

INFORMATION ON THE BANCO CTT GROUP

BANCO CTT GROUP

History

2013	
August	On 5 August 2013, CTT submitted request to Banco de Portugal to grant a concession for creation of the postal bank.
November	On 27 November 2013, Banco de Portugal issued authorisation for the creation of the postal bank.
2015	
February	CTT's constitution of CTT Serviços, S.A. for purposes of development of the preparatory work as necessary and/or convenient for the constitution of the Bank.
August	On 24 August 2015, after authorisation of Banco de Portugal, CTT Serviços was transformed into Banco CTT, with share capital of 34 million euros.
November	On 18 November 2015, Banco CTT presented its corporate identity, with Proximity, Simplicity and Transparency being its main attributes. Banco CTT started to operate on 27 November 2015, under the soft opening model available only for employees of CTT and Banco CTT.
2016	
March	Banco CTT opened to the public on 18 March, with 52 branches simultaneously, spread over the 18 districts of Portugal and with a strong presence in digital channels.
May	Share capital increase of 26 million euros, to 60 million euros.
July	Banco CTT opened its one hundredth branch on 22 July.
October	Share capital increase of 25 million euros, to 85 million euros.
December	Banco CTT achieves a presence of 202 branches.
2017	
January	With 9 months of activity, Banco CTT reaches 100 thousand customers. Banco CTT launched Mortgage Lending, presenting a simple and low-cost solution for those wishing to purchase a house or move, maintaining the values associated to its launch: that of an accessible, comprehensive and useful offer.
April	Banco CTT received authorisation from ASF (Portuguese Insurance and Pension Funds Supervisory Authority) to present insurance products to its customers, enabling the offer of Life Insurance, Housing and Health Multi-Risk Insurance. Share capital increase of 25 million euros, to 125 million euros.
2018	
January	Incorporation of Payshop (Portugal), S.A. in the consolidation perimeter of Banco CTT, through a share capital increase in kind of 6.4 million euros, fully underwritten and paid-up by the sole shareholder, CTT – Correios de Portugal, S.A., elevating the share capital to 131.4 million euros.
March	Share capital increase of 25 million euros, to 156.4 million euros.
July	Banco CTT agreed to purchase 321 Crédito, a specialised consumer credit institution (used motor vehicles in the retail market), which has expanded the business portfolio of Banco CTT.
October	Introduction of off-balance sheet saving products with the launch of the offer of PPR (Retirement Savings Plans).
2019	
April	Share capital increase of 110 million euros, to 266.4 million euros.
May	On 2 May, Banco CTT completed the acquisition of the entirety of the share capital of 321 Crédito, a company granting loans for used motor vehicles to individuals. Banco CTT reached 1,000 million euros of customer deposits.
December	Share capital increase of 20 million euros, to 286.4 million euros.
2020	
September	Banco CTT enters the Business and Companies segment Banco CTT created a simple, transparent and competitive commercial offer geared to the needs of SMEs and micro-enterprises, thus announcing its entry into a new Business and Companies segment. In this start-up phase, this new business area of Banco CTT will be supported by a complete offer of factoring solutions, to be later gradually and progressively extended to other products and services.
December	Banco CTT reaches breakeven in its 5th full year of existence, with a consolidated net result of 233 thousand euros.
2021	
January	Share capital increase of 10 million euros, to 296.4 million euros.
April	Banco CTT and Sonae Financial Services start a new partnership in consumer credit with Banco CTT as the entity responsible for the Universo card credit financing and respective credit risk management.
September	The Banco CTT Group, through its subsidiary 321 Crédito, securitised and placed on the market a motor vehicle loan portfolio in the amount of 250 million euros (Ulisses Finance No.2).

Corporate Governance

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

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

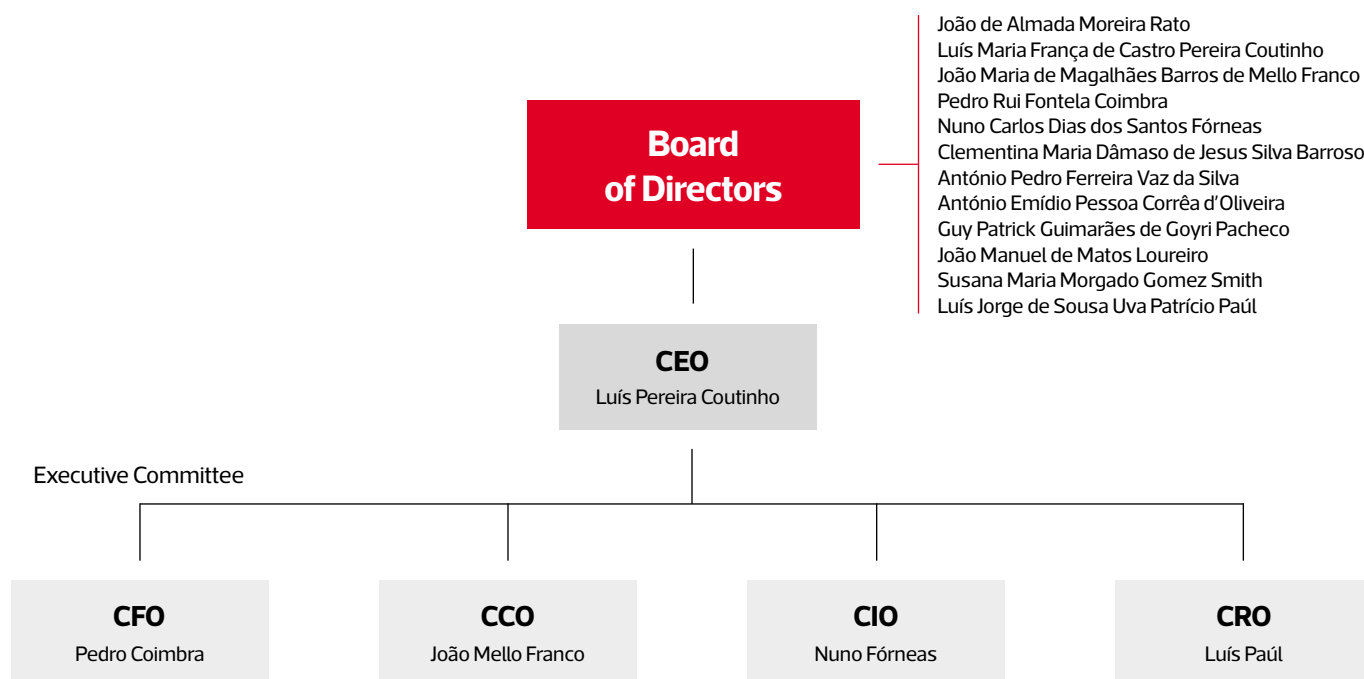
There is also a Selection and Remuneration Committee, elected by the General Meeting, with powers related to the selection and assessment of the adequacy of the members of the corporate bodies and holders of key positions, pursuant to the policy on selection and assessment of the adequacy of the members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

