δ	
	Men: TV 88/90 Women: TV 88/90 (-1)	Men: TV 73/77 (-2) Women: TV 88/90 (-3)	Value	%
Liabilities	1,671	1,711	40	2.4%

(amounts in thousand euros)

2020	Mortality Table		Δ	
	Men: TV 88/90 Women: TV 88/90 (-1)	Men: TV 73/77 (-2) Women: TV 88/90 (-3)	Value	%
Liabilities	1,648	1,686	38	2.3%

Note 37 – Asset Securitisation

As at 31 December 2021 and 2020, the Group had in progress the following securitisation operations:

(amounts in thousand euros)

2021						
Issue	**Securitised asset**	**Issue date**	**Redemption date**	**Initial value of the credit**	**Initial withheld interest**	**Current value of the credit**
Ulisses Finance No.1	Consumer credit	July 2017	March 2033	141,300	10,600	33,081
Chaves Funding No.8	Consumer credit	November 2019	November 2034	310,500	16,025	297,462
Ulisses Finance No.2	Consumer credit	September 2021	September 2038	250,000	1,500	244,698
Next Funding No.1	Consumer credit	April 2021	December 2033	104,118	104,118	298,296
				805,918	**132,243**	**873,537**

(amounts in thousand euros)

2020						
Issue	**Securitised asset**	**Issue date**	**Redemption date**	**Initial value of the credit**	**Initial withheld interest**	**Current value of the credit**
Ulisses Finance No.1	Consumer credit	July 2017	March 2033	141,300	10,600	52,172
Chaves Funding No.8	Consumer credit	November 2019	November 2034	310,500	16,025	454,955
				451,800	**26,625**	**507,127**

Ulisses Finance No.1

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

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 firm.

Ulisses Finance No.1 operation incorporates an interest rate cap, which is a mechanism to mitigate interest rate risk for the operations and their investors, among which the Group is included, but that were not contracted directly by the Group, but rather by the issuer of the securitisation operations (Sagres – STC).

Ulisses Finance No.2

The assets underlying the Ulisses Finance No.2 operation were not derecognised from the balance sheet as the Group substantially kept the risks and benefits associated to holding them.

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 firm.

Ulisses Finance No.2 operation incorporates an interest rate cap, which is a mechanism to mitigate interest rate risk for the operations and their investors, among which the Group is included, but that were not contracted directly by the Group, but rather by the issuer of the securitisation operations (Tagus – STC, S.A.).

Chaves Funding No.8

The underlying assets of the Chaves Funding No.8 operation were not derecognised from the balance sheet as the Group retained all the risks and benefits associated with their holding, insofar as this operation was fully subscribed by the Banco CTT Group.

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 firm.

Next Funding No.1

The Next Funding No.1 operation, issued by Tagus – STC, S.A. in April 2021 and in which Banco CTT is the sole investor, has as its underlying asset the credit card balances originated by the Universo credit card issued by Sonae Financial Services. Additionally, Banco CTT grants the operation an overdraft line (Liquidity Facility) for the sole purpose of acquiring receivables (credit card balances) between the interest payment dates. At each interest payment date (IPD) the Liquidity Facility balance will be settled by converting it to the value of the note.

In the consolidated accounts, subject to the conditions set out in IFRS 10 (Consolidated Financial Statements), the securitisation operation is consolidated, insofar as Banco CTT substantially holds all the risks and rewards associated with the underlying assets and has the capacity to affect these risks and benefits.

The main features of these operations, with reference to 31 December 2021 and 2020, are analysed as follows:

(amounts in thousand euros)

	2021											
	Nominal Value		Redemption date	Remuneration	Initial Rating				Rating atual			
	Initial	Current			Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Ulisses Finance No,1												
Class A	120,100	10,421	Mar 2033	Euribor 1M + 85 bps	-	A2	-	A	-	A1	-	AA
Class B	7,000	7,000	Mar 2033	Euribor 1M + 160 bps	-	Baa3	-	BBB	-	Aa3	-	A
Class C	7,100	7,100	Mar 2033	Euribor 1M + 375 bps	-	Ba2	-	BB(low)	-	A3	-	BBB
Class D	7,100	7,100	Mar 2033	Euribor 1M + 400 bps	-	-	-	-	-	-	-	-
Class E	3,500	3,500	Mar 2033	-	-	-	-	-	-	-	-	-
Chaves Funding No,8												
Class A	294,975	270,526	Nov 2034	Euribor 1M + 125 bps	-	-	-	-	-	-	-	-
Class B	16,025	27,096	Nov 2034	-	-	-	-	-	-	-	-	-
Ulisses Finance No,2												
Class A	203,700	203,700	Sep 2038	Euribor 1M + 70 bps	-	Aa3	-	AA(low)	-	Aa3	-	AA(low)
Class B	10,000	10,000	Sep 2038	Euribor 1M + 80 bps	-	A2	-	A(low)	-	A2	-	A(low)
Class C	20,000	20,000	Sep 2038	Euribor 1M + 135 bps	-	Baa2	-	BBB(low)	-	Baa2	-	BBB(low)
Class D	11,300	11,300	Sep 2038	Euribor 1M + 285 bps	-	Ba2	-	BB(low)	-	Ba2	-	BB(low)
Class E	3,700	3,700	Sep 2038	Euribor 1M + 368 bps	-	B1	-	B(low)	-	B1	-	B(low)
Class F	1,300	1,300	Sep 2038	Euribor 1M + 549 bps	-	-	-	-	-	-	-	-
Class G	1,500	1,275	Sep 2038	Euribor 1M + 500 bps	-	-	-	-	-	-	-	-
Class Z	1,500	1	Sep 2038	-	-	-	-	-	-	-	-	-
Next Funding No,1												
Class A	112,118	264,794	Dec 2033	indexed to portfolio performance		-	-	-	-	-	-	-
	820,918	**848,813**										

(amounts in thousand euros)

2020												
	Nominal Value		Redemption date	Remuneration	Initial Rating				Rating atual			
	Initial	Current			Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Ulisses Finance No.1												
Class A	120,100	30,402	Mar 2033	Euribor 1M + 85 bps	-	A2	-	A	-	A1	-	**AA**
Class B	7,000	7,000	Mar 2033	Euribor 1M + 160 bps	-	Baa3	-	BBB	-	Aa3	-	**A**
Class C	7,100	7,100	Mar 2033	Euribor 1M + 375 bps	-	Ba2	-	BB(low)	-	A3	-	**BBB**
Class D	7,100	7,100	Mar 2033	Euribor 1M + 400 bps	-	-	-	-	-	-	-	**-**
Class E	3,500	3,500	Mar 2033	-	-	-	-	-	-	-	-	**-**
Chaves Funding No.8												
Class A	294,975	437,904	Nov 2034	Euribor 1M + 125 bps	-	-	-	-	-	-	-	**-**
Class B	16,025	24,451	Nov 2034	-	-	-	-	-	-	-	-	**-**
	455,800	**517,457**										

Furthermore, as at 31 December 2021, 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 38 – Provision of Insurance or Reinsurance Mediation Services

As at 31 December 2021 and 2020, the remunerations derived from the provision of insurance and reinsurance mediation services were broken down as follows:

(amounts in thousand euros)

	2021	2020
Life Business	5,300	3,822
Non-Life Business	669	482
	5,969	**4,304**

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

(amounts in thousand euros)

	2021	2020
Values receivable	1,193	828
Values payable	1,718	899

Note 39 – Standards, Interpretations, Amendments and Revisions that Entered into Force in the Financial Year

The following standards, interpretations, amendments and revisions adopted ("endorsed") by the European Union are mandatory for the first time in the financial year beginning on 1 January 2021:

Amendments to IFRS 16 - Leases - Covid-19-Related Rent Concessions beyond 30 June 2021

On 28 May 2020, the amendment to IFRS 16 called 'COVID-19-related concessions' was issued, introducing the following practical expedient: a lessee may choose not to assess whether a Covid-19 rental concession is a lease modification.

Lessees electing to apply this expedient account for the change to rental payments resulting from a concession related to COVID-19 in the same way as they account for a change that is not a lease modification in accordance with IFRS 16.
Initially, the practical expedient applied to payments originally due by 30 June 2021, however, due to the extension of the impact of the pandemic, on 31 March 2021, it was extended to payments originally due by 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

In short, the practical expedient can be applied as long as the following criteria are met:

- the change in the lease payments results in a revised consideration for the lease that is substantially the same as, or less than, the consideration immediately prior to the change;
- any reduction in lease payments only affects payments due on or by 30 June 2022; and
- there are no material changes to other terms and conditions of the lease.

Amendments to IFRS 4 - Insurance Contracts - Deferral of the application of IFRS 9

This amendment refers to the temporary accounting consequences that result from the difference between the date of entry into force of IFRS 9 - Financial Instruments and the future IFRS 17 - Insurance Contracts. Specifically, the amendment made to IFRS 4 postpones until 1 January 2023 the expiry date of the temporary exemption from applying IFRS 9 in order to align the effective date of the latter with that of the new IFRS 17.

The temporary exemption referred to is of optional application and only available to entities whose activities are predominantly insurance-related.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Reform of reference interest rates - phase 2

These amendments are part of the second phase of the IASB's "IBOR reform" project and allow for exemptions related to the reform of the benchmark for reference interest rates by an alternative interest rate (Risk Free Rate, RFR). The amendments include the following practical expedients:

- a practical expedient that requires contractual changes, or changes in cash flows that are directly required by the reform, are treated in the same way as a fluctuating interest rate change, equivalent to a movement in the market interest rate;
- Allow changes required by the reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary operational relief to entities that have to comply with the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These standards and changes had no material impact on the consolidated financial statements of the Grupo Banco CTT.

Note 40 – Standards, Interpretations, Amendments and Revisions that come into force in future years

The following standards, interpretations, amendments and revisions with mandatory application in future financial years have, up to the date of approval of these financial statements, been adopted ("endorsed") by the European Union:

Amendments to IFRS 3 — References to the Conceptual Framework for Financial Reporting

This amendment updates the references to the Conceptual Framework in the text of IFRS 3 and no changes have been made to the accounting requirements for business combinations.

It also clarifies the accounting treatment to be adopted for liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a business combination.

The amendment is forward-looking in its application.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

Amendments to IAS 16 - Income obtained before going into operation

It clarifies the accounting treatment given to the consideration obtained from the sale of products resulting from the test phase production of tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. The entity recognises the income obtained from the sale of such products and the costs of their production in profit or loss.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

Amendments to IAS 37 - Onerous contracts - cost of fulfilling a contract

This amendment specifies that in assessing whether or not a contract is onerous, only expenses directly related to the fulfilment of the contract can be considered, such as incremental costs related to direct labour and materials and the allocation of other directly related expenses such as the allocation of depreciation expenses of tangible assets used to perform the contract.

General and administrative costs are not directly related to a contract and are excluded unless they are explicitly charged to the counterparty in accordance with the contract.

This amendment should be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include unfulfilled contractual obligations, without there being a need to restate the comparative.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

Amendments to IFRS 1 - Subsidiary as a first-time adopter of IFRSs (included in the annual improvements to the 2018-2020 cycle)

This improvement clarifies that when the subsidiary chooses to measure its assets and liabilities at the amounts included in the parent company's consolidated financial statements (assuming no adjustment to the consolidation process has occurred), the measurement of the cumulative translation differences of all foreign operations can be made at the amounts that would be recorded in the consolidated financial statements, based on the parent company's date of transition to IFRS.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

Amendments to IFRS 9 - Derecognition of financial liabilities - Fees to be included in the '10 per cent' variation test (included in the annual improvements to the 2018- 2020 cycle)

This improvement clarifies which fees an entity should include when assessing whether the terms of a financial liability are materially different from the terms of the original financial liability. This improvement clarifies that under derecognition tests performed on renegotiated liabilities, only fees paid or received between the debtor and the creditor should be included, including fees paid or received by the debtor or the creditor on behalf of the other.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

Amendments to IAS 41 - Taxation in fair value measurement (included in the annual improvements to the 2018-2020 cycle)

This improvement eliminates the requirement to exclude tax cash flows when measuring the fair value of biological assets, ensuring consistency with the principles of IFRS 13 - Fair Value.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

IFRS 17 – Insurance Contracts

IFRS 17 applies to all insurance contracts (i.e., life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to some guarantees and some financial instruments with discretionary participation features. In general terms, IFRS 17 provides an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The amendment should be applied for annual periods beginning on or after 1 January 2023.

The Group did not early apply any of these standards in the financial statements for the twelve months period ended 31 December 2021. No significant impacts on the financial statements are expected as a result of its adoption.

Note 41 – Standards, Interpretations, Amendments and Revisions not yet adopted by the European Union

The following standards, interpretations, amendments and revisions with mandatory application in future financial years have not yet been adopted ("endorsed") by the European Union, at the date of approval of these financial statements:

Amendments to IAS 1 — Presentation of financial statements — Classification of liabilities as current or non-current

This amendment intends to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period.

The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether the entity will exercise that right), or by events that occur after the reporting date, such as the breach of a covenant.

However, if the right to defer settlement for at least twelve months is subject to meeting certain conditions after the balance sheet date, those criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or non-current.

This amendment also includes a new definition of "settlement" of a liability and is applied retrospectively.

Amendments to IAS 8 — Definition of accounting estimates

The amendment clarifies the distinction between change in accounting estimate, change in accounting policy and correction of errors. In addition, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.

Amendments to IAS 1 — Disclosure of accounting policies

These changes are intended to assist the entity in disclosing 'material' accounting policies, previously referred to as 'significant' policies. However due to the inexistence of this concept in IFRS standards, it was decided to replace it by the concept "materiality", a concept already known to users of financial statements.

In assessing the materiality of accounting policies, the entity has to consider not only the size of the transactions but also other events or conditions and the nature of these.

Amendments to IAS 12 — Deferred tax related to assets and liabilities arising from a single transaction

The amendments clarify that payments that settle a liability are tax deductible, however it is a matter of professional judgement whether such deductions are attributable to the liability that is recognised in the financial statements or to the related asset. This is important to determine whether there are temporary differences in the initial recognition of the asset or liability.

According to these amendments, the initial recognition exception is not applicable to transactions that originated equal taxable and deductible temporary differences. It is only applicable if the recognition of a leasing asset and a leasing liability gives rise to taxable and deductible temporary differences that are not the same.

Amendments to IFRS 17 - Insurance contracts - Initial application of IFRS 17 and IFRS 9 - Comparative information

This amendment to IFRS 17 refers to the presentation of comparative information about financial assets on initial application of IFRS 17.

The amendment adds a transition option that allows an entity to apply an 'overlay' to the classification of a financial asset in the comparative period(s) presented in initial application of IFRS 17. The 'overlay' allows all financial assets, including those held in relation to non-contractual activities within the scope of IFRS 17 to be classified, instrument by instrument, in the comparative period(s) in a manner aligned with how the entity expects those assets to be classified on initial application of IFRS 9.

These standards have not yet been adopted ("endorsed") by the European Union and, as such, have not been applied by the Group in the twelve-month period ending on 31 December 2021. No significant impacts on the financial statements are expected as a result of its adoption.

Note 42 – Subsequent Events

No other events with a material impact on the Group's Financial Statements have occurred up to the date of this report and after the end of the financial year 2021.

It is anticipated that 2022 will see a portuguese economic recovery, but this could be conditioned by the latest international developments in Ukraine, damaging economic confidence. The Banco CTT Group has no credit risk exposures to Ukraine or Russia.

ACCOUNTS AND NOTES TO THE INDIVIDUAL ACCOUNTS OF 2021

INDIVIDUAL FINANCIAL STATEMENTS

Individual Income Statements for the years ended 31 December 2021 and 2020

(amounts in thousand euros)

	Notes	2021	2020
Interest and similar income calculated through the effective interest rate	4	23,681	17,600
Interest and similar expenses	4	(1,470)	(861)
Net Interest Income	4	**22,211**	**16,739**
Net fee and commission income	5	15,474	10,871
Net gains/(losses) of assets and liabilities at fair value through profit or loss		(1)	-
Net gains/(losses) of other financial assets at fair value through other comprehensive income	6	-	389
Results from financial assets and liabilities at amortised cost	7	17,777	34
Other operating income/(expenses)	8	(262)	(261)
Operating Income		**55,199**	**27,772**
Staff costs	9	(17,087)	(14,303)
General administrative expenses	10	(24,243)	(21,063)
Amortisation and depreciation for the year	19 and 20	(6,328)	(5,520)
Operating Costs		**(47,658)**	**(40,886)**
Operating Profit/(Loss) Before Provisions and Impairment		**7,541**	**(13,114)**
Credit impairment	15	(1,106)	(1,075)
Impairment of other financial assets	14, 16 and 18	(5,652)	234
Impairment of other assets	20 and 23	(112)	15
Provisions	26	(118)	(151)
Operating Profit/(Loss)		**553**	**(14,091)**
Results of Investments in Subsidiaries and Associates		**14,689**	**11,292**
Profit/(Loss) Before Tax		**15,242**	**(2,799)**
Taxes			
Current	22	26	3,030
Deferred	22	156	54
Net Income for the Year		**15,424**	**285**
Earnings per share (in euros)			
Basic	11	0.05	0.00
Diluted	11	0.05	0.00

The accompanying notes form an integral part of these financial statements.

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

THE BOARD OF DIRECTORS

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira

Individual Comprehensive Income Statements for the years ended on 31 December 2021 and 2020

(amounts in thousand euros)

	Notes	2021	2020
Net Income for the Year		**15,424**	**285**
Comprehensive income recognized directly in Equity after taxes		**9**	**84**
Items that may be reclassified to the income statement			
Fair value reserve	29	(56)	67
Items that shall not be reclassified to the income statement			
Actuarial gains / (losses) for the year			
Employee benefits	29	65	17
Total Comprehensive Income for the Year		**15,433**	**369**

The accompanying notes form an integral part of these financial statements.

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

THE BOARD OF DIRECTORS

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira

Individual Balance Sheets as at 31 December 2021 and 2020

(amounts in thousand euros)

	Notes	2021	2020
Assets			
Cash and deposits at central banks	12	613,012	191,613
Deposits at other credit institutions	13	4,158	14,578
Financial assets at amortised cost			
Investments at credit institutions	14	69,898	52,999
Loans and advances to customers	15	631,673	525,672
Debt securities	16	864,041	936,089
Financial assets at fair value through profit or loss	17	24,999	-
Financial assets at fair value through other comprehensive income			
Debt securities	18	6,095	19,555
Other tangible assets	19	4,919	1,746
Intangible assets	20	21,614	24,236
Investments in subsidiaries and associates	21	133,721	144,692
Deferred tax assets	22	683	526
Other assets	23	18,211	18,514
Total Assets		**2,393,024**	**1,930,220**
Liabilities			
Financial liabilities at amortised cost			
Amounts owed to other credit institutions	24	43	34
Deposits from customers	25	2,122,817	1,689,110
Provisions	26	429	165
Deferred tax liabilities	22	6	20
Other liabilities	27	32,571	29,166
Total Liabilities		**2,155,866**	**1,718,495**
Equity			
Share capital	28	296,400	286,400
Legal reserves	29	29	-
Fair value reserves	29	27	83
Other reserves and retained earnings	29	(74,722)	(75,043)
Net income for the year		15,424	285
Total Equity		**237,158**	**211,725**

The accompanying notes form an integral part of these financial statements.

