

# 02

## Strategic background

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## 2. STRATEGIC BACKGROUND

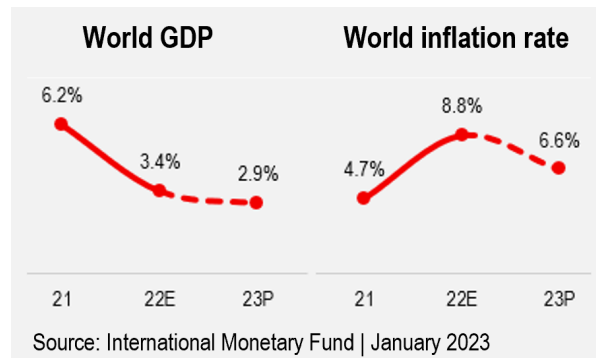
### 2.1 Economic, Sectoral and Regulatory Environment

GRI 2-6, 2-23, 2-26

#### 2.1.1 Economic framework

##### International economy

Global economic activity slowed down more than expected in 2022, with inflation reaching multi-decade highs in most economic blocs, in some cases surpassing double digits. The rising cost of living, tougher financial conditions, the invasion of Ukraine by Russia and also some effects of COVID-19 (in particular the zero-COVID policy implemented in China), have hampered economic activity. According to the International Monetary Fund - IMF<sup>15</sup>, world economic growth slowed from 6.2% in 2021 to 3.4% in 2022 and inflation increased from 4.7% in 2021 to 8.8% in 2022. The significant increase in inflationary pressures prompted a more rapid than anticipated normalisation of global monetary policy, creating tighter financing conditions worldwide.



The Euro area economy was particularly affected by the conflict in Ukraine, both due to increased geopolitical uncertainty and the impact on energy commodity costs. For 2022, economic growth in the Euro area is anticipated to be 3.4%<sup>16</sup>, down from 5.3% in 2021.

The consumer price index in the Euro area reached historic highs of 8.4% for the year 2022, with an increasing evolution throughout the year and reaching 10.6% in the month of October.

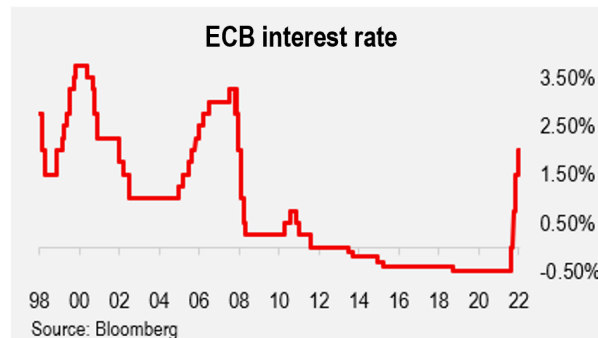
The labour market remained robust, continuing the downward trend and renewing historic lows.

The European Central Bank began to reverse the expansionary monetary policy of recent years in order to control inflation levels. In July, it raised the deposit interest rate from -0.5% to 0%, followed by strong increases in the remaining meetings of the year, reaching 2% in December. As for the asset purchase programme, in June it ended net purchases of around 20 billion euros per month and at the

<sup>15</sup> Source: IMF, World Economic Outlook – Update, January 2023.

<sup>16</sup> Source: ECB, Economic Bulletin, Issue 8, August 2022.

end of the year it announced that in early March 2023 it will reduce the asset purchase programme portfolio by around 15 billion euros per month until the end of the second quarter of 2023.



## National economy

The Portuguese economy grew by 6.7%<sup>17</sup> in 2022, maintaining the post-pandemic recovery trend of 5.5% observed in 2021. It should be noted that from the second quarter of 2022 onwards, there was a slowdown in economic activity when compared to the previous year, conditioned by the geopolitical uncertainty resulting from the war in Ukraine and the increase in energy costs, which contributed to increased costs and prices and a deterioration in confidence.

Private consumption remained resilient, growing by 5.9%<sup>18</sup>, supported by a scenario of full employment, public support measures and the use of savings accumulated during the pandemic, despite the context of high inflation and stagnation of real disposable income. Nominal private consumption increased by 12.8% in 2022, well above the change in disposable income of which increased by 6.4%, with the household savings rate declining to 4.4%, 8% below that recorded at the end of 2021, but still 7.5% above that recorded at the end of 2019. Exports also made a positive contribution to economic activity, increasing by 17.7%, with a strong recovery in the services component, particularly in tourism, which grew by almost 80%, close to pre-pandemic levels. Imports grew 11.1%.

Inflation surprised on the upside during 2022, reaching the highest value of the last 30 years, greatly influenced by the evolution of international prices of energy and food. The harmonised consumer price index reached 8.1% in the accumulated year 2022, a very impressive increase from 0.9% in 2021. Excluding energy goods, consumer prices grew by 6.7% in 2022 (0.4% in 2021).

The labour market remained vigorous, with employment growth of 2.3% in 2022. The unemployment rate reached a historically low 5.9%, at a time when the percentage of companies reporting recruitment difficulties is historically very high. The unemployment rate reached 5.9% in 2022, a figure close to full employment.

During 2022 the budget deficit has decreased and is below the euro area average, contributing to maintaining the downward path of public debt as a percentage of GDP.

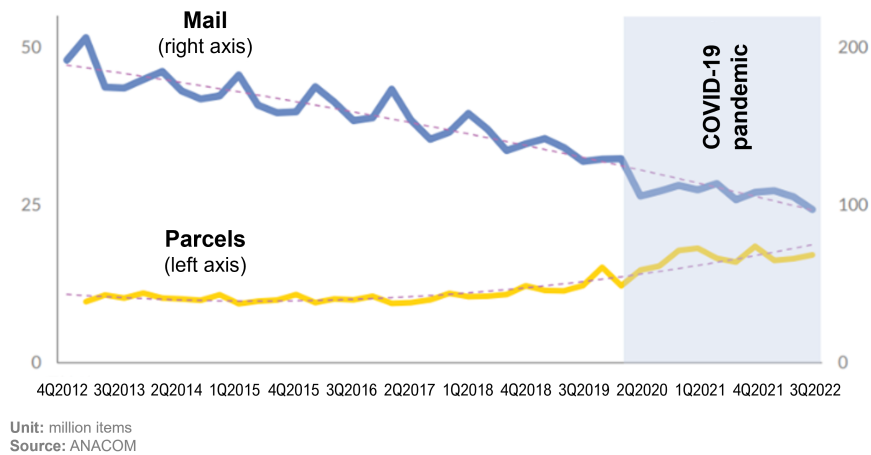
<sup>17</sup> Source: National Statistics Institute (INE), Quarterly National Accounts (Base 2016) – Rapid Estimate at 30 days, 4<sup>th</sup> quarter 2022 and year 2022.

<sup>18</sup> Source: Banco de Portugal, Economic Bulletin, December 2022.

## 2.1.2 Sectoral framework

### Impacts of the pandemic

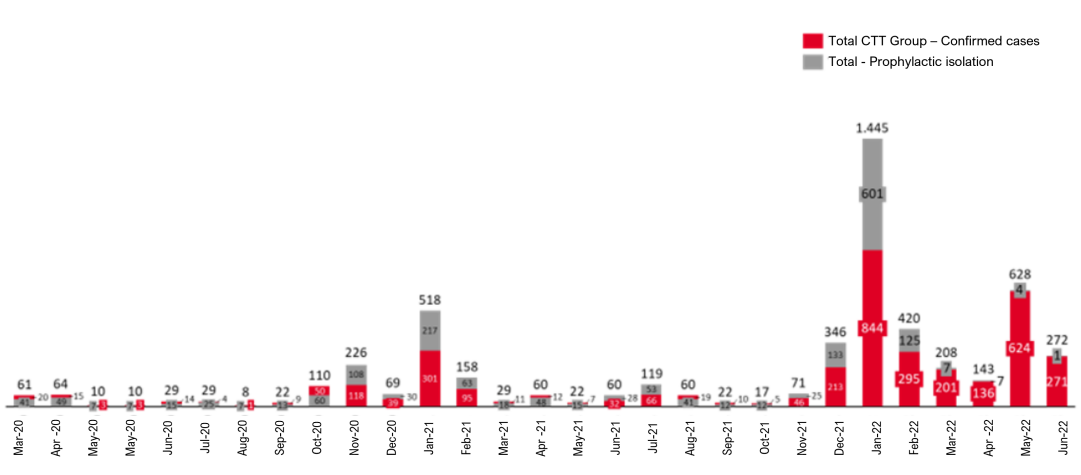
#### Quarterly evolution of mail and parcels volumes in Portugal<sup>19</sup>



With regard to letter mail volumes in Portugal, for the first time since these indicators were collected by ANACOM (2005), the number of letter mail items fell below 100 million. On the other hand, parcel shipments continue to grow.

