

## Strategic background

- 2.1 Economic, sectoral and regulatory environment
- 2.2 Strategic lines
- 2.3 Risk management



## 2. STRATEGIC BACKGROUND

### 2.1 Economic, sectoral and regulatory environment

GRI 2-6, 2-26

#### 2.1.1 Economic framework

##### International economy

The world economy has shown resilience over the last year. Since 2020 it has overcome a pandemic, a war in Europe and supply chain bottlenecks, which have triggered a very significant increase in the inflation rate and the most aggressive cycle of interest rate rises in decades. Growth expectations for the world economy have been exceeded, with the IMF<sup>11</sup> pointing to growth of 3.1% in 2023.

World inflation showed signs of slowing down. After the 8.7% recorded in 2022, it fell to 6.8% in 2023. The pressure on energy prices has been easing, as has the pressure on food prices, with the United Nations price index expected to fall by 11% by 2023. In advanced economies, the inflation rate fell from 7.3% to 4.6%. The IMF estimates a return to normality, with 2.6% in 2024 and 2% in 2025.

The Euro area economy is expected to have grown by a mere 0.5%, with the downturn in economic activity in Germany standing out. A positive note for Greece, which saw its debt rating returned to Investment Grade after a hiatus of more than a decade.

The United States maintained its dynamic economic activity. Expectations for 2023 pointed to a slowdown, with discussions as to whether it would be a soft or hard landing after the significant interest rate rises, but the economy grew by 2.5% and the labour market remained benign.

In China, expectations of a strong post-pandemic recovery have not materialised. At the same time, the economies of India, Mexico and Vietnam have benefited from changes in international trade patterns.

The year 2023 was also marked by advances in artificial intelligence (AI). It was the year ChatGPT democratised access to AI. The next few years could see advances and productivity gains as technology evolves.

##### National economy

After growing by 6.8% in 2022, the highest growth since 1987, the Portuguese economy slowed down to 2.3%<sup>12</sup> in 2023. Despite the slowdown in private consumption and investment, domestic demand made a positive contribution to annual growth. Net external demand was also positive, although exports and imports of goods and services fell in volume.

The inflation rate has slowed down. After the peak was reached in October 2022 of more than 10% in the consumer price index, in December 2023 the rate was just 1.4%. Average inflation in 2023 was 4.3%.

The labour market remained robust, with employment increasing by 2% to almost 5 million people. The unemployment rate rose slightly to 6.5%. The Bank of Portugal estimates nominal wage growth of 7.5% in 2023.

<sup>11</sup> World Economic Outlook - Update, International Monetary Fund | January 2024

<sup>12</sup> Quarterly National Accounts (Base 2016) - Rapid estimate at 30 days, 4<sup>th</sup> quarter 2023 and year 2023 - INE

The European Commission estimates that the budget balance will return to a positive figure of 0.8% of GDP in 2023.

The deleveraging of the Portuguese economy continued. Public debt fell by 13.7% in 2023 to 98.7%. This trend removes Portugal from the top of the most indebted economies in the Euro area, something that has been reflected in the improvement in ratings, with Moody's upgrading to A3 and Fitch to A-. Companies and households have also seen their indebtedness fall in line with GDP. In the last decade<sup>13</sup> households have seen their debt burden fall by more than 30% to 57.8% and non-financial companies by more than 50% to 114.3%.

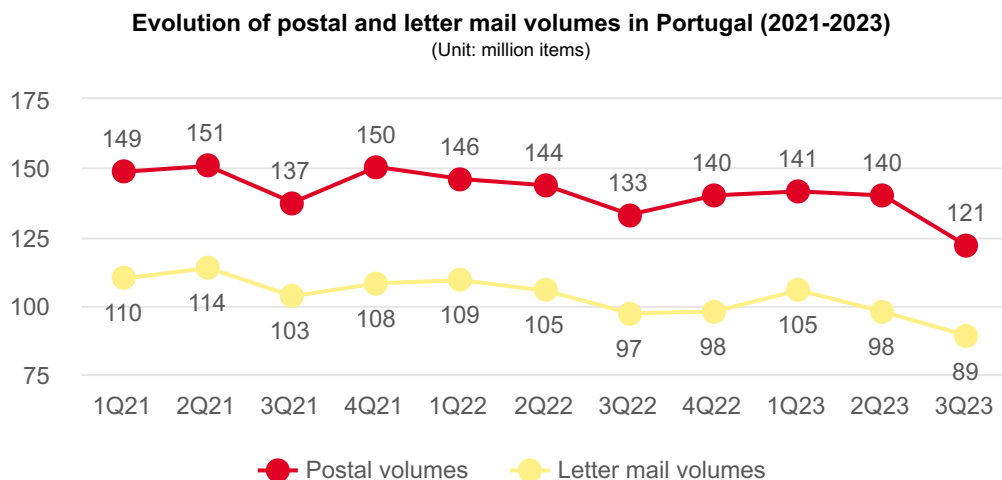
## 2.1.2 Sectoral framework

### Business units

GRI 2-6

#### Mail

Postal volumes continued their downward trend, declining by 4.7%<sup>14</sup> in 9M23 compared to the same period in 2022. This annual downward trend has been accelerating since 2008, mainly due to the substitution of electronic communications for postal items, with **3Q23 being the quarter with the lowest postal volumes**, representing a decrease of 8.7% compared to the same period in the previous year (3Q22).



Source: ANACOM Quarterly Reports - Postal Services

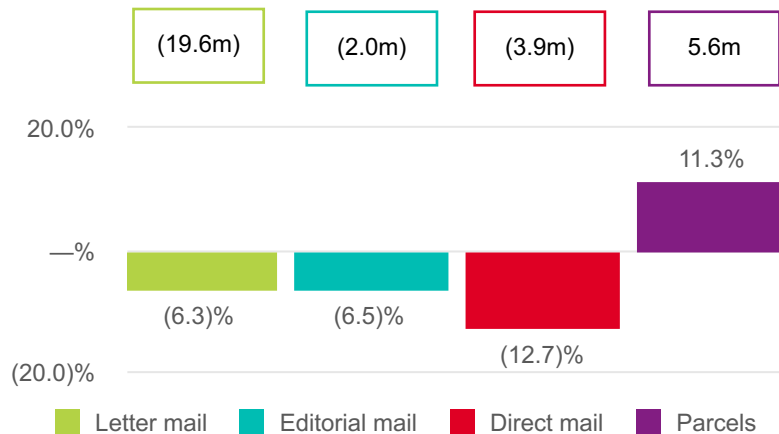
Postal volumes are made up of various types of items, each of which has a different weight and process. **In 9M23, parcels were the only type of postal item to increase** compared to the same period last year (+5.6m; +11.3%), while the other three categories declined: letter mail (-19.6m; -6.3% y.o.y), editorial mail (-2.0m; -6.5% y.o.y) and direct mail (-3.9m; -12.7% y.o.y).