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

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

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

Thus, the Bank’s Board of Directors, in office as at 31 December 2021, was composed of 12 Directors, with 7 Non-Executive Directors (including the Chairman of The Board of Directors and 3 independent Members) and 5 Executive Directors (including the Chairman of the Executive Committee), having the following management organisation:



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

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

Pursuant to Article 17 of the General Regime of Credit Institutions and Financial Companies ("RGICSF") and the provisions of Banco de Portugal Notice 3/2020, Banco CTT has robust corporate governance mechanisms, complete and proportional to the nature, level and complexity of the institution, which include:

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

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

- ▲ Promote an integrated risk culture that covers all areas of activity of the institution and ensures the identification, assessment, monitoring and control of the risks to which the Bank is or may be exposed;
- ▲ Assure the Bank's operational capacity based on adequately dimensioned human, material and technical resources;
- ▲ Assure the provision of bank services to customers based on multi-employer staff in CTT's Retail Network, after completing a rigorous training programme and with the follow-up and support of the Bank's employees with previous banking experience;
- ▲ Articulate non-core functions (especially in terms of shared services) with CTT's structure; and
- ▲ Create a "control environment" appropriate to the specificities of Banco CTT and an organisational culture based on high ethical standards, supported by the institution's Code of Conduct, internal control and risk management policies and procedures, as well as an internal organisation based on the three lines of defence model.

Corporate Bodies and Internal Committees¹

BOARD OF THE GENERAL MEETING

Chairman:

Rui Afonso Galvão Mexia de Almeida Fernandes

BOARD OF DIRECTORS

Chairman:

João de Almada Moreira Rato

Members:

Luís Maria França de Castro Pereira Coutinho

João Maria de Magalhães Barros de Mello Franco

Pedro Rui Fontela Coimbra

Nuno Carlos Dias dos Santos Fórneas

Luís Jorge de Sousa Uva Patrício Paúl

João Manuel de Matos Loureiro

Clementina Maria Dâmaso de Jesus Silva Barroso

Susana Maria Morgado Gomez Smith

António Pedro Ferreira Vaz da Silva

Guy Patrick Guimarães de Goyri Pacheco

António Emídio Pessoa Corrêa d'Oliveira

EXECUTIVE COMMITTEE

Chairman:

Luís Maria França de Castro Pereira Coutinho (CEO)

Members:

João Maria de Magalhães Barros de Mello Franco (CCO)

Pedro Rui Fontela Coimbra (CFO)

Nuno Carlos Dias dos Santos Fórneas (CIO)

Luís Jorge de Sousa Uva Patrício Paúl (CRO)

AUDIT COMMITTEE

Chairman:

João Manuel de Matos Loureiro

Members:

Clementina Maria Dâmaso de Jesus Silva Barroso

Susana Maria Morgado Gomez Smith

SELECTION AND REMUNERATION COMMITTEE

Chairman:

Raúl Catarino Galamba de Oliveira

Members:

João Afonso Ramalho Sopas Pereira Bento

Maria da Graça Farinha de Carvalho

REMUNERATION COMMITTEE

Chairman:

João de Almada Moreira Rato

Members:

Clementina Maria Dâmaso de Jesus Silva Barroso

Susana Maria Morgado Gomez Smith

STATUTORY AUDITOR²

Statutory Auditor (ROC):

Ernst & Young Audit & Associados – SROC, S.A.,

represented by Sílvia Maria Teixeira da Silva

Alternate Statutory Auditor:

Ana Rosa Ribeiro Salcedas Montes Pinto

COMPANY SECRETARY

Permanent:

Catarina Morais Bastos Gonçalves de Oliveira

Alternate:

Maria Filipa Rebelo Pereira de Matos Alves Torgo

¹The members of the corporate bodies and internal committees in office on the present date and as at 31 December 2021 are indicated herein.

²In the financial year of 2021, he took office as STATUTORY AUDITOR for the 2021/2023 term of office



Pedro Coimbra
CFO

Luís Paúl
CRO

**Luís Pereira
Coutinho**
CEO

**João Mello
Franco**
CCO

Nuno Fórneas
CIO

Brief Summary of the Year and Main Highlights

The year 2021 was the second year of the Covid-19 outbreak, classified as a pandemic by the World Health Organization on 11 March 2020. In this chapter, the year 2021 is marked by the massive vaccination of the Portuguese population, which opened a window of hope for the return to pre-Covid normality.

Banco CTT's focus was, similar to what happened in 2020, **the protection of employees' health** (with the adoption of measures that were appropriate at each moment) and the **continuity, without any disruption, of the provision of essential financial services**.

Also with regard to the pandemic and moratoria, it should be noted that Banco CTT had only 4% of its credit portfolio in moratoria (about 4 times less than the average of the system) at the end of the 2020. No cliff effects were recorded at the end of the moratoria, which demonstrates the quality of the Group's credit portfolio and the support provided to customers during the critical period of the pandemic. As at 31 December 2021, there were no active moratoria.

The growth of the customer base, the trust deposited in the Banco CTT brand and the increase in household savings (resulting from the reduction in consumption due to the pandemic context) meant that, in 2021, Banco CTT raised 713 million euros in deposits from customers (combining on- and off-balance sheet values), which compares with 477 million euros in 2020.

Thus, balance sheet deposits from customers increased by 433 million euros, with credit granted increasing by 463 million euros (heavily leveraged on the contribution of credit cards), increasing the loan-to-deposit ratio from 66% in 2020 to 74% in 2021.

In April 2021, Banco CTT and Sonae Financial Services started a new consumer credit partnership through which the Bank began to finance the credit of the Universo card and conduct the respective credit risk management.

With a view to managing the Group's balance sheet, in order to accommodate this new line of business (as at 31 December 2021, the gross amount of credit granted through the Universo credit card was 299 million euros) the Bank adopted the following measures:

- ▲ Sale of 204 million euros (nominal value) of securities resulting in a capital gain of 17,777 thousand euros;
- ▲ In September 2021, the Banco CTT Group, through its subsidiary 321 Crédito, securitised and placed on the market a motor vehicle loan portfolio in the amount of 250 million euros (Ulisses Finance No.2). The implicit spread for all credits was 0.64%.

The credit card portfolio contributed 10,166 thousand euros to net interest income, with 6,618 thousand euros of impairment recognised.

In 2021, Banco CTT continued on the path of efficiency and profitability, with cost-to-income declining from 114% in 2019 and 84% in 2020 to 65% in 2021. Excluding the non-recurring effect of capital gains on the sale of securities (at the aforementioned value of 17,777 thousand euros), cost-to-income would still be 79%, which represents an improvement on the previous year.