Although the impact of the pandemic on Portuguese society in 2022 was lower than in previous periods, mainly in terms of lockdown periods, the truth is that the existing cases of COVID continued to greatly impact CTT's operations. January 2022 was the month with the highest number of COVID-19 cases since the beginning of the pandemic, in terms of confirmed cases and prophylactic isolation, having a direct negative effect on CTT's operations.

#### Number of COVID-19 cases per month<sup>20</sup>



In terms of operational management, the pandemic entailed several challenges for the postal activity that imposed increased pressure on costs (e.g. additional security measures, overtime work in

<sup>19</sup> Postal Services Report - 2022.

<sup>20</sup> Source: Internal data

operational areas, allowances, high absenteeism rates, readjustment of operational models, among others).

### **New universal postal service concession agreement**

On 23 December 2021, the Council of Ministers communicated the approval on that date of the decree amending the legal framework applicable to the provision of postal services in Portugal. The corresponding decree was promulgated on 05.02.2022 and the Decree-Law no. 22-A/2022 was published on 7 February 2022. The new concession agreement entered thus into force for a duration of seven years – until 31 December 2028.

The approved framework improves the decision-making mechanisms and provides clear criteria to guarantee the provision of the universal postal service (USO) under sustainable economic conditions, promoting a better balance between the continuity of the postal service provision and the reinforcement of the Company's capacity to face the challenges of digital transition, pursuing the consistent implementation of its transformation process.

The seven-year Agreement is based on three main levers: the pricing mechanism, the quality of service required and network density criteria.

The Concession Agreement stipulates that in 2022 – the transition period – the prices of the services included in the universal postal service offer shall respect a maximum annual average variation of 6.80%, which considers the decline in mail volumes observed in the first nine months of 2021 and the variation of the Consumer Price Index for the Transport expense category, as communicated by the National Statistics Institute for the month of October 2021. The proposal was sent to ANACOM on 28 February 2022 and the new prices were in force as from 7 March. The special prices of the postal services included in the universal postal service offer applicable to bulk mail senders were also updated on 7 March 2022, following the information sent to ANACOM on 28 February.

On 27 July 2022, a Convention was signed between the sector regulator (ANACOM), the Directorate-General for the Consumer (DGC) and the universal service provider (CTT), defining the criteria to be applied to the pricing of postal services included in the basket of the universal postal service for the three-year period 2023-2025, in accordance with the provisions of article 14(4) of Law no. 17/2012 of 26 April (Postal Law), as amended by Decree-Law no. 22-A/2022 of 7 February, which has been notified to the Government.

### **Business units**

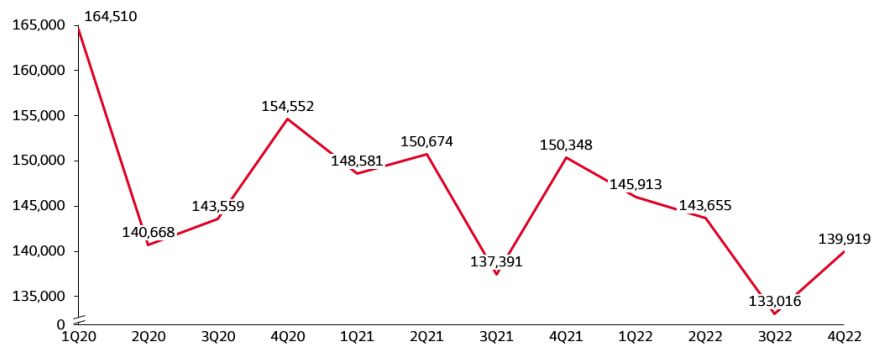
GRI 2-6

#### **Mail**

##### **Portugal**

Mail volumes in Portugal continue to experience a significant contraction as a result of the digitalisation process of companies and the current diversity of means of communication.

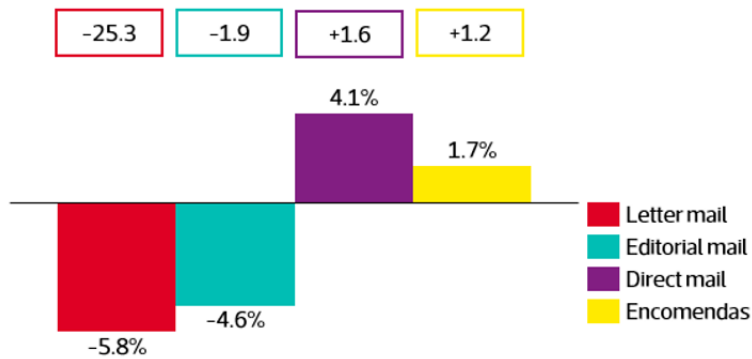
### Evolution of Mail volumes in Portugal



Unit: thousands of postal items  
Source: ANACOM

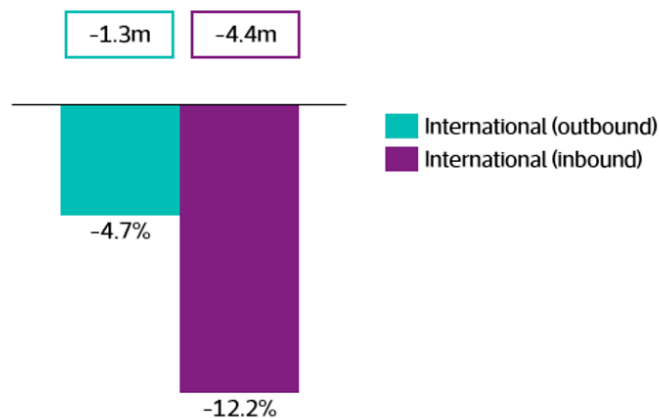
Over the last year, the decline in mail (-5.8%, -25.3m) and the increase in direct mail (+4.1%, +1.6m) and parcels (+1.7%, +1.2m) stand out. CTT posted declines of 5.7% in letter mail and 3.4% in direct mail.

### Change in overall Mail volumes 2021-2022



Unit: million items, %  
Source: ANACOM

### Evolution of mail volumes by destination in Portugal 2021-2022

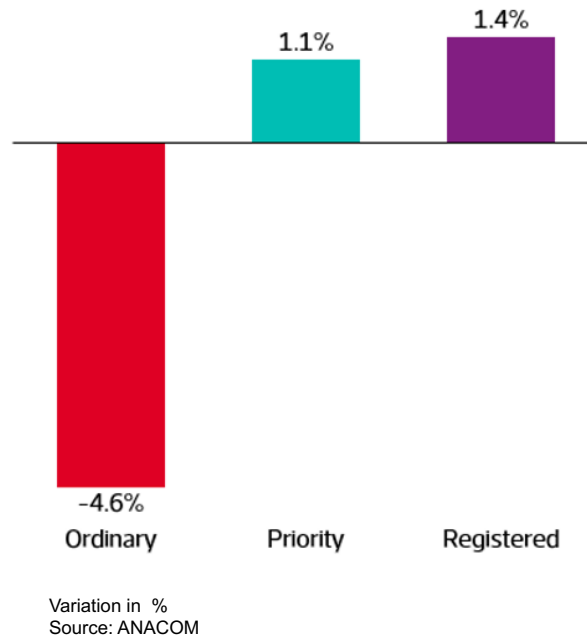


Unit: million items, %  
Source: ANACOM

Outbound international mail volumes decreased by 4.7% in 2022 and inbound international mail volumes registered a sharp decline of 12.2% corresponding to a reduction of 4.4 million items.

In CTT, there was a year-on-year decrease of 15.4% in Outbound international mail, as well as a 28.3% decline in inbound international mail.

**Evolution of addressed Mail volumes in CTT in 2021-2022**



As shown in the graph below, the EBIT margin of the Mail business has maintained its downward trend. Declining demand, strong pressure from rising costs in Europe, rising inflation and labour shortages have pushed down the sector's margin, with most postal operators investing in efficiency improvement initiatives.