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

THE BOARD OF DIRECTORS

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira

Individual Statements of Changes in Equity for the years ended on 31 December 2021 and 2020

(amounts in thousand euros)

	Notes	Share capital	Fair Value Reserves	Legal Reserves	Other Reserves	Retained earnings	Net Income for the Year	Total Equity
Balance on 31 December 2019		**286,400**	**16**	**-**	**(902)**	**(66,148)**	**(8,011)**	**211,355**
Share capital increase		-	-	-	-	-	-	-
Appropriation of net income		-	-	-	-	(8,011)	8,011	-
Actuarial gains/(losses)		-	-	-	17	-	-	17
Other variations		-	-	-	1	-	-	1
Comprehensive income for the year								
Fair value reserves		-	67	-	-	-	-	67
Net income for the year		-	-	-	-	-	285	285
Balance on 31 December 2020		**286,400**	**83**	**-**	**(884)**	**(74,159)**	**285**	**211,725**
Share capital increase	28	10,000	-	-	-	-	-	10,000
Appropriation of net income				29		256	(285)	-
Actuarial gains/(losses)		-	-	-	65	-	-	-
Other variations		-	-	-	-	-	-	-
Comprehensive income for the year								
Fair value reserves	29	-	(56)	-	-	-	-	(56)
Net income for the year		-	-	-	-	-	15,424	15,424
Balance on 31 December 2021		**296,400**	**27**	**29**	**(819)**	**(73,903)**	**15,424**	**237,158**

The accompanying notes form an integral part of these financial statements.

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

THE BOARD OF DIRECTORS

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira

Individual Statements of Cash Flows for the years ended on 31 December 2021 and 2020

(amounts in thousand euros)

	Notes	2021	2020
Cash flow from operating activities		**340,722**	**284,898**
Interest income received		26,803	21,016
Interest paid		(1,457)	(1,131)
Commissions income received		18,771	16,348
Commissions paid		(3,745)	(3,341)
Payments to employees		(15,613)	(13,797)
Sectoral contributions		(181)	(189)
Other payments and revenues		(25,693)	(23,742)
Variation in operational assets and liabilities		341,837	289,734
Other operational assets and liabilities		*14,306*	*3,021*
Loans and advances to customers		*(106,238)*	*(119,112)*
Deposits from Customers		*433,769*	*405,825*
Cash flow from investment activities		**59,799**	**(178,060)**
Deposits at Banco de Portugal		(4,142)	10,128
Investment in securities		58,362	(191,014)
Investment		*(646,572)*	*(432,648)*
Repayment/Divestment		*704,934*	*241,634*
Investments at credit institutions		(16,855)	4,190
Acquisitions of tangible fixed assets and intangible assets		(3,291)	(3,764)
Dividends received		25,725	2,400
Cash flow from financing activities		**8,889**	**(39,178)**
Share capital increases		**10,000**	-
Amounts owed to other credit institutions		10	(38,131)
Leases		(1,121)	(1,047)
Cash and cash equivalents at the beginning of the year		**186,820**	**119,160**
Net changes in cash and cash equivalents		**409,410**	**67,660**
Cash and cash equivalents at the end of the year		**596,230**	**186,220**
Cash and cash equivalents cover:		**596,230**	**186,820**
Cash	12	28,307	27,860
Demand deposits at Banco de Portugal	12	564,767	147,957
Deposits at credit institutions	13	3,156	11,003

The accompanying notes form an integral part of these financial statements.

THE CHARTERED ACCOUNTANT

Nuno Filipe dos Santos Fernandes

THE BOARD OF DIRECTORS

João de Almada Moreira Rato

João Manuel de Matos Loureiro

Luís Maria França de Castro Pereira Coutinho

Clementina Maria Dâmaso de Jesus Silva Barroso

João Maria de Magalhães Barros de Mello Franco

Susana Maria Morgado Gomez Smith

Pedro Rui Fontela Coimbra

António Pedro Ferreira Vaz da Silva

Nuno Carlos Dias dos Santos Fórneas

Guy Patrick Guimarães de Goyri Pacheco

Luís Jorge de Sousa Uva Patrício Paúl

António Emídio Pessoa Corrêa d'Oliveira

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.

IFRS includes accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation 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 2021, and were prepared in accordance with the current IFRS as endorsed in the European Union by 31 December 2021.

The financial statements are expressed in thousands of euros and were prepared on a going concern basis and under the historical cost convention, with the exception of assets and liabilities recorded at their fair value. The Bank has no projects or intentions for actions that could jeopardise the continuity of its operations.

The preparation of financial statements in conformity with IFRS requires the Bank to make judgements 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 14 March 2022.

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 operation of these policies, including how the management strategy focuses on the receipt of contractual interest or the realisation of cash flows through the sale of assets;

- 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, information on sales should not be considered in isolation, but as part of an overall assessment of how the Group sets financial asset management objectives and how 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 periodic 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 trade date, that is, on the date on which 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 2.11.

Gains or losses generated at the time of their derecognition are recorded in the heading "Net gains/(losses) 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 2.11.

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.

2.2.1.3 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, operations are classified in 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 with operations classified at this stage correspond to the expected credit losses that result from a default event that may occur within a period of 12 months after the reporting date (credit losses expected 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 with operations classified at this stage correspond to the expected credit losses resulting from default events that may occur over the expected residual life of the operations (lifetime expected credit losses).

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

Forward Looking Information

The Bank's impairment model is constructed so as to be able to use public and other confirmable information from other market participants, where there is no history of default that would allow it to build sophisticated statistical models.

In addition, the Bank follows, whenever applicable and relevant to its circumstances, the provisions of the applicable accounting standards, national and community legislation, the recommendations of the EBA and the provisions and guidelines of Banco de Portugal.

Significant increase of credit risk (SICR)

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

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

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

Customers who meet at least one of the following criteria are considered in *default*:

- 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;
- Cross-default credits;
- Restructured loans due to financial difficulties;
- Default quarantined credits;
- 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 corporations through debt securities that are 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 Credit	Consists of the Bank's Mortgage loans lending offer which has residential real estate property as collateral, regardless of the degree of completion of its construction.
		Overdrafts	Includes the Bank's overdraft facilities and credit overrunning.
	Sovereign debt		Eurozone public debt securities and exposures obtained through the credit assignment contract.
	Corporate		Deposits and investments in other credit institutions, other financing granted to other credit institutions and corporate debt securities.

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

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

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

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

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

The PDs 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, LTV (*loan-to-value*) ratios are a highly relevant parameter in determining 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:

iii) a probability of default that derives from the external rating of the issuer or counterparty, respectively; and

iv) a Loss Given Default (LGD) defined by the Group, based on data from Moody's rating agency, and depending on whether the entity 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.

2.2.3 Derivative financial instruments

Derivative financial instruments are recorded at fair value on the date the Bank negotiates contracts and are subsequently measured at fair value. Fair value is obtained through market prices quoted on active markets, including recent market transactions, and valuation models, namely: discounted cash flow models and options valuation models. Derivatives are considered assets when their fair value is positive and as liabilities when their fair value is negative. Revaluation results are recognised in "Results from assets and liabilities at fair value through profit or loss".

Certain derivatives embedded in other financial instruments, such as the indexation of returns on debt instruments to the value of shares or share indices, are bifurcated and treated as separate derivatives when their risk and economic characteristics are not clearly related to those of the host contract and the host contract is not measured at fair value with changes recognised in profit or loss. These embedded derivatives are measured at fair value, with subsequent changes recognised in the income statement.

Derivatives are also recorded in off-balance sheet accounts at their theoretical value (notional value).

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 Investments in Subsidiaries and Associates

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

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

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

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

2.6 Tangible Assets

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

(I) the purchase price of the asset;

(II) the expenses directly imputable to the purchase.

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

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

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

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

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

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

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

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

2.7 Intangible Assets

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

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

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

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

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

2.8 Leases

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

- the contract involves the use of an identified asset – which could be specified explicitly or implicitly, and should be physically distinctive or substantially represent all the capacity of a physically distinctive asset. Even if the asset is specified, the Bank does not have the right to use an identified asset if the supplier has the substantive right to replace this asset during its period of use;

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

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

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

2.8.1 As lessee

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

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

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

The lease payments included in the measurement of the lease liability consist of the following:

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

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

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

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

Short-term leases and low-value leases

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

2.8.2 As lessor

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

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

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

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

2.9 Income Tax

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

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

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

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

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

The Bank and its subsidiaries – more than 75% held directly or indirectly, and for more than 1 year by the parent company CTT – are covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 75% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC). In this regard, and until 2020 inclusive, 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. As of 2021, the Banco CTT Group is considered to be a "tax sub-consolidated" entity within the Regime in which CTT - Correios de Portugal, S.A. is the dominant company. In this way, Banco CTT's subsidiaries make corporate income tax (IRC) settlements to Banco CTT, and Banco CTT pays or receives the net amount determined for the Banco CTT Group to/from that dominant company. In the event that there are historical amounts receivable from CTT by the Group, any corporate income tax payments to CTT are settled through the use/reduction of the amount receivable, with effective payment only after there are no historical amounts receivable.

2.10 Provisions

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

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

2.11 Recognition of Interest

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

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

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

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

2.12 Recognition of Income of Services, Fees and Commissions

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

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

- Fees and commissions earned over the period in which the services are provided are recognised as income in the period that the services are provided; and

- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recorded through profit or loss using the effective interest rate method.

2.13 Earnings per Share

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

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

2.14 Cash and Cash Equivalents

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

Cash and cash equivalents exclude restricted balances with central banks.

2.15 Provision of Insurance Mediation Services

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

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

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

2.16 Employee Benefits

Variable remunerations of the employees

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

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

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

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

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

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

3.1 Financial instruments – IFRS 9

3.1.1 Classification and measurement

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

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

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

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

The determination of the impairment losses of financial instruments involves 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, or the estimated maturity if lower, and the expected losses considering the probability of occurrence of a default event any time up to the maturity date of the financial instrument for assets at stage 2 and 3. An asset is classified at stage 2 whenever there has not been a significant increase in its credit risk since its initial recognition. The Bank's assessment of the existence of a significant increase of credit risk considers qualitative and quantitative, reasonable and sustainable information.

Definition of group of assets with common credit risk features

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

Probability of default

The probability of default represents a determinant factor in the measurement of the expected loan losses. The probability of default corresponds to an estimate of the probability of default in a given period of time, which is calculated on the basis of benchmarks or through market data.

Loss given default

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

3.2 Provisions

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

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

3.3 Impairment Investments in Subsidiaries and Associates

The Bank tests investments in subsidiaries and associates for impairment, in accordance with the policy described in Note 2.2.1.6. The calculation of the recoverable amounts of the cash generating units involves a judgment and substantially relies on the analysis of the Management related to the future developments of the respective subsidiary. The assessment underlying the calculations that have been made uses assumptions based on the available information, both concerning the business and macro-economic environment. The variations of these assumptions can influence the results and consequent recording of impairments.

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

The general spread of vaccination in the second half of 2021 allowed for a gradual lifting of the restriction measures that were imposed throughout 2021. The evolution of the activity is expected to be conditioned in the short term by a new wave of the pandemic in Europe and by problems in global supply chains. The reintroduction of restrictive measures to contain the pandemic, including on international mobility, alongside increased uncertainty, will impact the pace of recovery, in particular for tourism-related services. In addition, disruptions in global supply chains, which have been reflected in the scarcity of raw materials and other goods and an increase in their costs, are assumed to dissipate from the second half of 2022 onwards. In the light of the above, management will continue to monitor the threat and its implications on the business and provide all necessary information to its stakeholders and act in accordance with the recommendations issued by the World Health Organisation and public health authorities.

Note 4 – Net Interest Income

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Interest and similar income calculated through the effective interest rate	**23,681**	**17,600**
Interest on financial assets at amortised cost		
Investments at credit institutions	579	759
Loans and advances to customers	4,048	4,347
Debt securities	18,954	12,321
Interest on financial assets at fair value through other comprehensive income		
Debt securities	102	175
Other interest	(2)	(2)
Interest and similar expenses	**1,470**	**861**
Interest on financial liabilities at amortised cost		
Amounts owed to other credit institutions	-	(17)
Deposits from Customers	472	863
Interest on deposits at Banco de Portugal (assets)	979	-
Other interest	19	15
Net Interest Income	**22,211**	**16,739**

The heading "Interest and similar income" for the year ended on 31 December 2021 presents a total of 44 thousand euros (2020: 33 thousand euros) related to impaired financial assets (Stage 3) as at the reference date.

The heading "Interest on loans and advances to customers" includes the amount of -655 thousand euros (2020: -431 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 in the amount of -17 thousand euros as at 31 December 2020 refers to sale operations with a repurchase agreement, contracted at market rates.

The item Interest on deposits with Banco de Portugal (assets) has a value of 979 thousand euros, representing interest expenses for amounts deposited with the Central Bank that exceed the minimum reserve requirements. From the reserve counting period started on 30 October 2019, the ECB introduced the tiering regime, in which the balance with the Central Bank in excess of the minimum cash reserves, up to a calculated maximum of 6 times the reserves, is remunerated at the central bank's lending rate instead of the deposit rate.

Note 5 – Net Fee and Commission Income

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Fees and commissions received	**19,219**	**14,213**
Due to banking services provided	12,250	8,779
Due to credit intermediation services	1,766	1,748
Due to insurance mediation services	4,634	3,145
Due to commitments to third parties	540	514
Due to guarantees provided	29	29
Other fees and commissions received	-	(2)
Fees and commissions paid	**3,745**	**3,342**
Due to banking services provided by third parties	3,602	3,215
Dues to operations with securities	117	108
Other fees and commissions paid	26	19
Net Fee and Commission Income	**15,474**	**10,871**

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)

	2021	2020
Earnings on transactions with other financial assets at fair value against other comprehensive income	**-**	**389**
Debt securities	-	389
Net Gains/(Losses) of Other Financial Assets at Fair Value Through Other Comprehensive Income	**-**	**389**

Note 7 – Results from Financial Assets and Liabilities at Amortised Cost

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Earnings on operations with financial assets and liabilities at amortised cost	**17,916**	**34**
Debt securities	17,916	34
Losses on operations with financial assets and liabilities at amortised cost	**(139)**	**-**
Debt securities	(139)	-
Results from Financial Assets and Liabilities at Amortised Cost	**17,777**	**34**

During 2021, the Bank made sales of securities at amortised cost, resulting in a gain of 17,777 thousand euros. These sales of securities resulted from the Group's balance sheet management in the context of the entry into a new business segment (credit cards) resulting from the partnership with Sonae Financial Services.

Note 8 – Other Operating Income/(Expenses)

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Operating income	**208**	**196**
Other operating income	208	196
Operating expenses	**470**	**457**
Levies and donations	34	50
Contribution of the banking sector	87	122
Contribution to the Single Resolution Fund	48	16
Contribution to the Resolution Fund	32	47
Annual supervisory fees (SSM)	7	-
Taxes	154	137
Annual supervisory fees (ASF)	3	2
Contribution to the Deposit Guarantee Fund	4	3
Other operating expenses	101	80
Other Operating Income/(Expenses)	**(262)**	**(261)**

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 No. 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 9 – Staff Costs

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Remuneration	9,751	9,167
Social charges on remunerations	2,334	2,169
Employees with a multiple employer arrangement	3,328	1,860
Incentives and performance bonuses	1,460	920
Occupational accident and disease insurance	122	124
Other costs	92	63
Staff Costs	**17,087**	**14,303**

The total amount of fixed remunerations attributed to the Management and Supervisory Bodies of Banco CTT, during 2021, recorded in the heading "Remunerations", reached 1,640 thousand euros (2020: 1,501 thousand euros). During 2021, costs related to Social Security contributions of the Management and Supervisory Bodies were also paid of the value of 388 thousand euros (2020: 353 thousand euros). As at 31 December 2021, the heading "Incentives and performance bonuses" includes 689 thousand euros of bonuses attributable to the Management Bodies (2020: 133 thousand euros). In 2021, the Bank recorded under the heading "Other costs" 35 thousand euros of costs related to retirement savings plans attributed to Management Bodies (2020: 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 2021 the cost related to these employees shared with CTT amounted to 3,240 thousand euros (2020: 1,843 thousand euros).

In 2021 the Management Bodies were paid 226 thousand euros of variable remuneration (2020: 202 thousand euros).

On the date of the end of 2021 and 2020, the permanent staff, excluding employees under the multiple employer arrangement, distributed by major professional category, was as follows:

(amounts in thousand euros)

	2021	2020
Administration	12	12
Executive	*5*	*5*
Non-executive	*7*	*7*
of which: Audit Committee	*3*	*3*
Heads of functional areas	37	35
Technical and secretarial staff	202	196
	251	**243**

Note 10 – General Administrative Expenses

This heading is composed of:

(amounts in thousand euros)

	2021	2020
Water, electricity and fuel	92	75
Consumables	40	50
Hygiene and cleaning supplies	(2)	8
Rental and hire charges	122	120
Communications	1,219	1,134
Travel, hotel and representation costs	68	81
Advertising	1,489	1,195
Maintenance and related services	3	5
Training costs	85	58
Insurance	114	105
IT	9,163	8,306
Consulting and advisory services	1,587	1,067
Other specialised services	2,868	2,708
Other supplies and services	7,395	6,151
General Administrative Expenses	**24,243**	**21,063**

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

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

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

The heading "Other supplies and services" records, among others, costs related to the use of the CTT Retail Network, servicing of banking operations and use of payments networks. The cost of using the physical and technical resources of the CTT Post Office Network amounted to 3,713 thousand euros (2020: 2,745 thousand euros).

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

(amounts in thousand euros)

	2021	2020
Review of accounts services	201	210
Reliability assurance services	93	183
Services other than review of accounts	-	50
	294	**443**

Note 11 – Earnings per Share

Earnings per share are calculated as follows:

(amounts in thousand euros)

	2021	2020
Net income for the year (thousand euros)	15,424	285
Average number of shares	295,742,466	286,400,000
Basic earnings per share (euros)	0.05	0.00
Diluted earnings per share (euros)	0.05	0.00

The Bank's share capital stands at 296,400,000 euros, represented by 296,400,000 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 2021 and 2020, 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 12 – Cash and Deposits at Central Banks

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Cash	28,307	27,860
Demand deposits at Banco de Portugal	584,705	163,753
Cash and Deposits at Central Banks	**613,012**	**191,613**

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

The heading "Demand deposits at Banco de Portugal" includes mandatory deposits with a view to meeting the minimum cash reserve requirements. As at 31 December 2021 the amount of the minimum cash reserves was 19,938 thousand euros.

Pursuant to Regulation (EU) 1358/2011 of the European Central Bank, of 14 December 2011, the minimum cash requirements kept as demand deposits at Banco de Portugal correspond to 1% of the deposits and other liabilities. From the reserve counting period commenced on 30 October 2019, the ECB introduced the tiering regime, whereby the balance with the Central Bank in excess of the minimum cash reserves, up to a calculated maximum of 6 times the reserves, is remunerated at the central bank's lending rate instead of the deposit rate.

