Half-Year Report

2021

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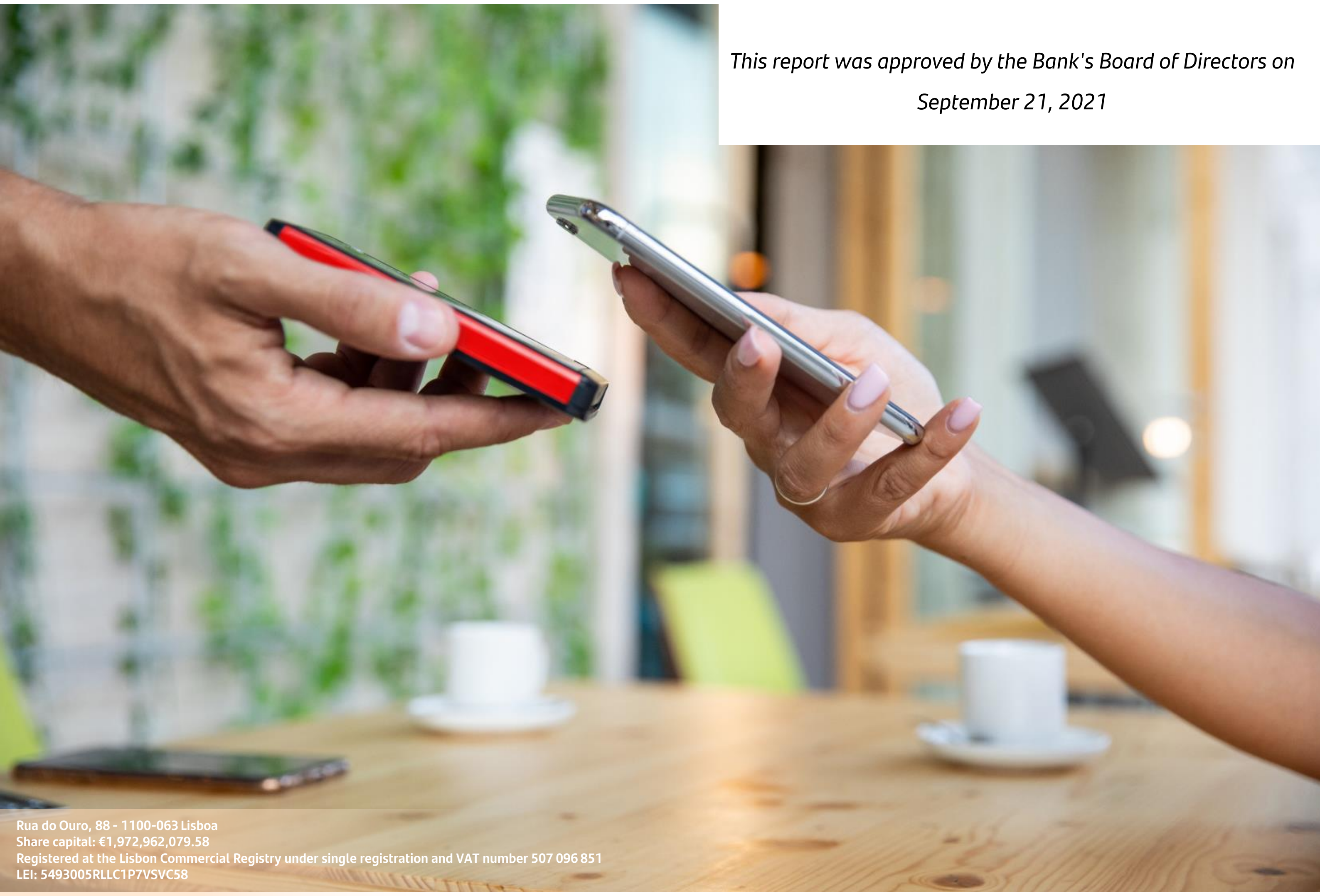
All Together Now

Santander

Santander Totta SGPS, S. A.

This report was approved by the Bank's Board of Directors on September 21, 2021



Rua do Ouro, 88 - 1100-063 Lisboa
Share capital: €1,972,962,079.58
Registered at the Lisbon Commercial Registry under single registration and VAT number 507 096 851
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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

The results for the first half of 2021 continue to reflect the pandemic situation, and its effects on the economic activity in general.

The 1st half of 2021 was very challenging for all our teams. Conducting a digital transformation in a pandemic environment is a long, difficult, but urgent work. However, we know that our customers demand it from us, and we want to remain as our customers' bank of choice.

As a result of this collective effort and the trust placed on our Bank, the figures for the first six months of the year show a growth in both digital and loyal customers, in credit and in resources. We maintained robust market shares in new credit production, at 22.6% and 21.4%, for loans to companies and mortgages, respectively.

This semester, and despite the drop in profits, Santander Totta SGPS maintained a solid liquidity position and very high capitalization levels. Compared to the same period of the previous year, a slight increase in the commercial revenue, as a result of the positive evolution of commissions and fees, which more than offset the reduction in net interest income.

We cannot hesitate when it comes to managing our resources well, to controlling costs, and to ensure the Bank's future sustainability. The transformation and restructuring process has been conducted responsibly, with concern for people, maintaining dialogue, and pushing the commitment we have with our employees to the limit.

I believe that in the coming months, once the vaccination process is completed, we will be able to start a new cycle of hope for companies, for households, and for the economy. Santander in Portugal will be here — as always — supporting, innovating and helping the Portuguese economy grow.

Pedro Castro e Almeida, Chief Executive Officer of Banco Santander Portugal

PROFITABILITY	GROWTH	SOLIDITY	COMMUNITY SUPPORT
Operating Income **€754.3mn** (-8.5%)	Mortgage Loans **+5.9%** Customer Deposits **+3.9%** **Change YoY**	NPE Ratio **2.5%**	Combating the pandemic **#AllTogether Campaign** 10 banks and more than 30 companies – €2.5mn for food and medicine support
Net Income **€81.4mn** (-52.9%)	Loyal Customers **866,000** (+6.5%)	Cost of Credit **0.36%**	Education **4,000 Scholarships planned for 2021**
RoE **3.5%** (-4.7 p.p.)	Digital Customers **981,000** (+13.3%)	CET1 Ratio **21.8%**	Investment in Community **84,066 people supported in the 1st semester 2021**

TABLE OF INDICATORS

BALANCE SHEET AND RESULTS (million euro)	Jun-21	Jun-20	Var.
Total Net Assets	59,335	60,833	-2.5%
Loans and advances to customers (net)	42,310	41,107	+2.9%
Customers' Resources	45,481	42,983	+5.8%
Total shareholders' equity	4,428	4,480	-1.2%
Net Interest Income	383.4	399.3	-4.0%
Net Fees and Other Income	215.3	197.0	+9.3%
Operating income	754.3	695.0	+8.5%
Net Operating Income	470.0	407.2	+15.4%
Income before taxes and non-controlling interests*	104.2	231.5	-55.0%
Consolidated net income attributable to the shareholders of ST, SGPS	81.4	172.9	-52.9%

RATIOS	Jun-21	Jun-20	Var.
ROE	3.5%	8.2%	-4.7 p.p.
ROA	0.3%	0.6%	-0.3 p.p.
Efficiency ratio	37.7%	41.4%	-3.7 p.p.
CET I ratio*	21.8%	19.7%	+2.1 p.p.
Tier I ratio*	24.1%	23.2%	+0.9 p.p.
Capital ratio*	24.5%	23.6%	+0.9 p.p.
Non-Performing Exposure Ratio	2.5%	2.8%	-0.3 p.p.
Non-Performing Exposure coverage ratio	73.3%	61.0%	+12.3 p.p.
Cost of credit	0.36%	0.27%	+0.09 p.p.
Loans-to-deposits ratio (tranformation ratio)	112.9%	114.0%	-1.1 p.p.

RATING	Jun-21	Jun-20
FitchRatings	BBB+	BBB+
long term	Baa3	Baa3
Standard & Poor´s	BBB	BBB
long term	A	A

Other Data	Jun-21	Jun-20	Var.
Employees**	5,795	6,195	-400
Employees in Portugal**	5,765	6,163	-398
Branches	418	525	-107
Total Branches and Corporate Centers in Portugal	410	517	-107

* Fully implemented with results net of payout

** Headcount criteria

EXTERNAL RECOGNITION

Best Bank in Portugal	Within the scope of the Awards for Excellence 2021**, *Santander Portugal was distinguished with the award*** "Best Bank in Portugal 2021**" by Euromoney magazine**. The awards distinguish the institutions that provided the best services to their customers, demonstrating leadership, innovation and dynamism in the markets in which they operate.
Best Investment Bank in Portugal	In the *Corporate Banking* area, the Bank was distinguished as well, and Santander received the award "***Best Investment Bank in Portugal 2021***." The magazine pointed out that "the corporate and capital markets business" meant that, despite the competition of other international banks, "the best investment bank came to the fore."
Best Bank in Portugal	The North American ***Global Finance*** magazine distinguished Santander Portugal as the "Best Bank in Portugal 2021," within the scope of the "World's Best Banks 2021." Several objective criteria were taken into account for selecting the winners, such as profitability, evolution of assets, geographic scope, strategy relationships, development of new business, and product innovation, as well as opinions of financial executives from around the world.
Most Reputed and Relevant Banking Brand	Within the scope of the Global RepScore Pulse study, published by the consultancy OnStrategy, Santander Portugal was ranked as the **"Brand with the best banking reputation and the greatest relevance in Portugal 2021."** The consultant highlights the brands that stood out the most in 2020, in a pandemic scenario, having assessed attributes such as notoriety, admiration, relevance, confidence, preference, and recommendation.
Best Trade Finance	Santander was distinguished by ***Euromoney*** magazine as the **"Best Trade Finance Bank 2021"** in Portugal, coming first in the "Market Leader" and "Best Service" categories. The magazine highlights the partnership that Santander has established with Portuguese companies, providing efficient, fast and secure services in foreign trade, as well as support provided to their internationalization in foreign markets.
Best Private Banking Services Overall	Santander Portugal *Private Banking* was considered by ***Euromoney*** magazine as the **"Best Private Banking Services Overall 2021"**. It is the tenth consecutive time that this publication distinguishes the outstanding service offered by the Bank to this segment. ***Euromoney*** again recognized the Bank's work in the ESG area, for the technological investment that has been made and for its commitment as a Responsible Bank.