**Evolution of the Mail division EBIT margin in IPC members and CTT**



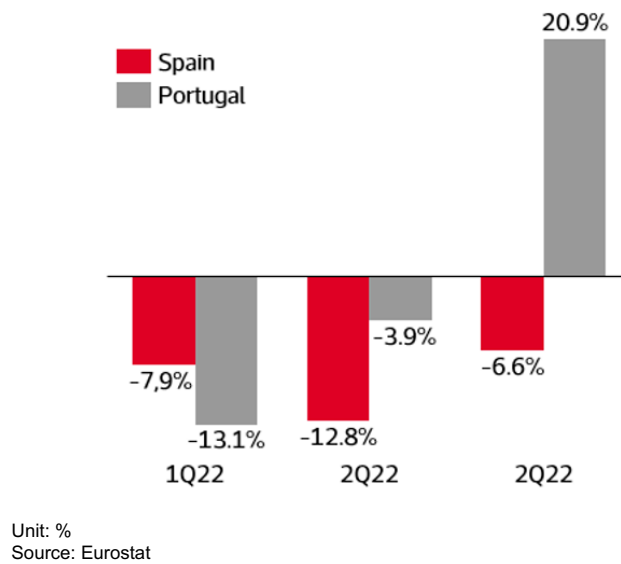
Unit: %  
Source: IPC Global Monitor Executive Report Q3

### Express & Parcels

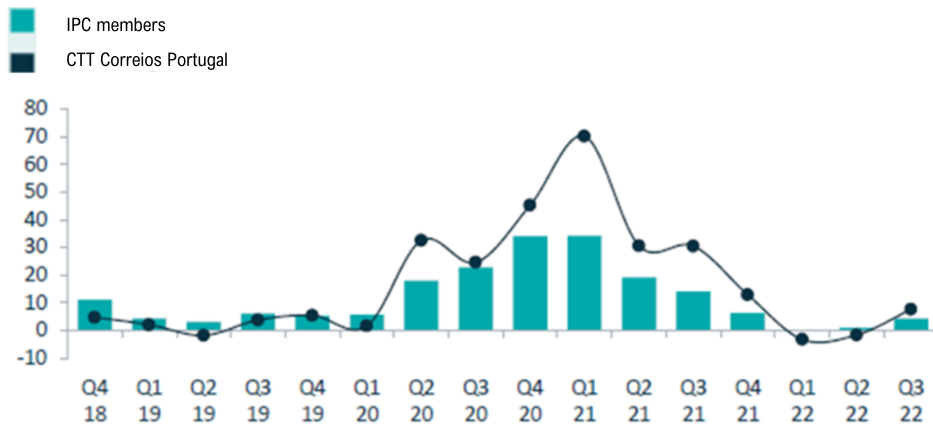
E-commerce sales experienced unprecedented growth during the pandemic. However, with the lifting of restrictions and the reopening of physical shops, the e-commerce sector has started to adjust to pre-pandemic levels. The macroeconomic context also contributed to a slowdown in e-commerce, with increased economic instability and reduced consumer confidence and the rising inflation rate.

The slowdown in e-commerce growth is observed both in Portugal and in Spain as well as in the entire European Union. In Portugal and Spain, the markets where CTT's Express & Parcels operates, there was a decline in the first quarters of the year, with a recovery in the third quarter, in Portugal only.

#### Change in e-commerce sales in 2021 versus 2021<sup>21</sup>



#### Year-on-year change in Express & Parcels revenues



Source: IPC Global Monitor Executive Report Q3

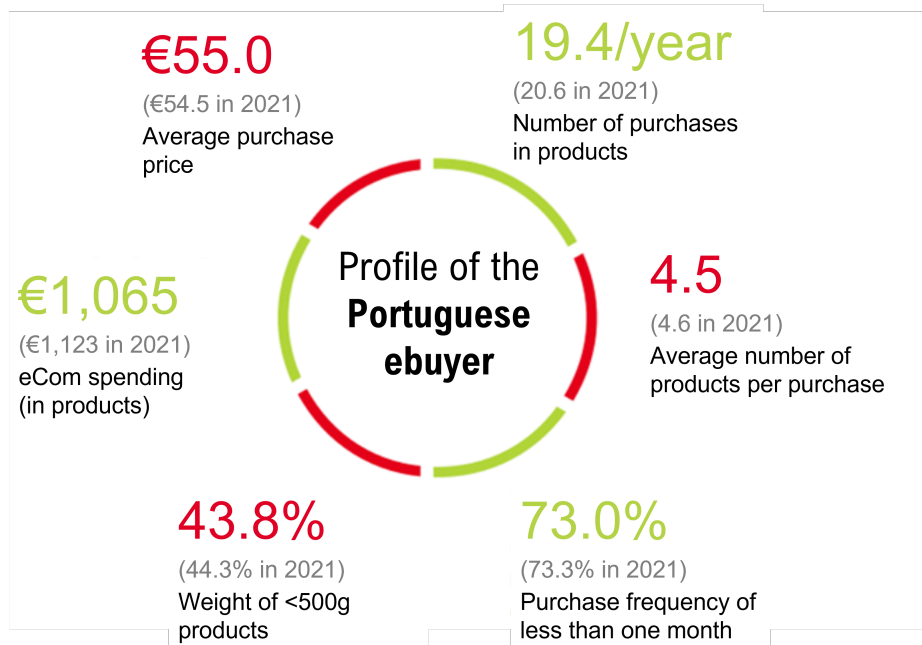
<sup>21</sup> Source: Eurostat, E-commerce sales.



### E-commerce

Throughout the customer journey, the digital devices used are becoming increasingly important, from the research phase to the conclusion of the purchase. The shopping habits of the Portuguese have changed and today more than half of the Portuguese already shop online frequently, and demonstrate a greater involvement with new technologies. In particular, women seem to adhere more to online shopping, reversing the trend of previous studies, representing around 52% of total online purchases.

In 2022, the Portuguese consumer spent an average of €55.0 per purchase, and their annual amount spent on online products was €1,065, which represents a 5% decrease compared to 2021<sup>22</sup>.



Cross-border online shopping in Portugal continues to be very relevant, representing about 45% (IMR study), with a slight decrease compared to 2021, one of the highest in Europe. The main origin of international e-commerce purchases continues to be Spain and China, with China decreasing its weight.

The Express & Parcels business unit, one of the main growth levers in recent years, was therefore impacted not only by the slowdown in e-commerce but also by the increase in the inflation rate.

### Financial markets

The year 2022 was marked by sharp depreciation in the financial markets, with the world stock market measured in Euros recording the largest annual decline since the 2008 crisis. The global bond market also registered its worst year since the beginning of the series in 1990, with a depreciation of 13.3%<sup>23</sup>.

The parallel downward trend in the equity and bond markets, which is unusual, reflects the uncertainty felt throughout the year, with geopolitical tensions reducing the appetite for risk and the significant increase in inflation forcing the various world central banks to raise interest rates, causing the various asset classes to revalue.

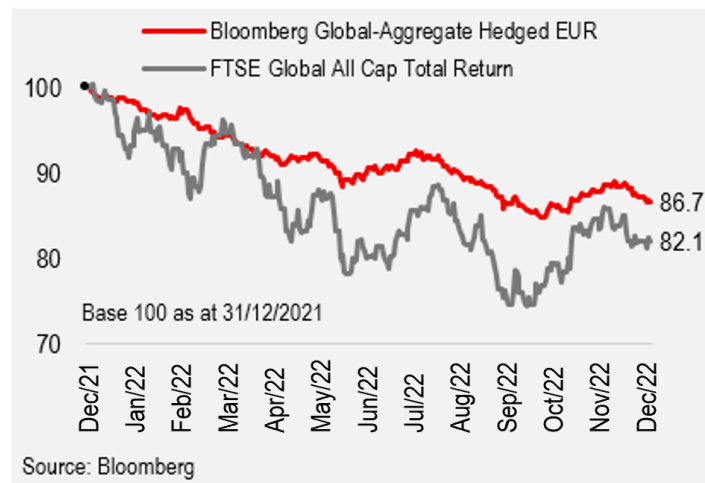
<sup>22</sup> Source: IPC Global Monitor Executive Report Q3.

<sup>23</sup> Source: Bloomberg.

With regard to raw materials, the effects of the War in Ukraine brought increased volatility in price, but also in expectations of stocks available for delivery.

The equity market, when measured by the FTSE Global All Cap Total Return Index, which encompasses developed and emerging markets, depreciated by 17.9% in 2022. Within the equity market, the technology sector was the one that registered the greatest devaluations. The European banking sector depreciated only 4.6%, supported by the prospects that the increase in interest rates will improve its future results.