Note 13 – Deposits at Other Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Credit institutions in Portugal	3,156	11,003
Cheques for collection	1,002	3,575
Deposits at Other Credit Institutions	**4,158**	**14,578**

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

Note 14 – Financial Assets at Amortised Cost – Investments at Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Investments at credit institutions in Portugal	2,350	10,000
Loans to credit institutions in Portugal	67,558	33,027
Investments at credit institutions abroad	-	10,001
Impairment for investments in credit institutions	(10)	(29)
Investments at Credit Institutions	**69,898**	**52,999**

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

(amounts in thousand euros)

	2021	2020
Up to 3 months	2,337	15,875
3 to 12 months	6,198	25,728
1 to 3 years	61,373	10,463
More than 3 years	-	962
Investments at Credit Institutions	**69,908**	**53,028**

The heading "Investments at credit institutions" showed an annual average rate of 1.379% in 2020 (2019: 1.496%).

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**29**	**216**
Movement for the period:		
Financial assets originated or acquired	7	24
Variations due to change in exposure or risk parameters	(1)	(161)
Derecognised financial assets excluding write-offs	(25)	(50)
Impairment of investments in credit institutions	**10**	**29**

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**29**	**216**
Movement for the period:		
Variations in expected credit loss	(19)	(187)
Impairment of investments in credit institutions	**10**	**29**

Note 15 – Financial Assets at Amortised Cost – Loans and Advances to Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Mortgage credit	595,420	525,083
Other loans	36,183	-
Overdrafts	1,331	1,148
Outstanding loans	**632,934**	**526,231**
Overdue loans - less than 90 days	59	72
Overdue loans - more than 90 days	1,220	973
Overdue loans	**1,279**	**1,045**
Impairment for credit risk	**(2,540)**	**(1,604)**
Loans and Advances to Customers	**631,673**	**525,672**

The item Other credits in the amount of 36,183 thousand euros represents the credit granted (Liquidity Facility) to the Next Funding No.1 securitisation operation, in which Banco CTT is the sole investor, with the sole purpose of acquiring receivables (credit card balances) between the interest payment dates. At each interest payment date (IPD) the Liquidity Facility balance will be settled by converting it to the value of the note (see note 16).

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

(amounts in thousand euros)

	2021						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Overdue loans	Total
Mortgage credit	-	4,529	13,058	35,360	542,472	-	595,419
Other loans	36,183	-	-	-	-	-	36,183
Overdrafts	1,331	-	-	-	-	1,280	2,611
Loans and Advances to Customers	**37,514**	**4,529**	**13,058**	**35,360**	**542,472**	**1,280**	**634,213**

(amounts in thousand euros)

	2020						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Overdue loans	Total
Mortgage credit	-	3,679	10,650	29,886	480,869	-	525,084
Overdrafts	1,148	-	-	-	-	1,044	2,192
Loans and Advances to Customers	**1,148**	**3,679**	**10,650**	**29,886**	**480,869**	**1,044**	**527,276**

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

(amounts in thousand euros)

	2021	2020
Fixed rate	38,793	2,193
Variable rate	595,420	525,083
Loans and Advances to Customers	**634,213**	**527,276**

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

(amounts in thousand euros)

	2021				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Asset-backed loans	595,420	-	595,420	(596)	594,824
Unsecured loans	37,514	1,279	38,793	(1,944)	36,849
	632,934	**1,279**	**634,213**	**(2,540)**	**631,673**

(amounts in thousand euros)

	2020				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Asset-backed loans	525,083	-	525,083	(499)	524,584
Unsecured loans	1,148	1,045	2,193	(1,105)	1,088
	526,231	**1,045**	**527,276**	**(1,604)**	**525,672**

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

(amounts in thousand euros)

	2021				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Mortgage credit	595,420	-	595,420	(596)	594,824
Other loans	36,183	-	36,183	(796)	35,387
Overdrafts	1,331	1,279	2,610	(1,148)	1,462
	632,934	**1,279**	**634,213**	**(2,540)**	**631,673**

(amounts in thousand euros)

	2020				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Mortgage credit	525,083	-	525,083	(499)	524,584
Overdrafts	1,148	1,045	2,193	(1,105)	1,088
	526,231	**1,045**	**527,276**	**(1,604)**	**525,672**

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

(amounts in thousand euros)

	2021				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Companies					
Financial and insurance sector	36,183	-	36,183	(796)	35,387
Individuals					
Mortgage	595,420	-	595,420	(596)	594,824
Consumer	1,331	1,279	2,610	(1,148)	1,462
	632,934	**1,279**	**634,213**	**(2,540)**	**631,673**

(amounts in thousand euros)

	2020				
	Loans that have not yet fallen due	Overdue loans	Gross loans	Impairment	Net loans
Individuals					
Mortgage	525,083	-	525,083	(499)	524,584
Consumer	1,148	1,045	2,193	(1,105)	1,088
	526,231	**1,045**	**527,276**	**(1,604)**	**525,672**

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

(amounts in thousand euros)

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balance	**609**	**87**	**908**	**1,604**
Movement for the period:				
Financial assets originated or acquired	823	20	43	886
Variations due to change in exposure or risk parameters	99	13	172	284
Derecognised financial assets excluding write-offs	(38)	(7)	(19)	(64)
Transfers to:				
Stage 1	45	(35)	(10)	-
Stage 2	(2)	13	(11)	-
Stage 3	(3)	(26)	29	-
Other movements	(144)	(8)	(18)	(170)
Credit impairment	**1,389**	**57**	**1,094**	**2,540**
Of which: POCI	-	-	-	-

(amounts in thousand euros)

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balance	**55**	**81**	**393**	**529**
Movement for the period:				
Financial assets originated or acquired	138	23	79	240
Variations due to change in exposure or risk parameters	384	56	421	861
Derecognised financial assets excluding write-offs	(3)	(5)	(18)	(26)
Transfers to:				
Stage 1	37	(37)	-	-
Stage 2	(1)	1	-	-
Stage 3	(1)	(32)	33	-
Credit impairment	**609**	**87**	**908**	**1.604**
Of which: POCI	-	-	-	-

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

(amounts in thousand euros)

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balance	**609**	**87**	**908**	**1,604**
Movement for the period:				
Variations in the expected credit loss of the credit portfolio	884	26	196	1,106
Transfers of Stage (net)	40	(48)	8	-
Other movements	(144)	(8)	(18)	(170)
Credit impairment	**1,389**	**57**	**1,094**	**2,540**

(amounts in thousand euros)

	2020			
	Stage 1	Stage 2	Stage 3	Total
Opening balance	**55**	**81**	**393**	**529**
Movement for the period:				
Variations in the expected credit loss of the credit portfolio	519	74	482	1,075
Transfers of Stage (net)	35	(68)	33	-
Credit impairment	**609**	**87**	**908**	**1,604**

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

(amounts in thousand euros)

	2021	2020
Stage 1	**629,707**	**521,575**
Gross Value	631,096	522,184
Impairment	(1,389)	(609)
Stage 2	**1,702**	**3,909**
Gross Value	1,759	3,996
Impairment	(57)	(87)
Stage 3	**31,055**	**16,688**
Gross Value	51,069	26,967
Impairment	(20,014)	(10,279)
	631,673	**525,672**

Moratoria

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

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

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

As at 31 December 2021, Banco CTT has no active moratoria on any credit segment.

In accordance with the EBA Guidelines on reporting and disclosure of exposures subject to Covid-19 crisis response measures (EBA/GL/2020/07), the total number of moratorium requests, moratoria assigned and gross carrying amount of loans and advances as at 31 December 2021 and 2020 are presented below:

(amounts in thousand euros)

	2021								
	Number of debtors	Gross carrying amount							
		Total	Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
Loans and advances which have been offered a moratorium	584	34,942							
Loans and advances subject to a moratorium (applied)	556	32,977	32,977	32,977	-	-	-	-	-
of which: households		32,977	32,977	32,977	-	-	-	-	-
of which: secured by residential property		32,977	32,977	32,977	-	-	-	-	-
of which: non-financial corporations		-	-	-	-	-	-	-	-
of which: small and medium-sized enterprises		-	-	-	-	-	-	-	-
of which: secured by commercial real estate		-	-	-	-	-	-	-	-

(amounts in thousand euros)

	2020								
	Number of debtors	Gross carrying amount							
		Total	Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					≤ 3 months	> 3 months ≤ 6 months	> 6 months ≤ 9 months	> 9 months ≤ 12 months	> 1 year
Loans and advances which have been offered a moratorium	526	45,686							
Loans and advances subject to a moratorium (applied)	501	44,290	44,290	13,223	100	389	30,578	-	-
of which: households		44,290	44,290	13,223	100	389	30,578	-	-
of which: secured by residential property		44,290	44,290	13,223	100	389	30,578	-	-
of which: non-financial corporations		-	-	-	-	-	-	-	-
of which: small and medium-sized enterprises		-	-	-	-	-	-	-	-
of which: secured by commercial real estate		-	-	-	-	-	-	-	-

Note 16 – Financial Assets at Amortised Cost – Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Public debt securities		
Portuguese	185,545	288,879
Foreign	148,350	201,696
Bonds of other issuers		
Portuguese	536,222	445,914
Impairment	(6,076)	(399)
Financial Assets at Amortised Cost – Debt Securities	**864,041**	**936,089**

As at 31 December 2021, the caption Bonds of other national issuers includes 265,217 thousand euros referring to the note of the Next Funding No.1 securitisation operation.

The Next Funding No.1 operation, issued by Tagus - STC, S.A. in April 2021 and in which Banco CTT is the sole investor, has as its underlying asset the credit card balances originated by the Universo credit card issued by Sonae Financial Services. Additionally, Banco CTT grants the operation an overdraft facility (Liquidity Facility) for the sole purpose of acquiring receivables (credit card balances) between the interest payment dates (see note 15). At each interest payment date (IPD) the Liquidity Facility balance will be settled by converting it to the value of the note.

During 2021, sales amounting to 204 million euros (nominal value) were made, resulting in a gain of 17,777 thousand euros (note 7).

The financial assets in this portfolio are managed based on a business model whose objective is the receipt of its contractual cash flows (note 2.2.1.1).

The analysis of investments in securities as at 31 December 2021 and 2020, by residual maturity, is as follows:

(amounts in thousand euros)

	2021				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	2,521	22,264	38,565	122,195	185,545
Foreign	1,013	12,997	11,098	123,242	148,350
Bonds of other issuers					
Portuguese	1,177	-	-	535,045	536,222
Financial Assets at Amortised Cost – Debt Securities	**4,711**	**35,261**	**49,663**	**780,482**	**870,117**

(amounts in thousand euros)

	2020				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	4,493	13,931	60,600	209,854	288,878
Foreign	993	20,556	24,543	155,604	201,696
Bonds of other issuers					
Portuguese	5,345	-	2,665	437,904	445,914
Financial Assets at Amortised Cost – Debt Securities	**10,831**	**34,487**	**87,808**	**803,362**	**936,488**

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**399**	**455**
Movement for the period:		
Financial assets originated or acquired	5,856	11
Variations due to change in exposure or risk parameters	(161)	(63)
Derecognised financial assets excluding write-offs	(18)	(4)
Impairment of debt securities at amortised cost	**6,076**	**399**

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**399**	**455**
Movement for the period:		
Variations in expected credit loss	5,677	(56)
Impairment of debt securities at amortised cost	**6,076**	**399**

Note 17 – Financial Assets at Fair Value Through Profit or Loss

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Investment fund units	24,999	-
Real-estate Investment Funds	24,999	-
Financial Assets at Fair Value Through Profit or Loss	**24,999**	**-**

The item Real Estate Investment Funds in the amount of 24,999 thousand euros refers to an investment in an open-ended real estate investment fund domiciled in Portugal, representing 10.7% of the total units issued on 31 December 2021.

Note 18 – Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Public debt securities		
Portuguese	849	7,621
Bonds of other issuers		
Portuguese	5,246	11,934
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	**6,095**	**19,555**

Fair value changes are reflected in other comprehensive income, as described in note 2.2.1.2. (see note 29).

The analysis of investments in securities as at 31 December 2021 and 2020, by residual maturity, is as follows:

(amounts in thousand euros)

	2021				
	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Total
Public debt securities					
Portuguese	4	845	-	-	849
Bonds of other issuers					
Portuguese	339	-	4,907	-	5,246
Financial Assets at Fair Value through Other Comprehensive Income – Debt Securities	**343**	**845**	**4,907**	**-**	**6,095**

(amounts in thousand euros)

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

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**9**	**-**
Movement for the period:		
Financial assets originated or acquired	-	9
Variations due to change in exposure or risk parameters	(4)	-
Derecognised financial assets excluding write-offs	(2)	-
Impairment of debt securities at fair value through other comprehensive income	**3**	**9**

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

(amounts in thousand euros)

	2021 Stage 1	2020 Stage 1
Opening balance	**9**	**-**
Movement for the period:		
Variations in the expected credit loss of the Portfolio	(6)	9
Impairment of debt securities at fair value through other comprehensive income	**3**	**9**

The impairment of these assets is reflected in other comprehensive income, as described in note 2.2.1.2. (see note 29).

Note 19 – Other Tangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Acquisition Cost	**7,297**	**3,066**
Real estate properties		
Works in rented properties	102	102
Equipment		
Furniture	385	384
Machinery and tools	640	292
Computer equipment	362	329
Interior installations	1	1
Security equipment	68	68
Other equipment	9	6
Rights of use		
Real estate properties	4,812	1,212
Motor vehicles	918	672
Accumulated Depreciation	**(2,378)**	**(1,320)**
Related to previous years	(1,168)	(221)
Related to the current year	(1,210)	(1,099)
Other Tangible Assets	**4,919**	**1,746**

The movement of the heading "Other Tangible Assets" during 2021 is analysed as follows:

(amounts in thousand euros)

	2021					
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Other variations	Balance on 31 December
Acquisition cost	**3,066**	**4,388**	**-**	**(157)**	**-**	**7,297**
Real estate properties						
Works in rented properties	102	-	-	-	-	102
Equipment						
Furniture	384	1	-	-	-	385
Machinery and tools	292	348	-	-	-	640
Computer equipment	329	33	-	-	-	362
Interior installations	1	-	-	-	-	1
Security equipment	68	-	-	-	-	68
Other equipment	6	3	-	-	-	9
Rights of use						
Real estate properties	1,212	3,600	-	-	-	4,812
Motor vehicles	672	403	-	(157)	-	918
Accumulated depreciation	**(1,320)**	**(1,210)**	**-**	**152**	**-**	**(2,378)**
Real estate properties						
Works in rented properties	(77)	(3)	-	-	-	(80)
Equipment						
Furniture	(326)	(11)	-	-	-	(337)
Machinery and tools	(53)	(34)	-	-	-	(87)
Computer equipment	(314)	(40)	-	-	-	(354)
Interior installations	(1)	-	-	-	-	(1)
Security equipment	(39)	(7)	-	-	-	(46)
Other equipment	(6)	(3)	-	-	-	(9)
Rights of use						
Real estate properties	(266)	(916)	-	-	-	(1,182)
Motor vehicles	(238)	(196)	-	152	-	(282)
Other Tangible Assets	**1,746**	**3,178**	**-**	**(5)**	**-**	**4,919**

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

(amounts in thousand euros)

	2020					
	Balance on 1 January	**Acquisitions / Allocations**	**Transfers**	**Divestment / Write-off**	**Other variations**	**Balance on 31 December**
Acquisition cost	**2,976**	**1,386**	**-**	**(1,296)**	**-**	**3,066**
Real estate properties						
Works in rented properties	102	-	-	-	-	102
Equipment						
Furniture	384	-	-	-	-	384
Machinery and tools	290	2	-	-	-	292
Computer equipment	279	50	-	-	-	329
Interior installations	1	-	-	-	-	1
Security equipment	68	-	-	-	-	68
Other equipment	6	-	-	-	-	6
Rights of use						
Real estate properties	1,069	876	-	(733)	-	1,212
Motor vehicles	777	458	-	(563)	-	672
Accumulated depreciation	**(1,518)**	**(1,099)**	**-**	**1,296**	**1**	**(1,320)**
Real estate properties						
Works in rented properties	(71)	(6)	-	-	-	(77)
Equipment						
Furniture	(316)	(10)	-	-	-	(326)
Machinery and tools	(19)	(34)	-	-	-	(53)
Computer equipment	(266)	(49)	-	-	1	(314)
Interior installations	(1)	-	-	-	-	(1)
Security equipment	(32)	(7)	-	-	-	(39)
Other equipment	(6)	-	-	-	-	(6)
Rights of use						
Real estate properties	(200)	(799)	-	733	-	(266)
Motor vehicles	(607)	(194)	-	563	-	(238)
Other Tangible Assets	**1,458**	**287**	**-**	**-**	**1**	**1,746**

Note 20 – Intangible Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Acquisition Cost	**42,042**	**39,484**
Software in use	41,702	38,952
Other intangible assets	16	16
Software in progress	324	516
Impairment	**(61)**	**-**
Accumulated Amortisation	**(20,367)**	**(15,248)**
Related to previous years	(15,249)	(10,827)
Related to the current year	(5,118)	(4,421)
Intangible Assets	**21,614**	**24,236**

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 2021 is analysed as follows:

(amounts in thousand euros)

	2021				
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Acquisition Cost	**39,484**	**2,558**	**-**	**-**	**42,042**
Software in use	38,952	13	2,737	-	41,702
Other intangible assets	16	-	-	-	16
Software in progress	516	2,545	(2,737)	-	324
Impairment	**-**	**(61)**	**-**	**-**	**(61)**
Accumulated Amortisation	**(15,248)**	**(5,118)**	**(1)**	**-**	**(20,367)**
Software in use	(15,239)	(5,116)	(1)	-	(20,356)
Other intangible assets	(9)	(2)	-	-	(11)
Intangible Assets	**24,236**	**(2,621)**	**(1)**	**-**	**21,614**

The movement of the heading "Intangible assets" during 2020 is analysed as follows:

(amounts in thousand euros)

	2020				
	Balance on 1 January	Acquisitions / Allocations	Transfers	Divestment / Write-off	Balance on 31 December
Acquisition Cost	**35,992**	**3,492**	**-**	**-**	**39,484**
Software in use	32,469	106	6,377	-	38,952
Other intangible assets	16	-	-	-	16
Software in progress	3,507	3,386	(6,377)	-	516
Accumulated Amortisation	**(10,827)**	**(4,421)**	**-**	**-**	**(15,248)**
Software in use	(10,819)	(4,420)	-	-	(15,239)
Other intangible assets	(8)	(1)	-	-	(9)
Intangible Assets	**25,165**	**(929)**	**-**	**-**	**24,236**

Note 21 – Investments in Subsidiaries and Associates

This heading is analysed as follows:

(amounts in thousand euros)

	2021		2020	
	Holding (%)	Book Value	Holding (%)	Book Value
Payshop (Portugal), S.A.	100%	8,247	100%	8,053
321 Crédito - Instituição Financeira de Crédito, S.A.	100%	125,474	100%	136,639
Investments in Subsidiaries and Associates		**133,721**		**144,692**

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

(amounts in thousand euros)

	Assets		Liabilities		Equity		Net Income	
	2021	2020	2021	2020	2021	2020	2021	2020
Payshop (Portugal), S.A.	15,070	14,564	7,230	6,917	7,840	7,647	1,918	2,235
321 Crédito - Instituição Financeira de Crédito, S.A.	679,101	581,189	614,368	505,320	64,733	75,869	12,799	8,968

During 2021, Banco CTT received 1,725,000 euros (2020: 2,400,000 euros) of dividends from Payshop (Portugal), S.A. and 24,000,000 euros of dividends from 321 Crédito - Instituição de Crédito, S.A..