In 2021, Banco CTT recorded a consolidated net income of 16,148 thousand euros (compared to 233 thousand euros in 2020), a result that incorporates 12,962 thousand euros of specific items that resulted mainly from the gross capital gains generated from the sale of securities.

Main Highlights

January 2021

- ▲ Share capital increase of 10 million euros, to 296.4 million euros.

April 2021

- ▲ Banco CTT initiates a consumer credit partnership with Sonae Financial Services, through which it finances the Universo card and conducts the respective credit risk exposure management.

July 2021

- ▲ Banco CTT and BNP Paribas Personal Finance (Cetelem) renew their existing partnership agreement. The agreement will allow Banco CTT to continue to develop its offer and reinforce its position as a reference player in financing and means of payment in Portugal.

September 2021

- ▲ Banco CTT and Zurich launch a Sustainable Investment product: life insurance linked to an autonomous (unit-linked) investment fund, which invests in the financial assets of companies and institutions that pursue and promote the Sustainable Development Goals (SDGs) enshrined by the United Nations, giving priority whenever possible to the SDGs defined as priorities by the Portuguese Government in the implementation of the 2030 Agenda for Sustainable Development

- ▲ The Banco CTT Group, through its subsidiary 321 Crédito, securitised and placed on the market a motor vehicle loan portfolio in the amount of 250 million euros (Ulisses Finance No.2).

The securitisation operation was subscribed by several European and North American institutional investors, and demand exceeded supply by more than twice. The implicit spread for all credits was 0.64%.

The operation will serve to finance the growth of Banco CTT's activity, optimizing its capital and diversifying sources of liquidity.

October 2021

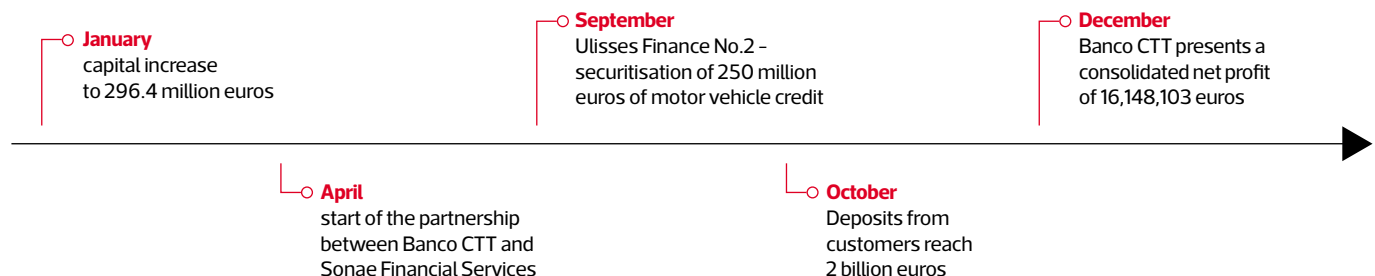
- ▲ Banco CTT is a pioneer member of the "Merece" movement, which aims to give a sustainable end to bank cards.

In addition to giving new life to cards, by transforming them into urban furniture, for each kg of collected cards a tree will be planted and maintained for 5 years, thus offsetting the emissions generated by each card (a bank card is equivalent to a 150gr carbon footprint). As part of this partnership, Banco CTT also acquired debit cards made entirely from recycled plastic.

- ▲ Deposits from customers reach 2 billion euros.

November 2021

- ▲ Best month ever in terms of deposit-taking (+71 million euros variation in deposits).



BANCO CTT AWARDS 2021

In 2021, Banco CTT was once again distinguished with awards and distinctions attributed by independent entities, which recognise the excellence of our products and services.



Deco Proteste Right Choice in the Mortgage Loan category

The Banco CTT Mortgage Loan was distinguished with the RIGHT CHOICE award attributed by DECO PROTESTE. With a competitive and comprehensive offer, the Banco CTT Mortgage Loan was distinguished for presenting the best relationship between quality and price. Banco CTT's offer presents credit solutions with variable or mixed rates for different purposes, namely acquisition, construction/building or investment. The monitoring of the entire process through the Casa Banco CTT App allows our Customers to apply for credit online and accompany the entire process without leaving home, with the support of a specialised team.

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



2021 Five Stars Award for Customer Service

Banco CTT's Customer Service was considered by consumers as Five Stars, from among five evaluated banks, having obtained an overall satisfaction of 73.7% by U-Scoot Lda. The attribution of the 2021 Five Stars Award was based on the criteria of Satisfaction-Experimentation, Brand Trust, Innovation and in particular, the Intention to Recommend.

Brand evaluation tests are carried out with regular consumers, and only the best brands are awarded the Five Stars distinction.

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

VISION, MISSION, PRINCIPLES AND VALUES OF THE BANK

VISION

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

MISSION

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

PRINCIPLES

Banco CTT's performance strategy is governed by the following Principles:

▲ Customer Orientation

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

▲ Enthusiasm

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

▲ Trust

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

▲ Excellence

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

▲ Innovation

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

VALUES TO UPHOLD

▲ Simplicity

▲ Efficiency

▲ Proximity

▲ Trust

▲ Solidity

KEY FIGURES

CONSOLIDATED RESULTS

Net Income

In 2021, Banco CTT achieved a consolidated net profit of 16,148 thousand euros, which compares with a positive net profit of 233 thousand euros in the same period of the previous year, representing a positive variation of 15,915 thousand euros.

The net result for 2021 includes the positive net impact of 12,962 thousand euros from a set of specific items, namely capital gains from sales in the securities portfolio, in a gross total of 17,777 thousand euros.

(amounts in thousand euros)

Income Statement	2021	2020	Δ	
			%	Abs.
Net Interest Income	55,714	44,572	25%	11,142
Net Commissions	25,378	20,204	26%	5,174
Other Results	715	1,197	-40%	(482)
Operating Income	81,807	65,973	24%	15,834
Staff costs	(25,171)	(21,806)	15%	(3,365)
General Administrative Expenses	(31,886)	(27,152)	17%	(4,734)
Depreciation	(7,691)	(6,451)	19%	(1,240)
Operating Costs	(64,748)	(55,409)	17%	(9,339)
Impairment and Provisions	(12,159)	(9,352)	30%	(2,807)
Profit / (loss) before taxation	4,900	1,212	304%	3,688
Taxes	(1,714)	(979)	75%	(735)
Net Result (No specific items)	3,186	233	1267%	2,953
Net Specific Items	12,962	-	...	12,962
Net Income	16,148	233	6830%	15,915

Explanations for the most relevant variations are presented as follows:

Net Interest Income

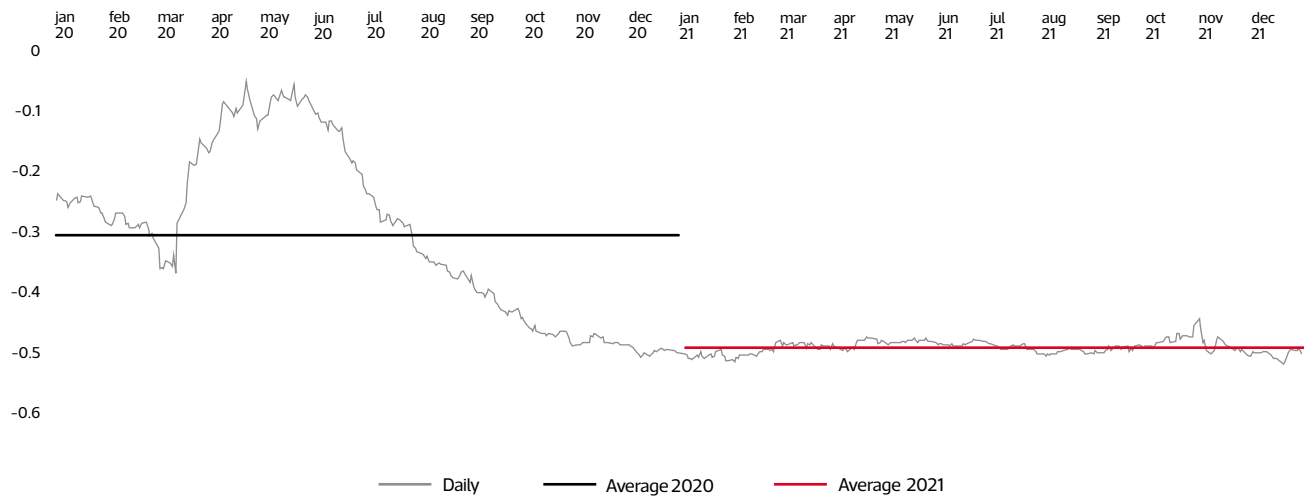
Net Interest Income reached 55,714 thousand euros (2020: 44,572 thousand euros), which represents an increase of 11,142 thousand euros (+25%).

▲ **Interest on car credit** amounted to 37,627 thousand euros (2020: 33,311 thousand euros), representing an increase of 4,316 thousand euros, driven by the increase in average volume.

▲ **Credit card interest** amounted to 10,166 thousand euros. This interest results from the portfolio acquired under the Universo Partnership with Sonae Financial Services, starting in the second quarter of 2021.

▲ **Interest on mortgage loans lending** reached 3,824 thousand euros (2020: 4.156 thousand euros), representing a decrease of 333 thousand euros, as the increase in the average volume was not sufficient to offset the effect of the reduction in the Euribor index (see figure below, with 12-month Euribor data).

Euribor 12M



Source: Bloomberg

Commissions

The net fees and commissions income amounted to 25,378 thousand euros (2020: 20,204 thousand euros), which represents an increase of 5,174 thousand euros (+26%).

This increase is mainly explained by:

- ▶ Extension of the debit card fee to the first card in the second quarter of 2020: + 1,882 thousand euros.
- ▶ Increase in transactional / interbank fees explained by the gradual increase in customer involvement with Banco CTT and, consequently, the greater use of the Banco CTT account for day-to-day management (+ 1,117 thousand euros).
- ▶ Commissions on insurance mediation services reached 5,969 thousand euros (2020: 4,304 thousand euros), with the increase of 1.665 thousand euros being mainly explained by the increase in the commission of off-balance savings products related to the PPR and Life Financial Insurance offer.

Operating Costs

Operating costs amounted to 65,839 thousand euros (2020: 55,409 thousand euros), resulting in an adjusted cost-to-income (excluding specific items) of 79%, which compares with 84% in 2020.

Staff costs

- ▶ Staff costs reached 25,171 thousand euros (2020: 21,806 thousand euros), representing an increase of 3,365 thousand euros.
- ▶ The increase is explained by (i) the increase in multi-employer staff costs in the context of the use of the Stores Network, (ii) the salary updates that, in 2020, only occurred in the second half and (iii) the increase in commercial incentives compared to 2020.

General Administrative Expenses

- ▶ General administrative expenses reached 31,886 thousand euros (2020: 27,152 thousand euros), representing an increase of 4,734 thousand euros.
- ▶ The increase is explained by (i) the increase in expenses incurred with the use of the CTT store chain, (ii) the initial and operating expenses of the new business segment (credit cards) and (iii) the increase in IT and consulting expenses.

Amortisation and depreciation for the year

- ▲ Amortisation of intangible assets for the period came to 5,795 thousand euros (2020: 4,700 thousand euros).
- ▲ Depreciation of other tangible assets for the period amounted to 1,896 thousand euros (2020: 1,752 thousand euros).

Impairment and Provisions

Impairment and Credit Provisions

- ▲ The net allocation for impairment and credit provisions came to 12,914 thousand euros in 2021 (2020: 10,028 thousand euros).
- ▲ This variation is explained by:
 - Recognition of 5,254 thousand euros of impairment for the new credit card portfolio.
 - In the remaining portfolios, especially in motor vehicle loans, there was a net reduction of 2,512 thousand euros in impairment compared to 2020, the year in which impairment losses resulting from the Covid-19 pandemic situation were recognised.