<sup>13</sup> BPStat - 3<sup>rd</sup> quarter 2023 values. BPStat - 3<sup>rd</sup> quarter 2023 values.

<sup>14</sup> ANACOM – Statistical Information: Postal Services.

**Evolution of postal volumes in Portugal by type of item (9M22 - 9M23)**

(Units: million / %)

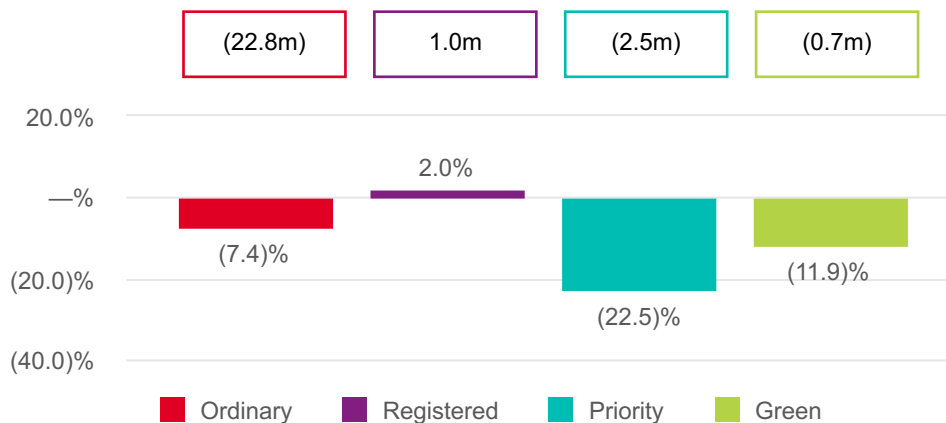


Source: ANACOM Quarterly Reports - Postal Services

At CTT, **letter mail in 2023 performed in line with ANACOM's result, representing a decline** (-27.5m; -6.8% y.o.y). CTT's mail offer consists of four types of solutions, each associated with a type of need: ordinary mail (economy), registered mail (security), priority mail (speed) and green mail (convenience). With the exception of registered mail, all the others showed a decrease in volumes compared to the previous year. Of these, **ordinary mail** is the most representative in terms of volumes in relation to the total, which is why **its decrease** (-22.7m; -7.4% y.o.y) is **the main reason for the overall decline**. Direct mail, which is part of CTT's advertising offer, also saw a drop in volumes compared to the previous year, in line with ANACOM's results. However, contrary to the overall scenario presented by ANACOM, **postal parcels saw a decrease in volumes** compared to the previous year (-27.6k; -11.4% y.o.y), which can be explained by the attractiveness of alternative express solutions.

**Evolution of letter mail volumes by type of item (9M22 - 9M23)**

(Units: million / %)



Source: Internal data

**Express & Parcels**

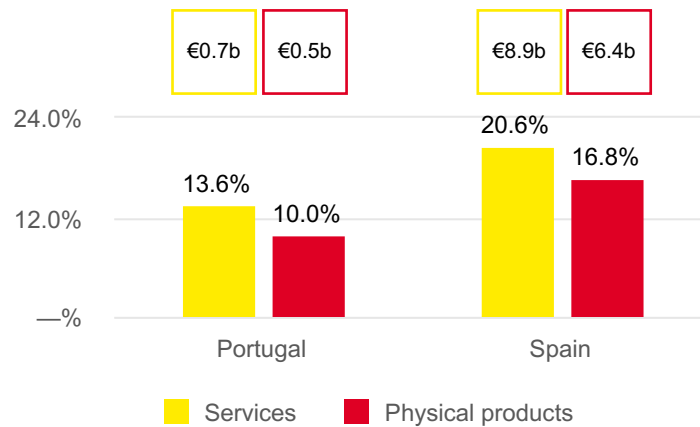
In contrast to the global slowdown in e-commerce in 2022, the year **2023 brought a recovery, with this market returning to a period of growth**. For 2023, the European Commission estimates that e-commerce will grow by 8.0%<sup>15</sup> compared to the previous year. The Iberian market follows the European

<sup>15</sup> European Commission - European E-commerce Report 2023 (estimate).

trend, with an estimated growth in the sales market compared to the previous year, totalling €11.5b in Portugal (+11.7% y.o.y) and €96.7b in Spain<sup>16</sup> (+18.8% y.o.y).

### Annual change in e-commerce sales in Iberia from 2022 to 2023

(Unit: % / €b)



Source: IMR Market Quantification.

The figures above can be justified, on the one hand, by the increase in the **average purchase price and the total amount spent per e-buyer** (PT: €55.6 and €1,073, respectively; ES: €44.9 and €1,321, respectively), which even though the average amount in Spain is lower than in Portugal, the total amount spent on online purchases is higher in Spain than in Portugal. And, on the other hand, the **increase in the number of online shoppers** (PT: +1.1% vs. 2022, totalling 5.1m e-shoppers in 2023; ES: +5.9% vs. 2022, totalling 33.8m e-shoppers). When comparing the number of shoppers with the total number of inhabitants of the country<sup>17</sup>, the conclusion is that the e-commerce market in Spain is already more developed, since 72.8% of the population made online purchases in 2023, while in Portugal only 50.3% of the population did so.

## E-buyer's online shopping profile

### Portuguese e-buyer profile

<b>€55.61</b> (€55 in 2022) Average purchase amount	<b>€1,073</b> (€1,065 in 2022) e-commerce spending (in products)	<b>€44.9</b> (€44.40 in 2022) Average purchase amount	<b>€1,320.9</b> (€1,197.47 in 2022) e-commerce spending (in products)
<b>19.3/year</b> (20.6 in 2022) Number of product purchases	<b>4.83</b> (4.5 in 2022) Average number of products per purchase	<b>29.4/year</b> (27.0 in 2022) Number of product purchases	<b>5.76</b> (4.71 in 2022) Average number of products per purchase
<b>45.6%</b> (43.8% in 2022) Weight of the products < 500gr	<b>74.0%</b> (73.0% in 2022) Heavy e-buyers (purchase frequency < 1 month)	<b>49.4%</b> (43.6% in 2022) Weight of the products < 500gr	<b>85.0%</b> (82% in 2022) Heavy e-buyers (purchase frequency < 1 month)

Source: IMR - Quantification of the e-commerce market 2023 (estimated figures for 2023)

<sup>16</sup> The e-commerce figure presented only quantifies e-seller sales in the national territory.