### FTSE Global All Cap Total Return Index



The increase in the 10-year interest rate in Germany was very significant. After closing 2021 at -0.18%, at the end of 2022 it was at 2.57%, the biggest annual rise since at least 1990. Also in the United States, the 10-year Treasury rose from 1.51% to 3.87%, the biggest increase since at least the 1970s.

The rise in interest rates on long-term issues reflects the significant change in the outlook for monetary policy throughout 2022 in order to combat inflation. At the end of 2021 the outlook was that the price increases already being felt would be transitory, but over the course of 2022 that outlook did not materialise. At the end of 2021, the estimate in the forwards market of the ECB deposit interest rate at the end of 2022 was -0.39%; in fact, the rate at the end of the year was 2%. A similar situation occurred with regard to the change in the Federal Reserve's outlook.

The credit spread of Portuguese sovereign debt against German sovereign debt widened, with an average value of 97 bps in 2022, which compares with the average spread of 60 points during 2021. The credit spreads of Spain and Italy's sovereign debt also widened, with average values of 103 and 192 bps during 2022 (versus 67 and 109 in the previous year).

Corporate credit spreads also recorded volatile behaviour. The iTraxx Europe Senior 5-year Markit CDS index reached 79 bps at the end of the year compared with 48 at the end of 2021. In September it reached a peak of 138 bps, the same figure as that recorded at the peak of the pandemic in 2020.

The evolution of commodity prices throughout 2022 was highly volatile. The price of Brent barrels maintained the upward trajectory of 2021, having peaked in March at USD 128 per barrel as a consequence of the war. In Europe in particular, the price of natural gas behaved erratically, with the TTF future contract for delivery in the following month reaching the amount of 311€/MWh, which unimaginable in the past (in 2019 the average price was 14€/MWh), reflecting the logistical challenges of European gas delivery, at a time when the supply of the important Nordstream pipeline with natural gas of Russian origin is still closed.

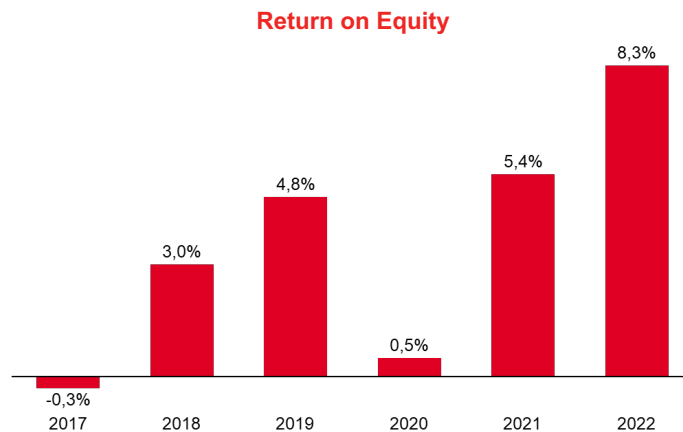
On the foreign exchange market, the Dollar appreciated when compared to the main world currencies. Against the Dollar, the Euro depreciated 5.9% in 2022, having even broken the psychological barrier of parity at the end of the summer. However, when compared with the 19 currencies of the Euro area's main trading partners it remained practically unchanged (+0.4%).

### Portuguese banking system

An analysis of the data for the first 9 months of 2022 of the Portuguese banking system released by Banco de Portugal<sup>24</sup> evidences an aggregate balance sheet structure with an increase in total assets of 3.8% (compared to 2021) to 429 billion euros. Customer deposits remained at high values reaching €320 billion, €15 billion more than at the end of 2021. The loan-to-deposit ratio continued its downward trend and fell to 79% in September 2021.

Asset quality maintained its trend of improvement started in 2016, with the ratio of non-performing loans (NPL) reaching 3.2% and 1.8% net of impairment.

The profitability of the system in the first 9 months of 2022 maintained the improving trend, with the return on assets reaching 0.66% and the return on equity standing at 8.3%. The increase in profitability was due to the decrease in credit impairments, with the cost of risk reaching 0.16% and the increase in net interest income to 1.5%. The cost-to-income ratio also maintained its downward trend, reaching 49.9% at the end of the period.



Source: IPC Global Monitor Executive Report Q3

As regards solvency, the total capital ratio of the system reached 17.1% and the core capital ratio stood at 14.6%, compared to 18.0% and 15.5% respectively at the end of 2021.

## 2.1.3 Regulatory Framework

### Postal sector

On 23 December 2021, the Council of Ministers communicated the approval on that date of the decree amending the legal framework applicable to the provision of postal services in Portugal. The corresponding decree was promulgated on 05.02.2022 and the Decree-Law no. 22-A/2022 was published on 07.02.2022. The **new concession agreement** entered thus into force and will have a duration of approximately seven years - until 31 December 2028.

<sup>24</sup> Source: Banco de Portugal, Portuguese Banking System: Recent Developments – 3<sup>rd</sup> quarter 2022.

This framework improves the decision-making mechanisms and provides clear criteria to guarantee the provision of the USO under sustainable economic conditions, promoting a better balance between the continuity of the postal service provision and the reinforcement of the Company's capacity to face the challenges of digital transition, pursuing the consistent implementation of its transformation process.

For reasons of general interest, only the following activities and services have remained reserved to the concessionaire: sitting of letter boxes on the public highway intended for the deposit of postal items, issue and sale of postage stamps bearing the word Portugal and the registered mail service used in court or administrative proceedings.

Pursuant to the new Concession Agreement and Decree-Law no. 22-A/2022 published on 7 February 2022, the first year of the agreement is the transition period, hence, the **prices of the services included in the universal postal service offer** shall respect a maximum annual average variation of 6.80%, which considers the decline in mail volumes observed in the first nine months of 2021 and the variation of the Consumer Price Index for the Transport expense category, as communicated by the National Statistics Institute for the month of October 2021. The **special prices of the postal services** included in the universal postal service offer applicable to bulk mail senders were also updated on 7 March 2022. These updates correspond to an average annual price variation of 5.84% for the year 2022.

While some impacts of the COVID-19 pandemic persisted in 2022, CTT continued to periodically report the status of the **postal network** to the Government, as a counterparty in the agreement, and to ANACOM, the regulatory authority responsible for overseeing the provision of the universal postal service, until 21 February 2022 in the wake of the end of the state of calamity and beginning of the state of alert that was in force until 30 September 2022.

By deliberations of 6 May 2022 and 6 July 2022, ANACOM granted CTT's requests regarding the deduction of the records of mail items in all national flows directly affected by the COVID-19 pandemic in the 2<sup>nd</sup> half of 2021, for the purposes of calculating the Quality of Service Indicators (QSI) of the year 2021, and in the months of January and February 2022, for the purposes of calculating the QSI of the year 2022.

On 28 June 2022, CTT was notified of ANACOM's decision which granted CTT's application for deferring the date for the entry into force of ANACOM's decision of 29 April 2021 on the delivery of postal items at premises other than the domicile.

On 27 July 2022, a Convention was signed between the sector regulator (ANACOM), the Directorate-General for the Consumer (DGC) and the universal service provider (CTT), defining the **criteria to be applied to the pricing of postal services** included in the basket of the universal postal service for the three-year period 2023-2025, in accordance with the provisions of article 14(4) of Law no. 17/2012 of 26 April (Postal Law), as amended by Decree-Law no. 22-A/2022 of 7 February, which has been notified to the Government.

The scope of the Convention thus covers the services of letter mail, parcels, and newspapers and periodicals which are part of the universal postal service offer, including registered mail services used in legal or administrative proceedings, and not applying to special prices of postal services included in the universal service offer applicable to bulk mail senders (subject to the specific regime provided for in article 14-A of the Postal Law).

The main features of the pricing of the services covered by the Convention are as follows:

- The maintenance of a maximum annual variation of the prices of the basket of services covered by the Convention, which will be ascertained as per the following formula:  
$$\text{CPI} - \Delta\text{Volumes} * (1 - \text{VC}) - \text{E} + \text{K}.$$

The referred maximum annual price variation thus takes into consideration historical figures relative to the inflation rate (CPI) in the last 12 months, the variation in volumes ( $\Delta$ Volumes) excluding an indicator of the weight of variable costs (VC) in total costs associated to the universal postal service (value defined at 16% for each year) and an efficiency factor (E) associated to CTT's activity within the USO (value defined at 0.5 percentage points for each year). In the event of significant contextual changes related to the conditions for the provision of the universal postal service, the application of an additional factor (K) is foreseen, the value of which shall be determined by agreement, upon proposal of any of the parties that integrate the Convention.