Best Private Bank	Santander's Private Banking was distinguished by Global Finance magazine as the "Best Private Bank 2021" in Portugal, within the scope of "The World's Best Private Banks Awards for 2021." According to Global Finance, "the selected banks were the ones that best knew how to meet the specific needs of high-net worth clients, while at the same time they sought to improve, preserve and transmit their wealth. These were also the institutions that grew up to respond to those same needs."
Best Retail Bank	Santander was distinguished as **"Best Retail Bank in Portugal"** by the British magazine ***World Finance***, in this publication's annual awards. The magazine highlighted the Bank's leadership, based on its global scale and local scope, its customer-centric strategy, and diversification.
Settlement & Custody	Santander was awarded in the **"Settlement & Custody",** category, which distinguishes the financial intermediary that carried out the largest number of issuances of shares and bonds registered with Interbolsa (and not admitted to trading), weighted by the respective amounts.
Book Runner Bonds	Santander was awarded in the **"Book Runner Bonds"**, category for being the financial intermediary with the largest number of issuances and amounts placed in the securities identified in this category, listed on Euronext Lisbon.

Other awards and distinctions

Best Private Banking in the service categories, *Euromoney*

"NetWorth" Category : *High Net Worth Clients* (US$ 5 million to US$ 30 million); *Mass Affluent Clients* (US$100k – US$1m); *Mega High Net Worth Clients* (US$250m+); *Super Affluent Clients* (US$ 1 million to US$ 5 million); *Ultra High Net Worth Clients* (>US$30m - US$250m).

"Services" Category: *Capital Markets and Advisory*; *ESG/Impact Investing*; *Family Office Services*; *International Clients*; *Investment Management*; *Next Generation*; *Philanthropic Advice*; *Research and Asset Allocation Advice*; *Serving Business Owners*.

"Technology" Category: *Technology – Data Management and Security in Private Banking and Wealth Management; Technology – Innovative or Emerging Technology Adoption*

These awards are the responsibility of the entities that grant them

SOCIAL RESPONSIBILITY

ESG criteria incorporated in Santander Way

Environmental: supporting the green transition

Helping customers go green

Biodegradable & CarbonNeutral ® credit & debit cards, also for corporates

Participated in the **issuance of 750 million green hybrid debt** from EDP and acted as joint bookrunner in the **300 million green bonds** for REN

708 photovoltaic panels placed at the Porto University

Environmental footprint

-45% carbon emissions in 2020 . Goal of **75%** reduction in prints

Carbon Neutral in own our operations

100% of electricity from renewable sources

Social: building a more inclusive society

Talented & diverse team

43% women on the Board

24% women in leadership positions

1.9% employees with disabilities

Financially empowering people

318 475 people[1] since 2019

Supporting society

84 066 people helped in 1H21

4 000 scholarships/2021

Support line for social sector

Santander Golden for clients >65 who have been with the Bank for over 50 years

150 blood collections

Governance: doing business the right way

A strong culture

Simple, Personal, Fair

Family-Responsible Company – certificate of excellence efrA.

86% employees proud to work for Santander

e-NPS – Products & services*: recommend Santander as a place to work to friends and family +44

e-NPS – Employer of choice*: recommend Santander's products/services to friends and family +30

* Pulsos2020 (oct2020) - The Employee Net Promoter Score is calculated by subtracting the percentage of respondents who were Detractors from the percentage that were Promoters (e-NPS = Promoters % – Detractors %).

95% local suppliers & **300** suppliers certified last year

(1) Considering the support for vulnerable people in accessing financial services, products and financial education since 01/01/2019

Banco Santander is committed to its mission of contributing towards the development of people and companies, supporting inclusive and sustainable growth.

In the 1st half of 2021 Santander remained committed to supporting the Community, with a special focus on supporting the most vulnerable sectors of society and projects of Higher Education Institutions. In terms of supporting Society, 84.066 people were supported during this period.

Santander actively participated in initiatives such as the **"#AllTogether"** campaign, which brought together 10 banks and more than 30 companies, in order to raise funds for essential foodstuffs and medicines for vulnerable people and families. Through this initiative, €2,500,000 were raised, and more than 74,000 people were supported.

Santander also took part in the "Coronavirus Global Response – Donors Conference", organized by the European Commission, with the aim of speeding up the development, production and equitable access to vaccines, diagnoses and treatments. The Santander Group participated with €500,000, an amount shared between Santander Portugal and the Corporation.

Since the inclusion of everyone in Society is one of the Bank's main concerns, a 3-year partnership has been established with the **Portuguese Rugby Federation**, an alliance in which the Bank and the Federation intend to support and inspire inclusion and social responsibility initiatives, through shared values.

Within this same rationale, the protocol between Santander and the Salvador Association was renewed for two more years, whose objective is to promote the employability of people with physical disabilities.

Internally, the Bank promoted the 4th edition of the "Participatory Donation", a project in which employees vote on social and environmental projects to be supported by the Bank. The Portugal Alzheimer Association, Casa dos Rapazes, Ocean Alive, and the Hippotherapy Project were the chosen projects, having received a prize of €7,500 each.

Education remains as Santander's main focus, namely in promoting equal opportunities, such as the Santander Future Scholarships, aimed at young university students in need of financial support to begin or pursue their Higher Education studies, and the Santander Global Scholarships aimed at supporting university students looking for an international experience. Santander recently launched the **Sara Carreira Association Scholarships**, aimed at children and youngsters aged between 12 and 21, with financial constraints. Four thousand scholarships are expected to be awarded in 2021.

The Bank also supports innovative educational projects, such as "**42 Lisboa**", an academy with a revolutionary programming of international prestige, entirely free for students; the "U.Porto Santander Inspira-te" training course, aimed at encouraging the development of university projects with a positive impact on the community; or the Santander Skills | Innovation in Teaching Scholarships, in partnership with Laspau, aimed at university professors from 11 countries, to learn new teaching models from an innovative perspective.

Santander keeps supporting and encouraging the climate transition. It recently launched a new offer of biodegradable bank cards for the corporate segment, with a new image and various functionalities, in line with its commitment to sustainable, responsible banking.

As previously mentioned, Santander was a joint book runner in the issuance of €750 million of green hybrid debt by EDP, as well as in the issuance of €300 million of green bonds by REN.

In order to contribute to the sustainable development of the agricultural sector, the Bank took part in the 1st Iberian Agriculture Summit, supporting the sector with both its financial and non-financial offer. In this area, the Agricultural Equipment Renewal Plan was also made available to speed up the digitization and sustainability of Portuguese agriculture.

Santander was also present at the 15th Edition of GreenFest Portugal, the country's largest sustainability festival. An initiative was launched at all branches across the country to celebrate the World Environment Day, which took part in the collection of small household appliances and electrical equipment that were then delivered to the Local Voluntary Firefighter Associations. In a partnership with Electrão, the recycling of such equipment will raise funds to enable the purchase of a fire fighting vehicle.

This concern for the environment is also particularly present in the Bank's internal activities. The electricity consumed by Santander comes 100% from renewable energy sources and, since 2020, Santander has been carbon neutral by offsetting all the emissions generated by its daily activity.

In order to help its customers make more informed decisions regarding their finances, Santander makes its financial literacy blog available, having recently launched "O Salto – the Santander Community blog". Through this blog, the Bank provides content on a wide range of topics, including information on savings, moratoria, insurance, financial management or scholarships.

GOVERNING BODIES

BOARD OF THE GENERAL MEETING

Chair:	José Manuel Galvão Teles
Deputy-Chair:	António Maria Pinto Leite
Secretary	Company Secretary

BOARD OF DIRECTORS

Chair:	José Carlos Brito Sítima
Deputy-Chair:	Pedro Aires Coruche Castro e Almeida
Member:	Manuel António Amaral Franco Preto

AUDIT BOARD

Chair:	José Duarte Assunção Dias
Members:	Fernando Jorge Marques Vieira
	Ricardo Manuel Duarte Vidal Castro
Alternate Member:	José Luís Areal Alves da Cunha

STATUTORY AUDITOR

	PricewaterhouseCoopers & Associados, SROC, LDA.,
	represented by Aurélio Adriano Rangel Amado

EXECUTIVE COMMITTEE

Chair:	Pedro Aires Coruche Castro e Almeida
Member:	Manuel António Amaral Franco Preto

SALARIES COMMITTEE

Chair:	Jaime Pérez Renovales
Member:	Roberto di Bernardini

COMPANY SECRETARY

Full Secretary:	João Afonso Pereira Gomes da Silva
Alternate Secretaries:	Bruno Miguel dos Santos de Jesus
	Cristina Isabel Cristovam Braz Vaz Serra

BUSINESS FRAMEWORK

International Economy

More than a year after the onset of the pandemic, its effects are still being felt on the world economy, with new waves affecting most countries during the first half of 2021.