<sup>17</sup> Population data: country meters.

In terms of the characteristics of **online shopping**, 2023 was a year marked by **generalised growth in the various categories**. At Iberian level, the clothing and footwear (PT: -2.8 p.p.; ES: +1.8 p.p.) and electronic and computer equipment (PT: +5.2 p.p.; ES: -0.8 p.p.) categories maintained their position as the leading categories for online purchases, followed by the books and cosmetics category (PT: +7.6 p.p.; ES: +6.1 p.p.) ) retains its position as the leading category for online purchases, followed by the toiletries and cosmetics category (PT: +7.6 p.p.; ES: +6.1 p.p.), which switches positions with the books and films category (PT: -3 p.p.; ES: -6.9 p.p.), the latter occupying fourth place in 2023.

Consumers maintained the **main reasons for buying online** identified in 2022, with the **ease of making the purchase** standing out as the reason with the most weight (PT: reason chosen by 69.5% of respondents; ES: 67.7%), followed by the **lowest price**, a factor that grew in importance for e-buyers compared to the previous year's results (PT: 61.6% (+5.8 p.p. compared to 2022); ES: 53.7% (+2.0 p.p.).

Regarding the online shops where consumers usually make their purchases, in Portugal, Worten comes first (62.8%), followed by Amazon (59.6%). In Spain, Amazon is in first place (88.7%) followed by El Corte Inglés (34.2%). On the other hand, when analysed by the website where consumers make the most purchases, Amazon is the Iberian leader (PT: 18.4% / ES: 68.0%), followed in Portugal by Worten (13.4%) and in Spain by Shein (6.0%) (Shein is in third place in Portugal with 11.6%).

Due to the performance of e-commerce, 2023 represented a **strong growth of 39.2% in Iberian postal volumes**<sup>18</sup> for CTT, boosted by the significant development of ES-PT flows (+188% y.o.y). This growth was underpinned both by the large global marketplaces and international e-sellers, and by the investments made in the Iberian units, such as the customs clearance centre.

Finally, in Portugal, 94.1%<sup>19</sup> of consumers use CTT to send parcels (postal or express), making the company the most used operator and recognising the dispersion of its network throughout the country as a major advantage.

## Financial markets<sup>20</sup>

After the very negative year of 2022, there was a recovery in the financial markets. The resilience of the economy and the prospect that the peak in the inflation rate is behind us have changed perceptions that there will be room for monetary policy to become less restrictive over the course of 2024.

The stock market, when measured by the FTSE Global All Cap Total Return Index, which covers developed and emerging markets, fell 22% in 2023. Within the stock market, the technology sector was the one that saw the biggest gains, particularly the so-called Magnificent Seven (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla). European banking rose 31.6%, and despite the bankruptcies in March of regional banks in the United States and the bankruptcy of Credit Suisse, the situation was contained.

The European Central Bank raised the deposit interest rate from 2% at the start of the year to 4% in September, and there is some consensus that the peak in interest rates has already been reached. The US Federal Reserve also raised its federal funds rate from 4.5% to 5.5% in July.

The interest rate on 10-year public debt in Germany reached almost 3% in October but ended 2023 at 2%. In the United States, 10-year Treasuries also peaked at almost 5%, but ended the year at 3.9%.

The credit spread of Portuguese 10-year sovereign debt against German debt averaged 76 bps, down from 97 bps in 2022, but still higher than the average spread of 60 bps during 2021.

<sup>18</sup> Internal data, 2023.

<sup>19</sup> Mail Portfolio Study - Private Segment - IMR, 2023 (value reading note: non-exclusive use).

<sup>20</sup> Source: Bloomberg

Corporate credit spreads as measured by the Markit iTraxx Europe Senior 5-year CDS index peaked in March at 104 bps, at a time of increased financial stress, and ended 2023 at 58 bps, down from 91 at the end of 2022.

### Portuguese banking system<sup>21</sup>

National banks' total assets fell by 1.7% (compared to 2022) to €399.9b, with customer loans falling by 1.2%. Customer deposits declined by 2.3% to €315.9b, €7b less than at the end of 2022. Within retail, the ratio of demand deposits to total deposits fell from 51% to 46%, with an increase in retail term deposit rates, which saw the average remuneration rise from 0.4% to 3.1% for new contracts.

The loan-to-deposit ratio remained stable at 79% in September 2023.

Financing from Central Banks fell from €40.3b in the 3<sup>rd</sup> quarter of 2022 to €4.7b in the 3<sup>rd</sup> quarter of 2023, as a result of repayments under the European Central Bank's Long-Term Refinancing Operations programme.

Asset quality continued its upward trend that began in 2016, with the ratio of non-performing loans reaching 2.9%, the ratio being 1.3% when considered net of impairments. The ratio of non-performing loans to individuals remained stable at 2.3% compared to the end of last year, with the ratio of mortgage loans at 1.2% and consumer loans at 6.4%. Also noteworthy is the increase in the ratio of stage 2 mortgage loans from 7.5% at the end of 2022 to 9.1% in September 2023.

The system's profitability in the first 9 months of 2023 improved significantly, with return on assets reaching 1.3% and return on equity standing at 14.6%. The increase in profitability was mainly due to the rise in net interest income, which reached 2.7%. Compared to the 3<sup>rd</sup> quarter of 2022, net profit increased by 82.1%.

The system remains well capitalised, with the total equity ratio standing at 18.9% and the core capital ratio at 16.4%.

## 2.1.3 Regulatory Framework

### Postal sector

The postal service is provided by CTT under the **Universal Postal Service Concession Agreement** signed on 6 January 2022 between the Portuguese Government and CTT and Decree-Law no. 22-A/2022, published on 7 February 2022, which amended the legal framework applicable to the provision of postal services under Law no. 17/2012, of 26 April (Postal Law). This Agreement shall remain in force until 31 December 2028.

In addition to the concessionary services, CTT can provide other postal services, as well as carry out other activities, namely those that allow for the profitability of the universal postal service network, directly or through the incorporation or participation in companies or through other forms of cooperation between companies. These activities include the provision of services of public interest or general interest under conditions that may be agreed with the Portuguese government.

