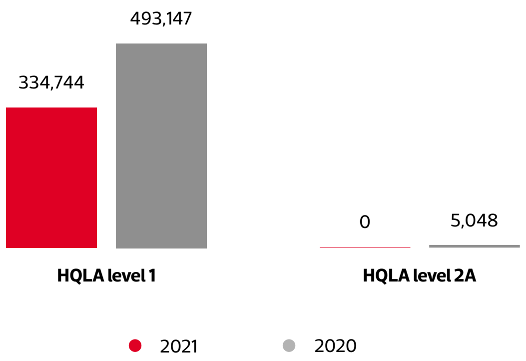
LIQUIDITY AND CAPITAL MANAGEMENT

LIQUIDITY AND FUNDING

One of the main components of liquidity management is the investment and financing policy, which prioritises diversification by country and sector. Thus, as at 31 December 2021, the Group held a portfolio of assets eligible for the Eurosystem which amounted to approximately 334,744 thousand euros (2020: 493,147 thousand euros).

Eurosystem eligible securities (by HQLA level)
thousand euros



In addition, the Group had deposited 593 million euros (168 million euros in 2020) with Banco de Portugal, well above the required minimum reserves, reflecting high liquidity and the ability to raise financing.

Thus, the consolidated liquidity indicator, Liquidity Coverage Ratio (LCR), registered a very comfortable value of 881% at the end of 2021 (1066% at the end of 2020), significantly above the minimum regulatory requirements.

In the financing of its Assets, the Group gives preference to deposits from Customers. These amounted to around 2,122 million euros as at 31 December 2021 (2020: 1,688 million euros), which represented approximately 78% of total Assets.

Despite its surplus liquidity condition, the Bank occasionally performs tests for access to the line of financing established by the ECB and repos with other financial institutions.

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

Liquidity risk management is conducted considering:

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

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

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

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

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

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

The Capital and Risk Committee, which held 14 meetings in 2021, analyses the Bank's liquidity position, namely, the evolution of the balance sheet, the analysis of gaps and key activity indicators (liquidity and commercial gaps, deposit and credit rates). In brief, a comprehensive assessment is carried out of liquidity risk and its evolution, with special focus on current liquidity buffers and the generation/maintenance of eligible assets.

SECURITISATION ACTIVITIES

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

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

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

DESCRIPTION OF THE ASSET SECURITISATION ACTIVITIES AND OPERATIONS OF THE BANCO CTT GROUP

As investor

The Group does not hold, from a prudential point of view, significant positions in credit securitisation operations originated by third parties or in securities resulting from re-securitisation operations originated by third parties, nor is it part of its current investment policy to do so in the short term. The Next Funding No.1 securitisation operation is not considered a securitisation from a prudential point of view due to the absence of tranching. However, in order to comply with the provisions in Article 449(f) of the Capital Requirements Regulation (CRR), the Bank developed and implemented a risk management and control process which includes the monitoring of the credit risk and market risk of the securitisation positions held in its balance sheet. Furthermore, and in view of the low significance of the risks involved, pursuant to Article 449(g) of the CRR, there are no hedge operations or any other type of personal protection contracted for the purpose of reducing the risk in these positions.

As originator

As at 31 December 2021, the Group had 4 asset securitisation operations originated by 321 Crédito in progress:

<u>Ulisses Finance No.1:</u>

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

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

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

Chaves Funding No.8:

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

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

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

Fénix 1

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

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

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

Ulisses Finance No.2:

This securitisation operation was created in September 2021 and issued by Tagus - Sociedade de Securitização de Créditos, S.A. and corresponds to a public credit securitisation program (Ulysses) with the Ulisses Finance No.2 operation being placed on the market. The operation was set up with the collaboration of the PLMJ Law Firm and Deutsche Bank and included a consumer credit portfolio originated by 321 Crédito, whose initial total value was 250,000 thousand euros, to be maintained over the 12 months of the revolving period.