However, the economic policy measures implemented by the various Governments and Central Banks, as well as the good adaptation capacity of economic agents, plus the swift advancement of the vaccination process (in Europe and in the USA) mitigated, to a large extent, the adverse effects of successive pandemic waves. In this way, the ongoing recovery proceeded, at different speeds, but without being compromised.

World Economic Growth

	2020	2021 E	2022 P
World	-3.2	6.0	4.9
Advanced Economies	-4.6	5.6	4.4
USA	-3.5	7.0	4.9
Euro Area	-6.5	4.6	4.3
United Kingdom	-9.8	7.0	4.8
Japan	-4.7	2.8	3.0
Developing Countries	-2.1	6.3	5.2
Africa	-1.8	3.4	4.1
Asia	-0.9	7.5	6.4
China	2.3	8.1	5.7
Central and Eastern Europe	-2.0	4.9	3.6
Middle East	-2.6	4.0	3.7
Latin America	-7.0	5.8	3.2
Brazil	-4.1	5.3	1.9

Source: IMF (July 2021)

The most recent projections made by the International Monetary Fund (IMF), in the July update of the World Economic Outlook, are examples of such adjustment and recovery capacity, although they also show the differences and latent risks arising from either the capacity for adopting economic support measures, or, in particular, of the dynamics of the vaccination process.

On the one hand, the world economy could grow by 6% in 2021, according to the IMF, maintaining the forecast made in April. However, there are differences, with an upwards revision for the advanced economies, in contrast to a downwards revision for developing economies, where the consolidation of the recovery process is hampered by delays in the vaccination process.

The US is the economy where the recovery process is progressing at a faster pace, with a solid recovery pace (+6.4% annualized quarterly growth in Q1 2021). This dynamic stems from, on the one hand, lesser restrictions on mobility and on the closure of activities than what occurred, for instance, in Europe and, on the other hand, by the various stimuli packages adopted by American authorities. Namely, the plan worth 1.9 trillion dollars, implemented as of March, which included direct support to families of up to 1,400 dollars per person (the 3rd "check", after a first one in the amount of 1.2 thousand dollars in Q2 2020, plus another one of 600 dollars last December).

However, while the impact of this growth on the labour market has been quite strong, pre-pandemic unemployment levels have not yet been resumed. The unemployment rate in June 2021 stood at 5.9%, above the 3.9% observed in February 2020.

In the Euro Area, the recovery process has been more gradual, but it is gaining momentum. The recovery was delayed by a pandemic wave in the beginning of 2021, which required new restrictive measures, although differentiated between countries, with no new general lockdown and/or general closure of activities.

IMF projections follow the more optimistic view of the ECB, with strong growth in 2021. The restrictive measures applied in the first quarter of the year have delayed the economic recovery, especially in countries where tourism has a greater weight on GDP, due to the restrictions on tourist travelling. Only towards the end of the semester, with the progress in vaccination and the entry into force of the "digital vaccination certificate" was there a greater revival of tourist activity.

However, the measures taken by European governments have mitigated the main adverse effects on the labour market, thus there was a limited increase in the unemployment rate, which, combined with a general increase in the savings rate, created the conditions for supporting the recovery of private consumption.

The European Commission and the Council have already approved most of the national recovery and resilience plans, with the first funds reaching Member States during the summer, which will help boost economic recovery. The Recovery and Resilience Mechanism counts on a financial envelope of €750 billion, equivalent to about 5% of the European GDP, to be rolled out until 2026.

In emerging economies, the IMF notes that economic recovery seems to be lagging behind, largely as a result of the vaccination dynamics, since although global restrictions on activity were, overall, less adverse, but government support measures were also lower.

This difference in the vaccination dynamics, in access to vaccines, and in inoculation capacity, may become a risk factor, as it contributes to keeping the virus in circulation, thus creating the conditions for the emergence of new variants, which even affect populations with a high percentage of individuals with complete vaccination (as occurred in July with the Delta variant).

The main Central Banks continued to carry out expansionary monetary policies, including in the guidance given to economic agents. In fact, in addition to the low levels of reference interest rates, the programs for the acquisition of financial assets were maintained (especially in the euro area), and it was signalled that Central Banks could accept higher inflation for some time, before starting to reverse the current stimuli.

In July, the ECB also announced the conclusions of its review of the monetary policy strategy, a process that it had already started before the pandemic. The main change relates to the reviewed definition of price stability, which becomes inflation at 2.0% (instead of the previous “close to, but below 2%"). This results in a symmetry in the objective, making it easier for the ECB to act when inflation is below 2%. On the other hand, it allows for the accommodation of temporary increases in inflation that do not affect the medium-term horizon.

This proved to be a prominent topic in financial markets, as consumer prices accelerated in the first half of the year, particularly in the US, fuelling the debate on the emergence of inflationary pressures.

The rise in prices reflects the combination of several factors, including base effects (due to price drops for some goods and services when the pandemic started in 2020), and effects resulting from the faster recovery of activity, in 2021, without response capacity by producers, with the rise in the prices of metals, cereals and in the cost of transport. The oil price also rose to the highest value since 2018. The OPEC agreed to an increase in production, but with limited effects on the oil price (at 75 dollars a barrel at the end of July).

Fixed income markets initially reacted to the accelerated inflation, mainly with a rise in longer-term yields, but which was later reversed, with the message of policy stability by Central Banks. In the US, the 10-year yield reached a maximum of 1.7%, later setting at 1.3% at the end of July. In Germany, interest rates remained negative, but in May the 10-year yield rose to -0.1%, later setting at -0.4% at the end of July. In the Euro Area, the ECB has kept its asset acquisition programme — the PEPP (Pandemic Emergency Purchase Program) — despite the almost constant discussion about the monthly pace of acquisitions.

Portuguese Economy

In Portugal, the growth dynamics was quite similar, albeit with a slight delay, in the first quarter, due to the worsening of the pandemic situation, a new general lockdown was ordered between January 10th and March 15th, with the closure of all non-essential activities. Thus, GDP contracted by contagion effect in the first three months of 2021, after the stagnation recorded in the last quarter of 2020.

In the second quarter, a stronger growth was recorded, with a relatively broad-based recovery of economic activity.

Macroeconomic Data

	2020	2021 E	2022 P
GDP	-7.6	3.8	4.1
Private Consumption	-5.8	1.1	3.6
Public Consumption	0.4	2.2	2.2
Investment	-4.7	11.0	6.0
Exports	-18.6	11.6	9.6
Imports	-11.9	9.6	8.8
Inflation (average)	0.1	0.3	0.4
Unemployment	7.0	7.7	7.5
Fiscal Balance (% GDP)	-5.7	-4.0	-2.5
Public Debt (% GDP)	133.7	130.0	123.0
Current Account Balance (% GDP)	0.1	0.3	0.4

Source: INE, Banco de Portugal, Ministério das Finanças, Santander Portugal Research

In the second quarter, GDP grew by 15.5% year-on-year (+4.9% QoQ), consolidating the recovery momentum. This trend is validated by the evolution of the daily activity indicator calculated by the Bank of Portugal, but which reveals that, in July, economic activity has not yet recovered the 2019 levels.

Such positive trend reflects the evolution of tourism, although its slower recovery was already expected, which in the first half of this year is still below the 2020 levels. Only in July was the threshold of 50% of the adult population with at least one dose of vaccine overcome, the same month when the digital vaccination certificate came into force, designed to facilitate the circulation of fully immunized people within the EU. Restrictions on possible quarantine periods are only lifted for those who have completed their vaccination scheme.

Thus, the evolution in the export of services is mitigating the positive effects of the good performance of exports of goods, which, in the second quarter, were even above 2019 levels.

Investment has also showed signs of recovery. The construction sector never stopped during the pandemic, as also happened during the first lockdown. Productive investment in machinery, equipment and transport material has also continued to recover, in line with sales of commercial vehicles and imports of capital goods.

Private consumption also benefited from the lifting of lockdown measures, especially in terms of discretionary expenditure by households, namely on durable goods and on non-food goods and services. Consumption expenditure was supported, on the one hand, by the positive evolution of the labour market and, on the other, by the savings accumulated over the last quarters.

Public measures to support the labour market helped minimize the adverse impacts of the pandemic on unemployment, which remained at about 7% in the first half of 2021.

The household savings rate rose to 14.2% of disposable income in the first quarter, a maximum in the last two decades, which was accompanied by an increase in household financial assets. This buffer enabled, on the one hand, the normal resumption of consumption, once activities were reopened, and also to accommodate the end of the private (APB) moratorium on credit.

The moratoria (while the legal moratorium is still in force, covering 37.5 billion euros at the end of June), and the State-guaranteed credit facilities granted to companies explain part of the greater indebtedness of the private sector (to which is added the denominator effect, resulting from the GDP drop), but mortgage credit also continued to evolve positively, with an increase in new monthly production to the highest levels since 2008, above a billion euro monthly.