The changes introduced by Directive 2008/6/EC of 20 February 2008 of the European Parliament and of the Council to the regulatory framework governing the provision of postal services were transposed into the Portuguese legal framework by Law no. 17/2012 of 26 April ("Postal Law"), repealing Law no. 102/99 of 26 July. It is still in force, with the amendments introduced in the meantime by Decree-Law no. 160/2013, of 19 November and Law no. 16/2014, of 4 April, Decree-Law no. 49/2021, of 14 June and Decree-Law no. 22-A/2022 published on 7 February 2022. The Postal Law establishes the legal

<sup>21</sup> Portuguese Banking System: recent developments 3<sup>rd</sup> Quarter 2023 - Banco de Portugal.

framework applicable to the provision of postal services, in full competition, within the national territory, as well as international services to and from the national territory.

Thus, since 2012, the postal market in Portugal has been fully open to competition. For reasons of general interest, only the following activities and services remained reserved for the concessionaire: the sitting of letter boxes on the public highway for the collection of postal items, the issue and sale of postage stamps bearing the mention Portugal and the registered mail service used in judicial or administrative proceedings.

The scope of the **universal postal service** therefore includes the following national and international services:

- A postal service for letter mail items, excluding direct mail, books, catalogues, newspapers and periodicals up to 2 kg in weight;
- A postal parcel service weighing up to 10kg, as well as the delivery within national territory of postal parcels received from other European Union Member States weighing up to 20kg; and
- A registered items service and an insured items service.

The **concession agreement** signed between the Portuguese State and CTT covers:

- The universal postal service, as defined above;
- The reserved services: (i) the right to place letter boxes on the public highway for the collection of postal items, (ii) the issue and sale of postage stamps bearing the mention "Portugal", and (iii) the registered mail service used in judicial or administrative proceedings;
- The provision of the special payment orders service, which allows funds to be transferred electronically and physically, both nationally and internationally, known as the postal money order service, on an exclusive basis; and
- The Electronic Post Office Box service, on a non-exclusive basis.

On 23 December 2021, the Council of Ministers announced the approval, on the same date, of the law amending the legal regime applicable to the provision of postal services in Portugal, the respective law having been promulgated on 5 February 2022 and Decree-Law no. 22-A/2022 published on 7 February 2022. The new concession agreement came into force on 8 February 2022 and will last for approximately seven years - until 31 December 2028. The main **changes to the new regulatory framework** arising from the law and the new concession agreement are as follows:

#### 1. With regard to pricing:

- Under the terms of the law, the pricing criteria shall be defined by agreement between CTT, ANACOM and the Consumer Directorate-General for periods of three years or, if there is no agreement, by the Government; such definition shall take into account the sustainability and economic and financial viability of the USO provision, and shall also take into account the variation in volumes, the change in relevant costs, the quality of the service provided and the incentive for the efficient provision of the universal postal service;
- In the context of the regulatory framework in force since February 2022 and the Agreement on the criteria to be met in setting the prices of the postal services that make up the universal service basket (Universal Postal Service Price Convention) for the three-year period 2023-2025, of 27 July 2022, the prices of these services were updated on 1 March 2023, as communicated to the market on 26 January 2023. The update corresponded to an average annual price change



of 6.58%. The overall average annual price variation, which also reflects the effect of updating the special bulk mail prices, was 6.24%.

- Effective from 1 February 2024, in the context of the Universal Postal Service Price Convention for 2023-2025, which was entered into on 27 July 2022, the prices of the basket of letter mail, editorial mail and parcels services were updated, corresponding to an average annual price change of 9.49%. As part of the company's pricing policy for 2024, this update corresponds to an average annual price variation of 8.91%, which also reflects the effect of the update of the special prices for bulk mail.

## **2. With regard to quality of service indicators and performance targets:**

- The indicators and performance targets defined by ANACOM on 29 April 2021 remain in force until the definition of new indicators and respective performance targets;
- On 24 October 2023, ANACOM approved the draft proposal for quality of service parameters and performance targets associated with the provision of the universal postal service, on which CTT commented on 27 December 2023. The quality criteria will be approved by the Government on a proposal from ANACOM, following a set of clear guidelines: to guarantee high levels of quality of service in line with current best practices in the European Union and the relative importance of the postal services that make up the universal postal service, and taking into account the average figures applicable to each indicator in European Union countries;
- With regard to the compensation mechanism applicable for any non-compliance with the quality of service indicators, as long as the current indicators remain in force, if penalties are applied, they will be translated into investment obligations that result in improvements for the benefit of the provision of services and end users, without prejudice to the possibility of applying other fines or contractual penalties provided for in the law and the concession agreement. Following the definition of the new quality indicators, the penalties to be applied by the government will take the form of investment obligations or price revisions, in accordance with the principles of proportionality, adequacy, non-discrimination and transparency.

## **3. With regard to the density of the postal network:**

- The criteria for density and minimum service offers remain in force, and it is up to CTT to propose changes, which depend on ANACOM's approval;
- On 7 November 2023, ANACOM approved changing the reporting of postal network density targets and minimum service offers by reference to the 2021 Census, replacing the 2011 Census, in order to update the data with recent information.

In accordance with Article 6 of Regulation (EU) 2018/644 on cross-border parcel delivery services and the corresponding notification to the European Commission, ANACOM approved, on 27 June 2023, the assessment of cross-border single-piece parcel tariffs for the year 2023.

## **Financial sector**

The way in which institutions pursue their activity, carry out their mission, plan and design their strategy is decisively influenced by the national and international regulatory framework in force at any given time, and it is naturally essential to correctly identify and contextualise the regulations that have the greatest impact, enabling them to obtain a comprehensive view of regulatory changes and, knowing them, act accordingly.

In a context marked by geopolitical tensions, high inflation and the resulting rapid rise in interest rates (after a prolonged period of low interest rates) and still recovering from a global pandemic, with

inevitable repercussions on the global economic scenario and affecting its dynamics and functioning, a series of legislative packages were published in 2023 that sought to meet the special concerns of consumer protection and from which obligations arise, according to which institutions need to guide their actions, with regulations that promote and test institutions' resilience and firmness, both by adapting loan conditions to the payment capacity of their consumer clients, but also by applying prudent impairment and capital conservation policies, allocating part of the profits generated to increasing their capacity to absorb losses and maintaining financing for the economy.

Below is a brief overview of the **main regulatory developments** that took place in 2023, with special emphasis on those produced by the national legislator and the Bank of Portugal, in terms of supervision and increased scrutiny of the practices and behaviour of banking institutions.

