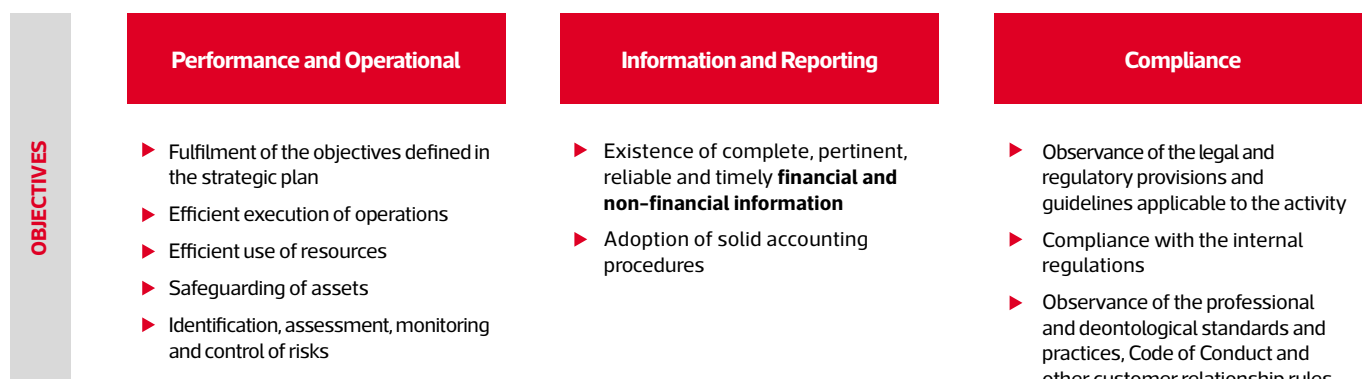


INTERNAL CONTROL SYSTEM

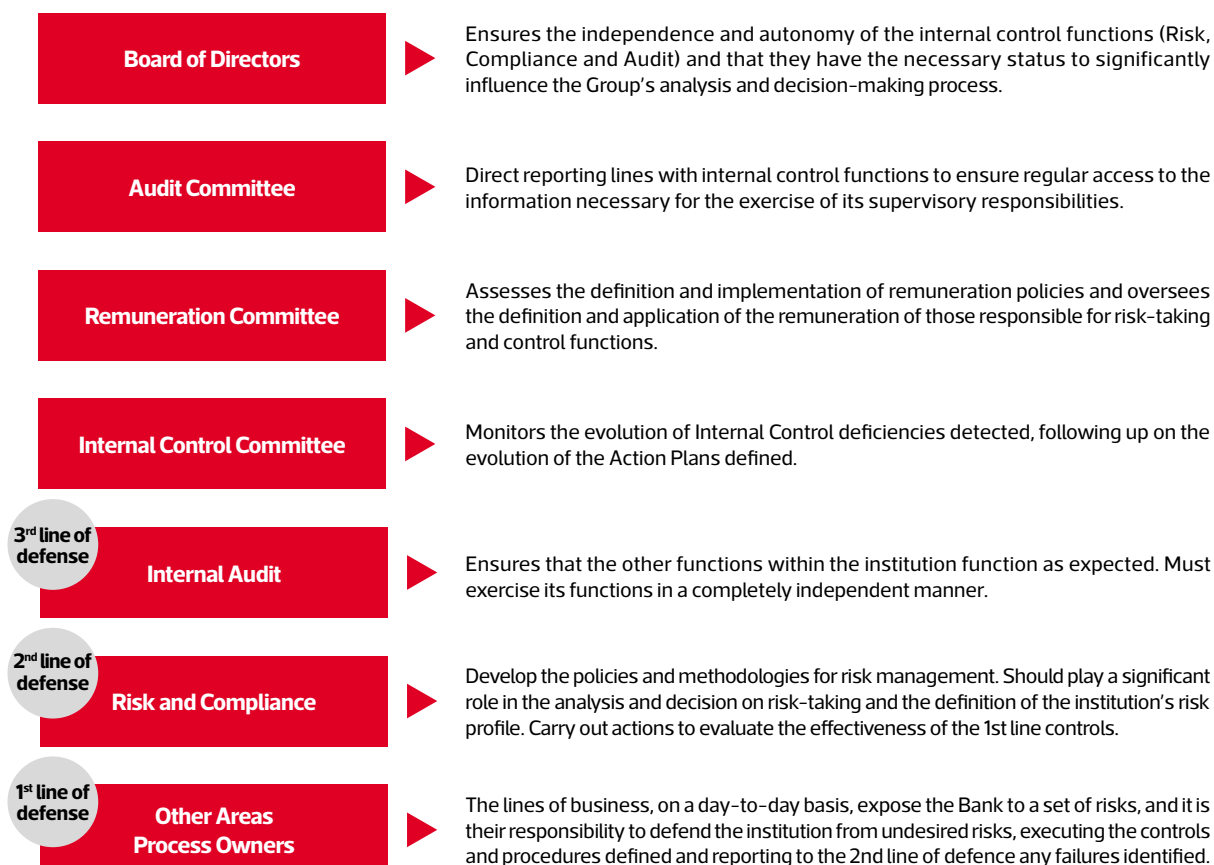
OBJECTIVES

The Group's Internal Control System (ICS) is based on the set of strategies, policies, processes, systems and procedures whose associated controls aim to ensure the sustainability of the Bank and its subsidiaries in the medium and long term, as well as the prudent exercise of their activity, through the objectives illustrated in the following figure:



GOVERNANCE MODEL

The composition of the governance model of the Group's Internal Control System is summarized in the following figure:



The **Board of Directors** is primarily responsible for the Group's internal control system and for ensuring its implementation, robustness and efficacy, in compliance with internal and external regulations on the matter. The Board of Directors is also responsible for monitoring the management information regarding Internal Control shortcomings, analysing the internal control system's assessment report and issuing an overall opinion on the adequacy and effectiveness of the internal control system.

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

The **Remuneration Committee** has responsibilities for assessing and supervising the remuneration policies and practices of all employees, including members of the Corporate Bodies, as detailed in chapter D - 'Remuneration' of the Corporate Governance Report.

The Bank's **Internal Control Committee**, composed of all members of the Bank's Executive Committee, is the body responsible for defining the criteria and implementation of the non-financial risk management instruments and for the monitoring and continuous assessment of the efficacy of the internal control system, namely by following-up on any detected flaws. In 2021 the Committee held monthly meetings.

On the other hand, the governance model of the Group's internal control system is based on a three line of defence approach, which comprises:

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

A **second line of defence**, entrusted with monitoring risk, advising and supporting the first line of defence in identifying risks and controls. The second line of defence consists of Compliance and Risk, responsible for the monitoring process, carrying out periodic tests on the effectiveness of the first-line controls, as well as the areas of Planning and Control, Security and Data Protection, Legal and Human Resources.