The level of indebtedness of the non-financial private sector increased to 203% of GDP (+15pp compared to Q120) in the first quarter. In the second quarter, it may come down by denominator effect, as happened with the public debt, whose ratio to GDP dropped by 5pp in the second quarter, to 132.8% of GDP, although still above pre-pandemic levels. (117% at the end of 2019).

Public support measures, as well as the recession resulting from the pandemic, had clear impacts on budget execution. In the 1st quarter, the general government balance recorded a 5.7% of GDP deficit, with the dynamics being explained by the decrease in tax revenues (especially indirect taxes), and by the increase in expenditure, in intermediate consumption, personnel and social benefits, but especially in subsidies (support to economic activity and job maintenance).

As mentioned above, the dynamics of the country's financing interest rates reflected the measures taken by the European Central Bank, particularly those arising from the PEPP. The 10-year yield, which in May reached a maximum of 0.6%, stood at 0.2% at the end of July.

The Country's credit rating by S&P, Fitch, and Moody's is BBB (stable), BBB (stable) and Baa3 (positive), respectively. DBRS still maintains the BBB high rating (stable).

Note: Text written with the information available up to July 31, 2021.

Major Risks and Uncertainties for the second half of 2021

The main risks and uncertainties for the activity of Banco Santander Totta in the second half of 2021, are still related to the evolution of the pandemic resulting from the Covid-19 disease, as well as from the measures adopted to mitigate its economic effects.

On the one hand, we have the risks related to the recovery of economic activity, in terms of speed and sustainability. If the second general lockdown — in force between January and March 2021 — revealed the resilience of the business fabric, as a whole, it also worsened the conditions in some sectors of activity and in weaker companies, especially in sectors related to tourism, although not exclusively. A homogeneous recovery across sectors is an important factor in mitigating risks.

Additionally, despite advances in vaccination, both in Portugal and in Europe, there are still risks arising from the possible emergence of new variants, with greater resistance to vaccination. This may generate health situations that may require restrictive measures, which can affect economic recovery.

In September, the legal moratorium will end, which at the end of June covered 37.5 billion euros, of which 22.3 billion were for companies. The Government announced a set of measures to support companies in the most affected sectors, with the possibility of granting public guarantee to a portion of the loan, but the Bank, as the whole of the banking sector, will have the instruments and follow-up mechanisms to mitigate any risks of non-compliance.

The level of indebtedness of the private sector in Portugal, is also a risk factor, due to the high levels and increased indebtedness as a result of the economic recession. In 2020, the availability of credit facilities guaranteed by the State allowed companies to finance themselves to face possible liquidity risks. This anticipated financing, combined with the economic recovery, could reduce future financing needs, reducing the demand for credit by companies.

Another factor is related to the intervention of central banks, which are keeping the reference interest rates at negative levels, and also maintaining their asset acquisition programs. Short-term interest rates remained quite low during the first half of the year, putting pressure on bank profitability.

Possible inflationary risks are also a factor of uncertainty. Economic recovery has been accompanied by an acceleration in the prices of raw materials, further enhanced by the increase in transportation costs. Additionally, the health crisis led to an increase in the prices of some goods and services, amplified by base effects. Central banks consider that the recent acceleration of inflation thus reflects one-off factors, not requiring changes in the way the monetary policy is conducted. However, investors may react adversely, resulting in a more pronounced rise in long-term interest rates, as occurred last May.

BUSINESS AREAS AND BUSINESS SUPPORT AREAS

Individuals and Businesses, Companies and Institutional

The 1st half of 2021 was very challenging for the commercial areas, not only due to the continuing pandemic situation, but also due to the accelerated transformation process of commercial areas, mainly in the Individuals and Business networks.

Commercial activity for Individual customers, in the 2nd quarter, continued on a positive trajectory, both in terms of Customer Experience (NPS), as well as in terms of commercial performance. New client service models were also developed with the introduction of remote tools at branch level, plus the reinforced weight of Santander Próximo (100% digital branch), together with an important improvement in processes and in the technological capacity of branches.

The focus on customer experience in all commercial banking activities and the constant measurement of NPS through Qualtrics has resulted in a gradual and consistent increase in NPS levels, both at the level of Bank NPS, at branch NPS, and at manager NPS. During the 1st quarter, Bank NPS grew by 3.8 points in the branch network, standing at 57.3 (within a maximum of 100).

New Service Models and Process Improvement

A new customer service model was launched last March — Hubs Select — a team of qualified managers in large branches with remote management and contracting tools aimed at servicing customers with a digital profile and high financial capacity. This service is being offered to customers who had their account at that branch or in smaller surrounding branches where they could not find this specialized service. With this new model, customers can carry out all operations remotely, but if they need or want to meet in person with an account manager at the branch, they can do so, subject to prior appointment.

Hub Selects complete the existing service models for customers with high financial capacity, which already existed through Select account managers (a fully face-to-face service at the branch), or through Santander Próximo (a fully digital, remote service).

Under the ***SIMPLER***, Programme, which started in the 1st quarter this year, a significant set of new processes came into effect that will facilitate commercial activity at branches and improve customer experience. Under this programme, new self-banking machines were also installed, in particular the **VTM** (automatic machines for depositing notes and coins and for change), and several advanced cashiers and corporate cashiers were also implemented (with greater efficiency in the processing of deposits at branch counters). On the other hand, a series of internal paperless processes have been consolidated. The main examples are **@credito** (personal credit process), new card issuance process (for individuals and companies), new **auto insurance contracting platform**, an **online account opening via the App**, among others.

Individuals

With the end of private moratoria (APB) at the end of March, the 2nd quarter necessarily started by paying special attention to clients who resumed their debt service. In some cases, the payment plan had to be adjusted, as the impact of the closure of some activities made it impossible for some households to return to their normal income levels and be able to meet their responsibilities. This process took place without major surprises, with close proximity to clients and very low default levels.

In the 2nd quarter, commercial activity was continued at branches and through remote sales, especially in the following families of banking products:

- **Protection insurance** — It is worth highlighting the impact of the current situation on reinforcing customers' awareness towards the need for personal and family protection in the various dimensions of their lives. In this context, life and health insurance stood out, which kept their coverage strengthened in the context of the pandemic. A new car insurance was also launched (a Mapfre Santander partnership) on the new contracting platform, which, in the future, will be the same for all protection insurances in all channels.

- **Savings and Investment** — It is worth noting the swifter growth in household savings (caused by the reduction in consumption). Term deposits remained with minimal interest rates, which meant that investment funds continued to be placed as the most sought-after way by clients to diversify their savings.
- **Means of Payments**, showed a very positive evolution in clients who make their monthly payments through Santander. We highlight the improved customer experience in all payment journeys, whether transfers, direct debits, purchases or payments for services, capitalizing on digital and mobile payments. There was also a good evolution in clients who intensified their relationship with Santander, thus increasing their loyalty and relationship with the Bank. Another highlight was the simplification of the cards offer, with a new image, with significant growth in debit and credit cards, with a relevant contribution from World 123, a world with more and more advantages.
- **Mortgage Loans** — Despite the various limitations resulting from the pandemic, the mortgage loan market kept its upward trajectory, and Santander Portugal

followed this growth, consolidating its leadership in the production of new mortgage loans with production market shares above 20%.

With the development of online trade in goods, is also worth mentioning Boutique Santander in this 2nd quarter, through which our clients can buy all types of items with a quality service and the possibility of being able to directly finance their purchases.

Companies and Institutional

Santander continued to focus on strengthening its presence in the **Business** segment, committed to contributing to its sustainable development. In the current context, of sharp slowdown in economic activity resulting from the impact that the pandemic is still causing, making the initiatives promoted by the Government (credit facilities with State Guarantee) reach companies remained as a main priority for the Bank.

Among other initiatives, Santander launched the **Agricultural Equipment Renewal Plan**, in the 2nd quarter, to accelerate the digitization and sustainability of Portuguese agriculture, in order to enable investment in equipment, equipped with precision techniques, through which farmers can reduce up to 25% their CO_2 emissions and induce cost savings in farm consumables.

The Bank kept its commitment to improving internal procedures and processes in order to ensure the availability of liquidity to companies, in a quick and timely manner, so that they can meet their commitments to third parties, namely employees, suppliers and the State.

The Bank also reinforced its omni-channel approach, in addition to the service provided by the physical network, with a strong investment in digital channels, which has greatly contributed to increasing our customers' autonomy, satisfaction and loyalty. This positioning of proximity and quality customer service allowed for the sustained growth of the business in the Corporate segment throughout the 1st half of 2021.

With regard to international business, the *Trade Finance* teams of specialists reinforced their proximity to Portuguese companies with a presence in foreign markets, seeking to support our clients in all the difficulties caused by the current situation. The support provided in operating foreign trade processes is worth highlighting, involving different countries and international operators, where the Bank had to continue to develop joint and coordinated work in order to successfully complete import and export operations.

Santander Portugal maintains a solid market share in most Trade Finance operations, an unmistakable sign of our customers' confidence in the Bank's professional structure, while also proving its image of solidity and credibility in international markets.