Other Impairments

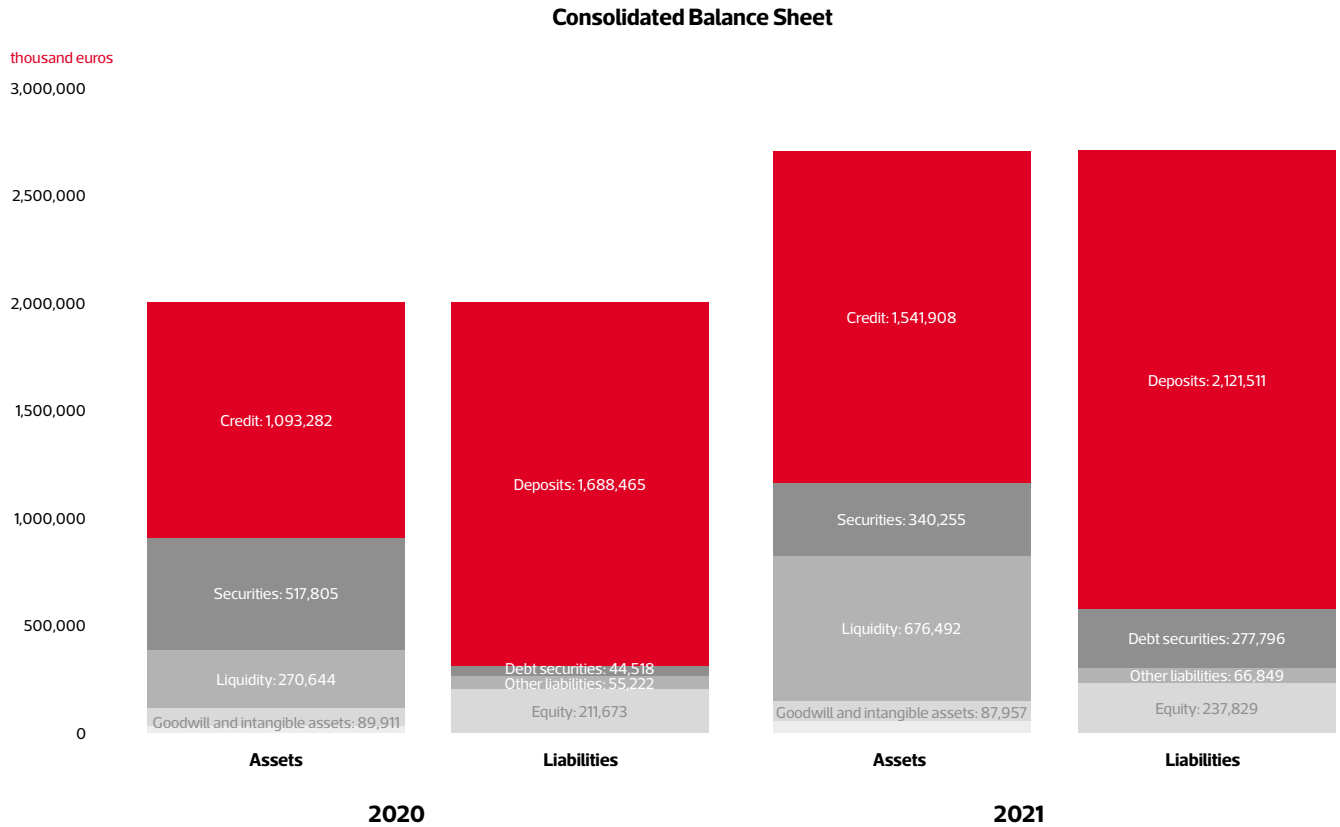
- ▲ In impairments of other financial assets there was a net reversal of 92 thousand euros (2020: net reversal of 171 thousand euros).
- ▲ In impairments to other assets there was a net reversal of 12 thousand euros (2020: net reversal of 833 thousand euros).

Specific items

Due to their materiality and nature, the after-tax effects of significant items considered specific in 2021 are described below in order to facilitate year-on-year comparability of performance:

- 1) Net gains arising from trading activity:
 - a. During 2021, Banco CTT made sales of securities at amortised cost, which resulted in a gross 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.
 - b. Gross gain of 1,083 thousand euros from the valuation of the derivative contracted by the Ulisses Finance No.2 operation.
- 2) Credit impairments: 1,364 thousand euros related to Day 1 impairment, attributable to the initial acquisition of a credit card portfolio of around 104 million euros.
- 3) Operating costs: 1,091 thousand euros referring to costs with specific projects, including the partnership with Sonae Financial Services.

CONSOLIDATED BALANCE SHEET



As at 31 December 2021, the Bank’s assets amounted to 2,703,986 thousand euros (2020: 1,999,879 thousand euros), with 237,830 thousand euros funded by equity (2020: 211,673 thousand euros) and 2,466,156 thousand euros by borrowed capital (2020: 1,788,206 thousand euros).

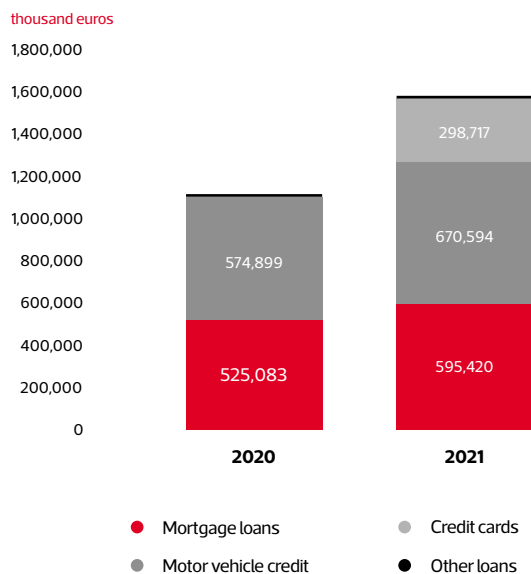
Loans and advances to customers

Loans and advances to customers (gross) stood at 1,572,998 thousand euros as at 31 December 2021 (2020: 1,109,947 thousand euros), representing an increase of 463,051 thousand euros (+ 42%), of which 70,337 thousand euros from mortgage loans, 95,697 thousand euros from car loans and 298,717 thousand euros from the new credit card portfolio acquired under the Universo Partnership with Sonae Financial Services.

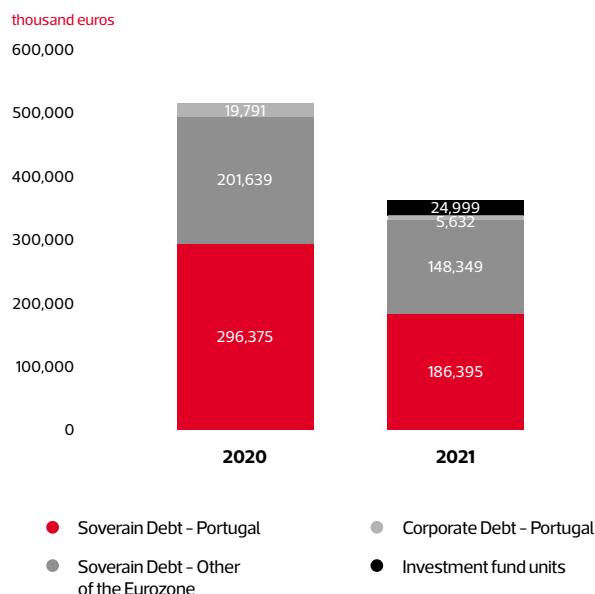
Despite the record volume of deposits taken (+433,046 thousand euros), the loan-to-deposit ratio increased from 65% in 2020 to 73% as at 31 December 2021, an increase that is highly leveraged on the contribution of the volume of credit cards.

The portfolio impairment ratio as at 31 December 2021 was 1.98% (2020: 1.50%; 2019: 0.45%).

Loans to customers (gross)



Investment in Securities



Under public moratoria, the Banco CTT Group had, as at 31 December 2020, 724 live moratoria, which corresponded to 40,390 thousand euros and which represented 3.6% of the (gross) loans to customers portfolio, essentially consisting of mortgage loans. There were no living public or private moratoria as at 31 December 2021.

Investment in securities

The portfolio of investment in securities had a net value of 365,255 thousand euros as at 31 December 2021 (2020: 517,806 thousand euros), of which around 96% are sovereign debt securities of the Eurozone.

Almost all (91%) of the Bank's securities investment portfolio is carried at amortised cost.

As at 31 December 2020, the securities investment portfolio had a fair value of 562,871 thousand euros (a positive difference of 45 million euros compared to its book value).