The structure of the Operation includes six collateralised Tranches from A to F, in addition to tranches G and Z. All tranches are dispersed on the capital market with the exception of class Z, whose initial value was 1.5 million euros and which presents a value of 1,000 euros on 31 December 2021.

This operation obtained ratings by DBRS and Moody's for the tranches placed on the market, i.e., Tranches A to G.

The Ulisses 2 operation is STS (simple, transparent and standardised) and SRT (significant risk transfer).

For accounting purposes, securitised claims and bonds issued (not retained) remain recorded in the company's balance sheet, as the company substantially retains the risks and benefits associated with the claims.

For the purpose of calculating the capital ratio, due to the fact that the Ulysses 2 operation complies with Article 244.1 (b) of European Regulation 575/2013 (full capital deduct approached), the company decreased its 'Risk Weight Assets' in respect of the contracts securitised under this operation.

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.

As at 31 December 2021, there are no credit portfolios pending securitisation.

As servicer

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

The tables below, with reference to 31 December 2021 and 2020, present a description of the key features of each asset securitisation operation originated by the Group, namely its level of involvement, the existence or not of a significant transfer of the credit risk, the values initially securitised and in debt, the start date, legal maturity and revolving.

(amounts in thousand euros)

	2021			
	Chaves Funding No.8	Ulisses Finance No.1	Ulisses Finance No.2	Fenix
Securitisation operation	**Chaves Funding No. 8**	**Ulisses Finance No.1**	**Ulisses Finance No.2**	**Fenix**
Objective of the Securitisation Operation	Obtain Funding	Obtain Funding	Obtain Funding and reduce risk weighted assets	Obtain Funding
Type of Securitisation Operation	Traditional securitisation	Traditional securitisation	Traditional securitisation	Traditional securitisation
Sponsors	Tagus (Issuer) Deutsche Bank (Transaction Manager, Paying Agent and Transaction Accounts Bank)	Sagres (Issuer) Citibank (Transaction Manager, Paying Agent and Transaction Accounts Bank) Law Debenture (Common Representative), Servdebt (Backup Servicer)	Tagus (Issuer) Deutsche Bank (Transaction Manager, Paying Agent and Transaction Accounts Bank), Law Debenture (Common Representative), Servdebt (Backup Servicer)	Gamma (Issuer) Banco Efisa (Arranger, Transaction Manager and Paying Agent) Santander (Transaction Accounts Bank)
Information on the Securitisation:				
Start Date	28/11/2019	10/07/2017	28/09/2021	12/12/2014
Legal Maturity	01/11/2034	20/03/2033	28/09/2038	30/06/2037
***Step-up* Date**				
Revolving Period (years)	2	1	1	-
Securitised Assets (initial)	310,500	141,300	250,000	75,052
Value in Debt (closing of 2021)	297,462	33,081	244,698	37,567
Value in Debt of the Securities				
Class A / Single Class	270,526	10,421	203,700	37,567
Class B	27,096	7,000	10,000	n.a.
Class C	n.a.	7,100	20,000	n.a.
Class D	n.a.	7,100	11,300	n.a.
Class E	n.a.	3,500	3,700	n.a.
Class F	n.a.	n.a.	1,300	n.a.
Class G	n.a.	n.a.	1,275	n.a.
Class Z	n.a.	n.a.	1	n.a.
Existence of situations of "implicit support" pursuant to Art. 449 (r) of the CRR	No	No	No	No
Percentage of assets assigned	0.0000%	69.8186%	99.9996%	100.0000%
Initial capital gain / Value of reacquired first-loss positions	16,025	3,500	1	0

(amounts in thousand euros)