It is also worth noting the swift GPI offer to Portuguese companies, enabling the traceability of international transfers, both issued and received. Santander Portugal is the 1st and only national bank to offer this new capability to its customers, allowing them to validate the tracking and execution of international payments in real-time, as well as to check the status of transfers to be received from abroad.

With regard to Institutional Banking, Santander maintains its commitment to its clients in this segment, both in terms of public entities — due to its strong presence in the autonomous regions of the Azores and Madeira, and in municipalities —, as well as with private entities, with a special focus on the Social Economy, which have played a key role in supporting families with less resources during this pandemic period.

Foreign Customers and Residents Abroad

Portugal continues to be a country with an attractive legal framework for foreigners interested in investing in Portugal or living in Portugal permanently or with regular residence. On the other hand, the community of Portuguese emigrants residing abroad has a very significant importance.

Attentive to these two segments, the Bank has a team whose main objective is the creation of strong commercial ties and close proximity to the communities of Portuguese and Portuguese descendants living abroad, as well as the promotion and attraction of foreign customers who choose Portugal to invest and / or to establish their residence.

Last May, Santander launched a new remote service dedicated to customers residing abroad – *Santander Próximo International.* It is a digital branch, providing an innovative customer service, with all the technology for remote monitoring and a team 100% dedicated to these clients.

With this solution, any Santander customer residing abroad will be able to interact with the Bank without any restrictions, just as any other customer living in Portugal. With this service and with Group's geographic coverage in several countries, the network of representative offices has become redundant, and, as such, it has been gradually reduced. Since the end of June, all customers in Germany are already being supported through this service model.

Wealth Management and Insurance

After a 1st quarter with robust growth in all business indicators, the 2nd quarter confirmed this trend, with Santander Portugal's Private Banking having achieved, on June 30, very positive performances in most business indicators.

The macroeconomic context remained quite favourable, confirming the expectation of global economic recovery, and the effectiveness of the vaccine in protecting against Covid-19, as well as a significant reduction in serious situations and deaths. The main concern was related to possible inflationary pressures on both sides of the Atlantic, bringing some volatility to equity markets, however, without having changed the direction and the positive feeling of recovery, as evidenced by the appreciation of the Eurotoxx50 (Europe) and S&P500 (USA) indexes, with appreciations close to 15% in the year.

Thus, for most of Santander's Private Banking business indicators, the 1st half of 2021 was very positive, with a 7% growth in assets under management, as well as an 18% growth in off-balance sheet resources (funds, insurance, and discretionary portfolio management).

The robust growth of the Private Banking customer base is also worth highlighting, based not only on external prospecting activity, but also on the strong collaboration and support of the branch network and corporate centres in identifying clients in this segment.

For its part, Santander Asset Management (SAM) sought to actively manage its securities investment funds (SIF) and promote new solutions, within a framework marked by favourable investor sentiment. In this regard, stand out the launching of two new funds, Santander Investimento Global, and Santander Multi-Estratégia.

The semester was marked by a strong dynamic in the demand for investment funds, with net subscriptions of about 597 million. At the end of June 2021, the market share in securities investment funds reached 17.6%.

Real-estate investment funds totalled €281 million in June 2021, compared to €329 million at the end of 2020. Part of this drop resulted from a capital reduction operation of the Novimovest Fund, carried out at the beginning of the year.

Retirement solutions were a very important focus of the Bank's commercial activity, not least because of the needs brought to light by this pandemic, and because of a significant increase in the savings rate in Portugal. Products grew €94 million in Fund format (FPR's), and €29 million in Insurance format (PPR's), in the year.

In the financial insurance area, open financial insurances were quite actively promoted, in order to mitigate the maturities of insurances with defined maturity that occurred during the period, in the amount of about €216 million. An innovative product was also launched, oriented towards new trends, namely technology, sustainability and health.

The strategy developed had the desired effects, with the financial insurance portfolio increasing by seven million euros, reaching €3,571 million.

Corporate and Investment Banking

In the **Corporate & Investment Banking** area, the focus remained on customer proximity, and in offering solutions tailored to their needs. The focus on digital channels, highlighting the FX digital contracting platform (via NetBanco Corporate), proved to be fundamental in terms of customers' access to the Bank.

As from the beginning of the year, the loan portfolio increased by 0.7%. Compared to the same period last year, revenues showed a 4.5% reduction, justified by the delay in the completion of non-recurring operations. The net interest margin grew by 4.5%, compared to the same period in 2020.

It is important to highlight the distinction by Euromoney with the award "Best Investment Bank Portugal 2021."

In the **Global Debt Financing** area, the first six months of 2021 were marked by Santander's participation as bookrunner, in the following debt issuances: (i) EDP: issuance of a new 60-year maturity hybrid green bond, in the amount of €750 million; (ii) REN: issuance of a new 8-year maturity green bond, in the amount of €300 million.

During the first semester, several significant financing transactions were also completed in a wide range of sectors, with emphasis on several financing and refinancing operations in the real-estate sector, including property development for student residences, the retail sector, telecommunications infrastructure, and hospital infrastructure.

In the **Corporate Finance** area, it is worth highlighting the successful completion of financial advisory services to Atlantia in the announced sale of the 17.2% stake held in Lusoponte to MM Capital Partners, a subsidiary of Marubeni Corporation.

In the **Treasury** area, particularly in *Corporate and Commercial Banking*, the 1st half of 2021 represented the consolidation of an alternative client monitoring model, designed, tested and correctly implemented throughout 2020. Commercial dynamics and negotiation methodologies were renewed, new channels of communication and areas of collaboration came together, with the same focus and objective of maintaining service quality and the availability that our customers expect from us.

The rapid adaptation to this new reality was decisive for the growth of Santander's activity in exchange rate and interest rate risk management instruments, in the first six months of 2021. Specifically in the **Foreign Exchange Area**, it was possible to achieve activity growth based on the various contracting channel alternatives available to all clients. In this section, it is particularly noteworthy that, despite the widespread isolation that has kept many Santander customers working from their homes, all means for contracting foreign exchange transactions were always available, with a dedicated team permanently available in the Trading Desk, the commercial teams at the branches and commercial departments also available, and with the electronic platform available at NetBanco Empresas, ensuring an adequate response to all of our clients' needs.

The gradual reopening of trade, tourism and other economic activities, which took place throughout the quarter, supported the growth of spot and forward exchange contracting operations, leading to the 1st half of 2021, being one of the most active, over the last 5 years, in terms of traded volume, number of operations and active clients.

The increased volatility in most financial markets, in a context of macroeconomic uncertainty, has justified an even greater proximity to companies when they renew their financing or contract new credit operations. The predictable escalation of the inflation rate, the sharp increase in commodity prices (with Brent in the spotlight), and the uncertainty surrounding the policies that will be followed by Central Banks, give rise to a greater need for hedging interest rate risk, either for new financing or for those already in progress.

In this context, we have witnessed a significant growth in formalized fixed-rate credit operations throughout the 1st half of 2021, which demonstrates the availability of credit alternatives and support for entrepreneurs' decisions.

In the **Cash Equities** area, the volumes traded in equity markets, during the period from January to May, recorded a significant growth compared to the previous year. In the online business, Santander continued to outperform the market, having achieved a slight gain in the share of the volume of stock orders. According to data released by CMVM, the volume of share orders received by FIs in Portugal grew by approximately 18% year-on-year, totalling about €9,668 million. In the same period, Santander grew by 21.9%, to €779 million, which represents a market share of 8.1% (7.8% in the same period of 2020).

In the online business (Internet Website), the market grew by 20% to € 6,922 million, Santander having contributed with € 689 million, representing a 38.7% increase over the same period in 2020, and a share of 10% in the first five months of the year (compared to 8.6% in the same period last year). Santander's business continued to show better performance than the market, evidenced by its increased market share.

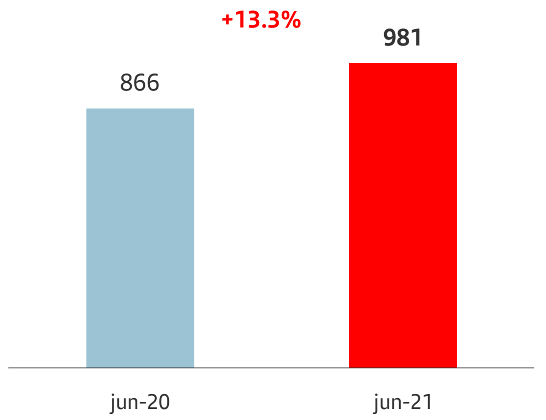
Digital Transformation

During the first six months of the year, Santander continued to enhance its digital transformation process. This process — boosted by the pandemic context — has the main objective of being closer to our customers and simplify processes through digital solutions.

At the end of the first half of 2021, the Bank had 981,000 digital customers, a 13% increase compared to the same period last year (150,000 more customers).