Impairment

The recoverable amount of investments in subsidiaries and associates is assessed annually or whenever there is indication of a possible loss of value. The recoverable amount is determined based on the value in use of the assets, computed using calculation methodologies supported by discounted cash flow techniques, considering the market conditions, the time value and business risks.

In order to determine the recoverable amount of its investments, impairment tests were carried out, as at 31 December 2021 and 31 December 2020, based on the following assumptions:

Corporate Name	2021			
	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	7.6%	1.4%
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	9 years	10.0%	1.5%

Corporate Name	2020			
	Basis of determination of recoverable amount	Explicit period for cash flows	Discount rate	Growth rate in perpetuity
Payshop (Portugal), S.A.	Equity Value / DCF	10 years	10.0%	1.5%
321 Crédito – Instituição Financeira de Crédito, S.A.	Equity Value / DCF	10 years	10.0%	1.5%

Payshop (Portugal), S.A.

Cash flows were estimated based on historical performance and 5-year business plan.

Sensitivity analyses were performed on the results of these impairment tests, namely regarding the following key assumptions: (i) reduction of 50 basis points in the growth rate in perpetuity and (ii) increase of 50 basis points in the different discount rates used.

As a result of the impairment test performed, as well as the sensitivity analyses carried out, no impairment loss was identified in the goodwill recorded on 31 December 2021.

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

Cash flows were estimated on the basis of projections of results and of evolution of activity based on the entity's business plan. This business plan covers a period up to 2030 and considers an annual compound growth rate of 7.5% of assets over this period.

Sensitivity analyses were performed on the results of these impairment tests, namely regarding the following key assumptions: (i) reduction/increase of 0.5% in the target of the CET1 ratio (ii) an increase of 50 points in the different discount rates used.

As a result of the impairment test performed, as well as the sensitivity analyses carried out, no impairment loss was identified in the goodwill recorded on 31 December 2021.

Note 22 – 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 2021 and 2020 was based on a nominal corporate income tax rate of 21% pursuant to Law 107-B/2003, of 31 December, and Law 2/2007, of 15 January.

Deferred tax is calculated based on the tax rates that are expected to be applicable on the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved on the reporting date.

As mentioned in note 2.9, the Bank is covered by the special regime applicable to the taxation of groups of companies (RETGS), which includes all the companies in which CTT directly or indirectly holds at least 90% of their share capital and which are simultaneously resident in Portugal and subject to corporate income tax (IRC).

The reconciliation of the tax rate, in the portion relative to the amount recognised through profit or loss, may be analysed as follows:

(amounts in thousand euros)

	2021	2020
Profit/(Loss) before tax	15,242	(2,799)
Current tax rate	21.0%	21.0%
Expected income tax	**3,201**	**(588)**
Surcharges	8	-
Total expected tax	**3,209**	**(588)**
Elimination of the equity method of accounting	(3,085)	(2,371)
Accruals/(deductions) for calculation purposes	117	8
Autonomous tax	15	25
Recorded current tax for the year	**256**	**(2,926)**
Recorded deferred tax	**(156)**	**(54)**
Recorded total tax	**100**	**(2.980)**
Effective rate	**0.7%**	**106.5%**
Effective Rate (except equity method)	**18.1%**	**21.2%**
Corrections relative to previous years	**(282)**	**(104)**
Taxes*	**(182)**	**(3.084)**

**negative values represent tax to be recovered.*

Current tax

Pursuant to the accounting policy described in Note 2.9, the value related to tax is recorded as a value receivable by the shareholder CTT (see note 23).

Deferred tax

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

(amounts in thousand euros)

	2021	2020
Opening balance	**526**	**472**
Recognised through profit or loss	156	54
Other	1	-
Deferred Tax Assets	**683**	**526**

The value of deferred tax assets as at 31 December 2021 and 2020 primarily arises from temporary differences derived from variable remunerations not deductible for tax purposes.

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

(amounts in thousand euros)

	2021	2020
Opening balance	**20**	**-**
Recognised through other reserves	(14)	20
Deferred Tax Liabilities	**6**	**20**

New tax system for impairment losses

The Bank exercised the option to definitively adopt the tax system applicable to the impairment losses of credit institutions and other financial institutions subject to the supervision of Banco de Portugal, established by articles 2 and 3 of Law 98/2019, of 4 September, under the terms stipulated in number 1 of article 4 of this same Law, taking effect from the tax period started on 1 January 2019 (inclusively).

SIFIDE

The Bank's policy is to recognise tax credit relative to the system of tax incentives for business research and development (SIFIDE) upon receiving the statement of the competent body formalising the eligibility of the expenses presented in the corresponding application.

In the financial year 2018, the Bank incurred R&D expenses of approximately 17,153 euros, for which it benefited from a tax credit – granted in 2021 – under Corporate Income Taxes (IRC) in the amount of 14,152 euros.

In the financial year 2019, the Bank incurred R&D expenses of approximately 197,803 euros, for which it benefited from a tax credit – granted in 2021 – under Corporate Income Taxes (IRC) in the amount of 158,900 euros.

In the financial year 2020, the Bank incurred R&D expenses of approximately 441,186 euros for which it will benefit – granted in 2022 – from a tax credit under Corporate Income Taxes (IRC) in the amount of 310,239 euros.

As for 2021, the Bank is still identifying and quantifying the expenses incurred with R&D that will integrate the applications that will be submitted during 2022.

Note 23 – Other Assets

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
IRC RETGS	13,677	13,651
Operations to be cleared	1,212	1,978
Escrow accounts	272	276
Other receivables	2,430	2,140
Expenses with deferred charges	750	494
Administrative Public Sector	163	122
Receivables due to advances	-	105
Impairment of other assets	(293)	(252)
Other assets	**18,211**	**18,514**

The heading "Other Assets" includes the amount of 13,677 thousand euros (2020: 13,651 thousand euros) under corporate income tax (IRC) resulting from the application of the Special Corporate Group Taxation Regime (RETGS), in accordance with point 2.9 of note 2, of which 11,796 thousand euros are amounts receivable from the dominant company CTT (2020: 13,651 thousand euros) and 1,881 thousand euros from the Bank's subsidiaries.

The item "Other debtors" mainly records the commission amounts to be received from partners, within the scope of the credit intermediation and insurance mediation activity.

The item Transactions to be settled records amounts of banking operations awaiting financial settlement.

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

(amounts in thousand euros)

	2021	2020
Opening balance	**252**	**267**
Allocation for the period	51	-
Reversal for the period	-	(15)
Uses for the period	(10)	-
Impairment of other assets	**293**	**252**

Note 24 – Financial Liabilities at Amortised Cost – Amounts owed to Credit Institutions

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Amounts owed to credit institutions in Portugal		
Demand deposits	43	344
Financial liabilities at Amortised Cost – Amounts owed to Credit Institutions	**43**	**34**

Note 25 – Financial Liabilities at Amortised Cost – Deposits from Customers

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Demand deposits	1,487,276	1,207,683
Term deposits	223,067	178,176
Saving accounts	412,474	303,251
Financial Liabilities at Amortised Cost – Deposits from Customers	**2,122,817**	**1,689,110**

In 2021, the average rate of return on deposits from customers was 0.02% (2020: 0.06%).

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

(amounts in thousand euros)

	2021	2020
Demand deposits and saving accounts	1,899,750	1,510,934
Term deposits		
Up to 3 months	106,310	81,534
3 to 12 months	116,757	96,642
Financial Liabilities at Amortised Cost – Deposits from Customers	**2,122,817**	**1,689,110**

Note 26 - Provisions

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Provisions for other risks and charges	115	165
Provisions for commitments	314	-
Provisions	**429**	**165**

Provisions for other risks and charges were established in order to deal with contingencies related to the Bank's activity and whose payment appears to be probable.

Provisions for commitments refer to provisions for indirect credit. In 2021, a credit impairment transfer of 170 thousand euros (note 15) was made to provisions.

On each reporting date, the Bank reassess 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)

	2021	2020
Opening balance	**165**	**14**
Transfers	170	-
Allocation for the period	242	155
Reversal for the period	(124)	(4)
Uses for the period	(24)	-
Provisions	**429**	**165**

Note 27 – Other Liabilities

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Payables		
Suppliers	2,006	2,099
Related parties	966	958
Other payables	-	1
Staff costs	3,973	3,577
Operations to be cleared	20,486	20,090
Administrative Public Sector	570	640
Deferred income	286	419
Lease liabilities	4,284	1,382
Other Liabilities	**32,571**	**29,166**

The heading "Operations to be cleared" primarily records the balance of banking operations pending financial settlement.

The heading "Lease liabilities" corresponds to the lease liabilities recognised under IFRS 16, as described in accounting policy 2.8.

Note 28 – Share Capital

The share capital stands at 296,400,000 euros, represented by 296,400,000 ordinary shares without nominal value, and is fully underwritten and paid-up.

An increase of the Company's share capital was carried out on 25 January 2021 from 286,400,000 euros (two hundred and eighty-six million and four hundred thousand euros) to 296,400,000 euros (two hundred and ninety-six million and four hundred thousand euros), via a new cash entry by the Sole Shareholder (CTT – Correios de Portugal, S.A.), of the value of 10,000,000 euros (ten million euros) giving rise to the issue of 10,000,000 new ordinary, registered shares without nominal value with the issue value of 1 euro each.

As at 31 December 2021, the Bank's share capital is 100% held by CTT – Correios de Portugal, S.A. (public company).

Note 29 – Fair Value Reserves, Other Reserves and Retained Earnings

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Fair Value Reserves		
Other financial assets at fair value through other comprehensive income	27	83
Legal reserves	29	-
Other reserves	(820)	(884)
of which: equity method	*(66)*	*(131)*
Retained earnings	(73,902)	(74,159)
Reserves and Retained Earnings	**(74,666)**	**(74,960)**

Note 30 – Guarantees and Other Commitments

This heading is analysed as follows:

(amounts in thousand euros)

	2021	2020
Guarantees provided	23,765	18,827
Guarantees received	1,092,909	941,936
Commitments to third parties		
Revocable commitments		
Credit lines	21,403	87,973
Irrevocable commitments		
Credit lines	79,636	23,426
Commitments from third parties		
Revocable commitments		
Credit lines	16,137	12,690

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

The amount recorded as Guarantees Received basically includes sureties and mortgages on properties for collateralization of operations mortgage loans.

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

As at 31 December 2021, the item irrevocable commitments assumed by Banco CTT includes the credit line granted to the Next Funding No.1 securitisation operation in the amount of 18,818 thousand euros (see note 15).

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.

Provisions for commitments made to third parties are disclosed in note 26.

Note 31 – Transactions with Related Parties

All the business and operations carried out by the Bank with related parties are cumulatively concluded under normal market conditions for similar operations and are part of the Bank's current activity.

For all due purposes, the concept of related parties is provided in Chapter 4 of the Banco CTT Group's Policy on Transactions with Related Parties (which refers to the provisions of IAS 24, the RGICSF and Banco de Portugal Notice 3/2020), available for consultation at https://www.bancoctt.pt/sobre-o-banco-ctt/governo-da-sociedade/estatutos-e-regulamentos.

As at 31 December 2021, 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)

	2021			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Operating costs	Operating income
CTT - Correios de Portugal, S.A.	12,268	3,671	5,396	-
CTT Expresso – Serviços Postais e Logística, S.A.	-	8	83	-
CTT Contacto, S.A.	-	-	-	-
Payshop (Portugal), S.A.	322	1,306	-	131
321 Crédito, S.A.	57,774	148	-	395
Chaves Funding No.8	270,628	-	-	5,719
Next Funding No.1	301,411	-	-	8,314
	642,403	**5,133**	**5,479**	**14,559**

As at 31 December 2020, the value of the Bank's transactions with related parties, as well as the respective costs and income recognised for the year, were as follows:

(amounts in thousand euros)

	2020			
	Balance Sheet		Income Statement	
	Assets	Liabilities	Operating costs	Operating income
CTT - Correios de Portugal, S.A.	14,116	1,527	4,209	-
CTT Expresso – Serviços Postais e Logística, S.A.	1	9	89	-
CTT Contacto, S.A.	-	-	-	-
Payshop (Portugal), S.A.	31	645	-	175
321 Crédito, S.A.	14,128	51	-	372
Chaves Funding No.8	438,058	-	-	5,315
	466,334	**2,232**	**4,298**	**5,862**

As at 31 December 2021, the value of the deposits placed by the members of the Corporate Bodies at the Bank amounted to 253 thousand euros (2020: 150 thousand euros).

Note 32 – Fair Value

The fair value of the financial assets and liabilities, as at 31 December 2021, is analysed as follows:

(amounts in thousand euros)

	2021				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair Value
Cash and deposits at central banks	-	-	613,012	613,012	613,012
Deposits at other credit institutions	-	-	4,158	4,158	4,158
Financial assets at amortised cost					
Investments at credit institutions	-	-	69,898	69,898	69,898
Loans and advances to customers	-	-	631,673	631,673	635,405
Debt securities	-	-	864,041	864,041	884,318
Bonds issued by public entities	-	-	*333,774*	*333,774*	*348,100*
Bonds of other issuers	-	-	*530,267*	*530,267*	*536,218*
Financial assets at fair value through profit or loss					
Investment fund units	24,999	-	-	24,999	24,999
Financial assets at fair value through other comprehensive income					
Debt securities	-	6,095	-	6,095	6,095
Bonds issued by public entities	-	*849*	-	*849*	*849*
Bonds of other issuers	-	*5,246*	-	*5,246*	*5,246*
Financial Assets	**24,999**	**6,095**	**2,182,782**	**2,213,876**	**2,237,885**
Financial liabilities at amortised cost					
Amounts owed to other credit institutions	-	-	43	43	43
Deposits from Customers	-	-	2,122,817	2,122,817	2,122,817
Financial liabilities	**-**	**-**	**2,122,860**	**2,122,860**	**2,122,860**

The fair value of the financial assets and liabilities, as at 31 December 2020, is analysed as follows:

(amounts in thousand euros)

	2020				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair Value
Cash and deposits at central banks	-	-	191,613	191,613	191,613
Deposits at other credit institutions	-	-	14,578	14,578	14,578
Financial assets at amortised cost					
Investments at credit institutions	-	-	52,999	52,999	52,999
Loans and advances to customers	-	-	525,672	525,672	527 915
Debt securities	-	-	936,089	936,089	981,372
Bonds issued by public entities	-	-	*490,394*	*490,394*	*535,452*
Bonds of other issuers	-	-	*445,695*	*445,695*	*445,920*
Financial assets at fair value through other comprehensive income					
Debt securities	-	19,555	-	19,555	19,555
Bonds issued by public entities	-	*7,621*	-	*7,621*	*7,621*
Bonds of other issuers	-	*11,934*	-	*11,934*	*11,934*
Financial Assets	**-**	**19,555**	**1,720,951**	**1,740,506**	**1,788,032**
Financial liabilities at amortised cost					
Amounts owed to other credit institutions	-	-	34	34	34
Deposits from Customers	-	-	1,689,110	1,689,110	1,689,110
Financial liabilities	**-**	**-**	**1,689,144**	**1,689,144**	**1,689,144**

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 2021:

(amounts in thousand euros)

	2021			
	Valuation methods			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	613,012	-	-	613,012
Deposits at other credit institutions	4,158	-	-	4,158
Financial assets at amortised cost				
Investments at credit institutions	-	-	69,898	69,898
Loans and advances to customers	-	-	635,405	635,405
Debt securities	348,100	382	535,836	884,318
Bonds issued by public entities	*348,100*	-	-	*348,100*
Bonds of other issuers	-	*382*	*535,836*	*536,218*
Financial assets at fair value through profit or loss				
Investment fund units	-	-	24,999	24,999
Financial assets at fair value through other comprehensive income				
Debt securities	849	5,246	-	6,095
Bonds issued by public entities	*849*	-	-	*849*
Bonds of other issuers	-	*5,246*	-	*5,246*
Financial Assets	**966,119**	**5,628**	**1,266,138**	**2,237,885**
Financial liabilities at amortised cost				
Amounts owed to other credit institutions	-	-	43	43
Deposits from Customers	-	-	2,122,817	2,122,817
Financial liabilities	**-**	**-**	**2,122,860**	**2,122,860**

Sensitivity analysis

The item Loans and advances to customers which, as at 31 December 2021, has a fair value of 527,915 thousand euros has a sensitivity of +1,816 thousand euros and -9,355 thousand euros for an interest rate change of -10% and +10%, respectively.

The table below summarises, by valuation levels, the fair value of the financial assets and liabilities, as at 31 December 2020:

(amounts in thousand euros)

	2020			
	Valuation methods			
	Level 1	Level 2	Level 3	Total
Cash and deposits at central banks	191,613	-	-	191,613
Deposits at other credit institutions	14,578	-	-	14,578
Financial assets at amortised cost				
Investments at credit institutions	-	-	52,999	52,999
Loans and advances to customers	-	-	527,915	527,915
Debt securities	535,452	442,120	3,800	981,372
Bonds issued by public entities	*535,452*	-	-	*535,452*
Bonds of other issuers	-	*442,120*	*3,800*	*445,920*
Financial assets at fair value through other comprehensive income				
Debt securities	19,555	-	-	19,555
Bonds issued by public entities	*7,621*	-	-	*7,621*
Bonds of other issuers	*11,934*	-	-	*11,934*
Financial Assets	**761,198**	**442,120**	**584,714**	**1,788,032**
Financial liabilities at amortised cost				
Amounts owed to other credit institutions	-	-	34	34
Deposits from Customers	-	-	1,689,110	1,689,110
Financial liabilities	**-**	**-**	**1,689,144**	**1,689,144**

The main methods and assumptions used to estimate the fair value of the financial assets and liabilities recorded in the balanced sheet 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 financial instruments are very short-term and therefore their book value is a reasonable estimate of their fair value.

Investment securities measured at amortised cost

The fair value of these financial instruments is based on market prices, when available. If market prices do not exist, their fair value is estimated based on the expected future principal and interest cash flows for these instruments.

Loans and advances to customers

Loans and advances to customers with defined maturity date

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.

Loans and advances to customers without defined maturity date

Considering the short-term nature of this type of instrument, the conditions of this portfolio are similar to those prevailing at the reporting date, and so its book value is considered a reasonable estimate of its fair value.

Financial assets at fair value through profit or loss (except derivatives)

These financial assets are accounted for at fair value. Fair value is based on market prices, when available. If these are not available, the calculation of the fair value is based on i) the use of numerical models, namely discounted cash flows of expected future capital and interest for these instruments or ii) the Net Asset Value (NAV) provided by the fund management companies.

Financial assets at fair value through profit or loss (Derivatives)

All derivatives are accounted for at their fair value. In the case of those that are quoted on organised markets, the respective market price is used. In the case of over-the-counter (OTC) derivatives, numerical models based on discounted cash flow techniques and option valuation models considering market and other variables are applied.