	2020		
	Chaves Funding No.8	**Ulisses Finance No.1**	**Fenix**
Securitisation operation	**Chaves Funding No. 8**	**Ulisses Finance No.1**	**Fenix**
Objective of the Securitisation Operation	Obtain Funding	Obtain Funding	Obtain Funding
Type of Securitisation Operation	Traditional securitisation	Traditional securitisation	Traditional securitisation
Sponsors	Tagus (Issuer) Deutsche Bank (Transaction Manager, Paying Agent and Transaction Accounts Bank)	Sagres (Issuer) Citibank (Transaction Manager, Paying Agent and Transaction Accounts Bank) Law Debenture (Common Representative), Servdebt (Backup Servicer)	Gamma (Issuer) Banco Efisa (Arranger, Transaction Manager and Paying Agent) Santander (Transaction Accounts Bank)
Information on the Securitisation:			
Start Date	28/11/2019	10/07/2017	12/12/2014
Legal Maturity	01/11/2034	20/03/2033	30/06/2037
***Step-up* Date**			
Revolving Period (years)	2	1	-
Securitised Assets (initial)	310,500	141,300	75,052
Value in Debt (closing of 2020)	454,955	52,172	38,823
Value in Debt of the Securities			
Class A / Single Class	437,904	30,402	38,823
Class B	24,451	7,000	n.a.
Class C	n.a.	7,100	n.a.
Class D	n.a.	7,100	n.a.
Class E	n.a.	3,500	n.a.
Existence of situations of "implicit support" pursuant to Art. 449 (r) of the CRR	No	No	No
Percentage of assets assigned	0%	81%	100%
Value of first loss positions reacquired	16,025	3,500	-

During 2021, the main events related to securitisation operations were as follows:

Ulisses Finance No.2:

This securitisation operation was originated September 2021 and issued by Tagus - Sociedade de Titularização de Créditos, S.A., and corresponds to a public programme of credit securitisation (Ulisses), with the Ulisses No.2 operation having been placed on the market. The operation was set up with the collaboration of PLMJ Law Firm and Deutsche Bank and included a consumer credit portfolio originated by 321 Crédito, whose initial total value was 250 million euros, to be maintained over the 12-months revolving period.

The Operation structure includes six collateralised Tranches from A to F, in addition to tranches G and Z. All Tranches are dispersed on the capital market with the exception of class Z, whose initial value was 1.5 million euros and which presents a value of 1,000 euros on 31 December 2021.

This operation obtained ratings by DBRS and Moody's for the tranches placed on the market, Tranches A and G.

The Ulisses 2 operation is STS (simple, transparent and standardised) and SRT (significant risk transfer).

For accounting purposes, securitised claims and bonds issued (not retained) remain recorded in the company's balance sheet, as the company substantially retains the risks and benefits associated with the operation.

For capital ratio purposes, due to the fact that the operation Ulisses 2 complies with Article 244.1 (b) of European Regulation 575/2013 (full capital deduct approached), the company decreased its 'Risk Weight Assets' in respect of the contracts securitised under this operation.

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.

During 2020, there were no relevant events related to securitisation operations.

Risks underlying the securitisation operations

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

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

With respect to agreements for additional funding of the operations, as established in article 449, subparagraph j) vi) of the CRR, the Group has deposited 3,649 thousand euros in cash reserve accounts at the Transaction Managers. This sum may be used to pay interest of the transactions in the event of insufficient funds. This agreement is reflected in the Group's balance sheet, and there are no other agreements to provide financial support to the operations.

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

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

During 2021, the group did not act in securitisations, in compliance with the Capital Requirements Regulation (CRR), as an investor.

At the individual level, for the positions where the Bank acts as an investor in the securitisation operations originated by 321 Crédito, and since there is no external rating assigned, but given that the Bank has detailed knowledge of the underlying credit portfolio, the Bank performed the look-through, treating the positions in accordance with Article 253 (1) of the CRR. As at 31 December 2021, these positions amounted to 445,914 thousand euros.

In the particular case of the Next Funding No.1 securitisation operation, set up under the Universe Partnership, the Bank applies the residual treatment and considers an RW of 100% for the entire exposure, since it does not comply with the formal securitisation requirements, within the meaning of the CRR.