DIGITAL CUSTOMERS

Thousand



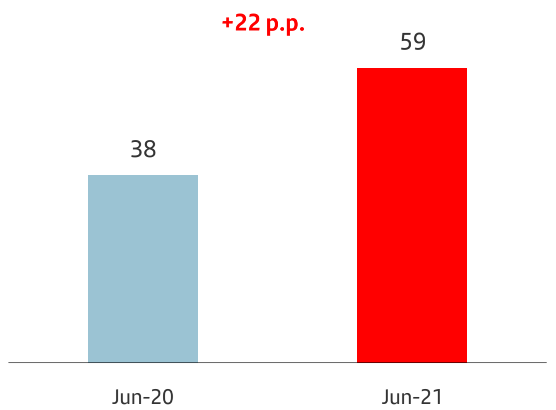
Individuals Channels

In June 2021, NetBanco had 439,000 users in NetBanco Private with logins in the last 30 days, a figure in line with the figure achieved at the end of 2020. On the other hand, the App showed a 10% growth in the number of users compared to the figure at the end of 2020 (+60 thousand users). Currently, 632,000 customers use the Private App at least once a month. This evolution reflects the growing trend towards "mobile first". Regarding the intensity of use, the average number of monthly logins per user was 8 logins for NetBanco, and 20 logins for the App. These figures are in line with those recorded at the end of the previous year.

The penetration of digital sales in individuals channels reached 59% at the end of the 1st half of the year, representing a significant increase of 16pp compared to the end of 2020, and 22pp compared to the same period of the previous year.

SALES THROUGH DIGITAL CHANNELS

%



Regarding satisfaction indicators, in 2021, the NPS (Net Promoter Score) for digital channels kept its positive trajectory, particularly at NetBanco. Compared to the end of 2020, the NPS of the Private App rose by 4 points, whereas at NetBanco it grew by 11 points.

The digital channels for the individuals' segment have 3 main objectives for 2021: i) increased coverage in the offer of products and services in digital channels; ii) lower the risks and impacts of non-compliance through the implementation of new digital "promise-to-pay" journeys and other recovery use cases; and iii) to develop features, improvements and initiatives that may contribute to increased satisfaction in the use of channels.

In this sense, the modernization process of NetBanco was continued. The implemented improvements reflect not only a more modern interface, but also a new information architecture, optimized for current client needs.

Regarding the increased offer of products through channels, the new SafeCare Saúde insurance was launched. The entire insurance offer existing in NetBanco was also made available through the Individuals App. NetBanco customers already have the possibility of making term deposits in different currencies, as well as the possibility of subscribing funds and PPRs on an occasional and periodic basis, simultaneously.

Customers with loans in arrears now have the possibility of paying a minimum amount, as well as the possibility to settle their debt through external accounts, with the Open Banking capabilities available in both channels.

In the Individuals App stands out the integration of the virtual assistant functionality ("Sandi") with the chat functionality with an agent. This feature allows our customers to get immediate clarification of various topics (e.g., products, channel navigation, among others). If the issue is not clarified, the client can talk in real time with an assistant. This functionality is also already available through NetBanco Individuals.

The functionality for opening a digital account through the Individuals App was also launched. With this feature, new customers can now open their first account with the Bank in a completely digital way, using a digital mobile key or through a video call.

At the same time, developments were continued for launching the new Individuals App that will bring new features and improvements in terms of usability. It is a project done in alignment with One Europe.

Corporate Channels

Throughout the semester, the strategy for strengthening the use of digital channels with Corporate clients was pursued, through continuous improvement and modernization of the existing functionalities.

Currently, at NetBanco Corporate, customers can consult new and improved pages for loans and escrow accounts. Our customers can also find out more information about their late payments and settle their situation through external accounts, with the Open Banking option. In addition, since last March, corporate customers can contract their Santander Business credit card through NetBanco Corporate, as well as manage their card limits completely online.

Through the App, our customers can consult their digital documents such as account statements and tax returns, as well as get proofs of their transfers from the details of account movements.

It is also possible to pay credit cards and provide simplified access to companies' credit card holders.

The number of App users increased by 14% (over 4 thousand users compared to the end of 2020), and the Bank is in the Top 2 in iOS (with a rate of 4.7), and in the Top 3 in Android (with a rate of 4.0) of Banking Apps for companies in App Stores.

Technology and Operations

The **Technology** area — in line with the business and digital transformation areas — acted on several initiatives aimed at providing employees and clients with more digital, simpler, and more integrated solutions, continuing to promote the adoption of new technologies, modern architectures, and agile development approaches.

Thus, several technological solutions were implemented and improved. Internally, namely the improvement of applications that support contracting processes, the monitoring of customers with more complete information, and greater efficiency in the execution of operations. Externally, improved solutions made available to our customers through more features and enhanced user experience.

In the first half of 2021, the particular context of the pandemic still had a relevant impact, in general terms, due to the challenges of the different work models, and, in particular, the need for a technological response to the management of public and private moratoria as an important support mechanism for households and businesses.

Along with the development and evolution of technological solutions, the Technology area kept an important focus on the compliance dimension, a fundamental pillar in Santander's operations, ensuring the implementation of initiatives to ensure compliance with legal and regulatory requirements, as well as the implementation of recommendations resulting from internal and external audits.

The IT strategy was updated during this period, considering the dimensions of technology, operating model and people, supported by a set of initiatives and measured through success metrics. The implementation of such IT strategy initiatives will help accelerate the transformation of information systems and the journey to the Cloud, the creation of enablers for digital transformation, and the promotion of a development model with greater agility and automation.

The **Operations** area pursued the transformation project with the same strategic objectives defined initially, including technological evolution, process automation, and the digitization of operations, guided by the quality of service provided to our clients and improved execution times (SLAs – Service Level Agreements) with a commitment to improve Customer NPS.

The first half of the year was essentially marked by the expansion of the Business Process Management (BPM) platform to commercial networks, where the integration of the platform in the commercial network framed with the ergonomics of the branch within the scope of its daily operations was guaranteed, enabling less duplication of activities with the automatic filling of data and validation within the context of the Bank's systems, the adoption of standardized forms, among others. This action helped to simplify operations, reduce the administrative burden, and offer a better user experience (e.g., end-to-end visibility of all tasks, assisted execution with a checklist of documents, among others).

Additionally, and along with these activities, all operation processes were assessed according to a joint vision of their execution, with the purpose of defining and implementing a set of automation and process reengineering initiatives, enabling the integration of transactions, easier execution and operational simplification, both in operations and in the commercial network. While also reinforcing sustainability and digitization criteria. The digital strategy aimed at operations increased its pace of implementation, with the aim of simplifying processes and reducing the consumption of physical documents in the workflow (leveraging the adoption of digital tools), thus helping to accelerate process execution and reduce costs by reducing paper consumption and space used for physical archives.

In a uniquely challenging context, accelerating the change processes in the banking sector motivated by the context of the Covid-19 pandemic led the Bank to become more digital, but also more secure, thus guiding the continued investment in the mitigation of **cybersecurity** risks, adding value and reinforcing clients' trust in the pursuit of their activities. These initiatives translated into the promotion of a cyberculture, in which the Bank intends to assume an increasingly active role in collaborating and sharing information, including with external financial and governmental entities. Additionally, the cybersecurity area is developing the cyber-excellence initiative, which translates into continuous improvement, certification and excellence of processes and services provided to clients and employees, as well as developing the capacity of cybersecurity area resources.

As a result of the pandemic context, there was an increase in events related to cybercrime, which motivated the adoption of collaborative activities between the fraud prevention and cyber defence areas, reformulating the operating model in order to materialize a holistic view of financial crime as it evolves and develops, mitigating its potential impacts in terms of detection, prevention and containment.

Aligned with the business and digital transformation areas, with the intention of delivering solutions that meet the expectations of customers and employees, the processes of developing secure systems — including automation techniques — continued to be one of the focuses of the area's activity, promoting safe deliveries, with greater robustness. In terms of information protection, the strengthening of control policies and systems contributed to strengthening our clients' confidence in the way the Bank protects data.

ECONOMIC AND FINANCIAL INFORMATION

Consolidated business

At the end of the first half of 2021, Santander Totta, SGPS achieved a net profit of €81.4 million, compared to €172.9 million recorded in the same period of the previous year, down by 52.9%, in an economic environment constrained by the pandemic situation.

Return on Equity (ROE) stood at 3.5%, and the efficiency ratio at 37.7%. (3.7pp below the June 2020 figure).

Gross loans totalled €43.4 billion, representing a year-on-year increase of 3.0%. Credit to individuals increased by 5.3%, and credit to companies grew by 0.5%. At the end of June 2021, the moratoria covered about 43 thousand customers, in the amount of €6.1 billion of credit (14% of the total portfolio), down by 28% compared to the figure recorded in December 2020, with maturity of the private moratoria at the end of March. Credit facilities guaranteed by the State amounted to €1.6 billion, reaching approximately 14 thousand clients.

The Non-Performing Exposure ratio stood at 2.5%, decreasing by 0.3 pp, compared to the 2.8% recorded in June 2020, with provisions coverage of 73.3% (12.3 percentage points more than in the same period last year).

Customer resources amounted to €45.5 billion, increasing by 5.8% over the same period last year, with an increase of 3.9% in deposits and 15.6% in off-balance sheet resources.

The Common Equity Tier 1 ratio (fully implemented) amounted to 21.8%, increasing by 2.1 percentage points compared to the same period last year.

The financing obtained from the European Central Bank, in the amount of €7.5 billion (€0.7 billion taken out in March 2021), was entirely based on long-term operations, through the TLTRO III (targeted longer-term refinancing operations) program. Net exposure to the Eurosystem stood at €0.7 billion.

In long-term financing, there are also €2.0 billion of mortgage bonds, €0.5 billion of senior preferred issuances, and €0.6 billion of securitizations.