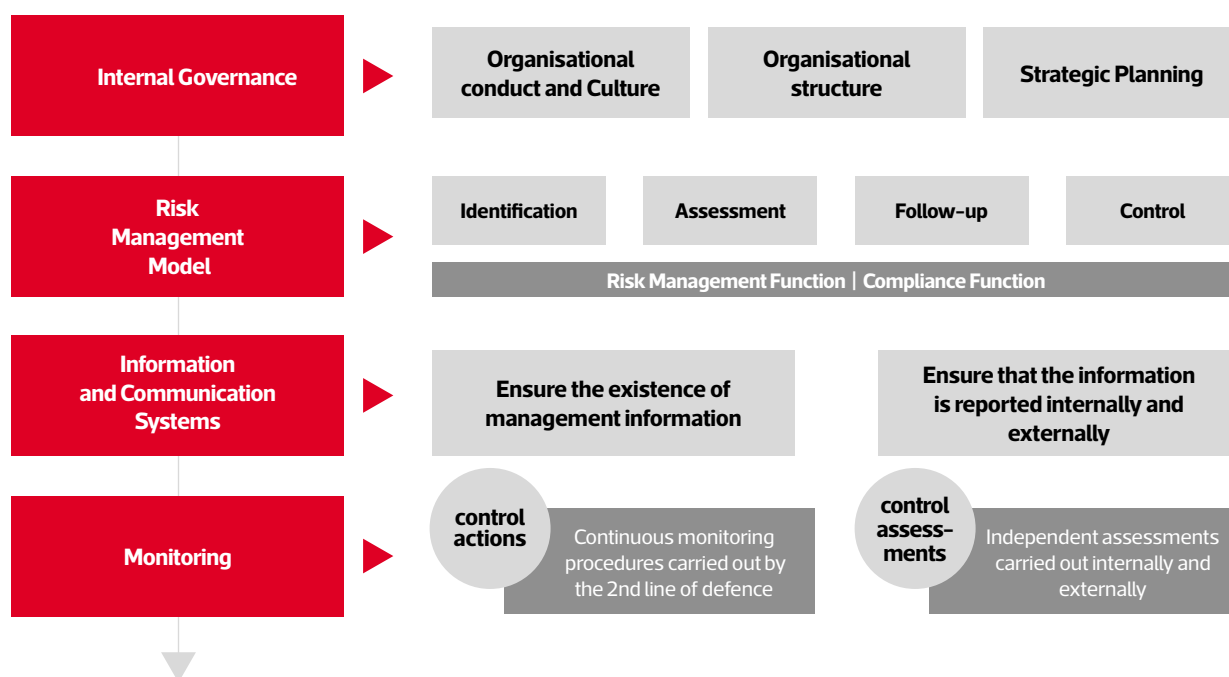
A **third line of defence**, ensured by Internal Audit, which is responsible for independently examining and assessing the adequacy and effectiveness of policies, processes and procedures that support the internal control system, namely by carrying out effectiveness tests on implemented controls.

FRAMEWORK

The Group’s internal control framework is based on four main components:

- ▶ Internal Governance
- ▶ Risk Management System
- ▶ Information and Communication System
- ▶ Monitoring

The following figure summarises these components of the internal control system adopted by the Group, which are described in greater detail below:



Internal Governance

In the development of its organisational culture, the Group implements clear risk management and internal control methodologies that aim, among others, to ensure a robust control environment involving and holding all employees accountable. The Management Bodies and the Supervisory Bodies have a fundamental role in creating the conditions for the development of an effective control environment that allows the Group to achieve its objectives, essentially through the commitment to integrity and ethical values reflected in the Code of Conduct, and their behaviour should serve as an example for all employees (“lead by example”) and the exercise of supervision, accountability and authority in the management and monitoring of risk management and internal control, formalised in the strategy, objectives, policies, processes and day-to-day action and deliberation.

On the other hand, the Group’s Organisational Structure, which is defined in an integrated, objective, transparent and perceptible manner in the organisation and structure manual, supports the development of the Group’s activity and the implementation of its internal control system, ensuring that the management and control of operations are carried out in a prudent manner. The Group’s organisational structure is based on a coherent, clear and objective definition of the lines of reporting and authority, of the powers and responsibilities of each body, structure unit and function, as well as the degree and scope of cooperation between them and includes an adequate segregation of duties, ensuring that any situations of potential conflict of interest are identified in advance, minimised and subject to careful and independent monitoring and is based on a sufficient number of members of

the top management and middle management, as well as other employees, to carry out the defined responsibilities and duties.

Strategic planning is performed on the basis of well-founded assumptions, which are subject to sensitivity analyses and on reliable and understandable information, ensuring its timely adaptation in case of significant changes in assumptions, the definition of precise, clear and sustainable objectives for the Group’s activity, covering its main products, activities, systems and processes, the determination of Risk Management Policies and the establishment of guidelines that support the development of the Group’s internal control system.



In this regard, it should be noted that, in 2021, the risk taxonomy adopted by the Group was revised, in the light of the provisions of Annex I of Banco de Portugal Instruction 18/2020, taking into account the adaptation of the subcategories to the activity of the Bank and its subsidiaries.