The securities investment portfolio had, as at 31 December 2021, a fair value of 379,576 thousand euros (a positive difference of 14 million euros compared to its book value).

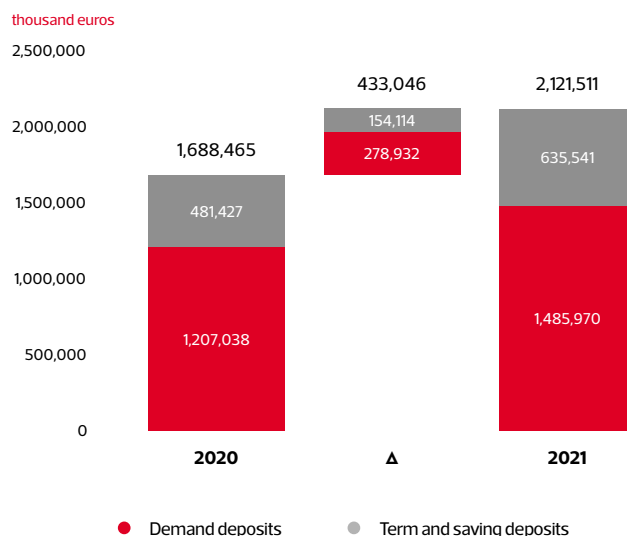
The decrease in the difference between book value and fair value results from sales made in 2021, resulting in a gain of 17,777 thousand euros.

Deposits from customers

Deposits from customers reached, as at 31 December 2021, 2,121,511 thousand euros (2020: 1,688,465 thousand euros), resulting in an increase of 433,046 thousand euros (+ 26%) compared to the previous year, which reflects the increase in household savings and their trust in Banco CTT, in parallel with the institution's growing notoriety.

It should be noted that 2021 was the year with the highest increase in funds raised (+433,046 thousand euros). The increase is mainly due to demand deposits, which demonstrates the trust placed in the Bank and that it is increasingly the first bank of its customers.

Deposits from Customers



CONSOLIDATED INDICATORS

(amounts in thousand euros)

		2021	2020	△	
				Abs.	%
Results	Net Interest Income	55,714	44,572	11,142	25%
	Operating Income	100,666	65,973	34,693	53%
	Operating Costs	(65,839)	(55,409)	(10,430)	19%
	Impairment and Provisions	(13,523)	(9,352)	(4,171)	45%
	Taxes	(5,156)	(979)	(4,177)	427%
	Net Income	16,148	233	15,915	6830%
	Result without specific items	3,186	233	2,953	1267%
Balance Sheet	Total Assets	2,703,986	1,999,879	704,107	35%
	Deposits and Investments at Credit Institutions	55,023	75,279	(20,256)	-27%
	Investment in securities	365,255	517,806	(152,551)	-29%
	Loans and Advances to Customers	1,541,908	1,093,282	448,626	41%
	Total Liabilities	2,466,156	1,788,206	677,950	38%
	Deposits from Customers	2,121,511	1,688,465	433,046	26%
	Total Equity	237,830	211,673	26,157	12%
Payments Retail for Individuals	Number of Branches opened	212	212	-	0%
	Number of Accounts	573,201	517,431	55,770	11%
	Mortgage Loan Production	130,744	189,406	(58,662)	-31%
	Mortgage Loan Stock (gross)	595,419	525,084	70,335	13%
	Stock of savings products (mediation)	708,609	356,557	352,052	99%
	Personal Credit Production (intermediation)	41,695	43,902	(2,207)	-5%
	Deposits from Customers (pro forma)*	2,830,120	2,045,022	785,098	38%
Consumer credit	No. of agents (Motor Vehicle)	1,450	1,365	85	6%
	Motor Vehicle Credit Production	213,785	143,104	70,681	49%
	Motor Vehicle Credit Stock (gross)	670,594	447,708	222,886	50%
	Credit Card Stock (gross)	298,717	-	298,717	...
Payments Business	No. of Payshop agents	5,261	4,821	440	9%
	No. of payments processed - thousand	28,039	28,248	(209)	-1%
Profitability and Efficiency	Loan-to-Deposit Ratio	73%	65%	8%	12%
	Cost-to-Income**	79%	84%	-19%	-22%
	Return on Assets (ROA)	1%	0%	1%	5026%
	Return on Equity (ROE)	7%	0%	7%	6068%
Funding and Liquidity	Own Funds***	167,112	130,900	36,212	28%
	Risk-Weighted Assets (RWA)	1,043,231	780,104	263,127	34%
	Common Equity Tier 1 Ratio (transitional)***	16.0%	16.8%	-0.8%	-5%
	Leverage ratio (transitional)	6.3%	6.7%	-0.4%	-6%
	Liquidity Coverage Ratio (LCR)	881%	1066%	-185%	-17%

* Includes deposits from customers and deposits from customers captured via mediation of savings products.

** Excluding specific items.

*** Includes the net result for 2021.

MACROECONOMIC ENVIRONMENT

International Economy

After the historic contraction in 2020 due to the Covid-19 pandemic, with the output of the world economy shrinking by 3.1%, the recovery in 2021 was significant, with¹ the IMF estimating world growth of 5.9%. The world economy will have recovered in 2021 the levels of economic activity of 2019. The development of vaccines and the implementation of vaccination programmes contributed to restore economic confidence, with 58% of the world's population² vaccinated with at least one dose by the end of the year. Even so, the emergence of new variants like Delta and Omicron throughout 2021, brought in enforced periods of activity containment measures, albeit more directed than those experienced in 2020, with their impact on economic activity having been lower and with economic agents showing greater capacity to adapt. The year of 2021 was also marked by disruptions in supply chains and increased commodity prices, greatly influenced by the strong recovery of demand.

In the eurozone, the economic recovery of 2021 is estimated to have reached 5.1%³, largely underpinned by strong domestic demand. The consumer price index of the eurozone grew by 2.6% in 2021, reflecting the significant impact of commodity prices. The evolution of the consumer price index followed an upward trend over the year: standing at merely 1% in the first quarter, but having evolved to 4.7% in the last quarter of 2021, corresponding to a quarterly peak since the beginning of the single currency. The labour market in the eurozone was enormously dynamic, with an unemployment rate of 7.7% in 2021. Reference is made to its very positive evolution, with the rate falling from 8.2% in December 2020 to a historic minimum figure of 7.0% in December 2021. Meanwhile, pandemic crisis support measures still continue to weigh on public finances, with the eurozone's aggregate budget deficit estimated at 5.9% of GDP, down from 7.2% in 2020.

The European Central Bank ("ECB") upheld an expansionary monetary policy throughout the year, keeping reference interest rate levels at historically low figures. However, because of the economic upswing throughout the year, the ECB reduced the asset purchase rate of the Pandemic Emergency in the last quarter and announced that it should be discontinued in March 2022. The ECB recently announced a decrease in the pace of purchases of the Asset Purchase Programme until the second quarter of 2022, with its continuation in the third quarter depending on the evolution of the economic environment.