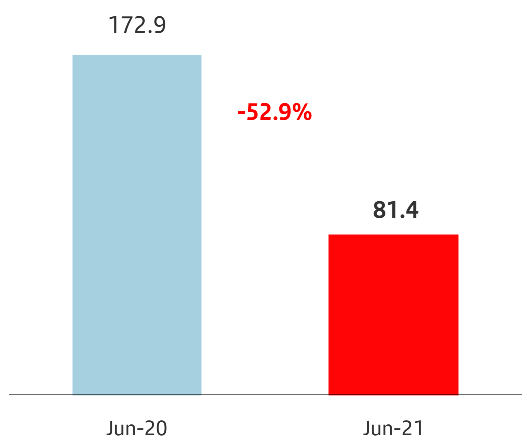
The liquidity reserve reached approximately €16.2 billion.

The Liquidity Coverage Ratio (LCR), calculated in accordance with the CRD IV rules, stood at 132%, thus meeting the regulatory requirement on the fully implemented basis.

Santander Totta has the best financial ratings in the sector. The Bank's current long-term debt rating notations compared to those of the Portuguese Republic are as follows: Fitch – BBB+ (Portugal – BBB); Moody's – Baa3 (Portugal – Baa3); Standard & Poor's – BBB (Portugal – BBB); and DBRS – A (Portugal – BBB high).

CONSOLIDATED NET INCOME
ATTRIBUTABLE TO THE SHAREHOLDERS OF ST, SGPS

million euro



Results

CONSOLIDATED INCOME STATEMENTS (million euro)	Jun-21	Jun-20	Var.
Net interest income	**383.4**	**399.3**	**-4.0%**
Income from equity instruments	1.5	1.7	-11.5%
Results from associated companies	6.4	5.1	+27.2%
Net fees	203.1	183.1	+10.9%
Other operating results	3.7	6.0	-38.4%
Insurance activity	8.5	7.8	+9.7%
Commercial revenue	**606.7**	**603.1**	**+0.6%**
Gain/losses on financial assets	147.5	91.9	+60.6%
Operating income	**754.3**	**695.0**	**+8.5%**
Operating costs	(284.2)	(287.8)	-1.2%
Staff Costs	(158.7)	(161.3)	-1.6%
General Administrative Costs	(100.1)	(100.6)	-0.4%
Depreciation in the year	(25.4)	(25.9)	-1.9%
Net operating Income	**470.0**	**407.2**	**+15.4%**
Impairment, net provisions and other results	(365.9)	(175.7)	+108.2%
Income before taxes and non-controlling interests	**104.2**	**231.5**	**-55.0%**
Taxes	(22.8)	(58.5)	-61.1%
Income after taxes and before non-controlling interests	**81.4**	**173.0**	**-52.9%**
Non-controlling interests	(0.0)	(0.1)	-67.6%
Consolidated net income attributable to the shareholders of ST, SGPS	**81.4**	**172.9**	**-52.9%**

* Non-audited results

At the end of June 2021, net interest income totalled €383.4 million, down by 4% from the €399.3 million recorded in the same period of 2020. This was due to lower market interest rates, with repercussions on the portfolio's indexes; to the lower credit spread, in a competitive market context; to the lower demand for credit by companies outside the scope of credit facilities guaranteed by the State; and to the management of the public debt securities portfolio.

The result generated by associated companies amounted to €6.4 million, increasing 27.2%, compared to €5.1 million recorded in the same period last year.

Net commissions reached €203.1 million, up by 10.9%, compared to the €183.1 million recorded a year earlier, in which account commissions stand out, with the offer of bundled accounts with a set of associated services and payment methods, and also associated with the placement of funds and insurances, reflecting the diversification of client resources and the strategic focus on autonomous insurances.

Other operating income stood at €3.7 million, 38.4% below the €6 million in the same period last year.

The insurance activity in the amount of €8.5 million grew 9.7%, compared to the €7.8 million in the same period last year, with a favourable evolution of the financial insurance portfolio.

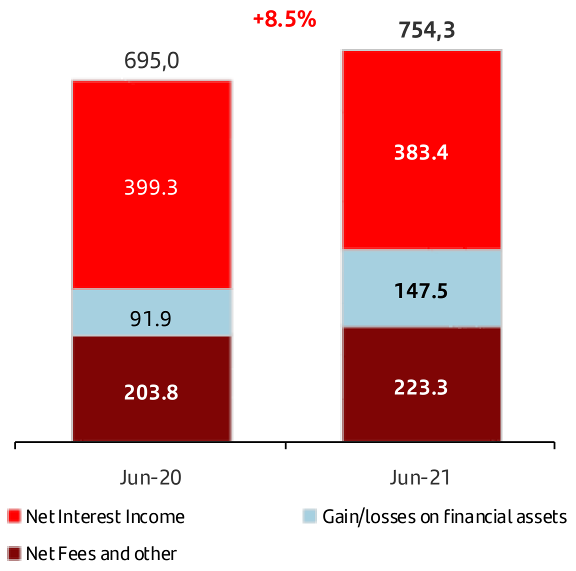
The commercial margin reached €606.7 million, 0.6% more than the €603.1 million recorded in the same period of 2020, with the favourable evolution of commissions, surpassing the reduction in the net interest income.

Operating income amounted to €147.5 million, up by 60.6% compared to the €91.9 million obtained a year earlier, influenced by the result generated in the management of the public debt securities portfolio.

Net operating income amounted to €754.3 million, up by 8.5% from the €695.0 million at the end of June 2020.

OPERATING INCOME

million euro



Operating costs totalled €284.2 million, down by 1.2%, compared to the €287.8 million recorded in the same period last year.

The transformation of the branch network, the simplification of product contracting processes, the development of new applications and technologies, the investment in digital channels and task automation, led to a reduction in costs and improved levels of satisfaction and experience by clients, further reinforcing their loyalty to Banco Santander.

The digitization and optimization of operational efficiency resulted in the reduction of 400 employees in the last year — through a pre-retirement and terminations by mutual agreement program —, and 107 branches.

Staff costs totalled €158.7 million, down by 1.6%, compared to the €161.3 million in the same period last year.

Other administrative expenses reached €100.1 million, up by 0.4% compared to the figure in June 2020.

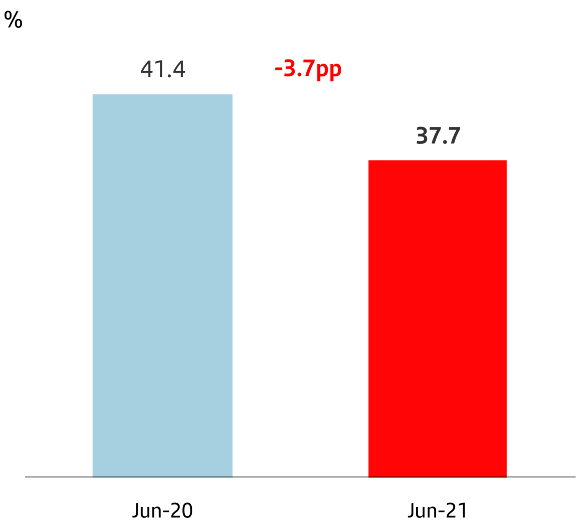
Depreciations totalled €25.4 million, down by 1.9% compared to the end of the 1st half of 2020.

In the operating cost structure, staff costs account for 56% of the total, followed by overheads at 35%, and depreciation at 9%.

OPERATING COSTS (million euro)	**Jun-21**	**Jun-20**	**Var.**
Staff costs	(158.7)	(161.3)	-1.6%
General Administrative Costs	(100.1)	(100.6)	-0.4%
Depreciation in the year	(25.4)	(25.9)	-1.9%
Operating costs	**(284.2)**	**(287.8)**	**-1.2%**
Efficiency ratio	**37.7%**	**41.4%**	**-3.7 p.p.**

At the end of June 2021, the efficiency ratio reached 37.7%, decreasing 3.7pp, compared to the 41.4% in June 2020, given the 8.5% increase in operating income and the 1.2% decrease in operating costs.

EFFICIENCY RATIO



Net operating income reached €470.0 million, increasing by 15.4%, compared to the €407.2 million recorded in the same period last year, translating the positive evolution in revenues and the downward trajectory of operating costs.

Impairments, net provisions and other results entailed a cost of €365.9 million, up by 108.2% when compared to the €175.7 million in the same period last year.

Net impairment of financial assets at amortized cost totalled a cost of €68.8 million, 31.8% less than the €100,9 million recorded a year earlier, keeping up with the preventive reinforcement of provisions for credit impairments, to cover potential losses with the non-payment of loans as a result of the pandemic situation, by incorporation of the forward looking component of the macroeconomic scenario, as evidenced by the various projections carried out by national and international institutions, which show a gradual recovery of economic activity, although differentiated between sectors of activity.

Net provisions and other results include an extraordinary provision of €235 million, for the Bank's transformation plan, through the optimization of the branch network and investments in processes, digitization and technology, with the consequent reduction in the number of employees, materialized in the pre-retirement and termination by mutual agreement programs.

There were also regulatory costs, with the Resolution Fund and with the Banking Sector Contribution in the amount of €67.2 million, higher than the €64.9 million in the first semester last year.

Income before taxes and non-controlling interests totalled €104.2 million, down by 55% compared to €231.5 million in the same period last year.

Taxes amounted to €22.8 million, a 61.1% decrease compared to €58.5 million recorded a year earlier.