Additionally, it is particularly important that the Group’s risk management system covers all its products, activities, processes and systems and integrates the provisions of recovery plans, incorporating policies and procedures aimed at ensuring the timely recovery of situations of financial imbalance of the Group, as well as the provisions of other processes and policies related to risk management.

Information and Communication System

The Group ensures the implementation of mechanisms to collect, produce and process information to support management, decision-making and compliance with obligations to supervisory bodies.

The Group’s information and communication is governed by the principles of substance, timeliness, comprehensibility, consistency, punctuality and reliability and ensures a complete and integral vision of its financial situation, the development of its activities, the execution of its strategy and the fulfilment of the objectives defined, its overall risk profile, and the behaviour, evolution and risk profile of the market in which the Bank and its subsidiaries operate.

Risk Management Model

The risk management model outlined by the Group is supported by a set of policies, procedures and appropriate risk tolerance limits, clearly defined and approved, which are periodically reviewed in compliance with the respective regulatory framework.

The risk management model includes four essential steps, namely: risk strategy definition, risk identification and assessment, risk response, and risk monitoring, control and reporting, as illustrated in the figure below:

With regard to communication, the Group has formal, transparent, relevant processes which are adjusted to its needs, ensuring effective communication throughout the organisation and facilitating the decision-making process.

Within the scope of the risk management processes and resulting from the internal control system, several reports are made with different responsible persons, categories and periodicities. These include current reports, which should be prepared by the Risk and Compliance Departments based on the monitoring of risks and risk events, and cyclical reports, which are drawn up by the different structure bodies with a predefined frequency, as part of their specific activities and procedures under the aegis of risk management and internal control.

Indeed, in the context of internal control, in compliance with Article 5 of Banco de Portugal Instruction 18/2020, the Group began to forward to Banco de Portugal, by the end of December of each year, its annual self-assessment report, provided for in Article 4, as well as an individual report for the Bank and each of its subsidiaries covered by Banco de Portugal Notice 3/2020. In 2021, the implementation of this Notice was ensured, more fully detailed in the chapter ‘Implementation of Notice 3/2020’, which included the preparation of the aforementioned Report, submitted to Banco de Portugal in March (only in the first financial year) and in December.

Monitoring

The Group's internal control includes a set of processes whose main goal is to ensure the effectiveness and/or efficiency of the implemented controls. In this sense, the internal control system establishes the use of controls as a means to mitigate risk or to mitigate the occurrence of certain risk events whose impact could jeopardise the Group's activity, especially in the case of those that are above the defined risk appetite.

In order to operationalise the internal control model, procedures were defined to promote efficient and effective management of the internal control system, which enhances the ability of the Bank and its subsidiaries to achieve objectives and adapt to operational and business changes. This methodology also defines the procedures to be followed by the various areas in the identification and management of internal control deficiencies, as well as the monitoring of the respective Action Plans by the control areas and the performance of the Compliance function in the systematisation of information, in order to ensure the effectiveness of the internal control system.

The information that results from the continuous monitoring of the Internal Control System is materialised in the deficiencies resulting from the internal control system, which, particularly those with a material impact on the Bank and its subsidiaries, are recorded, documented and communicated to senior management, ensuring their effective treatment and the timely implementation of immediate corrective measures. In this respect, we highlight the revision, in 2021, of the methodology for assessing these deficiencies, in the light of the provisions of Annex II of Banco de Portugal Instruction 18/2020.

IMPLEMENTATION OF NOTICE 3/2020

The implementation project of Notice No 3/2020, which took place between 2020 and 2021, was coordinated by the Bank's Compliance Department, as a parent company, in close collaboration with other areas of the Group, in particular the Internal Control Functions (Risk Department and Internal Audit Department), the Area of Internal Control of 321 Crédito and the Legal Services Department and General Secretariat of the Bank, as its parent company, and was closely monitored by the management and supervisory bodies of the Bank and its subsidiaries, in order to ensure the coherence of the internal control systems and corporate governance of the Group.

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 self-assessment reports of the Group's Internal Control System and its constituent entities are summarised in the 'Summary of the Self-Assessment Report' attached to this document, in compliance with the provisions of Article 60 of that Notice.