Anticipating the potential increase in defaults by the most vulnerable households, bearing in mind the aforementioned rise in inflation and short-term interest rates, particularly on mortgage loans, the national legislator paid special attention to this issue and:

- created extraordinary support for families to pay rent and instalments on credit agreements through **Decree-Law 20-B/2023 of 22 March**, in addition to the set of procedures provided for in Decree-Law 80-A/2022 of 25 November and amended by Decree-Law 74-A/2017 of 23 June. Also noteworthy was the creation of a protocol between the institutions and the DGTF (Directorate-General for the Treasury and Finance) for its operationalisation (later amended by Law 56/2023 of 6 October, Decree-Law 91/2023 of 11 October and Decree-Law 103-B/2023 of 9 November);
- approved consumer protection rules for financial services, amending several relevant laws, with a ban or limitation on charging a range of commissions, through the publication of **Law 24/2023 of 29 May**;
- established the measure to temporarily fix the instalment of credit agreements for the purchase or construction of own and permanent housing and reinforced the extraordinary measures and support for mortgage loans, by approving **Decree-Law 91/2023 of 11 October**; and
- the law that approved the 2024 state budget - **Law 82/2023 of 29 December** - amended Law 19/2022, extending the exceptional and temporary regime for the redemption/reimbursement of savings plans until 31 December 2024.

In line with this concern, the Bank of Portugal issued two noteworthy regulations in this area: **Instruction 23/2023 of 9 October**, which defines the criteria for weighing up the impact on consumers' solvency of increases in the index applicable to variable interest rate or mixed interest rate credit agreements, and **Instruction 24/2023 of 30 October** on providing information to bank customers and reporting information to the Bank of Portugal on the implementation of the temporary instalment fixing and temporary interest subsidy schemes for permanent home loan contracts.

Also seeking to safeguard the interests of consumers in their right to correct information, the Bank of Portugal updated the models that banking institutions must comply with and disclose to the public about the minimum banking services account, in order to reflect the recent expansion of the list of services included in said account, with **Instruction 19/2023 of 30 August**.

Stressing the need for institutions to comply with the Guidelines on risk management associated with information and communication technologies and security (EBA/GL/2019/044) and seeking to prevent the occurrence of scams, fraud or similar situations using phishing techniques, Banco de Portugal produced **Circular Letter 2023/25 of 21 June**, containing recommendations on the prudential treatment of phishing incidents involving customers.

Within the banking sector, the Bank of Portugal endeavoured to ensure that institutions are able to adapt, having generated regulations such as:

- **Circular Letter 2023/01** on the annual disclosure of non-performing and restructured exposures;
- **Circular Letter 2023/04**, which publishes the Guidelines of the Committee of European Banking Supervisors (CEBS) on the exclusion of certain very short-term exposures for the purposes of calculating the value of risk under the large exposures regime and states that these should also be followed and applied by less significant credit institutions;
- **Circular Letter 2023/05**, which discloses the models for reporting the Financing and Capital Plans, the description of the macroeconomic and financial scenario and other guidelines necessary for the institutions to carry out the exercise and provide information;
- **Circular Letter 2023/20**, regarding the implementation of EBA/GL/2022/14, namely regarding compliance with the criteria for the identification, assessment, management and reduction of risks resulting from potential changes in interest rates ("IRRBB") and on the assessment and monitoring of credit spread risk resulting from activities not included in the trading book ("CSRBB"), especially important in the current context of rising interest rates.

As far as the Insurance and Pension Funds Supervisory Authority (ASF) is concerned, with a view to adopting a different approach to reporting regulations, we would highlight the publication of **Regulatory Standard No. 4/2023-R** and **Regulatory Standard No. 5/2023-R**, both of 11 July, on the provision of information for supervisory purposes to the ASF by insurance and reinsurance companies and pension fund management companies.

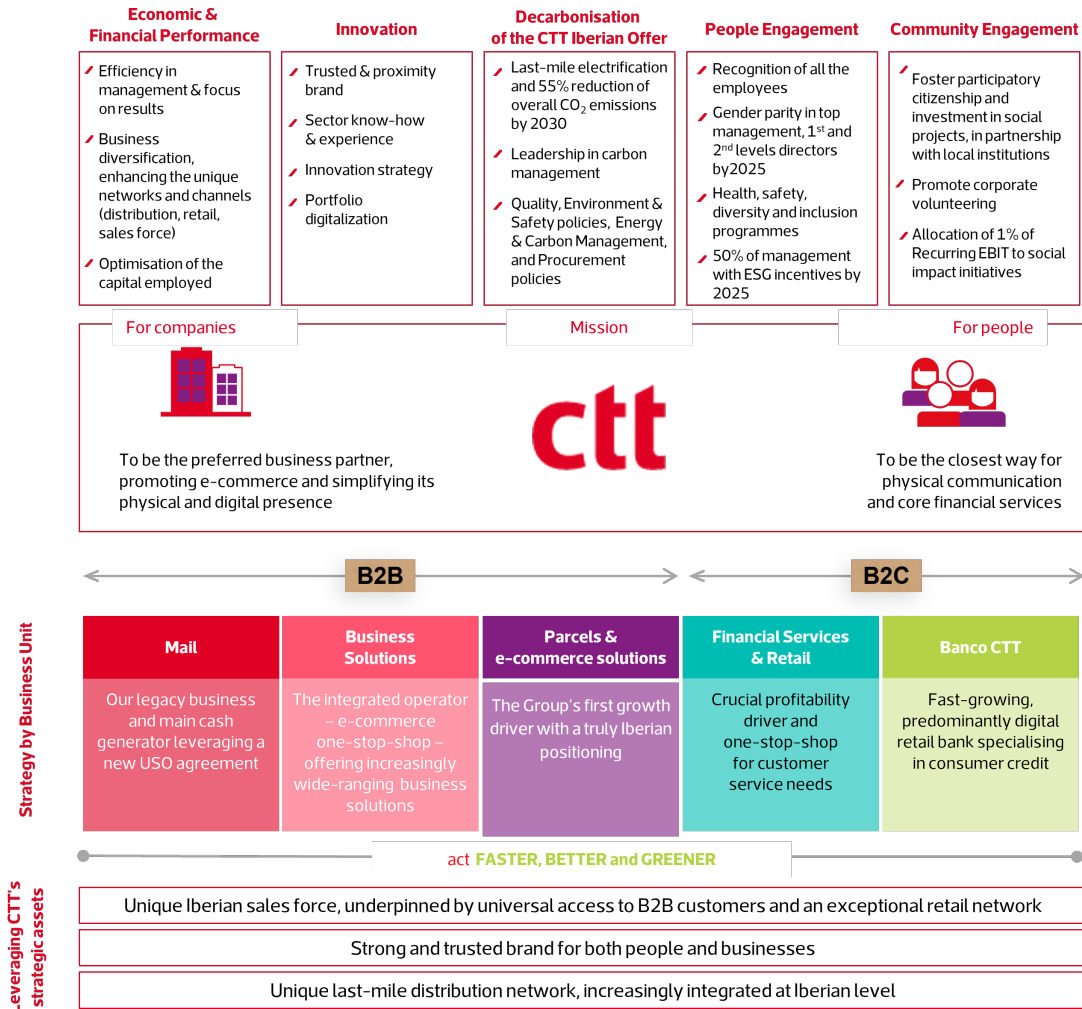
Although they are aimed at Member States and have transposition deadlines of 2025, the Banco CTT Group has taken note of and analysed **Directives 2023/2225 of 30 October** and **2023/2673 of 22 November** of the European Parliament, given the relevance of the issue, the former relating to consumer credit agreements and the latter to financial services agreements concluded at a distance.