Financial assets at fair value through other comprehensive income

The fair value of these instruments is estimated 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.

Amounts owed to central banks and other credit institutions

These financial instruments are very short-term and therefore 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.

Debt securities issued

The fair value of these instruments is estimated 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.

Note 33 – 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 2021, the exposure (net of impairment and including off-balance sheet exposures) to this product was in the amount of 611,167 thousand euros (535,914 thousand euros as at 31 December 2020).

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 and France), debt instruments of other issuers (credit institutions and companies), securitisation operations relative to the tariff deficit.

In order to mitigate credit risk, the lending operations have associated collateral, namely mortgages. Except in situations of default, the Bank, under its activity, does not have permission to sell or pledge this collateral. The fair value of this collateral is determined as at the date of the granting of the loan, with its value being checked periodically.

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

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

(amounts in thousand euros)

	2021		2020	
	Loans and advances to customers	Fair value of the collateral	Loans and advances to customers	Fair value of the collateral
Mortgage loans	595,420	1,021,371	520,340	879,528
Other	38,793	-	6,937	-
	634,213	**1,021,371**	**527,277**	**879,528**

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 2021 and 31 December 2020:

(amounts in thousand euros)

	2021	2020
Central Authorities or Central Banks	919,330	656,725
Regional governments or local authorities	-	5,043
Credit institutions	89,993	150,615
Companies	319,049	19,718
Retail customers	8,525	7,796
Loans secured by immovable assets	606,218	531,669
Non-performing loans	234	189
Collective investment undertakings (CIUs)	24,999	-
Shares	133,721	144,692
Other items	63,619	60,778
Risk Headings	**2,165,688**	**1,577,225**

The information on the risk headings (including off-balance sheet) as at 31 December 2021 and 31 December 2020 is detailed as follows:

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	584,705	-	584,705	163,753	-	163,753
Other financial assets at fair value through other comprehensive income	850	-	850	7,623	(2)	7,621
Investment securities measured at amortised cost	333,895	(120)	333,775	485,526	(175)	485,351
Central Authorities or Central Banks	**919,450**	**(120)**	**919,330**	**656,902**	**(177)**	**656,725**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Investment securities measured at amortised cost	-	-	-	5,048	(5)	5,043
Regional governments or local authorities	**-**	**-**	**-**	**5,048**	**(5)**	**5,043**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Demand deposits	4,158	-	4,158	14,578	-	14,578
Investments at financial institutions	83,907	(10)	83,897	134,128	(29)	134,099
Other	1,938	-	1,938	1,938	-	1,938
Credit institutions	**90,003**	**(10)**	**89,993**	**150,644**	**(29)**	**150,615**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Investment securities measured at amortised cost	325,852	(6,803)	319,049	19,727	(9)	19,718
Companies	**325,852**	**(6,803)**	**319,049**	**19,727**	**(9)**	**19,718**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	8,689	(164)	8,525	8,003	(207)	7,796
Retail customers	**8,689**	**(164)**	**8,525**	**8,003**	**(207)**	**7,796**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	606,804	(586)	606,218	532,158	(489)	531,669
Loans secured by immovable assets	**606,804**	**(586)**	**606,218**	**532,158**	**(489)**	**531,669**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Loans and advances to customers	1,360	(1,126)	234	1,097	(908)	189
Non-performing loans	**1,360**	**(1,126)**	**234**	**1,097**	**(908)**	**189**

(amounts in thousand euros)

	2021			2020		
	Gross Value	Impairment	Net value	Gross Value	Impairment	Net value
Financial assets at fair value through profit or loss	24,999	-	24,999	-	-	-
Organismos de investimento coletivo (OIC)	**24,999**	**-**	**24,999**	**-**	**-**	**-**

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

(amounts in thousand euros)

	2021			2020		
	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	849	185,468	186,317	7,620	288,754	296,374
Spain	-	75,163	75,163	-	94,407	94,407
Italy	-	73,143	73,143	-	95,233	95,233
France	-	-	-	-	6,434	6,434
Ireland	-	-	-	-	5,565	5,565
	849	**333,774**	**334,623**	**7,620**	**490,393**	**498,013**

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

(amounts in thousand euros)

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Deposits at Central Banks and other credit institutions	588,863	-	-	588,863	178,331	-	-	178,331
Impairment losses	-	-	-	-	-	-	-	-
Net value	**588,863**	**-**	**-**	**588,863**	**178,331**	**-**	**-**	**178,331**
Financial assets at amortised cost – Investments at credit institutions	69,908	-	-	69,908	53,028	-	-	53,028
Impairment losses	(10)	-	-	(10)	(29)	-	-	(29)
Net value	**69,898**	**-**	**-**	**69,898**	**52,999**	**-**	**-**	**52,999**
Financial assets at fair value through other comprehensive income – Debt securities	6,098	-	-	6,098	19,564	-	-	19,564
Impairment losses	(3)	-	-	(3)	(9)	-	-	(9)
Net value	**6,095**	**-**	**-**	**6,095**	**19,555**	**-**	**-**	**19,555**
Financial assets at amortised cost – Debt securities	870,117	-	-	870,117	936,488	-	-	936,488
Impairment losses	(6,076)	-	-	(6,076)	(399)	-	-	(399)
Net value	**864,041**	**-**	**-**	**864,041**	**936,089**	**-**	**-**	**936,089**
Financial assets at amortised cost – Loans and advances to customers	631,096	1,759	1,358	634,213	522,184	3,996	1,096	527,276
Impairment losses	(1,389)	(57)	(1,094)	(2,540)	(609)	(87)	(908)	(1,604)
Net value	**629,707**	**1,702**	**264**	**631,673**	**521,575**	**3,909**	**188**	**525,672**

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 2021, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2021						
	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	613,012	-	-	-	-	-	**613,012**
Deposits at other credit institutions	4,158	-	-	-	-	-	**4,158**
Financial assets at amortised cost							
Investments at credit institutions	-	2,337	6,198	61,373	-	-	**69,908**
Loans and advances to customers	37,514	4,529	13,058	35,360	542,472	1,280	**634,213**
Debt securities	-	4,711	35,261	49,663	780,482	-	**870,117**
Financial assets at fair value through profit or loss							
Investment fund units	-	-	-	-	-	24,999	**24,999**
Financial assets at fair value through other comprehensive income							
Debt securities	-	343	845	4,907	-	-	**6,095**
Total Assets	**654,684**	**11,920**	**55,362**	**151,303**	**1,322,954**	**26,279**	**2,222,502**
Liabilities							
Financial liabilities at amortised cost							
Amounts owed to other credit institutions	43	-	-	-	-	-	**43**
Deposits from Customers	1,899,750	106,310	116,757	-	-	-	**2,122,817**
Total Liabilities	**1,899,793**	**106,310**	**116,757**	**-**	**-**	**-**	**2,122,860**
Gap (Assets-Liabilities)	**(1,245,109)**	**(94,390)**	**(61,395)**	**151,303**	**1,322,954**	**26,279**	**99,642**
Accumulated Gap	**(1,245,109)**	**(1,339,499)**	**(1,400,894)**	**(1,249,591)**	**73,363**	**99,642**	

As at 31 December 2020, the assets and liabilities by residual and contractual maturity are analysed as follows:

(amounts in thousand euros)

	2020						
	At sight	Up to 3 months	3 to 12 months	1 to 3 years	More than 3 years	Undetermined maturity	Total
Assets							
Cash and deposits at central banks	191,613	-	-	-	-	-	**191,613**
Deposits at other credit institutions	14,578	-	-	-	-	-	**14,578**
Financial assets at amortised cost							
Investments at credit institutions	-	15,875	25,728	10,463	962	-	**53,028**
Loans and advances to customers	1,148	3,679	10,650	29,886	480,869	1,044	**527,276**
Debt securities	-	10,831	34,487	87,808	803,362	-	**936,488**
Financial assets at fair value through other comprehensive income							
Debt securities	-	566	6,715	12,274	-	-	**19,555**
Total Assets	**207,339**	**30,951**	**77,580**	**140,431**	**1,285,193**	**1,044**	**1,742,538**
Liabilities							
Financial liabilities at amortised cost							
Amounts owed to other credit institutions	34	-	-	-	-	-	**34**
Deposits from Customers	1,510,934	81,534	96,642	-	-	-	**1,689,110**
Total Liabilities	**1,510,968**	**81,534**	**96,642**	**-**	**-**	**-**	**1,689,144**
Gap (Assets-Liabilities)	**(1,303,629)**	**(50,583)**	**(19,062)**	**140,431**	**1,285,193**	**1,044**	**53,394**
Accumulated Gap	**(1 303 629)**	**(1 354 212)**	**(1 373 274)**	**(1 232 843)**	**52 350**	**53 394**	

Furthermore, under the periodic monitoring of the liquidity situation, the Bank 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 2021, the ALMM shows a positive liquidity mismatch (difference between contracted outflows and inflows) of 18,569 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 2021, 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 2021, 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)

2021						
Timeframe	Assets	Liabilities	Off-Balance Sheet	Net Position	Economic Value Delta (+200 bps)	Economic Value Delta (-200 bps)
At sight	804,879	573,851	(8,445)	222,583	(12)	3
At sight – 1 month	57,729	72,482	15,985	1,232	(1)	-
1 – 3 months	100,832	84,552	128	16,408	(54)	12
3 – 6 months	149,325	104,054	1,749	47,020	(351)	76
6 – 9 months	157,101	86,528	1,642	72,215	(894)	253
9 – 12 months	193,651	87,282	2,390	108,759	(1,882)	541
1 – 1.5 years	49,364	90,424	1,853	(39,207)	963	(354)
1.5 – 2 years	71,666	90,431	-	(18,765)	641	(271)
2 – 3 years	51,967	169,236	-	(117,269)	5,651	(2,809)
3 – 4 years	49,270	142,939	-	(93,669)	6,218	(3,392)
4 – 5 years	331,290	119,117	-	212,173	(17,831)	10,063
5 – 6 years	31,556	95,721	-	(64,165)	6,483	(3,767)
6 – 7 years	30,263	81,671	-	(51,408)	6,022	(3,667)
7 – 8 years	30,728	62,557	-	(31,829)	4,204	(2,753)
8 – 9 years	29,750	51,881	-	(22,131)	3,223	(2,311)
9 – 10 years	4,216	42,245	-	(38,029)	6,021	(4,625)
10 – 15 years	362,987	201,681	-	161,306	(31,363)	24,904
15 – 20 years	3,848	-	-	3,848	(973)	588
> 20 years	2,509	-	-	2,509	(879)	250
Total	**2,512,931**	**2,156,652**	**15,302**	**371,581**	**(14,814)**	**12,741**

As at 31 December 2020, the distribution of assets, liabilities and off-balance sheet items sensitive to the interest rate, according to the 19 timeframes and respective impact on economic value, are as follows:

(amounts in thousand euros)

2020						
Timeframe	**Assets**	**Liabilities**	**Off-Balance Sheet**	**Net Position**	**Economic Value Delta (+200 bps)**	**Economic Value Delta (-200 bps)**
At sight	376,096	269,158	7,940	114,879	(6)	2
At sight – 1 month	51,862	54,262	6,939	4,539	(4)	1
1 – 3 months	94,658	67,049	25	27,634	(92)	21
3 – 6 months	132,667	86,242	132	46,557	(347)	79
6 – 9 months	154,656	68,882	82	85,856	(1,065)	239
9 – 12 months	177,042	73,037	461	104,466	(1,813)	382
1 – 1.5 years	19,194	87,680	10,564	(57,922)	1,433	(298)
1.5 – 2 years	33,875	87,680	-	(53,805)	1,858	(386)
2 – 3 years	57,051	172,327	-	(115,276)	5,663	(1,143)
3 – 4 years	56,480	154,184	-	(97,704)	6,675	(1,321)
4 – 5 years	49,195	151,151	-	(101,956)	8,879	(1,827)
5 – 6 years	50,250	108,691	-	(58,441)	6,154	(1,370)
6 – 7 years	57,003	96,615	-	(39,611)	4,862	(1,222)
7 – 8 years	54,000	96,615	-	(42,615)	5,940	(1,676)
8 – 9 years	39,593	72,461	-	(32,868)	5,100	(1,602)
9 – 10 years	64,522	72,461	-	(7,939)	1,349	(476)
10 – 15 years	437,838	-	-	437,838	(92,369)	36,582
15 – 20 years	-	-	-	-	-	-
> 20 years	-	-	-	-	-	-
Total	**1,905,982**	**1,718,495**	**26,143**	**213,632**	**(47,783)**	**25,985**

In view of the interest rate gaps observed, as at 31 December 2021, the impact on the economic value of instantaneous and parallel shifts of the interest rates by +200 basis points is approximately -14,814 thousand euros (2020: -47,783 thousand euros).

The main assumptions used in 2020 in the Bank's analysis were the following:

- 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;

In 2021 they were revised and the following changes were introduced:

- For Demand Deposits: 25.21% at sight, 74.79% distributed non-linearly over 15 years, giving rise to a duration of 3.7 years;
- Saving Accounts: 39.49% at sight, 60.51% distributed non-linearly over 15 years, giving rise to a duration of 2.9 years;
- Introduction of an annual mortgage prepayment rate of 8.59%, distributed proportionally to each bucket time interval;

Market Risk

Market Risk generally represents the possible loss resulting from an adverse change in the value of a financial instrument as a result of changes in interest rates, foreign exchange rates, share, commodity, or real estate prices, volatility and credit spreads.

Operational Risk

The Bank, in view of the nature of its activity, is exposed to potential losses or reputational risk, as a result of human errors, failures of systems and/or processing, unexpected stoppage of activity or failures on the part of third parties in terms of supplies, provisions or execution of services.

The approach to operational risk management is underpinned by the end-to-end structure, ensuring the effective adequacy of the controls involving functional units that intervene in the process. The Bank identifies and assesses the risks and controls of the processes, ensuring their compliance with the requirements and principles of the Internal Control System.

Encumbered Assets

Pursuant to Banco de Portugal Instruction 28/2014, which addresses the guidance of the European Banking Authority relative to the disclosure of encumbered assets and unencumbered assets (EBA/GL/2014/3), and considering the recommendation issued by the European Systemic Risk Board, the following information is presented in relation to the assets and collateral:

(amounts in thousand euros)

	2021			
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Equity instruments	-	-	24,999	24,999
Debt securities	17,845	19,206	852,291	865,130
Other assets	2,621	n/a	1,495,268	n/a
	20,466		**2,372,558**	

(amounts in thousand euros)

	2020			
	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Debt securities	14,055	14,262	941,589	986,266
Other assets	2,624	n/a	971,952	n/a
	16,679		**1,913,541**	

(amounts in thousand euros)

	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	
	2021	2020	2021	2020
Collateral received	**-**	**-**	**1,021,371**	**879,528**
Debt securities	-	-	-	-
Other assets	-	-	-	-
Other collateral received	-	-	1,021,371	879,528
Own Debt Securities Issued other than Covered Own Bonds or ABS	**-**	**-**	**-**	**-**

(amounts in thousand euros)

	Book value of the selected financial liabilities	
	2021	2020
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	-	-

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 1,495,268 thousand euros (2020: 971,952 thousand euros), approximately 11% (2020: 18%) refer to items that cannot be encumbered (investments in subsidiaries and associates, other tangible assets, intangible assets, current and deferred taxes).

Note 34 – Capital Management and Solvency Ratio

The main objective of capital management is to ensure compliance with the Bank's strategic goals concerning capital adequacy, respecting and assuring compliance with the minimum requirements for own funds defined by the supervision entities.

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

The capital, calculated pursuant to Directive 2013/36/EU and Regulation (EU) 575/2013 approved by the European Parliament and Council, and Banco de Portugal Notice 10/2017, includes core own funds (tier 1 capital) and supplementary own funds (tier 2 capital). Tier 1 includes core own funds (Common Equity Tier 1 – CET1) and tier 1 additional capital.

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

The legislation in force establishes a transition period between capital requirements pursuant to national legislation and that calculated pursuant to Community legislation in a phased fashion both for the non-inclusion/exclusion of items considered previously (phased-out) and the inclusion/deduction of new items (phased-in). At a prudential framework level, institutions should report Common Equity Tier 1, tier 1 and totals not below 7%, 8.5% and 10.5%, respectively, including a conservation buffer of 2.5% and a countercyclical buffer of 0%, in the case of the Bank.

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

During 2020, several measures were disclosed - by the national supervisor and the European Union - easing regulatory and supervisory requirements to alleviate the contingency situation arising from the Covid-19 outbreak, by reducing regulatory capital requirements, including macro-prudential capital reserves.

Banco de Portugal Notice 10/2017 regulates the transitional arrangement established in the CRR concerning own funds, namely with respect to deductions related to deferred taxes generated before 2014 and to subordinated debt and hybrid instruments that are not eligible, both non-applicable to Banco CTT.

With the introduction of IFRS 9, the Bank opted for the phased recognition of the respective impacts of the static component pursuant to Article 473-A of the CRR.

As at 31 December 2021 and 31 December 2020, the Bank presented the following capital ratios, calculated in accordance with the transitional provisions established in the CRR:

(amounts in thousand euros)

	2021		2020		
	CRR Phased-in	CRR Fully Implemented	CRR Phased-in	CRR Fully Implemented	Notes
OWN FUNDS					
Share capital	**296,400**	**296,400**	**286,400**	**286,400**	28
Retained earnings	**(73,902)**	**(73,902)**	**(74,159)**	**(74,159)**	29
Legal reserve	**29**	**29**	**-**	**-**	29
Eligible Results	**15,424**	**15,424**	**-**	**-**	
Other Reserves	**(126)**	**(126)**	**(190)**	**(190)**	
Prudential Filters	**21**	**21**	**64**	**64**	
Fair value reserves	27	27	83	83	29
Additional Valuation Adjustment (AVA)	(6)	(6)	(19)	(19)	
Deductions to common equity tier 1	**(9,948)**	**(15,736)**	**(16,532)**	**(17,019)**	
Losses for the period	-	-	-	-	
Intangible assets	(15,041)	(15,041)	(16,324)	(16,324)	20
Adoption of IFRS 9	5,093	(695)	(208)	(695)	
Items not deducted from Own Funds	**134,404**	**134,404**	**144,692**	**144,692**	
Holdings in financial entitie	134,404	134,404	144,692	144,692	
Common Equity Tier 1	**227,898**	**222,110**	**195,583**	**195,096**	
Tier 1 Capital	**227,898**	**222,110**	**195,583**	**195,096**	
Total Own Funds	**227,898**	**222,110**	**195,583**	**195,096**	
RWA					
Credit Risk	1,007,363	1,007,363	757,035	757,035	
Operational Risk	64,479	64,479	36,248	36,248	
Market Risk	-	-	-	-	
IFRS 9 adjustments	-	(5,182)	-	(268)	
Total RWA	**1,071,842**	**1,066,660**	**793,283**	**793,015**	
CAPITAL RATIOS					
Common Equity Tier 1	21.26%	20.82%	24.65%	24.60%	
Tier 1 Ratio	21.26%	20.82%	24.65%	24.60%	
Total Capital Ratio	21.26%	20.82%	24.65%	24.60%	

Note 35 – Provision of Insurance or Reinsurance Mediation Services

As at 31 December 2021 and 2020, the remunerations derived from the provision of insurance and reinsurance mediation services were broken down as follows:

(amounts in thousand euros)

	2021	2020
Life Business	4,210	2,965
Non-Life Business	424	180
	4,634	**3,145**

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

(amounts in thousand euros)

	2021	2020
Values receivable	184	320
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 36 – Standards, Interpretations, Amendments and Revisions that came into force during the year

The following standards, interpretations, amendments and revisions adopted ("endorsed") by the European Union are mandatory for the first time in the financial year beginning on 1 January 2021:

Amendments to IFRS 16 - Leases - Covid-19-Related Rent Concessions beyond 30 June 2021

On 28 May 2020, the amendment to IFRS 16 called 'COVID-19-related concessions' was issued, introducing the following practical expedient: a lessee may choose not to assess whether a Covid-19 rental concession is a lease modification.