- The definition for each price of a maximum annual variation of 15% and a maximum overall variation of 30% for the period from 2023 to 2025.
- The setting of a maximum annual variation of 4 cents for the price of ordinary domestic mail up to 20 grams, used by the occasional segment.
- The continued application of the principle of uniform tariffs, with the application of a single price throughout the territory, to domestic letter mail items up to 50 grams sent by users in the occasional segment and in registered mail items of the service of judicial and other postal notifications weighing up to 50 grams.
- The provision by CTT, free of charge, in the national and international service, of mail dispatches for the blind and partially sighted, with the exception of airmail surcharges, if any.

As communicated to the market on 26 January 2023, an update of the price of the basket of letter mail, editorial mail and parcels services covered by the Universal Postal Service Price Convention, corresponding to an average annual price variation of 6.58%, took effect as from 1 March 2023. The overall average annual variation in prices, also reflecting the effect of updating special bulk mail prices, will be 6.24%.

## **Financial sector**

The importance and growth of banking compliance in recent years is evident, since remaining in compliance is, more than a good governance practice, a way to stand out in the market, to safeguard your reputation with stakeholders and customers, but also to shield the Group's assets, projecting more sustainable growth and generating positive effects for the Group, for the interests of customers, as well as in preserving the stability of the financial structure as a whole.

The year 2022 was characterised by a challenging legislative environment that seeks to reinforce the transparency of the financial system, the stability of the markets and the solidity of the institutions, bringing about some relevant national and international changes that are worth highlighting.

## **National Legislation**

### **COVID-19 Pandemic – Alleviate the Measures**

Thanks to the progressive control of the COVID-19 pandemic throughout 2022, it was possible to alleviate several measures taken within its scope, some of them directly impacting Banco CTT Group's activity, namely in opening and maintaining accounts. In this regard, we highlight Decree-Law no. 119-A/2021 of 22 December and Decree-Law no. 90/2022 of 30 December, which together extended the validity of several identification documents until 31 December 2023, as well as Regulatory Decree no. 4/2022 of 30 September and Law no. 18/2022 of 25 August, which introduced changes to the legal regime for the entry, stay, exit and expulsion of foreign nationals from national territory, with a view to implementing the Mobility Agreement between CPLP Member States.

In turn, Decree-Law No. 66-A/2022 of 30 September repealed several diplomas approved within the scope of the COVID-19 pandemic, with effect from 1 October 2022, having ceased the state of alert, as well as most of the work-related measures associated with it, with COVID-19 being treated similarly to most other diseases, as did Council of Ministers Resolution No. 96/2022, of 24 of October regarding its Resolutions approved within the scope of the COVID-19 pandemic.

### **Measures to support Families**

In the context of measures to support families, still resulting from the inevitable contingencies left by the pandemic, naturally aggravated by the conflict in Ukraine, we highlight Law no. 19/2022 of 21 October, which, among other matters, establishes an exceptional framework until 31 December 2023, for redemption of savings plans, without tax penalty, up to the monthly limit of the value of the Social Support Index and determines the non-seizability of support to families.

Also noteworthy is the publication of Decree-Law 80-A/2022 of 25 November, which implements measures to mitigate the effects of the increase in the reference indexing factors of credit contracts for the acquisition or construction of permanent home ownership until 31 December 2023. These measures include the temporary suspension of the enforceability of the early repayment commission and the duty of institutions to investigate and propose to customers who show a deterioration of their financial capacity the appropriate measures to mitigate the impact of this deterioration, and may also propose the extension of the repayment period of the credit contract with an option to resume the contracted period before this extension.

### **International harmonisation**

Seeking to harmonise the requirements applicable to certain products and services and giving voice to Directive (EU) 2019/882, Decree-Law No. 82/2022 was published on 6 December. Its central objective is to provide that appropriate measures are taken to ensure that persons with disabilities have access, on an equal basis with others, to the physical environment, transport, information and communications, including information and communications technologies and systems, and other facilities and services open or provided to the public, both in urban and rural areas, making products (namely payment terminals and ATMs) and services (namely consumer banking services) more accessible for the benefit of businesses, persons with disabilities and persons with functional limitations.

### **Banking operations**

In banking operations, of particular importance is the publication and entry into force of the long-awaited Law 23-A/2022 of 9 December, which transposes Directive (EU) 2019/878 on access to banking activity and prudential supervision (known as CRD V) and Directive (EU) 2019/879 on the recovery and resolution of credit institutions and investment firms (known as BRRD II), amending the General Regime of Credit Institutions and Financial Companies (RGICSF), the Portuguese Securities Code (CVM) and related legislation. This legislation incorporates relevant changes in the banking sector.

The approval of the State Budget for 2023, through Law no. 24-D/2022 of 30 December, includes the innovative creation of a new tax regime for crypto-active assets, with an impact on both individual investors and institutions; the provision for the voluntary reduction of withholding taxes for holders of mortgage loans; and the concession and simplified renewal of residence permits. These are matters that, once again, evolve in line with reality, echoing the current economic circumstances.

## **Banco de Portugal and EBA - European Central Bank**

### **Banking operations**

It should be noted that, within the scope of its macro-prudential and regulatory policy, Banco de Portugal has promoted the use of digital mechanisms, an example of which is the Circular Letter no.

2022/24 on the use of BPnet in the communications exchanged within the scope of the supervision of entities providing credit intermediation and consultancy services on credit agreements.

In the current geopolitical and economic climate, where cybersecurity assumes daily an increased importance for any organisational structure based on digital interaction, Circular Letter no. 2022/4 should be highlighted, as regards the recommendations it issues on cybersecurity and operational resilience, with a view to ensuring adequate management of operational risks by financial institutions in terms of cybersecurity. The need for all supervised institutions to have sound internal governance structures and adequate processes for monitoring the risks to which they are or may be exposed, including cyber risks, is reinforced, and a set of requirements that institutions must adopt to ensure operational resilience is listed.

Reviewing the regulatory framework applicable to money laundering and terrorist financing and after public consultation, Banco de Portugal set out in its Notice No. 1/2022 of 6 June (revoking and replacing Notice No 2/2018 of 26 September and Instruction No. 2/2021 of 26 February and regulating Law No. 83/2017 of 18 August and Law No. 97/2017 of 23 August) the aspects necessary to ensure compliance with the preventive duties on money laundering and terrorist financing. No. 83/2017 of 18 August and Law No. 97/2017 of 23 August), the necessary aspects to ensure compliance with the preventive duties against money laundering and terrorist financing, within the scope of the activity of financial entities subject to supervision by Banco de Portugal.

In the wake of preventing money laundering and terrorist financing, it is important to highlight the EBA/GL/2022/05 Guidelines of 14 June, applicable from 1 December 2022, on policies and procedures in relation to compliance management and the role and responsibilities of the AML/CFT Compliance Officer under Article 8 and Chapter VI of Directive (EU) 2015/849.

In 2022 there were also a significant number of 12 public consultations triggered by the sector regulator, Banco de Portugal, in a clear demonstration of its involvement and interest in Portuguese banking regulation. These included the following, which were closely followed: Public Consultation No. 1/2022 (Notice on the prevention of money laundering and terrorist financing); Public Consultation No. 5/2022 (Draft Instruction on the Regulatory Framework applicable to Payment Institutions and Electronic Money Institutions); Public Consultation No. 6/2022 (Draft Instruction on the Communication of Information on Credit Agreements); and Public Consultation No. 7/2022 (Draft Notice on Prevention of Money Laundering and Terrorist Financing, applicable to entities carrying out activities with virtual assets).