Aware that cybersecurity is a priority issue for regulators and supervisors, Banco CTT is closely following developments in the **Public Consultation** launched by the European Supervisory Authorities (EBA, EIOPA and ESMA - the ESAs) on 19 June, on the first batch of policy products under the Digital Operational Resilience Act (DORA).

## 2.2 Strategic lines

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

We connect people and companies, committed to deliver!



CTT's strategy continues to focus on the Company's transformation, and year after year it has overcome external challenges with positive results. With a strategy based on five important pillars for its operation, CTT is able to guarantee sustainability in the postal business by leveraging the development of other growing businesses and thus ensuring the connection between people and companies.

Trust in the historic CTT brand and its proximity network are attributes that set the company apart from the market, and its mission is thus to position itself as a partner of reference for companies, promoting e-commerce by reducing physical and digital distances. And, for individuals, to be the most convenient means of physical communication, adding essential financial services to its offer.

In this context, with a focus on the five pillars of performance and commitment, and in line with the strategic plan to be implemented by 2025, as defined at the Capital Markets Day 2022, various initiatives were undertaken that contributed to the sustainability of the CTT Group at various levels.

## Economic sustainability

Focusing on the fulfilment of the CTT Group's proposed economic targets to be achieved by 2025 (revenue growth of 7-10% and recurring EBIT growth of 14-19%), below are the initiatives implemented with the greatest impact on the business:

In the **Express & Parcels (CEP)** area, two major Iberian milestones were achieved. On the one hand, Iberian e-commerce leadership, strongly impacted by the partnership with Temu and Shein, contributing to a new Iberian record of more than 870,000 items/day and the delivery of more than 100 million express parcels in the year. On the other hand, the expansion of the largest Iberian network of delivery points (14k points) was driven by the partnership with Celeritas in Spain and the growth of Locky in Portugal. In terms of same-day deliveries, CTT Now posted double-digit growth in revenue and volumes. In terms of digital initiatives, realised in 2023, the highlight was the number of shops registered in the Lojas online/Online Shops platform (5k shops) and the addition of new features to the platform, such as bnpl (buy now, pay later) with Klarna and bulk shipments, as well as the integration of the new plugin for Amazon, which generated 350,000 more shipments per year.

In the **Business Solutions** area, it was a year marked by the strong consolidation of the integrated solutions offer, such as SIGA (the digital wallet), STICO and STIAR (administrative offence management and administrative instruction system), resulting in a vast increase in the number of customers and users, as well as a year of service expansion, particularly of the Business Process Centre and the Contact Centre, to large national customers.

In the **Financial Services & Retail** area, 2023 was the year when the discontinuation of in-store product sales was completed and focus was on the services platform, such as strengthening the insurance offer and launching the sale of alarms and the prepaid express pack. In line with the strategy for the retail network, there was a major reinforcement in the creation of 24/7 self-service spaces, such as the provision of 178 lockers in-store with 24/7 access, 34 of which are Through the Wall (locker integrated into the shop window) and the launch of the first self-service shipping station.

For **Banco CTT**, 2023 was a year of significant growth, both in the opening of new accounts, reaching over 647k accounts, an increase of 45k accounts compared to 2022, and in the production of credit and the placement of savings products. Also noteworthy was the capital increase by Generali and in the distribution of insurance, including life and financial insurance.

## Social sustainability

2023 was a year dedicated to implementing measures to achieve the ESG targets and commitments made the previous year. In order to turn these targets into realities that go beyond paper, procedures were established to monitor the progress of indicators on a quarterly basis, known as Objectives and Key Results (OKR), accompanied by concrete action plans. This methodology has been extended to all of the company's key performance indicators, ESG indicators being no exception.

### Our people

As for our People, the aim is to promote a positive organisational culture, guaranteeing equal opportunities in terms of access to health, well-being, work-life balance, qualifications and progression. With regard to [talent management](#), the strategy is to improve the employee experience and their level of satisfaction, in order to increase the commitment of everyone, making each one an ambassador for the CTT Brand.

In 2023, CTT extended the scope of the certification as a Family-Responsible Company, already obtained by CTT - Correios de Portugal, S.A., CTT Expresso and CTT Contacto in 2022, to Banco CTT and 321 Crédito. Meanwhile, the interaction of employees with various aspects of their lives within the Company continues to be facilitated by the implementation of new modules on the MyCTT platform.

The "Victory" programme continued to have a significant impact, focusing on employees with work restrictions in order to adjust tasks or reassign them to new roles.

With regard to greater diversity in management, on 31 December 2023 CTT had 39.9% women in top and middle management positions, (0.6 p.p.) compared to 2022. The ambition is to reach 45.0% by 2025.

### **Social impact**

In terms of community involvement, a benchmark indicator points to the ambition of dedicating 1.0% of annual recurring EBIT to social initiatives by 2025, namely through the company's donations policy. The achievement of this OKR in 2023 was lower than planned, much more due to the increase in the denominator than to any failure to make the planned donations. In 2023, the internal focus was on consolidating procedures and approving, in the last quarter, a Social Impact Plan, defining prerequisites and metrics for monitoring the initiatives supported, culminating a [journey with several stages](#).

In order for CTT employees themselves to help increase this impact on both the community and the environment, the group defined a commitment to ensure that participants in [volunteering](#) initiatives devote an average of 3 working days a year to social initiatives and programmes organised and supported by the company. In 2023, the focus shifted to actions designed specifically to meet the needs and particular characteristics of the areas and departments that sought them out.

The 10<sup>th</sup> edition of the "[A Tree for the Forest](#)" initiative, a very successful partnership with Quercus, has added to the collection of previous editions, with a total of 118,000 trees having been planted since 2014. This anniversary was marked by the sale, for the first time, of a 100% digital version of the initiative's kit via the online shop, an example of walking the talk when it comes to mitigating the environmental impacts of the initiative itself.