Lessees electing to apply this expedient account for the change to rental payments resulting from a concession related to COVID-19 in the same way as they account for a change that is not a lease modification in accordance with IFRS 16.

Initially, the practical expedient applied to payments originally due by 30 June 2021, however, due to the extension of the impact of the pandemic, on 31 March 2021, it was extended to payments originally due by 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

In short, the practical expedient can be applied as long as the following criteria are met:

- the change in the lease payments results in a revised consideration for the lease that is substantially the same as, or less than, the consideration immediately prior to the change;

- any reduction in lease payments only affects payments due on or by 30 June 2022; and
- there are no material changes to other terms and conditions of the lease.

Amendments to IFRS 4 - Insurance Contracts - Deferral of the application of IFRS 9

This amendment refers to the temporary accounting consequences that result from the difference between the date of entry into force of IFRS 9 - Financial Instruments and the future IFRS 17 - Insurance Contracts. Specifically, the amendment made to IFRS 4 postpones until 1 January 2023 the expiry date of the temporary exemption from applying IFRS 9 in order to align the effective date of the latter with that of the new IFRS 17.

The temporary exemption referred to is of optional application and only available to entities whose activities are predominantly insurance-related.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Reform of reference interest rates - phase 2

These amendments are part of the second phase of the IASB's "IBOR reform" project and allow for exemptions related to the reform of the benchmark for reference interest rates by an alternative interest rate (Risk Free Rate, RFR). The amendments include the following practical expedients:

- A practical expedient that requires contractual changes, or changes in cash flows that are directly required by the reform, are treated in the same way as a fluctuating interest rate change, equivalent to a movement in the market interest rate;
- Allow changes required by the reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued;
- Provide temporary operational relief to entities that have to comply with the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These standards and amendments had no material impact on the individual financial statements of Banco CTT.

Note 37 – Standards, Interpretations, Amendments and Revisions that come into force in future years

The following standards, interpretations, amendments and revisions with mandatory application in future financial years have, up to the date of approval of these financial statements, been adopted ("endorsed") by the European Union:

Amendments to IFRS 3 — References to the Conceptual Framework for Financial Reporting

This amendment updates the references to the Conceptual Framework in the text of IFRS 3 and no amendments have been made to the accounting requirements for business combinations.

It also clarifies the accounting treatment to be adopted for liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a business combination.

The amendment is forward-looking in its application.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

Amendments to IAS 16 – Income obtained before going into operation

It clarifies the accounting treatment given to the consideration obtained from the sale of products resulting from the test phase production of tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. The entity recognises the income obtained from the sale of such products and the costs of their production in profit or loss.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

Amendments to IAS 37 – Onerous contracts – cost of fulfilling a contract

This amendment specifies that in assessing whether or not a contract is onerous, only expenses directly related to the fulfilment of the contract can be considered, such as incremental costs related to direct labour and materials and the allocation of other directly related expenses such as the allocation of depreciation expenses of tangible assets used to perform the contract.

General and administrative costs are not directly related to a contract and are excluded unless they are explicitly charged to the counterparty in accordance with the contract.

This amendment should be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include unfulfilled contractual obligations, without there being a need to restate the comparative.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

Amendments to IFRS 1 – Subsidiary as a first-time adopter of IFRSs (included in the annual improvements to the 2018-2020 cycle)

This improvement clarifies that when the subsidiary chooses to measure its assets and liabilities at the amounts included in the parent company's consolidated financial statements (assuming no adjustment to the consolidation process has occurred), the measurement of the cumulative translation differences of all foreign operations can be made at the amounts that would be recorded in the consolidated financial statements, based on the parent company's date of transition to IFRS.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

Amendments to IFRS 9 – Derecognition of financial liabilities – Fees to be included in the '10 per cent' variation test (included in the annual improvements to the 2018- 2020 cycle)

This improvement clarifies which fees an entity should include when assessing whether the terms of a financial liability are materially different from the terms of the original financial liability. This improvement clarifies that under derecognition tests performed on renegotiated liabilities, only fees paid or received between the debtor and the creditor should be included, including fees paid or received by the debtor or the creditor on behalf of the other.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

Amendments to IAS 41 – Taxation in fair value measurement (included in the annual improvements to the 2018-2020 cycle)

This improvement eliminates the requirement to exclude tax cash flows when measuring the fair value of biological assets, ensuring consistency with the principles of IFRS 13 – Fair Value.

The amendment should be applied for annual periods beginning on or after 1 January 2022.

IFRS 17 – Insurance Contracts

IFRS 17 applies to all insurance contracts (i.e., life, non-life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to some guarantees and some financial instruments with discretionary participation features. In general terms, IFRS 17 provides an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The amendment should be applied for annual periods beginning on or after 1 January 2023.

The Bank has not early applied any of these standards in the financial statements for the twelve-month period ended 31 December 2021. No significant impacts on the financial statements are expected as a result of its adoption.

Note 38 – Standards, Interpretations, Amendments and Revisions not yet adopted by the European Union

The following standards, interpretations, amendments and revisions with mandatory application in future financial years have not yet been adopted (''endorsed'') by the European Union, at the date of approval of these financial statements:

Amendments to IAS 1 — Presentation of financial statements — Classification of liabilities as current or non-

This amendment intends to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period.

The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether the entity will exercise that right), or by events that occur after the reporting date, such as the breach of a covenant.

However, if the right to defer settlement for at least twelve months is subject to meeting certain conditions after the balance sheet date, those criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or non-current.

This amendment also includes a new definition of ''settlement'' of a liability and is applied retrospectively.

Amendments to IAS 8 — Definition of accounting estimates

The amendment clarifies the distinction between change in accounting estimate, change in accounting policy and correction of errors. In addition, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.

Amendments to IAS 1 — Disclosure of accounting policies

These changes are intended to assist the entity in disclosing 'material' accounting policies, previously referred to as ' significant 'policies. However, due to the inexistence of this concept in IFRS standards, it was decided to replace it by the concept ''materiality'', a concept already known to users of financial statements.

In assessing the materiality of accounting policies, the entity has to consider not only the size of the transactions but also other events or conditions and the nature of these.

Amendments to IAS 12 — Deferred tax related to assets and liabilities arising from a single transaction

The amendments clarify that payments that settle a liability are tax deductible, however it is a matter of professional judgement whether such deductions are attributable to the liability that is recognised in the financial statements or to the related asset. This is important to determine whether there are temporary differences in the initial recognition of the asset or liability.

According to these amendments, the initial recognition exception is not applicable to transactions that originated equal taxable and deductible temporary differences. It is only applicable if the recognition of a leasing asset and a leasing liability gives rise to taxable and deductible temporary differences that are not the same.

Amendments to IFRS 17 - Insurance contracts - Initial application of IFRS 17 and IFRS 9 - Comparative information

This amendment to IFRS 17 refers to the presentation of comparative information about financial assets on initial application of IFRS 17.

The amendment adds a transition option that allows an entity to apply an 'overlay' to the classification of a financial asset in the comparative period(s) presented in initial application of IFRS 17. The 'overlay' allows all financial assets, including those held in relation to non-contractual activities within the scope of IFRS 17 to be classified, instrument by instrument, in the comparative period(s) in a manner aligned with how the entity expects those assets to be classified on initial application of IFRS 9.

These standards have not yet been adopted (''endorsed'') by the European Union and, as such, have not been applied by the Bank in the twelve-month period ending 31 December 2021. No significant impacts on the financial statements are expected as a result of their adoption.

Note 39 – Subsequent Events

No other events with a material impact on the Bank's Financial Statements have occurred up to the date of this report and after the end of the financial year 2021.

It is anticipated that 2022 will see a Portuguese economic recovery, but this could be conditioned by the latest international developments in Ukraine, damaging economic confidence. CTT Bank does not present credit risk exposures to Ukraine or Russia.

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 suitable accounting policies and criteria and the maintenance of an appropriate internal control system that enables the prevention and detection of 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 2021 was prepared in conformity with the applicable accounting standards, providing a true and fair view of the Bank's assets and liabilities, financial position and results; and

2. the management report faithfully presents the evolution of the business, performance and position of the Bank, in conformity with the legal requirements.

Lisbon, 14 March 2022

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 Audit Committee
João Manuel de Matos Loureiro

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 Audit Committee
Clementina Maria Dâmaso de Jesus Silva Barroso

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 Audit Committee
Susana Maria Morgado Gomez Smith

Member of the Board of Directors and of the Executive Committee
Pedro Rui Fontela Coimbra

Member of the Board of Directors
António Pedro Ferreira Vaz da Silva

Member of the Board of Directors and of the Executive Committee
Nuno Carlos Dias dos Santos Fórneas

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

Member of the Board of Directors and of the Executive Committee
Luís Jorge de Sousa Uva Patrício Paúl

Member of the Board of Directors
António Emídio Pessoa Corrêa d'Oliveira

ANNUAL REPORT OF THE AUDIT COMMITTEE

Report of the Audit Committee
Banco CTT, S.A.
for the financial year of 2021

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 2021, 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:

- Monitoring and supervising the activities of the Board of Directors;
- Overseeing compliance with legal and statutory rules governing the Bank's activity;
- Promoting an organisational culture based on high standards of ethical requirements, ensuring the promotion of sound and prudent management;
- Continually supervising and safeguarding the solidity and effectiveness of the Bank's internal governance system;
- Supervising the effectiveness of the Bank's risk management control and internal audit systems, monitoring the Bank's risk strategy and risk appetite;
- Being aware of the irregularities reported, namely through the Ethics Channel, participating in and/or accompanying the corresponding decisions taken by the Ethics Forum;
- 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;
- 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 ("RGICSF"), 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. As the Risk Committee, it is responsible for, in particular:

- Advising the Board of Directors on the Bank's risk appetite, 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 request that a corrective plan be submitted 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 the same occasion, it elected, from among the members of the Board of Directors, an Audit Committee, composed of three independent non-executive members, to perform duties in that three-year period, and the original composition of the Committee remained unchanged at the time of drafting this Report.

2. Audit Committee operating regulations

On 25 June 2021, the Audit Committee revised its Regulations in order to (i) comply with the provisions of Banco de Portugal Notice 3/2020 and Instruction 18/2020 regarding matters of internal control and organisational conduct and culture; (ii) extend the scope of some provisions relating to the scope, powers and responsibilities of the Audit Committee at the level of the Banco CTT Group and vis-à-vis its subsidiaries; (iii) adjust the wording of some provisions relating to the meetings of the Audit Committee (in particular the extension of telematics resources for carrying out its meetings and the process of drawing up and signing the corresponding minutes); (iv) adapt the process of prior approval of the provision of services other than audit services by the Statutory Auditor (ROC)/Statutory Audit Firm (SROC) to the provisions of Article 77 of the Statute of the Order of Statutory Auditors; and (v) adapt the Regulations to the new version of the Banco CTT Group's Policy for Prevention, Communication and Remedying of Conflicts of Interest.

Subsequently, on 23 November 2021, the Audit Committee Regulations were slightly adjusted to (i) clarify the scope of action of the Audit Committee in terms of overseeing the implementation of the Bank's policies and other internal regulations and the periodicity of their review; (ii) include the power, assigned to the Audit Committee, to promote independent evaluations, by an entity external to the Bank, on the adequacy and effectiveness of the Internal Audit Function, to be carried out periodically, at least every five years; and (iii) introduce a periodicity (every three years and where appropriate) for the promotion of periodic and independent evaluations, to be carried out by an external entity, regarding its own conduct and values, as an expression of a commitment to carry out such evaluations, the necessity of which came to be imposed with the entry into force of Banco de Portugal Notice 3/2020.

3. Supervisory activities carried out in 2021

During 2021, 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 process of internal policies and rules, in particular, relating to the internal control environment, the Bank's governance model and its organisational culture;
b. Monitored the developments of the Bank's activity;
c. Monitored the activity of the Bank's subsidiaries;
d. Supervised the conclusion, by the Bank, of transactions with related parties;
e. Supervised the preparation of financial information and verified the adopted accounting policies, in particular regarding the annual financial reporting documents;
f. Supervised the effectiveness of the Bank's risk management, internal control and internal audit systems;
g. Received, namely through the Ethics Forum, reports of irregularities, and participated in or accompanied the decisions taken by the Ethics Forum in relation to these irregularities;
h. Supervised and assessed the Statutory Auditor's activity;
i. Monitored the institution's risks (in carrying out risk committee duties).

The aforementioned supervisory action was developed namely through (i) the participation of its members in meetings of the Board of Directors; (ii) contacts maintained with the members of the Executive Committee, with the Bank's senior management, including the Directors responsible for control functions, and with the Statutory Auditor in office, Ernst & Young Audit & Associados - SROC, S.A., Statutory Audit Firm ("EY"); and (iii) the analysis of the financial, business and risk information made available, as well as the correspondence exchanged between the Bank and regulatory/supervisory entities, in particular Banco de Portugal.

In exercising these powers and performing these duties, the Committee held 29 (twenty-nine) formal meetings during 2021, with minutes having been drawn up of all the meetings.

It should be noted that, following the pandemic outbreak of COVID-19 and the consequent need to adopt social distancing rules, the Audit Committee meetings were held, during the year 2021, through telematic means.

The meetings of the Audit Committee were regularly attended by the Bank's Executive Directors, in particular the Chairman of the Executive Committee (CEO), the Executive Director responsible for the financial area (CFO), the Executive Director responsible for the Compliance, Risk and Security and Data Protection areas, the Executive Director responsible for the Operations and IT areas (CIO), and the Executive Director responsible for the Marketing and Commercial areas (CCO).

The Audit Committee also summoned other senior staff to its meetings to clarify and provide relevant information for the performance of the duties entrusted to this body, in particular: (a) the Director of Internal Audit, present at most of the meetings and of the points analysed, with the purpose of closely monitoring the activity of the other areas of the institution and for the purpose of presenting and discussing, among others, the Internal Audit Function Regulation, the multi-annual activities plan, the resources and headcount of the Board and the activity of the internal audit control function; (b) the Compliance Officer and the Risk Officer for the purpose of presenting and discussing, among others, the respective annual activity plans, resources and headcount of the respective Departments and the activities of the compliance control and risk management functions, respectively; (c) the AML Officer for issues related to the Prevention of Money Laundering and Terrorist Financing ("PBCFT"); (d) the Director of Legal Services and Company Secretary to provide clarifications on the governance model, regulations of the Bank's governing bodies, commissions and committees, as well as other legal issues related to the Committee's activities; (e) the Planning and Control Director and the Accounting Director for the purpose of presenting financial information, as well as the respective preparation process; (f) the Director of Human Resources to discuss remuneration matters; and (g) the Bank's Statutory Auditor, who was invited to most meetings, allowing regular interaction and, at the same time, enabling the Audit Committee to accompany its activity and monitor its independence.

a. Supervision of the approval and implementation process of internal policies and rules, namely those relating to the internal control environment, the Bank's governance model and its organisational culture

The Commission monitored the approval and review process of the Bank's internal control environment and governance model, in particular, assessing (i) the revision of the Organisational Structure Model (MEO), aiming to formalise, in particular (a) the closure of internal control deficiencies; (b) the adjustment of MEO to the new requirements contained in Banco de Portugal Notice 3/2020, namely through the inclusion of two new chapters on the powers and responsibilities of each Body, Commission and Committee and dissemination and review of MEO; (c) the adjustment of the current organisational chart; and (d) the possibility of the various structure units to adapt/update their functional descriptions; and (ii) the termination of the Board of Directors Committees that had been established on 13 September 2019 (namely, the Capital and Risk Committee, the Commercial and Product Committee, the Credit Committee, the Technology and Operational Efficiency Committee, the Cost and Investment Committee and the Internal Control Committee), which subsequently, under the delegated powers, were reconstituted by the Executive Committee to support its management activity.

The Commission monitored the approval or review and/or revocation process at the Bank of some relevant Policies, Regulations and processes, in particular (i) the Credit Policy, the General Internal Control and Risk Management Policy, the Operational Risk Policy, the Outsourcing Policy of the Banco CTT Group, the Information Security Policy, the Remuneration Policy of the Banco CTT Group (for the 2021 and 2022 assessment cycles), the Employee Remuneration Policy of the Multi-Employer Staff of the Retail Network (also for the 2021 and 2022 assessment cycles), the Policy for Transactions with Related Parties of the Banco CTT Group, the Banco CTT Group's Policy for the Prevention, Communication and Remedying of Conflicts of Interests, the Policy for the Approval of New Products and Partners of the Banco CTT Group, the Policy for the Reporting of Irregularities (Whistleblowing), the Policy for Remuneration of Credit Intermediaries for 2022, the Complaint Handling Policy and the Compliance Policy; (ii) the Regulations of the Board of Directors, the Remuneration Committee, the Costs and Investments Committee, the Compliance Function, the Risk Management Function, the Internal Audit Function and the Audit Committee itself, as described above; and (iii) the delegation of powers of the Board of Directors to directors with executive functions and to the Executive Committee.

For the performance assessment cycles for 2021 and 2022, the Audit Committee also considered the proposals for reviewing the performance evaluation model (i) of the Executive Committee Members; (ii) the Relevant Employees; and (iii) the Employees (excluding Relevant Employees and the Multi-Employer Staff of the Retail Network). Also concerning remuneration, the Audit Committee appraised the verification of the adjustment mechanisms for members of the Executive Committee, Relevant Employees and all other Employees (excluding Relevant Employees and Multi-Employer Staff of the Retail Network) that could lead to the reduction or non-attribution of variable remuneration relative to the assessment cycle of 2020 and, when applicable, the deferred component of variable remuneration relative to previous assessment cycles.

In addition, the Audit Committee assessed (i) version 1.0 of the Manual of Rules for the Identification of Relevant Employees of Banco CTT (individual perspective) - MR0021; and (ii) version 3.0 of the Manual of Rules for the Identification of Relevant Employees of the Banco CTT Group - MR0020.

Also during the year 2021, following the entry into force of Banco de Portugal Notice 3/2020, regarding matters of internal control and organisational conduct and culture, the Audit Committee monitored the implementation process of the new regulatory requirements provided for in the identified regulatory diploma.

In 2022, by reference to the financial year 2021, the Audit Committee took note of the activity and self-assessment reports, as well as the opinions issued regarding said reports, the Remuneration Committee and the Bank's Selection and Remuneration Committee.