Expectations of global economic recovery for 2022 may be conditioned by the latest international developments in Ukraine, undermining economic confidence and in particular the inflation outlook for the near future, impacted by the appreciation of energy goods. The inflation rate is expected to remain high, and the reaction of Central Banks to the possibility of a stagflation scenario is particularly uncertain.

¹ World Economic Outlook – Update, International Monetary Fund | January 2022

² Our World in Data

³ ECB Economic Bulletin, Issue 8 / 2021

National Economy

Portuguese Gross Domestic Product (GDP) grew by 4.9% in 2021, the highest annual growth since 1990, in the wake of the historic contraction of 8.4% in 2020, following the pandemic's negative effects on the economy. The growth of 2021 was greatly marked by the contribution of domestic demand, with private consumption and investment showing strong recovery. The contribution of external demand was far less penalising than in 2020, with significant growth of exports of products and services.

The recovery of the economy boosted job creation and a reduction in the unemployment rate. Employment is estimated to have risen by 2.5% in 2021, after the 1.9% contraction experienced in 2020. The hours worked are estimated to have increased by 8.3%, after the 9.3% reduction in 2020. The difference between the net change of employment and hours worked over the last two years reflects the support measures implemented during the pandemic crisis. The evolution of the unemployment rate was very favourable, ending the year at 5.8%, a record low since 2002, which compares with 6.9% in December 2020 and 8.2% at the peak of the pandemic crisis in August 2020. Real disposable income is estimated to have increased by 1.2% in 2021, reflecting the increased employment and some buoyancy in wages.

The Consumer Price Index recorded an annual average variation of 1.3% for 2021, following the price stability registered in 2020. Excluding energy and food products, the variation rate was 0.8% in 2021. The inflation rate showed a strong upward movement throughout the year, in particular in the second half. The year-on-year variation rate reached 2.7% in December 2021.

The economic recovery and increased employment improved the national public deficit in 2021 at 4.3% of the GDP. The government debt ratio decreased by 7.7 percentage points of GDP to 127.5% of GDP at the end of 2021, mainly driven by the increase in output and a slight reduction in the nominal value of debt³.

The first half of 2022 should mark the resumption of economic activity to pre-pandemic levels, although conditioned by the impacts that may arise from the situation in Eastern Europe. Banco de Portugal's projections point to economic growth of 5.8% in 2022, 3.1% in 2023 and 2% in 2024⁴, made before the most recent developments arising from the situation in Eastern Europe.

Financial Markets⁵

In 2021, the trend of the previous year continued, with increases recorded in the main risky assets. Developed stock markets and commodities recorded gains, in contrast to the bond market that recorded devaluations.

The stock market, when evaluated by the FTSE Global All Cap Total Return Index, which encompasses developed and emerging markets, appreciated by 18.5% in 2021. The stock market was bullish practically throughout the entire year. Within the stock market, the main emphasis is on the European banking sector, which appreciated by 42%, largely supported by the prospects for the resumption of dividend distribution and an increase in interest rates.

The evolution of the German 10-year interest rate was characterised by distinct moments. In the first half of 2020, the expectations of economic recovery, supported by the progress in vaccination, raised interest rates from -0.57% at the end of 2020 to -0.20% at the end of June. In the summer period, with the appearance of the Delta variant, interest rates were once again pushed back down to -0.50%. In the months of September and October 2021, fears that inflation levels could be longer-lasting than had previously been expected, further raised the interest rate to -0.10%. The last month of the year saw abrupt movements, such that at first initial fears of the new Omicron variant lowered interest rates, but as a less nefarious variant was contemplated, they quickly recovered to -0.18% by the end of the year.

The credit spread of Portuguese sovereign debt against German sovereign debt registered a relatively stable performance, with an average value of 60 basis points throughout the year, varying approximately between 50 and 70 basis points. The Spanish spread also showed a stable performance, with an average value of 67 basis points. Italy recorded an average spread of 109 basis points, with an evident increase in the last months of the year.

Corporate credit spreads also recorded somewhat stable performance, with the 5-year Markit iTraxx Europe Senior CDS index averaging 49 basis points, having ended the year at exactly the same value as at the end of 2020.

¹ Statistics Portugal (INE) – Quarterly National Accounts (Base 2016) – 30 days Flash Estimate (31 January 2022)

² Statistics Portugal (INE), Consumer Price Index (12 January 2022)

³ Statement from the Ministry of Finance

⁴ Economic Bulletin | December 2021 – Banco de Portugal

⁵ Source: Bloomberg

The price of raw materials rose very significantly, particularly energy. The price of Brent appreciated by 50%, having closed the year at \$77.8 per barrel. In the European market, the spotlight was on the price of natural gas, with futures contracts for the next month in the market of the Netherlands having appreciated by 243%. In Portugal and Spain, the price of electricity for the next month in the OMIP wholesale market appreciated by 274% in 2021, to €210/MWh (having reached a peak of €408/MWh in December).

Stock market volatility was relatively contained in 2021, albeit at higher values than in pre-pandemic 2019, with an average value of 20 points observed in the EuroStoxx 50 volatility index. On the other hand, it is important to highlight the significant rise in volatility implicit in the interest rate market in the last quarter of the year. Observing the Merrill Lynch Swaption Option Volatility Estimate Euro 6 Month, there was an appreciation from the 31 basis points at the end of 2020 to 61 basis points at the end of 2021.

In the foreign exchange market, the Euro depreciated nominally by 5.2% when compared to the 19 currencies of the main trading partners in the Euro area, depreciated 7% against the US dollar and depreciated 6% against the British Pound.

Portuguese Banking System¹

Analysis of the data for the first 9 months of 2021 of the Portuguese banking system shows an aggregated balance sheet structure with an increase in total assets of 7% (compared to 2020) to 440.7 billion euros. This variation was primarily driven by the increased deposits at central banks repayable on demand, with a negative contribution of the portfolio of public debt securities. Customer deposits continue to be at very high values, accounting for 67.7% of the assets, and funding from central banks reached 9.2% of the assets in September, a trend shared with other banks of the eurozone in the context of the monetary policy of supporting the banking system's liquidity. The loan-to-deposit ratio fell from 84.7% at the end of 2020 to 82.5% in September 2021.

Asset quality maintained its improvement trend that started in 2016, with the gross non-performing loans (NPL) ratio reaching 4% (1.8% when considered net of impairments). Referring to the latest information available up to November 2021, we highlight the amount of only 0.1% of the portfolio of loans to individuals still in moratorium, under the terms in which they were introduced in the context of the pandemic. Non-financial companies accounted for 1.4% of the total loans under moratorium, representing a significant reduction in relation to the 33.3% recorded at the end of 2020.