[Solidarity Father Christmas](#) continues to do his meritorious work year after year. A total of 1,841 letters written by disadvantaged children were received, making for a happier Christmas in 2023, and the toys they asked Father Christmas for by letter were delivered by anonymous citizens to our post offices to be sent to the institutions that take care of these children, just in time for Christmas.

The target of making 75% of purchases from local (i.e. Iberian) players, as a policy to support the local economy and communities, was largely achieved. At the end of 2023, 99.5% of procurement processes used Portuguese or Spanish partners, an increase of 1.6 p.p. compared to 2022. The policy of engaging with suppliers is detailed in a [chapter](#) exclusively dedicated to the subject.

### **Environmental sustainability**

CTT has a strong position in the ESG dimensions, particularly with regard to its environmental performance, with the main objective of reducing its direct and indirect emissions by 55% by 2030, offsetting the remainder with a view to achieving a carbon-neutral balance sheet. The main focus of this target is to ensure that its last-mile fleet is made up of 50% 'green' vehicles in the last mile by 2025 and 100% by 2030.

The result of this motivation is the reinforcement of the CTT electric fleet, which had 615 vehicles at the end of 2023, a growth of 28.7% compared to 2022. The consequence of this investment in the last mile of distribution, CTT's focus at the moment, has been visible: 19.6% (+4.3 p.p. y.o.y) of the vehicles that take postal items to their destination are electric, 26.0% more than in 2022. Also noteworthy is the reinforcement of the charging infrastructure with the progressive installation of chargers. While intensifying the reconversion of its own fleet, CTT has begun to focus on the fleet of subcontracted companies, with a characterisation survey launched in Portugal and Spain.

In addition to CTT's ongoing efforts to decarbonise the last mile, every year it carries out an initiative to offset the carbon emissions resulting from its own parcel and express transport and distribution activities in Portugal. The projects to be funded, one national and the other international, are chosen through an online public vote, which took place in September 2023. The winning projects chosen for funding are "Recovery of wild animals" (national) and "Envira - Prevention of deforestation" (Brazil).

It should also be noted that 100% of the electricity consumed by CTT comes from renewable sources, with 100% of the buildings having green energy. Also in this field, in October 2022 a strategic partnership was signed with EDP for the installation of solar energy production plants in more than 40 CTT locations, from the north to the south of the country, creating solar neighbourhoods. The surplus is injected into the grid by EDP to the surrounding communities, generating a direct return on this investment. Over the course of 2023, around 20 facilities went into operation, the first step in this project having been completed.

In 2023, CTT maintained and strengthened its position as a leader and pioneer in sustainability issues, both at national and sectoral levels, taking its place as best in class on the international postal scene. Proof of this was the higher ranking in the Sustainability Measurement and Management System rating of the International Post Corporation - IPC. The improved performance in this rating led to the reinforcement of the company's 5<sup>th</sup> place overall, in global terms, amongst 26 participating operators. In the Carbon Disclosure Project - CDP, CTT was honoured with Leadership level in the Climate Change area, with a score of A-. Specifically, the company obtained the maximum level (A) with regard to carbon management targets, scope 1 and 2 emissions and risk management processes.

The other strategic focus for CTT is the promotion of the **circular economy**. In this field, 82.4% of the products in the mail, parcels and express offer already incorporate recycled or reused materials, which puts CTT well on the way to achieving the target of incorporating this type of materials into 100% of this offer by the end the decade. In 2023, the highlight was the philatelic issue dedicated to St Francis of Assisi, the first to be made exclusively using recycled paper.

## 2.3 Risk Management

### 2.3.1 Description of the risk management process

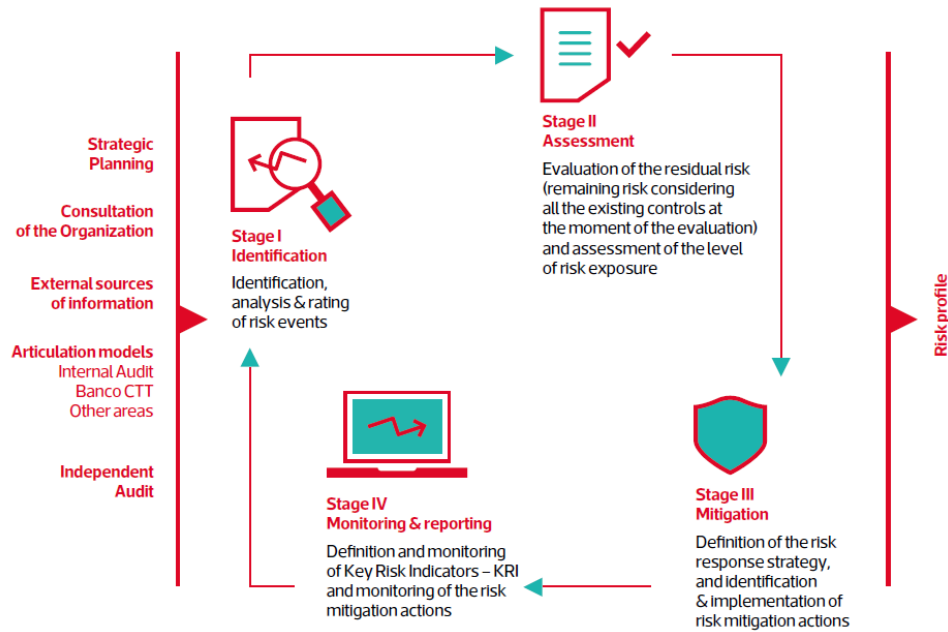
GRI 2-16, 2-25

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.

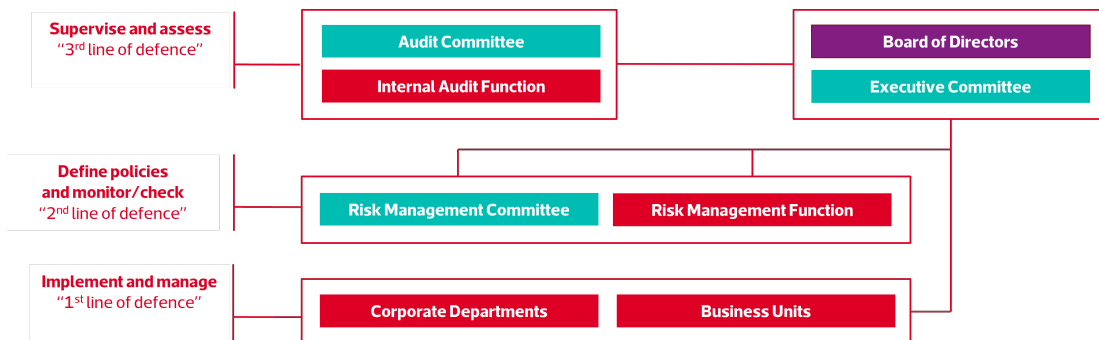
The **Risk Profile** is viewed as the main output of the process, reflecting the vision of a given moment on events that, should they occur, could adversely affect the achievement of the strategic objectives, compromising CTT's sustainability. The review and continuous updating of the Risk Profile is, 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



### 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 defence” 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 centralised 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 characterises 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, 203-2, GRI 403-2, 413-2


According to some general principles related to the nature, causes and way they are managed, CTT's risks are divided into three main categories: strategic, operational and financial.