With regard to securitisation operations in which the Group acts as originator, it was concluded that, in the case of operations that do not meet the derecognition criteria set out in Article 243 of the CRR, the exposures considered for prudential purposes are the securitised claims. This treatment arises from the fact that the Group holds the residual tranches, thus being subject to the main risks and benefits. Therefore, capital requirements are not calculated for the securitisation positions held in the form of notes, but rather on the underlying credit portfolios. For the Ulisses Finance No.2 securitisation, the Group applies the provisions of Article 244- 1 (b) of the CRR, opting for the deduction from own funds of the retained tranche and disregarding the exposures of the securitised claims.

CAPITAL MANAGEMENT

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

ICAAP

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

The Group carries out an annual self-assessment exercise to determine the adequate capital levels given the business model. This process, which is regulated by Banco de Portugal Instruction 3/2019 and the EBA guidelines, seeks to ensure that the risks to which institutions are exposed are correctly assessed and that their internal capital is adequate in relation to their risk profile.

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

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

The approaches to quantify economic capital are, for each of the risks, the following:

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

* These risks are treated together with Operational Risk

Regulatory Capital

The prudential solvency indicators are based on the applicable regulatory standards, namely the European Regulation on Prudential Requirements (CRR), as well as Banco de Portugal Notices 6/2013 and 10/2017 regulating the transitional regime provided for in the Regulation on own funds.

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

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

As at 31 December 2021 and 31 December 2020, own funds and consolidated capital ratios are as follows:

(amounts in thousand euros)

	2021		2020	
	CRR Phasing in	*CRR Fully Implemented*	*CRR Phasing in*	*CRR Fully Implemented*
OWN FUNDS				
Share capital	**296,400**	**296,400**	**286,400**	**286,400**
Retained earnings	**(73,954)**	**(73,954)**	**(74,159)**	**(74,159)**
Legal reserve	**29**	**29**	**-**	**-**
Eligible Results (1)	**16,148**	**16,148**	**-**	**-**
Other Reserves	**(126)**	**(126)**	**(190)**	**(190)**
Prudential Filters	**21**	**21**	**64**	**64**
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)
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**
Deferred tax assets	1,817	1,817	1,929	1,929
Holdings in financial entities	-	-	-	-
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%
REGULATORY MINIMUM RATIOS (4)				
Common Equity Tier 1	7.00%	7.00%	7.00%	7.00%
Tier 1 Ratio	8.50%	8.50%	8.50%	8.50%
Total Capital Ratio	10.50%	10.50%	10.50%	10.50%

(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.
(4) The figures do not take into account the effects of quick-fix measures in the context oi the Covid-19 pandemic.

With regard to Common Equity Tier 1, the incorporation of the 2021 net result into the equity of 16,148 thousand euros and the effect of the capital increase of 10,000 thousand euros should be noted. Regarding capital requirements, the increase in the value of the weighted risks of exposures with credit risk stands out despite the reduction of weighted risks through the Ulisses Finance No.2 securitisation operation.

As at 31 December 2021, the risk-weighted assets amounted to 1,043,231 thousand euros (31 December 2020: 780,104 thousand euros) of which 918,727 thousand euros (31 December 2020: 695,218 thousand euros) refer to credit risk.

The following table shows the geographic distribution of the relevant exposures for calculating the countercyclical buffer. It is important to note that as at 31 December 2021, the Banco CTT Group has no relevant exposure to geographic regions whose countercyclical buffer is different from zero.