## **Insurance and Pension Funds Supervisory Authority (ASF)**

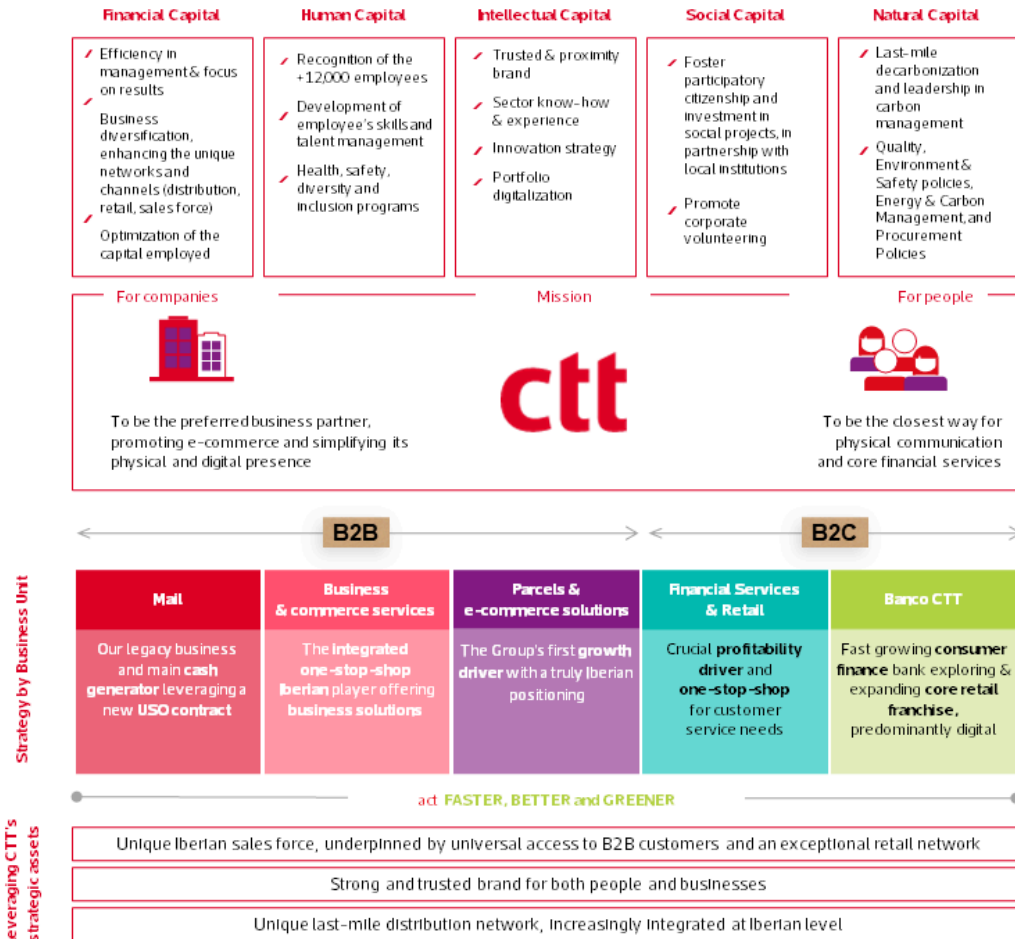
### **Insurance activity**

The Insurance and Pension Funds Supervisory Authority (ASF) issued Regulatory Standard No. 6/2022-R on 7 June regarding ICT security and governance and outsourcing to cloud computing service providers.

## 2.2 Strategic lines

GRI 2-2, 2-6, GRI 203-1, 203-2

**We connect people and companies, committed to deliver!**



### Sustainability (ESG):

CTT has the vision of being at the forefront of environmental commitment, taking care of the people and local community

**~100%**  
Green vehicles in internal last-mile fleet by 2030, 50% by 2025

**75%**  
of procurement purchases to local players by 2025

**Net zero**  
in CO<sub>2</sub> emissions by 2030

### Gender parity

in the top and mid-management by 2025

**50%**  
Mid-management employees' incentives linked with ESG goals by 2025



CTT's strategy continues to be focused on the Company's transformation, associated with the challenging context of decline in the Mail business and within an even more challenging environment in 2022, with greater economic instability, strong inflationary pressure on its costs and a slowdown in one of its growth levers, e-commerce.

CTT maintains its mission for businesses and people, whereby it wants to continue to be a reference partner for businesses, a catalyst for e-commerce and a communications facilitator, as well as a leader in the combination of physical and digital presence for the entire business fabric. For people, CTT wants to leverage on its strong value of proximity and trust, both through the strength of its brand and its presence in the territory, through its retail and operational networks, and to be a trusted physical communication link and financial services provider.

In the execution of our strategy and in line with our mission, in 2022 several initiatives were implemented that contribute to the sustainability of the CTT Group at various levels.

#### **Economic sustainability:**

In 2022, CTT worked on a number of initiatives with an impact on the business, starting with its capital markets day, where the CTT strategy and financial goals until 2025 were disclosed. In addition, a series of initiatives were carried out, such as: opening of a new sorting centre in Spain with customs clearance operations; launch of the Locky brand, CTT lockers network, reaching more than 500 installed lockers and more than 1,000 installed and contracted lockers; Record placement of public debt, highly leveraged by the current situation of rising interest rates that resulted in greater demand for savings certificates, which increased their placement; launch of the new CTT App, in the continuous quest to develop a customer experience of excellence, in line with other digital launches; consolidation of the Payshop school wallet, present in more than 70 municipalities and with more than 200 thousand accounts created; entry of Generali in Banco CTT's share capital through a share capital increase and an agreement for the distribution of life and non-life insurance through the CTT retail network, allowing for the expansion of the range of insurance products; rise of one position in the Universal Postal Union's (UPU) Integrated Postal Development Index, where Portugal occupies 21<sup>st</sup> position among 172 countries and is in the group of "postal champions".

#### **Social sustainability:**

In 2022, CTT also defined its social and environmental sustainability goals for 2025 and 2030. On the social side, CTT plans to source 75% of its purchases from local players thus boosting the Iberian economy and supporting local communities. Regarding measures with a positive social impact, CTT aims to support different initiatives, namely by investing from 0.8% of Recurring EBIT to 1% in social initiatives by 2025 (e.g. the Support Culture initiative, EPIS). In order for CTT's own employees to collaborate towards increasing social responsibility, the group has set a commitment, to be complied with by 2025, to ensure that employees can spend up to 3 days per year in volunteering and social programmes that have a positive impact on local communities.

Regarding volunteering, 421 volunteers participated in the CTT volunteering programme (around 1,870 hours), through specific and ongoing actions to support underprivileged local communities and/or environmental preservation and biodiversity conservation. Amongst the various actions, which ranged from nature intervention to blood donations, we highlight the support to the logistics of the "Let's Help the People of Ukraine" campaign, in which 40 tonnes of goods donated by the Portuguese population were moved and forwarded to the Ukrainian embassy in Warsaw. Free mail and parcels from Ukraine were distributed, as well as the donation of €50k from the sale of the stamp.

Through the "A Tree for the Forest" initiative, in partnership with Quercus, around 110,000 trees have already been planted, with the active participation of hundreds of people. With the sale of the initiative's kits in its post offices and the participation of its volunteers in the planting of trees, CTT reinforces its policy of supporting biodiversity and fighting climate change.

At Christmas, Solidarity Father Christmas was present: about 1.500 letters were sent by disadvantaged children and CTT promoted the collection from donors and delivery to these children of all the toys sponsored by our customers and handed over at our post offices.

As for People, CTT aims to be a reference employer in terms of health and safety, promoting employee well-being and ensuring a good performance in road safety. CTT was distinguished by Randstad as the Most Attractive Company to Work For in the Transport area. The intention is to implement a totally new occupational health approach focused on health prevention and rehabilitation. Regarding the greater participation of women in management, CTT is committed to achieving gender parity in middle and top management, including the Executive Committee. CTT has to date over 40% women in top and middle leadership positions with the ambition of achieving parity by 2030. In 2022, CTT was certified as a Family Responsible Company by the Spanish foundation MásFamilia and signed the Portuguese Charter for Diversity.

The "Victory" programme focuses on adapting to the specific needs of employees with disabilities by changing their working environment, and the objective has been set to develop a recruitment plan to recruit 50 employees over the next 3 years. One of the ways to improve on-the-job experience is to have access to innovative workspaces and to have a well-established career plan, supported by training strategies.

#### **Environmental sustainability:**

CTT has a strong position in ESG dimensions, in particular with regard to its environmental performance. A result of this drive is that 100% of the electricity consumed by CTT comes from renewable sources, with 100% of the buildings having green energy. It should also be noted that the group has reduced emissions by 20% since 2013. We have received awards relating to environmental sustainability, namely PostEurop's CSR Coups de Coeur 2022 award, in the Environmental category, with the COVID-19 mask recycling project, and an honourable mention awarded to CTT Eco Reusable Packaging in 2022 by the National Sustainability Award (circular economy category).