In addition, the Audit Committee assessed the activity reports of the Internal Audit Function, the Risk Management Function and the Compliance Function for the financial years 2020 and 2021.

b. Monitoring of developments of the Bank's activity throughout 2021

The Audit Committee monitored the development of the Bank's activity in terms of its offer and commercial activity and analysed, discussed and monitored the Bank's strategic projects.

Since March 2019, following the confinement of the country as a result of the COVID-19 pandemic, the Audit Committee has monitored the adaptation of the Bank's activity, human resources and operations to the challenges of remote working. It has also followed all the other new issues that stemmed from the pandemic crisis, including credit moratoria.

c. Monitoring the activity of the Bank's subsidiaries

During 2021, the Audit Committee monitored the activities of Payshop (Portugal), S.A. and 321 Crédito, Credit Financial Institution, S.A. ("321 Credit") through financial information submitted on a monthly basis by the CFO, the Director of Planning and Control and the Chief Accounting Officer.

In addition, it held regular meetings with the members of the supervisory bodies of the two subsidiaries.

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

In accordance with the Related Party Transactions Policy approved by the Board of Directors on 28 June 2021 (as a result of the splitting of the Conflict of Interest and Related Parties Policy into two autonomous Policies), the Commission assessed and issued a favourable opinion concerning the conclusion, by the Bank, of transactions with related parties during the financial year 2021, namely the following:

(i) signing the Contract for Common Risk Management Services to be provided by Banco CTT to 321 Crédito;
(ii) conclusion of the Common Compliance Services Contract to be provided by Banco CTT to 321 Crédito;
(iii) signing the Shared Services Audit Charter to be provided by Banco CTT to 321 Crédito;
(iv) opening a bank account held by CTT - Correios de Portugal. S.A. ("CTT") with specific handling conditions and including the deposit of checks;
(v) signing of an Amendment to the Protocol for Collaboration and Provision of Internal Audit Services by CTT;
(vi) conclusion of an Amendment to the Contract regarding the provision of resources inherent to the CTT Store Network and the CTT/Banco CTT partnership related to the CTT channel; and
(vii) conclusion of an Amendment to the Protocol on Multi-Employer Staff in the context of an Employment Contract with Workers of the CTT Store Network.

In November 2021, the Audit Committee became aware of the list of parties related to the Bank approved by the Board of Directors, in compliance with Article 33(1) and (2) of Banco de Portugal Notice 3/2020.

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

The Audit Committee assessed the financial information and the evolution of the Bank's business on a monthly basis and monitored the main prudential and business indicators, at the individual and consolidated level, provided by the Bank's Chief Financial Officer (CFO), the Planning and Control Directors and the Chief Accounting Officer.

In 2021, but with reference to the financial year 2020, the Audit Committee monitored the preparation of the annual financial statements and assessed their content, analysed the proposal for the appropriation of results contained in the Annual Report, and issued its Opinion thereon. In 2022, the Commission monitored and prepared the annual financial statements for the financial year 2021 and assessed their content, analysed the corresponding proposal for the appropriation of results contained in the Annual Report, and issued its Opinion thereon.

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

During the financial year 2021, the Audit Committee continued to monitor the implementation of the defined plan following the entry into force of Banco de Portugal Notice 3/2020 regarding internal control and organisational conduct and culture, with a view to the full adoption of the new measures imposed, at the same time, ensuring the consistency of the internal control and corporate governance systems within the Group, with the intervention of several areas of the Bank, in particular the Control Functions. This entire process was closely monitored by the Audit Committee.

In addition, also in the context of the entry into force of Banco de Portugal Notice 3/2020, the Audit Committee appraised the Self-Assessment Reports ("RAA") on the adequacy and effectiveness of the organisational culture and governance and internal control systems of Banco CTT, S.A., for the periods between 1 July 2020 and 31 January 2021 and between 1 February and 30 November 2021. In this context, the Audit Committee issued, for the above reference periods, its opinions on (i) the adequacy and effectiveness of the current organisational culture in force and the governance and internal control systems of Banco CTT, on an individual basis, in accordance with the provisions of Article 55(A) of Banco de Portugal Notice 3/2020; and (ii) the adequacy and effectiveness of the Banco CTT Group's internal control system and the consistency between the subsidiaries' internal control systems and the internal control system of the parent company, in accordance with Article 58(1)(b) and (c) of Banco de Portugal Notice 3/2020.

Also during the financial year 2021, and in compliance with the provisions of Banco de Portugal Notice 2/2018, the Audit Committee issued an opinion on the quality of the internal control system in terms of the prevention of money laundering and terrorist financing, after monitoring the preparation and assessment of the Money Laundering and Terrorist Financing Prevention Report for the financial year 2020.

The Audit Committee monitored the activity of the Compliance Department, having assessed its Annual Activity Plan for 2021 and the respective degree of compliance (including the Compliance Plan and the Plan for Money Laundering and Terrorism Financing Prevention Activities proposed by that Department), the Function's Activity Report for the year 2020 and also the Annual Activity Plan for 2022.

The Audit Committee monitored the activity of the Risk Department, having assessed its Annual Activity Plan for 2021 and the respective degree of compliance, the Function's Activity Report for the year 2020 and the Annual Activity Plan for 2022. On a monthly basis, the Risk Department provided the Audit Committee with the necessary information for monitoring the main risk indicators.

The Audit Committee monitored the activity of the Internal Audit Department, namely through monthly presentations made by the respective manager, having assessed the Multi-annual Audit Plan and the Strategic Plan for 2021- 2023, the respective degree of compliance and the proposed amendments (prompted by the COVID-19 pandemic outbreak and unexpected increase in requests), the Function's Activity Report for the financial year 2020 and also the Multi-annual Audit Plan and the Strategic Plan for 2022- 2024.

g. Reception of reports on irregularities (whistleblowing) submitted by shareholders, Bank employees and others

The Bank has a Whistleblowing Policy, which establishes the existence of a specific channel for the communication of irregularities.

Under the terms of the identified Policy, the Audit Committee delegated to the Compliance Department the support functions related to the management of the Ethics Channel and to the Ethics Forum the handling of reports of irregularities in matters of its competence. In any case, it is the Audit Committee's responsibility to receive and register the reports, as well as the final decision as to the measures to be taken, including possible archiving.

The Ethics Forum is composed of the Bank's Compliance, Internal Audit and Risk Managers, as well as a member of the Audit Committee, appointed by the latter, who chairs the Forum and has a casting vote. In March 2020, the Audit Committee appointed its Member Susana Maria Gomez Smith as the member of the Audit Committee appointed to join and chair the Ethics Forum.

In February and December 2021, the Audit Committee approved the Annual Reports on the Participation of Irregularities, to be submitted to Banco de Portugal under the terms and for the purposes of Article 116-AA(7) of the RGICSF and of Article 35 of Banco de Portugal Notice 3/2020, with reference to respectively, the period between 1 January 2020 and 31 January 2021 and the period between 1 February 1 and 30 November 2021. These Reports describe the process of reception and treatment of irregularities adopted by Banco CTT, as well as the irregularities reported in the periods in question.

During the reference periods, seven reports were received in the Ethics Channel, of which four were Customer complaints that were forwarded to the Complaints Management area and dealt with as such, and three related to fraud, which were dealt with by the Fraud Area, thus concluding that, during the indicated reference periods, no reports of irregularities were received under the terms of the European Banking Authority (EBA) Guidelines on Internal Governance (EBA/GL/2021/05), the Bank's Code of Conduct, the aforementioned Irregularity Reporting Policy and other applicable regulations.

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

By resolution passed in writing by the sole shareholder of the Company, on 30 July 2020, Ernst & Young Audit & Associados - SROC, S.A., Statutory Audit Firm No. 178, was elected as the Bank's effective Statutory Auditor for the new term of office corresponding to 2021/2023, with effect from 1 January 2021, represented by Sílvia Maria Teixeira da Silva, ROC No. 1636, and Ana Rosa Ribeiro Salcedas Montes Pinto, ROC No. 1230, who was elected as the Bank's Alternate Statutory Auditor. Both were in office on 31 December 2021.

Under the provisions of paragraph 3.3 d) of the Policy for the Selection, Appointment and Evaluation of a Statutory Auditor/Statutory Audit Firm and of Hiring the Services of a Statutory Auditor/Statutory Audit Firm and under the provisions of Article 5.5(5)(c) of the Regulations of the Audit Committee, the Audit Committee proposed to the Selection and Remuneration Committee the approval of the fees to be paid by the Bank to EY for providing the following services, in accordance with the proposal that had been submitted: (a) issuance of the Statutory Auditors' Report, Audit Opinion with reference to 31 December and quarterly monitoring, with presentation to the Audit Committee, on the Separate Financial Statements with reference to the financial years 2021, 2022 and 2023; (b) evaluation of the process of quantification of impairment of the customer loan portfolio, based on the issuance of the half-yearly reports provided for in Banco de Portugal Instruction 5/2013, amended by Banco de Portugal Instruction 18/2018, for the years 2021, 2022 and 2023.

It should also be noted that the Audit Committee approved the payment of additional fees to those initially established for the issue of the Limited Review Report on the Condensed Consolidated Financial Statements and the Report on the quantification process of impairment losses on loans, both carried out with reference to June 2021. This circumstance was due to the inclusion in the review of the impacts of the transaction concluded in April 2021 with Sonae Financial Services ("Partnership Next") and the review of the methodology of calculation of impairment losses developed by the Bank related to the credit cards acquired under the Partnership Next. This partnership was entered into by the Bank after the Statutory Auditor selection contest and, therefore, not included in it.

Throughout 2021, the Audit Committee carried out a preliminary assessment of the proposals for the provision of services to be contracted from EY by the companies of the Banco CTT Group and the CTT Group, both for audit services and other non-audit services, having decided, in accordance with the Internal Regulations of the Audit Committee and the Policy for Selection, Appointment and Evaluation of Statutory Auditors (ROC) and Statutory Auditor Firms (SROC) and for the Contracting of Services to the ROC/SROC. It then proceeded to the respective prior approval/authorisation.

Regarding the non-audit services that are not required of the Statutory Audit by law, these were subject to prior approval/authorisation by the Audit Committee after analysis and confirmation, in particular, of the following aspects, as applicable: (i) that the services in question are not eligible for inclusion in the list of prohibited services pursuant to Article 77(8) of the Statute of the Portuguese Institute of Statutory Auditors ('EOROC') because they do not fall under any of the subparagraphs of that standard and do not constitute a threat to the Statutory Auditor's independence and objectivity in the context of the statutory audit work, namely by not giving rise to any risk of self-review, of personal interest or participation in the management or decision making of any of the companies of the CTT Group subject to the statutory audit work, (ii) that the amounts of fees proposed do not exceed the limits of fees for non-audit services (not prohibited) provided for in Article 77(1) of the EOROC, (iii) that the services under review are based on the best combination between the price presented and the expected quality of the work, as well as on the appropriate possession of the relevant information for such provision and on the experience in the development of similar works, presenting the necessary conditions to be provided with independence and objectivity.

Throughout 2021, the Audit Committee held meetings with the Statutory Auditor on various occasions and for various purposes. In particular, meetings were held for the presentation by the Statutory Auditor of the conclusions of the audit work, namely with reference to the annual accounts, as well as interim information with reference to 31 March, 30 June and 30 September 2021. Also the external auditor's reports on the credit portfolio impairment quantification process with reference to 31 December 2020 and 30 June 2021 were presented and discussed in meetings of the Audit Committee.

In 2021, the Audit Committee analysed the conclusions of the review of the individual and consolidated financial statements of the Bank for the year 2020, prepared by KPMG, having also received the Additional Report prepared by the Statutory Auditor for submission to the supervisory body. On the same occasion, the Commission formalised an assessment of the Statutory Auditor for that year, including the independence aspect, and received a confirmation of independence from him.

Already in 2022, the Committee analysed the conclusions of the review of the Bank's individual and consolidated financial statements for the year 2021, prepared by EY, having also received the Additional Report that the Statutory Auditor prepared for presentation to the supervisory body. On the same occasion, the Commission formalised an assessment of the statutory auditor for 2021, including the independence aspect, and also received a confirmation of independence from EY.

i. Monitoring of the institution's risks (in carrying out risk committee duties)

The Audit Committee monitored the definition of the Bank's risk strategy and risk appetite, and also monitored the risks to which the Bank is exposed (namely, strategic risk, credit and concentration risk, operational risk, market and interest rate risk, liquidity risk, risk of excessive leverage and the evolution of the Bank's own funds and capital requirements), in this way supporting the Board of Directors in the supervision of the execution of the Bank's risk strategy.

In this respect, the Audit Committee favourably assessed and recommended to the Board of Directors the approval of the following items:

(i) Report on the "Liquidity adequacy self-assessment process (ILAAP)";
(ii) Report on the "Internal Capital Adequacy Assessment Process (ICAAP)";
(iii) The temporary suspension of the ceiling for securities accounted for at Fair Value provided for in the Investment Policy;
(iv) The limited review of indicators and limits of the Risk Appetite Statement for 2021- 2023;
(v) The revision of the Recovery Plan;
(vi) The Risk Appetite Statement for 2022- 2024.

4. 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, 14 March 2022

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

OPINION OF THE AUDIT COMMITTEE

Opinion on the Annual Report of
Banco CTT, S.A.
for the financial year of 2021

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 2021, which were prepared by the Bank's Executive Committee. It also appreciated the Statutory Auditor's Reports issued by Ernst & Young Audit & Associados — SROC, S.A. ("EY") 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 EY.

The preparation of the Management Report and Financial Statements was followed by the Audit Committee, which attended the meeting of the Executive Committee that approved the respective final version for submission to the Board of Directors. During the preparation of this opinion, the Audit Committee requested all the information and clarifications that it considered relevant to this end questioning various senior personnel, including the Executive Director responsible for the financial area, the Director of Accounting, the Director of Risk, the Director of Compliance, the Director of Planning and Control, the Company Secretary and the Statutory Auditor of the Bank.

The Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union, where the signatories declare that, to the best of their knowledge, these Financial Statements are compliant with the IFRS, and that the Individual and Consolidated Financial Statements appropriately reflect the net worth, financial position and results of the Bank and of the Group. The Management Report appropriately describes the evolution of the business activities, performance and main risks and uncertainties associated to the activity of the Bank and of all the other companies of the Banco CTT Group.

The Legal Certifications of Accounts include the "Key Audit Matters" that EY identified, on a consolidated basis, as being:

- Calculation of credit impairment losses; and
- Recoverability of Goodwill.

All these matters were duly monitored, throughout the year, by the Audit Committee, and were analysed jointly with the Executive Committee, with the Bank's pertinent Departments and with EY.

The Audit Committee, in view of its action, and in compliance with the provisions in Article 420(6) of the Portuguese Companies Code, applicable by reference to Article 423-F(2) of the same Code, agrees with the Management Report and Financial Statements of the Bank and of the Group, for the year ended on 31 December 2021, 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.

The Financial Statements of the Bank and the Group give a true and fair view of the assets and liabilities, the financial position and the results of the Bank and the companies included in the consolidation perimeter and the Management Report faithfully sets out the evolution of the business, performance and position of the Bank and the companies included in the consolidation perimeter, containing a description of the main risks and uncertainties that they face.

Accordingly, the Audit Committee recommends to the General Meeting of Banco CTT that, with reference to the financial year ended 31 December 2021, it approve the Annual Report of the Bank and of the Group, as well as the Board of Directors' Proposal for the appropriation of the net profit of 15,424,261.88 euros, determined in the individual balance sheet, as follows: (i) reinforcement of the Legal Reserve, 1,542,426,19 euros and (ii) Retained Earnings, 13,881,835.69 euros.

Lisbon, 14 March 2022

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

SUMMARY OF THE SELF-ASSESSMENT REPORT

Summary of the Self-Assessment Report (Group)

The Self-Assessment Report ('Report') prepared under the provisions of Article 54 of Banco de Portugal Notice 3/2020 ('Notice'), in force since 16 July 2020, and Banco de Portugal Instruction 18/2020 ('Instruction') contains the results of the assessment carried out by the Banco CTT, S.A. Group. ('GBCTT' or 'Group') regarding the adequacy and effectiveness of the financial group's internal control system to ensure compliance with the requirements set forth in Article 51 of the Notice, as well as regarding the consistency between the internal control systems of the subsidiaries and the internal control system of the parent company, Banco CTT, S.A. ('BCTT' or 'Bank'), with reference to 30 November 2021.

The Report includes a state of play on the specific, on-going and planned activities to ensure full compliance with the Notice and Instruction at the level of the GBCTT.

The project to implement the Notice and Instruction involved an in-depth analysis of the Group's internal control and risk management systems. This process was initiated in 2020 and coordinated by the Compliance Department of BCTT, as the parent company, in close collaboration with other areas of the Group, in particular the other Control Functions (Risk Department and Internal Audit Department of the Bank), the Internal Control Area of 321 Crédito - Instituição Financeira de Crédito, S.A. ('321 Crédito' or 'Company') and the Legal Services Department and General Secretariat of the Bank, and was closely monitored by the Management and Supervisory Bodies of BCTT, as parent company, and of its subsidiary 321 Crédito, in order to ensure the consistency of the Group's internal control and corporate governance systems.

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

- Gap Analysis exercise;
- Review of organisational structure and responsibilities;
- Review of internal regulations;
- Strengthening the processes of obtaining, producing and processing data and information circuits.

The gap analysis exercise in relation to the requirements of the new Notice, whose results were analysed by the Internal Control Committee and reported to the Bank's Management and Supervisory Bodies, as parent company, showed a high degree of alignment of the internal control system and the Group's governance model with most of the requirements already contained in the internal regulations, with the main gaps having been identified in the new matters regulated by the Notice and in those which it altered in greater depth.

For the requirements regarding which gaps were identified, an implementation plan was defined. In the individual self-assessment reports of the Bank, as a parent company, and its subsidiaries, a status of the activities completed, in progress, or to be started on 30 November 2021 was included.

The Report also includes a description of the Group's organisational structure and governance model, which is considered to be in line with the best market practices in matters of corporate governance.

The organisational structure and governance model of the BCTT Group are complemented by the methodology underlying the continuous monitoring process of the Group's Internal Control System, consisting essentially of the following phases: (i) identification and reporting of deficiencies, (ii) assessment and classification of deficiencies, (iii) prioritisation and decision-making, (iv) definition of action plans and (v) monitoring and reporting.

Additionally, the Report includes a global analysis of the internal control deficiencies, which includes the description and characterisation of the deficiencies open on the reference date. In order to eliminate the effect of duplicating the presentation of the deficiencies reported in the individual self-assessment reports of the Group's entities, only those recommendations whose scope/nature of the process in question is effectively of the Group are presented in the Report.

In preparing the Report, the individual self-assessment reports of the Group entities subject to compliance with the Notice and the Instruction were included, which in turn include the annual self-assessment/independence reports of the persons responsible for the risk management, compliance and internal audit functions, pursuant to Articles 27, 28 and 32 of the Notice, respectively. In these annual self-assessment reports, the independence of each internal control function is confirmed by the respective persons in charge (no record of incidents).

The Report also includes the assessment of the Supervisory and Administrative Bodies of the different entities of the Group concerned, in accordance with Articles 56 and 57 of the Notice, respectively.