(amounts in thousand euros)

Exposures	2021	2020
Portugal	575,897	662,160

The breakdown of risk-weighted assets with regard to credit risk at the end of 2021 and 2020 was as follows:

(amounts in thousand euros)

	2021			
Risk headings	Original risk position	Risk-weighted assets (1)	Risk weight (2)	Capital Requirement (2)
Central Authorities or Central Banks	927,808	-	0%	-
Regional governments or local authorities	-	-	n.a.	-
Other Credit Institutions	39,521	11,335	29%	907
Companies	324,283	310,799	96%	24,864
Retail customers	628,818	278,689	44%	22,295
Loans secured by immovable assets	610,646	217,819	36%	17,426
Non-performing loans	32,226	32,880	102%	2,630
Collective investment undertakings (CIUs)	24,999	21,145	85%	1,692
Other items	71,645	46,061	64%	3,685
Total	**2,659,946**	**918,728**	**35%**	**73,499**

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

(amounts in thousand euros)

	2020			
Risk headings	Original risk position	Risk-weighted assets (1)	Risk weight (2)	Capital Requirement (2)
Central Authorities or Central Banks	660,449	-	0%	-
Regional governments or local authorities	5,043	1,009	20%	81
Other Credit Institutions	100,726	23,042	23%	1,843
Companies	25,888	17,929	69%	1,434
Retail customers	546,933	398,914	73%	31,913
Loans secured by immovable assets	537,977	191,315	36%	15,305
Non-performing loans	16,986	18,754	110%	1,500
Other items	69,223	44,255	64%	3,540
Total	**1,963,225**	**695,218**	**35%**	**55,616**

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

Use of External Ratings:

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

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

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

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

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

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

(amounts in thousand euros)

		2021			2020		
Rating	Degree of Credit Quality	Institutions, residual maturity >3m	Companies	Sovereign debt	Institutions, residual maturity >3m	Companies	Sovereign debt
AAA | AA	1	-	-	-	10,000	-	6,435
A	2	11,424	5,632	75,176	19,419	15,485	99,988
BBB	3	2,350	-	259,568	9,300	-	386,727
BB	4	-	-	-	-	-	5,048
B	5	-	-	-	-	-	-
<B	6	-	-	-	-	-	-
No rating	No rating	-	5,246	-	210	4,315	-

Leverage Ratio

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

The Leverage Ratio was introduced by the CRR in order to monitor the level of leverage of institutions.

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

As at 31 December 2021, the leverage ratio was 6.3% (31 December 2020: 6.7%), significantly above the minimum benchmark set by the Basel Committee on Banking Supervision (3%), which has become a mandatory compliance requirement since 28 June 2021. The ratio is calculated using Tier 1 Capital.

The exposures used to calculate the leverage ratio, as at 31 December 2021 and 31 December 2020, are presented in the table below:

(amounts in thousand euros)

Summary of the reconciliation of the book value and the exposures of the leverage ratio	2021	2020
Total assets recorded in the financial statements	**2,703,986**	**1,999,879**
Intangible assets deducted from own funds	(77,857)	(81,005)
Adjustment for derivative financial instruments	-	378
Revaluation reserves	(27)	(83)
Adjustment for securities financing transactions (SFT)	-	-
Adjustment for off-balance sheet items	43,351	43,623
Other adjustments	6,812	432
Prudential adjustments	(16,319)	-
Total exposure to the leverage ratio - transitional	**2,659,946**	**1,963,224**

(amounts in thousand euros)

Leverage Ratio	2021	2020
Value of positions at risk		
Off-balance sheet exposures pursuant to Article 429(10) of the CRR	43,351	43,623
Other assets pursuant to Article 429(5) of the CRR	2,616,595	1,919,601
Value of the deducted assets - Tier 1 capital - full implemented	(6,812)	(432)
Total exposure to the leverage ratio - fully implemented	2,653,134	1,962,792
Total exposure to the leverage ratio - transitional	2,659,946	1,963,224
Capital and regulatory adjustments		
Tier 1 capital - fully phased-in definition	159,401	130,416
Tier 1 capital - transitional definition	167,112	130,902
Leverage ratio - fully implemented tier 1 capital	**6.0%**	**6.6%**
Leverage ratio - transitional tier 1 capital	**6.3%**	**6.7%**

In 2021 the transitional leverage ratio decreased by 0.4 percentage points, explained by the growth of assets.