The profitability of the system in the first 9 months of 2021 showed improvement, with return on assets reaching 0.46% and return on equity standing at 5.4%. The increased profitability was primarily the result of the reduction of credit impairment, with the cost of risk amounting to 0.37%. The cost-to-income ratio also maintained its downward trend, reaching 53.3% at the end of the period.

With regard to solvency, the system's total own funds ratio reached 17.8% and the common equity tier 1 ratio was 15.2%, compared with 18.0% and 15.3% respectively at the end of 2020.

¹ Portuguese Banking System: recent developments 3rd Quarter 2021- Banco de Portugal

Regulatory Framework

In 2021, the European and national regulatory agenda was once again dominated by the Covid-19 pandemic crisis. The concern to ensure the funding of companies and households was extended during 2021, not only through the moratorium measures but also through additional protection offered under the Action Plan for Default Risk (PARI) and the Extrajudicial Procedure to Settle Situations of Default (PERSI).

Due to the pandemic crisis, in the national and European sphere, the beginning of 2021 was marked by the updating of the deadline for subscription and application for the General Moratoriums of payment, in order to ensure the continuous funding of companies and households. In December 2020, in order to monitor the reactivation of the European Banking Authority (EBA) Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis, Banco de Portugal published Circular Letter No. CC/2021/00000001 in January. This Circular Letter, as well as the EBA Guidelines, stipulated a deadline of 31 March 2021 as the deadline for joining and applying the Moratoria, but applied two restrictions, namely a maximum time limit and the introduction of reporting requirements. The time limit determined that moratoria granted after 30 September 2020 could only benefit from the extraordinary measures for a maximum period of 9 months. The second restriction imposed mandatory reporting requirements of documentation on the assessment of the likelihood of payment, requiring the institutions to submit, to the competent authorities, a plan describing the process, information sources and responsibilities inherent to the assessment of potential situations of “unlikeliness to pay” due to exposures/borrowers subject to general moratoriums of payment.

The end of the support measures regarding public banking moratorium was followed by the publication of Decree-Law No. 70-B/2021 of 6 August, which established protection measures for bank customers covered by the exceptional and temporary loan protection measures, and also changed the arrangement for prevention and settlement of situations of default on loan contracts. This decree-law defined that, under PARI, an assessment should be made of any signs of deterioration of the bank customer’s financial situation within 30 days prior to the end date of the moratorium, and proposals should be submitted taking into account the financial situation, objectives and needs of the customers with a view to preventing default, within 15 days prior to the end date of that moratorium. Concerning PERSI, the decree-law also defined that any customers included in this procedure during the 90 days following the termination of the moratorium,

maintain the guarantees established in Decree-Law No. 227/2012 of 25 October, for the period of 90 days counted from the date of inclusion in PERSI (if the payment or an agreement between the parties does not take place in the meantime), namely the guarantee against the cancellation of the contract or against the lending institution filing judicial proceedings.

The year of 2021 was also marked by the regulation of matters related to the organisation of institutions subject to the supervision of Banco de Portugal, particularly on matters of internal governance, and organisational, technical, material and advertising resources.

In order to clarify the arrangement applicable to payment and electronic money institutions, Banco de Portugal published Notice 2/2021 concerning the definition of the regulatory framework applicable to these entities, which include Payshop. This notice updated the regulatory framework on the matters that payment institutions and electronic money institutions are subject to under the supervision of Banco de Portugal. As a result, this notice makes a selective reference to certain provisions of Banco de Portugal Notice 3/2020, where its rules on internal governance become applicable to those institutions.

Also in the national sphere, Banco de Portugal published Notice 4/2021 that regulates the type and registration of branches and the framework applicable to branch extensions. This notice defines the separation of spaces of the branches when shared with other institutions, whether financial or not, and determined that their branches should be endowed with technical, material and advertising means that ensure their exclusive use by the actual institution as well as the clear identification of the acting institution.

Furthermore, due to the need for entities to ensure a high degree of resilience, the National Council of Financial Supervisors (CNSF) approved new recommendations on business continuity management in 2021, aimed at reflecting the Portuguese legal system, the harmonised legislative and regulatory framework at a European level, and the principles of the Basel Committee on Banking Supervision on the management of operational risk and operational resilience.

In the European sphere, the EBA revised the Guidelines on sound remuneration policies, on internal governance, and on the assessment of the suitability of members of the management body and key function holders. The Guidelines on sound remuneration policies (EBA/GL/2021/04) were updated so as to clarify various provisions contained in the previous Guidelines on

severance pay and retention bonuses with a view to reinforcing the specific framework applicable to these types of remuneration. The Guidelines on internal governance (EBA/GL/2021/05) updated the previous guidelines in accordance with the relevant legislation in the European Union, with Banco de Portugal having disclosed that most of the amendments were made early, in advance of their mandatory requirement, being established in Banco de Portugal Notice 3/2020. Finally, the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2021/06) also aimed to enshrine the European legislative amendments, primarily concerning the combat of money laundering and terrorist financing.

Regarding insurance activity, it is important highlight the publication by the Insurance and Pension Funds Supervisory Authority (ASF) of Circular Letter No. 1/2021 of 6 April on market information related to reporting duties concerning insurance and reinsurance distribution. The aim of this Circular Letter was to facilitate the preparation of the different reports established in ASF Regulatory Standard No. 13/2020-R of 30 December, that the entities bound to such must carry out during 2021, in particular (i) Information about insurance brokers and insurance brokers acting on an ancillary basis used for distribution of insurance products, and excluded entities; (ii) publication of the annual financial statements; (iii) list of persons directly involved in the insurance distribution activity (PDEDS); and (iv) report on the management of complaints.

The growing concern with the combat to corruption led to the publication of Decree-Law No. 109-E/2021, creating the National Anti-Corruption Mechanism and establishing the general arrangement for prevention of corruption. Pursuant to this decree-law, it should be noted that legal persons in Portugal (or branches on national territory) that employ 50 or more workers should implement a programme of regulatory compliance that includes at least a plan for prevention of risks of corruption and related offences, a code of conduct, a training programme and a whistleblowing channel.

Finally, the year of 2021 closed with the publication of Law No. 93/2021 of 20 December, that establishes the general arrangement for protection of whistleblowers, transposing Directive (EU) 2019/1937 of the European Parliament and Council of 23 October 2019, on the protection of persons who report breaches of Union law. This law foresees the creation of a general arrangement for protection of those that, in good faith and based on information obtained in a professional context that they reasonably consider to be true, report on breaches or disclose offences to European Union law, or acts of crime, especially when violent or highly organised. To this end, and apart from the necessary measures of protection against acts of retaliation, it is stipulated that legal persons of a certain size or engaged in certain activities should create channels for reporting breaches and establish procedures for analysis of breaches that assure the confidentiality and security of the information received.