Within the context of the Supervisory Body's assessment of the Group's parent company, the Bank's Audit Committee concludes, in the light of the work carried out, the cumulative evidence collected, weighing the current and potential impacts of the deficiencies that remain open, with the exception of those deficiencies and the need to develop an additional set of procedures for adoption in full of the provisions of the Notice, as to the adequacy and effectiveness of the internal control system of the financial group, as well as the consistency of the internal control systems of the subsidiaries with the internal control system of the parent company, in all material respects, in accordance with the requirements set out in the Notice.

In turn, the Bank's Board of Directors concludes, considering the referred open deficiencies and gaps in the adoption of the Notice, on the effectiveness of the internal control system of the financial Group, in view of the requirements defined in the Notice.

Lisbon, 14 March 2022

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

Summary of the Self-Assessment Report (Individual Bank)

The Self-Assessment Report ('Report') prepared under the provisions of Article 54 of Banco de Portugal Notice 3/2020 ('Notice'), in force since 16 July 2020, and Banco de Portugal Instruction 18/2020 ('Instruction') contains the results of the assessment carried out by Banco CTT, S.A.. ('BCTT' or 'Bank') regarding the adequacy and efficacy of the organisational culture in place, its governance and internal control systems, including remuneration practices and policies and the other matters addressed in the Notice, with reference to 30 November 2021.

This report includes a description of the activities specifically developed, ongoing, and planned, to ensure full compliance with the provisions of the Notice and Instruction.

The process of adoption of the Notice and Instruction was coordinated by the Compliance Function of BCTT, with the intervention of several areas of the Bank, in particular the Control Functions (Risk Management Function and Internal Audit Function), and was closely monitored by the Management and Supervisory Bodies of BCTT. The gap analysis exercise, whose results were analysed by the Internal Control Committee and reported to the Management and Supervisory Bodies of the Bank, showed a high degree of alignment of BCTT's internal control system and governance model with most of the requirements already contained in Banco de Portugal Notice 5/2008, with the main gaps identified in the new matters regulated by the Notice 3/2020 and in those which it altered in greater depth.

For the requirements regarding which gaps were identified, an implementation plan was defined in 2020, the state of play of which is described in the Report, including reference to the activities completed or in progress as at 30 November 2021.
The Report also includes a description of the Bank's organisational structure and governance model, which are considered to be aligned with the best corporate governance market practices.

The organisational structure and governance model of BCTT are complemented by the methodology underlying the continuous monitoring process of the Bank's Internal Control System, consisting essentially of the following phases: (i) identification and reporting of deficiencies, (ii) assessment and classification of deficiencies, (iii) prioritisation and decision-making, (iv) definition and follow-up of action plans and (v) monitoring and reporting.

Additionally, the Report includes a global analysis of the internal control deficiencies, which includes the description and characterisation of the deficiencies open on the reference date.

As part of the preparation of the report, the annual self-assessment/independence reports of the heads of the Risk Management, Compliance and Internal Audit Functions were also drawn up, pursuant to Articles 27, 28 and 32 of the Notice, respectively, and are included in the Report. In these annual self-assessment reports, the independence of each internal control function is confirmed by the respective persons in charge (no record of incidents). These Reports also include a number of open deficiencies classified as F1 ('low') or F2 ('moderate') and 3 deficiencies classified as F3 ('high') attributed to BCTT's internal control functions (2 attributed to the Risk Management Function and 2 attributed to the Compliance Function), with no deficiencies classified as F4 ('severe').

The Report also includes the assessment of the Bank's supervisory and management bodies, pursuant to Articles 56 and 57 of the Notice, respectively.

In the context of the assessment of BCTT's Supervisory Body, the Audit Committee concluded, in the light of the work performed, the cumulative evidence gathered, weighing the current and potential impacts of the deficiencies that remain open, except for those deficiencies and the need to develop an additional set of procedures for full adoption of the provisions of the Notice, on the adequacy and efficacy of the organisational culture in force in the Bank and of its governance and internal control systems, in all materially relevant aspects, under the terms of the requirements defined in the Notice.

In turn, the Board of Directors concluded, considering these open deficiencies and gaps in the adoption of the Notice, as to the adequacy and effectiveness of BCTT's organisational culture and governance and internal control systems, including the Bank's remuneration practices and policies, in view of the requirements defined in the Notice.

Lisbon, 14 March 2022

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

EXTERNAL AUDITORS' REPORT

STATUTORY AUDITOR'S REPORT (CONSOLIDATED)

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
Fax: +351 217 957 586
www.ey.com

*(Translation from the original document in the Portuguese language.
In case of doubt, the Portuguese version prevails)*

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements Banco CTT, S.A. (the Group), which comprise the Consolidated Statement of Financial Position as at 31 December 2021 (showing a total of 2.703.986 thousands of euros and a total equity of 237.830 thousands of euros, including a net profit for the year of 16.148 thousands of euros), and the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, and 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 of 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent of the entities comprising the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ 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 period. 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.

The key audit matters in the current year audit are the following:

1. **Impairment losses on loans to customers**

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As of 31 December 2021, Credit to banking clients, according to note 16 of the notes to the consolidated financial statements, amounts to 1,541.908 thousands euros (1.093.282 thousands of euros as of 31 December 2020) corresponding to credit to bank customers net of impairment charges (note 16) amounting to 31.090 thousands of euros (525.672 thousands of euros as of 31 December 2020). The detail of impairment on credit to banking clients and the accounting policies, methodologies, concepts and assumptions used are disclosed in the notes to the consolidated financial statements (Notes 2.3.1.6, 3.1.2 and 16). The impairment on credit to clients represents Management best estimate of the expected credit loss of the credit portfolio to customers. To calculate this estimate, Management made critical judgments such as the evaluation of the business model, the assessment of the significant increase in credit risk, the	Our audit approach to impairment on credit to customers included (i) an overall response to the way the audit was conducted and (ii) a specific response that resulted in the design, and subsequent implementation, of audit procedures that included, namely: ► obtaining the understanding, assessment of the design and testing of the operational effectiveness of internal control procedures existing in the process of quantifying impairment losses for credit to customers; ► conducting analytical review tests on the evolution of the amount of impairment on credit to clients, comparing it with the same period and with the expectations, which highlight the understanding of the variations occurred in

Banco CTT, S.A.
Statutory and Auditor's Report
(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)
31 December 2021

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
classification of exposures in default, the definition of an asset group with similar credit risk characteristics and the use of models and parameters. These parameters are calculated based on historical indicators, when available or benchmarks, in the remaining cases. For relevant individual exposures, the impairment is calculated based on judgments of experts in the credit risk assessment. In addition to the complexity of the models for quantifying impairment losses of the credit portfolio ("models"), its use requires the processing of significant data, the availability and quality of which may not be adequate. Additionally, the effects of the COVID-19 pandemic may not be completely overcome or fully materialized, and its full extent is still uncertain. In this sense, the impairment on credit should weigh on the potential impacts on asset quality. In view of the degree of subjectivity and complexity involved, the use of alternative approaches, models or assumptions may have a material impact on the estimated impairment amount, which, together with its materiality, determines that we consider this topic as a key audit matter.	the credit portfolio and changes in the impairment assumptions and methodologies; ► reading the minutes of the Equity and Risk Committee and Global Risk Committee and correspondence with Banco de Portugal; ► obtaining the understanding and evaluation of the design of the model of the expected loss calculation, test to the calculation, comparison of the information used in the model with source data, through the reconciliations prepared by the Bank, analysis of the assumptions used to fill gaps in the data, comparison of the parameters used with the results of the estimation models and comparison of the results of the models with the values recorded in the financial statements; ► with the support of specialists, we performed tests on the reasonableness of the parameters used in the calculation of the impairment, namely: i. understanding of the methodology formalized and approved by Management and comparison with the one actually used; ii. understanding of the changes to the models used by the Bank to determine the parameters used in the calculation of expected loss and results in the parameters; iii. on a sampling basis, comparison of the data used in the clearance of risk parameters with source information; iv. inquiries to the Bank's experts responsible for the models and inspection of internal audit reports and regulators; and v. inspection of the reports with the results of the operational evaluation of the model (back-testing); ► test the reasonableness of adjustments made to the model and outside the model, in particular those to respond to additional areas of judgment resulting from the effects of the COVID-19 pandemic, including the end of the moratoriums and understanding of the management process associated with those adjustments; and ► analysis of the disclosures included in the notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

Banco CTT, S.A.
Statutory and Auditor's Report
(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)
31 December 2021

2. 321 Crédito S.A. Goodwill recoverability

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As of 31 December 2021, goodwill and intangible assets, as described in note 22 of consolidated financial statements include the amount of 61.085 thousands of euros (61.085 thousands of euros as of 31 December 2020), of which 60.679 thousands of euros (60.679 thousands of euros as of 31 December 2020), relate with the acquisition of the subsidiary 321 Crédito – Instituição Financeira de Crédito, S.A. in May 2019. Goodwill's recoverability analysis requires Management to define a set of estimates and assumptions based on economic and market forecasts, in particular those relating to the projection of future cash-flows, market shares, margin developments and discount rates (Note 2.1.6). The materiality of the amounts and the degree of judgment associated with the assessment of Goodwill's recoverability require the definition of complex estimates and assumptions by Management, in an environment of constant volatility and increasing uncertainty arising from the macroeconomic impacts of the COVID-19 pandemic, determines that we consider this topic as a key audit matter.	Our approach included carrying out the following procedures: ► Understanding of the internal control procedures regarding the process of calculating the recoverable value of the cash generating unit; ► We evaluated, with the support of internal specialists, the reasonableness of the assumptions that present highest sensitivity and judgment in determining the recoverable value, namely, discount rate, growth rate in the perpetuity and dividends distribution; ► Reconciliation of future cash flows with approved budgets and forecast plans and financial indicators for 2021, as well as the reasonableness assessment of estimates through a retrospective analysis of the actual versus budgeted; and ► Sensitivity analyses evaluation on the assumptions of the impairment model. ► Our approach has also included checking the adequacy of the applicable disclosures, based on IFRS Standards.

Other matters

The consolidated financial statements as at 31st December 2020, for comparison purposes were examined by another firm of certified auditors, whose legal certification of accounts, dated March 15th 2021, which had no limitations or qualifications.

Responsibilities of management and the supervisory board for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that presents a true and fair view of the Group´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, the Corporate Governance Report, the Non-financial information statement and the Remunerations report, in accordance with the 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 Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group´s ability to continue as a going concern.

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

Banco CTT, S.A.
Statutory and Auditor's Report
(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)
31 December 2021

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ISA 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 ISA, 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 auditor's 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 auditor's 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 and 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; and
- 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;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the Management Report with the consolidated financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code.

Banco CTT, S.A.
Statutory and Auditor's Report
(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)
31 December 2021

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Consolidated Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Consolidated Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement. As referred to in article 451, nr. 7 of the Commercial Companies Code this opinion is not applicable to the non-financial statement included in the Consolidated Management Report.

On additional items set out 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 appointed as auditors of Banco CTT S.A. (Group´s Parent Entity) for the first time in the shareholders' general meeting held on 30 July 2020 for a mandate from 2021 to 2023.
- Management has confirmed 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 to the consolidated financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Group on this date;
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Group in conducting the audit; and
- We declare that, in addition to the audit, we provided the Group with the following services as permitted by law and regulations in force:
    - Limited review of the interim consolidated financial statements of Banco CTT, S.A., for the six-month period ended 30 June 2021;
    - Assessment of the adequacy and effectiveness of the internal control system of Banco CTT, S.A., 321 Crédito - Sistema Financeira de Crédito, S.A. and Payshop (Portugal), S.A., in relation to the prevention of money laundering and terrorist financing in accordance with Banco de Portugal notice No. 2/2018; and
    - Procedures for issuing the semi-annual evaluation report of the process of quantifying the impairment of the Group's credit portfolio pursuant to Banco de Portugal instruction 5/2013 republished by Banco de Portugal Instruction 18/2018.

Lisbon, 14 March 2022

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

Silvia Maria Teixeira da Silva - ROC n.º 1636
Registered with the Portuguese Securities Market Commission under license nr. 20161246

STATUTORY AUDITOR'S REPORT (INDIVIDUAL)

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
Fax: +351 217 957 586
www.ey.com

*(Translation from the original document in the Portuguese language.
In case of doubt, the Portuguese version prevails)*

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Banco CTT, S.A. (the Bank), which comprise the Statement of Financial Position as at 31 December 2021 (showing a total of 2.393.024 thousands of euros and a total equity of 237.158 thousands of euros, including a net profit for the year of 15.424 thousands of euros), and the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and 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 the Banco CTT, S.A. as of 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent of the Bank in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ 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 period. 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.

The key audit matters in the current year audit are the following:

1. **Impairment losses on loans to customers**

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As of 31 December 2021, Credit to banking clients, according to note 15 of the notes to the individual financial statements, amounts to 631.673 thousands of euros (525.672 thousands of euros as of 31 December 2020) corresponding to credit to bank customers net of impairment charges (note 15) amounting to 2.540 thousand of euros (1.604 thousands of euros as of 31 December 2020). The detail of impairment on credit to banking clients and the accounting policies, methodologies, concepts and assumptions used are disclosed in the notes to the consolidated financial statements (Notes 2.2.1.6, 3.1.2 and 15).	Our audit approach to impairment on credit to customers included (i) an overall response to the way the audit was conducted and (ii) a specific response that resulted in the design, and subsequent implementation, of audit procedures that included, namely: ► obtaining the understanding, assessment of the design and testing of the operational effectiveness of internal control procedures existing in the process of quantifying impairment losses for credit to customers; ► conducting analytical review tests on the evolution of the amount of impairment on credit to clients, comparing it with the same period and with the expectations, which highlight the understanding of the variations occurred in the credit portfolio and changes in the impairment assumptions and methodologies;

Banco CTT S.A.
Statutory and Auditor's Report
*(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)*
31 December 2021

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The impairment on credit to clients represents Management best estimate of the expected credit loss of the credit portfolio to customers. To calculate this estimate, Management made critical judgments such as the evaluation of the business model, the assessment of the significant increase in credit risk, the classification of exposures in default, the definition of an asset group with similar credit risk characteristics and the use of models and parameters. These parameters are calculated based on historical indicators, when available or benchmarks, in the remaining cases. For relevant individual exposures, the impairment is calculated based on judgments of experts in the credit risk assessment. In addition to the complexity of the models for quantifying impairment losses of the credit portfolio ("models"), its use requires the processing of significant data, the availability and quality of which may not be adequate. Additionally, the effects of the COVID-19 pandemic may not be completely overcome or fully materialized, and its full extent is still uncertain. In this sense, the impairment on credit should weigh on the potential impacts on asset quality. In view of the degree of subjectivity and complexity involved, the use of alternative approaches, models or assumptions may have a material impact on the estimated impairment amount, which, together with its materiality, determines that we consider this topic as a key audit matter.	► reading the minutes of the Equity and Risk Committee and Global Risk Committee and correspondence with Banco de Portugal; ► obtaining the understanding and evaluation of the design of the model of the expected loss calculation, test to the calculation, comparison of the information used in the model with source data, through the reconciliations prepared by the Bank, analysis of the assumptions used to fill gaps in the data, comparison of the parameters used with the results of the estimation models and comparison of the results of the models with the values recorded in the financial statements; ► with the support of specialists, we performed tests on the reasonableness of the parameters used in the calculation of the impairment, namely: i. understanding of the methodology formalized and approved by Management and comparison with the one actually used; ii. understanding of the changes to the models used by the Bank to determine the parameters used in the calculation of expected loss and results in the parameters; iii. on a sampling basis, comparison of the data used in the clearance of risk parameters with source information; iv. inquiries to the Bank's experts responsible for the models and inspection of internal audit reports and regulators; and v. inspection of the reports with the results of the operational evaluation of the model (back-testing); ► test the reasonableness of adjustments made to the model and outside the model, in particular those to respond to additional areas of judgment resulting from the effects of the COVID-19 pandemic, including the end of the moratoriums and understanding of the management process associated with those adjustments; and ► analysis of the disclosures included in the notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

Banco CTT S.A.
Statutory and Auditor's Report
(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)
31 December 2021

2. Recoverability of investments in associates

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As of 31 December 2021, the Investments in associates, as described in note 21, amounts to 125.474 thousands of euros (136.639 thousands of euros as of 31 December 2020), which corresponds to the subsidiary 321 Crédito – Instituição Financeira de Crédito S.A. acquired in May 2019. As referred in Note 21, the recoverable amount of investments in associates is evaluated annually or in the presence of an objective loss event. Investments in associates recoverability analysis requires Management to define a set of estimates and assumptions based on economic and market forecasts, in particular those relating to the projection of future cash-flows, market shares, margin developments and discount rates. The materiality of the amounts and the degree of judgment associated with the assessment of Goodwill's recoverability requires the definition of complex estimates and assumptions by Management, in an environment of constant volatility and increasing uncertainty arising from the macroeconomic impacts of the COVID-19 pandemic, determines that we consider this topic as a key audit matter.	Our approach included carrying out the following procedures: ► Understanding of the internal control procedures regarding the process of calculating the recoverable value of the cash generating unit; ► We evaluated, with the support of internal specialists, the reasonableness of the assumptions that present highest sensitivity and judgment in determining the recoverable value, namely, discount rate, growth rate in the perpetuity and dividends distribution; ► Reconciliation of future cash flows with approved budgets and forecast plans and financial indicators for 2021, as well as the reasonableness assessment of estimates through a retrospective analysis of the actual versus budgeted; and ► Sensitivity analyses evaluation on the assumptions of the impairment model. Our approach has also included checking the adequacy of the applicable disclosures of separate financial statements, based on the IFRS Standards.

Other matters

The separate financial statements as of 31st December 2020, for comparison purposes were examined by another firm of certified auditors, whose legal certification of accounts, dated March 15th 2021, which had no limitations or qualifications.

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

- the preparation of financial statements that presents a true and fair view of the Bank´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report in accordance with the 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 Bank's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Bank´s ability to continue as a going concern.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Bank 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;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the Management Report with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial 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 over the Bank, we have not identified any material misstatement.

On additional items set out 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 appointed as auditors of the Bank for the first time in the shareholders' general meeting held on 30 July 2020 for a mandate from 2021 to 2023.
- Management has confirmed 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 financial statements due to fraud. As a result of our work we have not identified any material misstatement to the financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Bank on this date;
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Bank in conducting the audit; and
- We declare that, in addition to the audit, we provided the Bank with the following services as permitted by law and regulations in force:
    - Limited review of the interim consolidated financial statements of Banco CTT, S.A., for the six-month period ended 30 June 2021;
    - Assessment of the adequacy and effectiveness of the internal control system of Banco CTT, S.A., in relation to the prevention of money laundering and terrorist financing in accordance with Banco de Portugal notice No. 2/2018; and
    - Procedures for issuing the semi-annual evaluation report of the process of quantifying the impairment of the Bank's credit portfolio pursuant to Banco de Portugal Instruction 5/2013, republished by Banco de Portugal Instruction 18/2020;

Lisbon, 14 March 2022

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

Silvia Maria Teixeira da Silva - ROC n.º 1636
Registered with the Portuguese Securities Market Commission under license nr. 20161246