The group envisages, until 2030, some environmental initiatives around three main areas, defining certain commitments: decarbonisation, green products and services, and circular economy:

- Decarbonisation by 2030: Transition from combustion to electric vehicles in last-mile delivery, reaching 100% by 2030 and 50% by 2025. Negotiate with our partners to ensure that CTT's outsourced fleet uses 45% green vehicles by 2030;
- Green products and services: Expand "green mail" (carbon neutral products and recycled packaging) and green deliveries by 100% to all marketing, mail and E&P deliveries by 2030;
- Circular economy: Increase engagement with eco-friendly packaging suppliers to achieve 80% recycled and/or reusable packaging by 2025 and 100% by 2030. And lastly, promote responsible consumption and awareness initiatives in society.

In 2022, a series of initiatives were carried out in the area of environmental sustainability:

- Increase to 3.5 million Green Mail items sold, in the first six months of the year alone.
- CTT offsets the footprint of these items in terms of direct emissions by supporting carbon offsetting initiatives. In addition, 55% of the mail, express and parcels offer incorporates recycled materials.
- In the path of decarbonisation that CTT has been treading, five own 100% electric sorting centres have already been opened in Portugal, i.e., where deliveries are fully guaranteed by vehicles that do not emit greenhouse gases. Moreover, CTT's alternative fleet of almost 670

vehicles, the largest in the logistics sector in Portugal, has seen an increase of 93% in the number of electric vehicles and 126% in the kilometres travelled by this type of vehicle.

- As regards CTT's physical facilities, CTT and EDP have created "solar neighbourhoods" (around 40 panel installations) that generate electricity in a renewable manner for their needs and provide solar energy to the local community grid, generating a direct return on this investment. CTT presents world leading performances in the CDP - Carbon Disclosure Project indexes (Leadership A level) and in IPC's SMMS (5th place in the sector).
- The circular economy is another path that has been taken. This year, the CTT Reusable ECO packaging was distinguished by the National Sustainability Award, with Náz, Sanjo and Decathlon being the first to use this product. In another project, CTT was distinguished by PostEurop's Coups de Coeur Award, which honoured the initiative to reconvert discarded sanitary masks into new materials. In partnership with the Portuguese start-up TO-BE-Green, the recycling of the masks resulted in decorative objects, such as Christmas ornaments, which were then sold at our post offices. Still regarding the circular economy, damaged and unusable CTT trays for transporting mail and parcels are incorporated into the production of new operational units; at this moment, CTT operates with 13 thousand units of trays produced with recycled material.

## 2.3 Risk Management

### 2.3.1 Description of the risk management process

GRI 2-16, 2-25

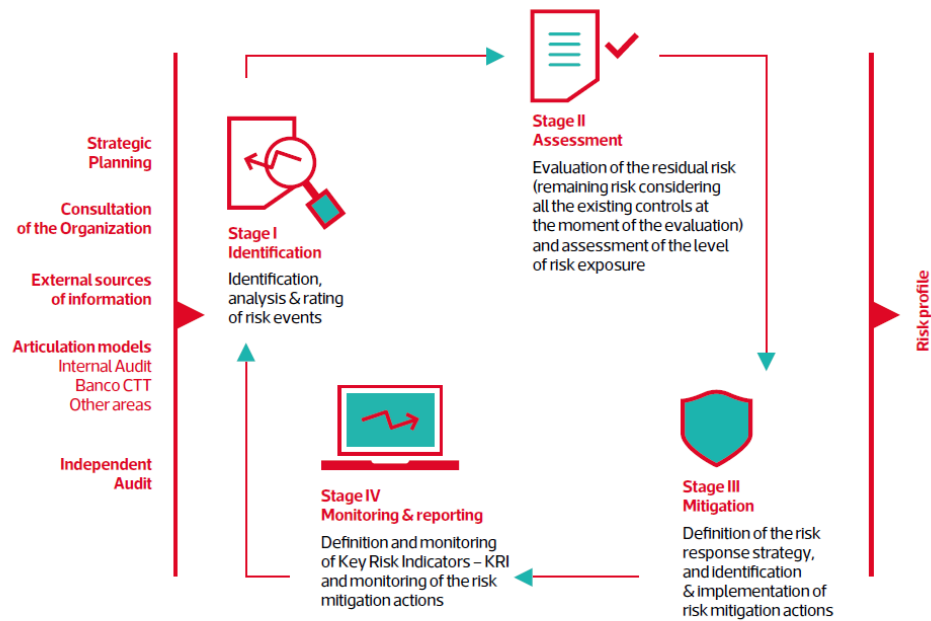
The risks arising from the activity of CTT and its subsidiaries are managed pursuant to the manner described in the **Regulations of the Risk Management System** approved by the Board of Directors. This document, in addition to establishing guiding standards, principles and procedures for Risk Management, defines duties, responsibilities and governance model, ensuring the implementation of a framework supporting the decision making process, taking into consideration the risks to which CTT is exposed.

Under the banking activity, Banco CTT has an independent risk management system, based on a set of concepts, principles, rules and on an organisational model applicable and adjusted to the specificities and to the regulatory framework of its activity. However, a model has been established for articulation between the areas responsible for the Risk Management of CTT and Banco CTT, to ensure an alignment relative to the main interdependent risks.

The **Risk Profile** is viewed as the main output of the process, reflecting the vision of a given moment on events that, should they occur, could adversely affect the achievement of the strategic objectives, compromising CTT's sustainability. The review and continuous updating of the Risk Profile is, therefore, fundamental, and is based on a dynamic process consisting of four sequential and interrelated phases, fed by a series of inputs, as illustrated in the figure below:

## Risk management

### Integrated Risk Management System



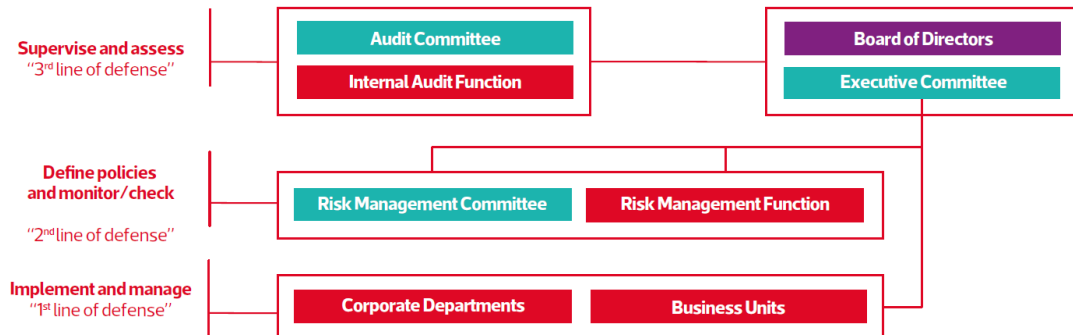
The risks identified during Stage I are assessed in Stage II according to qualitative and quantitative criteria in terms of probability of occurrence, impact and speed of materialization of the effect, pursuant to the guidelines established in the Regulations of the Risk Management System.

The **level of exposure to risk** arises from the combination of its probability and impact. During Stage III, if the level of exposure to a particular risk is higher than the stipulated appetite, corrective or mitigating actions are defined and implemented, aimed at reducing the exposure, by lowering the probability and/or impact. The **risk appetite** thus translates into the maximum level of exposure that CTT consciously assumes and is willing to accept in pursuing its strategy considering its business principles, policies and procedures as well as the fact that they operate in tightly regulated markets. The risk appetite is reviewed annually.

The evolution of CTT's main risks (those with higher level of exposure) is monitored in Stage IV through **Key Risk Indicators (KRI)**. The KRI operate as a barometer of CTT's current level of exposure to risks, warning of possible changes of the probability of occurrence and/or impact of the risk event, thus allowing timely action in order to reduce the level of exposure to comfort values within the defined risk appetite.

## Governance Model

At CTT, risk management and control are undertaken by the entire organisational structure, involving top management down to the more operational levels, through a model of “3 lines of defense” based on good practices of Audit and Internal Control:



The **Board of Directors** approves CTT's main risk policies and guidelines, defining its profile and objectives on risk-taking matters and creating systems for their control. It carries out the annual assessment of the effectiveness of the Risk Management system, with a view to ensuring that the risks incurred are consistent with the defined objectives.

The **Audit Committee** supervises and appraises the Risk Management policies and system and may propose measures to the Executive Committee aimed at improving their functioning. It also monitors and appraises the profile and objectives on matters of risk-taking, the levels of exposure to risk and the mitigation measures in this context.