- **Strategic risks:** these are essentially the result of external factors which, by exploiting internal constraints and weaknesses, could have a negative impact on the company's economic performance, competitiveness and/or medium-term resilience. This category includes risks related to business interruption, competitive market forces, demand for products and services and operating in a highly regulated environment, in particular universal postal service obligations. The level of exposure to strategic risks is monitored and discussed throughout the year by the Risk Management Committee.
- **Operational risks:** result from failures in carrying out business processes, namely in complying with standards and regulations, and can cause major financial or reputational damage and affect the resilience of the business in the medium term. This category includes risks related to non-compliance with statutory, regulatory and legal obligations, the ownership, operation, development, capacity and dependence of information systems in the company's activity, environmental, social and governance (ESG) factors, labour practices and organisational culture and failures in the quality of the service provided to the Customer. The level of exposure to operational risks is monitored on a monthly basis through a set of Key Risk Indicators (KRI).
- **Financial risks:** result from exogenous and/or internal factors that can jeopardise the efficient management of financial resources, altering the company's net worth in a material and unexpected way. This category includes interest rate, liquidity, capital, liabilities related to employee benefits and financial reporting risks, among others. The level of exposure to financial risks is monitored at least quarterly through a set of Key Risk Indicators (KRI). A more detailed overview of specific financial risk management is presented in note 17 of chapter 7 (Consolidated and Individual Financial Statements) of this report.

The following table presents some of the most relevant risks CTT is exposed to:

Cyber incidents	Impacted business 	Category Strategic	Trend 
<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 governance models, as well as 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>			
ESG Performance	Impacted business 	Category Operational	Trend 
<p>Sustainability reporting regulations have become increasingly demanding and complex, bringing enormous challenges for organisations. The way in which organisations respond to the ESG agenda is therefore coming under increasing scrutiny from various stakeholders, including investors, regulators and clients. 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. As part of the fight against climate change, CTT is committed to achieving carbon neutrality by 2030 and has outlined decarbonisation targets in line with the objective of limiting the rise in global temperature to 1.5°C. In terms of ambition, CTT is also committed to continuing to promote a positive social impact on local communities, to being one of the leading 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>			
Macroeconomic instability	Impacted business 	Category Strategic	Trend 
<p>Expectations of a swift and full economic recovery after the pandemic crisis were shaken by inflationary pressures that ended up worsening with the outbreak of the conflict in Ukraine in 2022 and which had a particular impact on the price of energy goods. The economic climate remained challenging during 2023, with a slowdown in global growth and high inflation, which led to a rise in interest rates with serious consequences for both companies and individuals. The uncertainties associated with both the outbreak of new conflicts around the world and the unfolding of current ones could prolong or even worsen this trend of instability and thus continue to affect not only demand for goods/services but also the ability to control costs. CTT closely monitors the evolution of the global and national macroeconomic situation, developing tools and strategies aimed at ensuring the necessary flexibility to manage the impacts that may result from a worsening of these conditions, namely a recession scenario.</p>			

<b>New trends in the labour market</b>	<b>Impacted business</b> 	<b>Category</b> Strategic	<b>Trend</b> 
<p>Over the last few years, the labour market has undergone many changes. In particular, since the pandemic, there has been an increase in the shortage of labour, a phenomenon that is evident in various sectors and professions and which affects not only the demand for highly qualified staff, especially in the technology sector, but also for profiles with lower qualifications to perform operational tasks. Flexibility at work is another trend that is gaining prominence and is highly valued by professionals who attach increasing importance to work-life balance. Faced with all these changes, CTT has been working to attract and recruit new knowledge and skills from the market, retaining and developing existing technical staff and managers, strengthening motivation, team cohesion and the organisational culture. In this regard, it should also be noted that since 2022 CTT has been certified as a Family-Responsible Company (EFR), a distinction that aims to recognise companies that promote the reconciliation of professional, personal and family life.</p>			
<b>Health and safety</b>	<b>Impacted business</b> 	<b>Category</b> Operational	<b>Trend</b> 
<p>The occurrence of accidents at work is a significant risk in a universe of workers as vast and geographically dispersed as that of CTT. In operational areas, CTT is particularly exposed to the risk of road accidents. Aware of this problem, CTT launched a specific road prevention training programme aimed at both reducing the number of road accidents and the number of days of incapacity resulting from them. In other respects, CTT is committed to ensuring that its employees are provided with all safety conditions in the various aspects of their work, with a view to preventing accidents and consequent injuries, as well as promoting a healthy working environment. All CTT employees and their families are offered a Health Plan, while the rest of the Group's employees are offered health insurance. CTT is also certified according to the ISO 45001 standard for occupational health and safety management systems.</p>			
<b>Cost structure in mail</b>	<b>Impacted business</b> 	<b>Category</b> Strategic	<b>Trend</b> 
<p>The intensification of the digitalisation phenomenon and the substitution of physical mail by other forms of digital communication have led to a continuous decline in postal volumes over the last few years. Although CTT has for a long time been making a sustained effort to focus on cost control and operational efficiency in order to cope with this fall in demand and the consequent pressure on overall revenues, where the weight of the postal business is still significant, the challenge of continuing to compensate for future reductions in postal volumes by optimising the structure of operating and structural costs without compromising service levels persists. This challenge is likely to be aggravated by the current economic context, particularly, and more importantly, by high inflation and rising labour costs.</p>			

Climate disasters	Impacted business	Category	Trend
<p>The year 2023 was the hottest year ever recorded globally and the second in Europe. In Portugal, several monthly temperature records were broken, prolonging the situation of extreme drought in some places. This increase in the frequency and severity of extreme weather phenomena is a clear sign of climate change and a concern of societies on a global scale due to its potentially devastating effects and the resulting direct and indirect economic losses. CTT has been preparing for these occurrences, namely by reviewing its business continuity policies and procedures, adapting them to the new business dynamics in a context of climate change. Additionally, CTT adopts adequate and balanced risk management and transfer strategies associated to human and material damages caused by this kind of extreme weather phenomena.</p>		Strategic	