The **Executive Committee** approves CTT's risk profile and levels of exposure to risk, as well as the models, processes and procedures for risk management, in addition to the proposed mitigation initiatives, ensuring their implementation and considering the terms and objectives defined and approved by the Board of Directors.

The **Risk Management Committee** supports the Executive Committee in the process of preparation and approval of Risk Management strategies and policies, monitoring their implementation.

The **Risk Management Function**, performed by the Risk Management division of the Audit, Compliance & Risk department, is responsible for the centralized coordination of the CTT Risk Management System and the planning and implementation of risk management programmes supported by the Company's Regulation of the Risk Management System.




The **Internal Audit Function**, performed by the Internal Audit division of the Audit, Compliance & Risk department, assesses the quality and efficacy of the Risk Management system, and identifies and characterizes risk events under the audit activities carried out.

All the remaining **Corporate Departments** and **Business Units** put in place the approved Risk Management policies and procedures and propose mitigation actions for the main risks identified.

## 2.3.2 Identification of risks and CTT response

GRI 2-23, 2-29, GRI 201-2, 203-1, 203-2, GRI 403-2, 413-2

Given their importance in 2022, we highlight in the following table the evolution over the year of the main strategic and operational risks faced by CTT:

Business affected	Risk and CTT response
	<p><b>Cyber incidents</b>  <b>Class:</b> Business interruption risk</p> <p>Cybercrime is one of the most serious economic and national security challenges facing governments around the world. Given the ever-increasing dependence on information technologies in CTT's business lines, the security and protection of information is, therefore, a topic of enormous relevance. Of particular concern is the growth in the volume and degree of sophistication of cyberattacks. In this domain, CTT has continued its focus on reinforcing technological security controls, adopting policies and procedures with a view to minimising exposure to risk, carrying out training campaigns for its employees on good telework practices and raising awareness of cybercrime as well as organisational involvement, namely through the Information Security Forum where the level of exposure to risk is monitored as well as all initiatives of a strategic and tactical nature underway in this area.</p>
	<p><b>ESG performance (Environmental, Social and Governance)</b>  <b>Class:</b> Sustainability risk</p> <p>ESG (environmental, social and governance) performance is increasingly an essential factor for the sustainable development and success of companies today. CTT assumes a solid position in each of the ESG dimensions, as this is one of the fundamental pillars of the current process of internal transformation. In terms of ambition, CTT is committed to achieving carbon neutrality by 2030, to continuing to promote a positive social impact on local communities, to being one of the reference employers in Portugal, which fosters diversity and inclusion and improves the experience of its employees, and to introducing specific incentives linked to ESG targets to 50% of top management and middle management by 2025.</p>
	<p><b>Global recession</b>  <b>Class:</b> Demand risk</p> <p>Expectations of a quick and complete economic recovery after the pandemic crisis were shaken at the beginning of the year with the outbreak of the conflict in Ukraine, which intensified inflationary pressures (that were already being felt) with a particular impact on the price of energy goods. The economic environment thus remained volatile and challenging throughout the year, both in terms of demand and in terms of inflation. If, on the one hand, the fall in the real household income ends to affect consumption with potential impacts on the demand for CTT goods and services, on the other hand, the increase in operating costs resulting from inflation will have to be reflected in the price of these goods and services, also leading, ultimately, to a retraction in demand. In the event of a recession scenario materializing, CTT has several tools and strategies at its disposal that aim to guarantee the necessary flexibility to manage the respective impacts.</p>

**Business affected**
**Risk and CTT response**

**Regulatory changes**
**Class:** Regulation risk

As the provider of the Universal Postal Service, CTT operates in a regulated environment and is subject to a significant number of legal and regulatory requirements, and changes thereto may determine a significant reduction in the margin associated with its products and services within the scope of the Universal Postal Service and the consequent adverse effect to its results. In February, a legal diploma was published that introduced changes to the legal framework for the provision of the Universal Postal Service, namely in terms of price formation criteria and the guiding principles for setting quality of service indicators. At the same time, a new concession contract was signed which designates CTT as the Universal Postal Service provider until 31 December 2028. CTT is convinced that the present framework will guarantee the provision of the Universal Postal Service under sustainable economic conditions, promoting a greater balance between the continuity of the provision of the postal service and the reinforcement of the Company's capacity to face the challenges of the digital transition.


**Health and safety**
**Class:** Human capital risk

The occurrence of accidents at work constitutes a significant risk in such a vast universe of workers as that of CTT. Operating one of the largest fleets in Portugal, CTT is particularly exposed to the risk of road accidents. On the other hand, the pandemic impacted on the workers' access to health care and brought to light the problem of mental health enhanced by the interruption of normal work routines and conditions. CTT is aware of these and other problems and is committed to ensuring its employees safety conditions in all aspects of their work, with a view to preventing accidents and consequent injuries, as well as promoting a healthy working environment.


**New work models and talent management**
**Class:** Human capital risk

The pandemic accelerated an already perceptible trend towards the development of new work models and the organisation of human resources that are more flexible than traditional ones. In a context where the demand for qualified talent with specific skills is far greater than the existing offer on the market, it is essential to adopt the work model that is most suited to each reality and act to retain the necessary skills, reinforcing motivation, team cohesion and organisational culture. In this sense, in 2022, CTT approved its new Work Organization Policy, which combines a more flexible way of working – teleworking – with the possibility of part-time work. From the perspective of talent management, CTT continued to develop actions to attract and recruit new knowledge and skills in the market, as well as actions to retain and develop existing technical staff and managers.


**Mail volume plummet**
**Class:** Demand risk

The intensification of the digitalization phenomenon and the substitution of physical mail by other forms of digital communication, and more recently the effects of the pandemic, have led to a continuous decline in postal volumes over the last decade. In order to offset this systematic pressure on revenues where mail still has a significant weight (although this dependence has been consistently decreasing in recent years), CTT has been developing a very significant work of transforming its business portfolio. In addition to the implementation of new solutions, initiatives are also under way to better understand the customer, encourage omnichannel and increase sources of revenue. At the same time, efforts are being made to modernize and invest in operations, focused, above all, on the intelligent management of network capacity and the optimization of processes through "lean" projects in the operational area that supports the activity.

**Business affected**
**Risk and CTT response**

**Disruptions in supply chains**
**Class:** Business continuity risk

Over the past three years, global supply chains have been pushed to their limits, revealing the weaknesses of complex systems that can affect any company anywhere in the world. With demand levels returning to pre-pandemic levels, supply chains were once again under enormous pressure, a fact made worse by the outbreak of the conflict in Ukraine as well as by the way the pandemic was managed in China, initially with an aggressive policy of zero-Covid followed (after the lifting of restrictions) by a new wave of infections, which in both cases generated serious constraints in the production and shipment of the most varied products to the rest of the world. This situation has occasionally led to shortages of certain raw materials and consequent price increases in the markets. CTT has remained very attentive to this situation, seeking whenever possible to diversify suppliers and managing the 'stock' levels of the most critical materials in a more conservative manner.


**Epidemics**
**Class:** Business continuity risk

The COVID-19 pandemic has demonstrated that phenomena of this nature have the capacity to cause high economic and social damage, while at the same time inducing the emergence of new risks and increased exposure to existing risks. Although the pandemic situation evolved very favourably throughout 2022, there were some operational constraints during the first months of the year as a result of the restrictions imposed and, essentially, the high level of absenteeism among employees. Nevertheless, CTT never failed to provide services to its customers, always with a minimum level of disruption. Taking advantage of all the experience gained over this period in managing operations in a pandemic context, CTT has been reviewing and reinforcing its business continuity policies with the aim of increasing its resilience in future occurrences.


**Natural disasters**
**Class:** Business continuity risk

The year 2022 was the second hottest year ever recorded in Europe and the fifth globally. In Portugal, several monthly temperature records were broken, placing the country in a situation of extreme drought and forcing the imposition of restrictions on water use in some areas of the country. Towards the end of the year, it was heavy rain that caused flooding, resulting in heavy economic losses. This increase in the frequency and severity of extreme weather phenomena is a clear sign of climate change and is a concern of societies on a global scale due to its potentially devastating effects and the resulting direct and indirect economic losses. CTT has established communication channels with the authorities, namely with Civil Protection, in order to ensure the protection of its premises and workers in the event of these incidents. Additionally, CTT adopts adequate and balanced risk management and transfer strategies associated to damages (human and material) caused by extreme weather phenomena