At the end of the first half of 2021, Santander Totta, SGPS achieved a net profit of €81.4 million, down by 52.9% compared to the €172.9 million achieved in the same period of 2020, in an economic context affected by the effects of the pandemic situation.

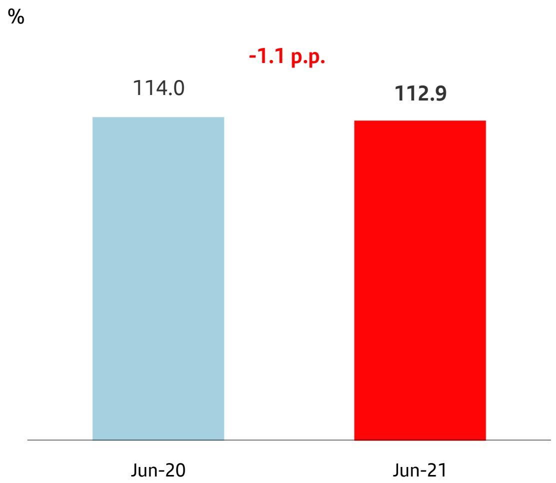
Balance Sheet and Business

At the end of June 2021, the business volume amounted to €88.9 billion, up by 4.4%, compared to the amount of €85.1 billion in the same period last year, resulting from the 3% increase in credit, and the 5.8% increase in clients' resources.

BUSINESS VOLUME (million euro)	Jun-21	Jun-20	Var.
Business Volume	**88,861**	**85,104**	**+4.4%**
Loans and advances to customers (gross)	43,380	42,121	+3.0%
Customers' Resources	45,481	42,983	+5.8%

The transformation ratio, measured as the ratio between loans and deposits stood at 112.9% in June 2021, 1.1 percentage points less than in the same period last year, the result of the growth of loans and advances lower than that of deposits

LOAN-TO-DEPOSIT RATIO (transformation ratio)



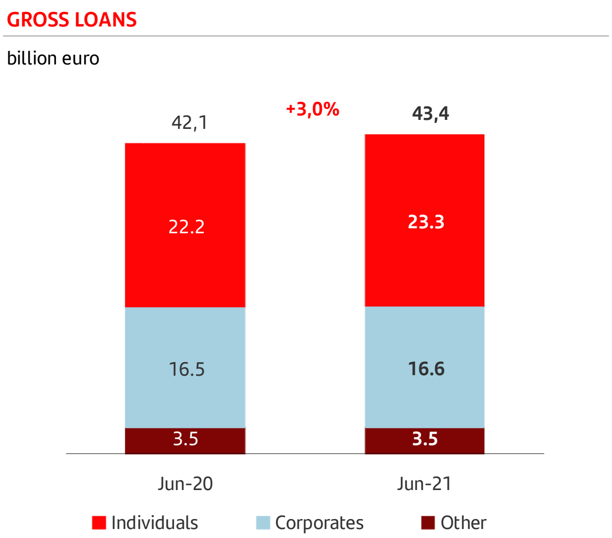
At the end of the first half of 2021, the (gross) credit portfolio totalled €43,4 billion, up by 3% compared to the same period last year, reflecting the application of moratoria to loans for households and businesses, and the production of credit facilities to support the economy within the context of the health crisis, plus the favourable evolution of the production of mortgage credit.

LOANS (million euro)	Jun-21	Jun-20	Var.
Loans and advances to customers (gross)	**43,380**	**42,121**	**+3.0%**
of which			
Loans to individuals	23,332	22,168	+5.3%
of which			
Mortgage	21,253	20,070	+5.9%
Consumer	1,668	1,679	-0.7%
Loans to corporates	16,569	16,488	+0.5%

Credit to individuals totalled €23.3 billion, corresponding to an increase of 5.3%, compared to the €22.2 billion in the same period last year.

Mortgage loans in the amount of €21.3 billion rose by 5.9% year-on-year. In the first half of the year, the Bank originated about €1.5 billion in mortgages. Consumer credit in the amount of €1.7 billion dropped by 0.7%, given the reduction in expenditure made by households, in an adverse economic context and with restricted mobility.

Credit to companies stood at €16.6 billion, growing by 0.5% compared to the same period last year, reflecting the volume associated with the protocoled credit facilities to support the economy, in order to deal with the slowdown in economic activity caused by the pandemic, mitigated by the lower credited provided to large companies.



The end of private moratoria, at the end of March, led to the resumption of the respective debt service, and in some operations the payment plan had to be adjusted, as the closure of some activities made it impossible for some clients to earn their normal income to be able to face their responsibilities. This process took place without deteriorating credit quality, translated into a reduction in the Non-Performing Exposure (NPE) ratio — calculated in accordance with the EBA definition — to 2.5%, compared to 2.8% in June 2020.

Coverage of Non-Performing Exposure by impairments reached 73.3% (12.3 percentage points more than the 61% a year earlier). The cost of credit stood at 0.36%, up by 0.09 percentage points, compared to the 0.27% in the same period last year, reflecting the preventive reinforcement of credit impairment, which was maintained to anticipate possible adverse effects of the pandemic.

CREDIT RISK RATIOS	Jun-21	Jun-20	Var.
Non-Performing Exposure Ratio	2.5%	2.8%	-0.3 p.p.
Non Performing Exposure coverage Ratio	73.3%	61.0%	+12.3 p.p.
Cost of credit	0.36%	0.27%	+0.09 p.p.

At the end of the first half of 2021, client funds amounted to €45.5 billion, a growth of 5.8% compared to the same period in 2020, with a 3.9% growth in deposits and of 15.6% in off-balance sheet resources.

RESOURCES (million euro)	Jun-21	Jun-20	Var.
Customers' resources	**45,481**	**42,983**	**+5.8%**
On-balance sheet resources	37,513	36,090	+3.9%
Deposits	37,513	36,090	+3.9%
Off-balance sheet resources	7,967	6,893	+15.6%
Investment funds	3,940	2,884	+36.6%
Insurance and other resources	4,027	4,009	+0.5%

Deposits amounted to €37.5 billion, up by 3.9% compared to the €36.1 billion in the same period last year, constituting the main source of funding of the balance sheet, and reflecting the contraction of household consumption, which favoured higher saving rates, plus the trust and connection of clients with the Bank, in a context of interest rates at historic lows.

Clients' off-balance sheet resources stood at €8.0 billion, up by 15.6%, when compared with the €6.9 billion in June 2020.

Investment funds managed or marketed by the Bank in the amount of €3.9 billion rose 36.6%, compared to €2.9 billion in the same period last year, in an environment of appreciation of the respective financial markets, favoured by the expectation of global economic recovery, and by the diversification of savings, given that investments in term deposits have minimal remuneration rates.

Insurance and other resources in the amount of €4 billion were down by 0.5% year-on-year.

Solvency Ratios

At the end of June 2021, Santander Totta had a Common Equity Tier 1 (CET 1) ratio — calculated according to CRR / CDR IV standards — of 21.8% (fully implemented), an increase of 2.1 p.p. compared to the 19.7% in the same period last year, reflecting the Company's ability to generate organic capital and the management of risk-weighted assets.

Considering the recommendation of the European Central Bank (ECB/2020/19) of March 27, 2020, the Board of Directors of Santander Portugal decided not to distribute dividends.

Santander Totta SGPS has a very high capitalization, above the minimum requirements set by the European Central Bank within the scope of the Supervisory Review and Evaluation Process (SREP). In 2021, CET1 was 8.3%, Tier 1 was 10.1%, and Total was 12.5%, in full implementation.

CAPITAL (million euro)	**Jun-21**	**Jun-20**	**Var.**
Common Equity Tier I	**3,824**	**3,463**	**+10.4%**
Tier I Capital	4,224	4,063	+4.0%
Total Capital	4,303	4,133	+4.1%
Risk Weighted Assets (RWA)	**17,534**	**17,540**	**-0.0%**
CET I ratio	21.8%	19.7%	+2.1 p.p.
Tier I ratio	24.1%	23.2%	+0.9 p.p.
Total Capital Ratio	24.5%	23.6%	+0.9 p.p.

RELEVANT FACTS AFTER THE END OF THE PERIOD

There were no relevant facts between July 1, 2021, and the publication of this Report.

RISK MANAGEMENT

Risk Management and Monitoring Model

Santander Portugal's risk management and control model is based on a set of common principles, an integrated risk culture across the Santander Group, a strong governance structure, and advanced risk management processes and tools.

Risk Principles and Culture

The principles of risk management and control are mandatory and must be applied at all times. They take into account regulatory requirements and best market practices. These principles are as follows:

- A solid risk culture (Risk Pro), which is part of the "Santander Way," and which is followed by all employees, covering all risks and promoting socially responsible management, contributing to the Company's long-term sustainability;
- All employees are responsible for risk management and must know and understand the risks generated by their daily activities, avoiding taking risks whose impact is unknown or exceeds the Company's risk appetite limits;
- Top Management shall ensure consistent risk management and control through its conduct, actions, and communications. In addition, it shall promote a risk culture within the Bank, assessing its degree of implementation and checking that the risk profile remains within the levels defined in the Company's risk appetite;
- Independence of risk management and control functions, according to the model with three lines of defence defined in more detail in the Risk Government section;
- Prior and comprehensive approach to risk management and control in all businesses and types of risks;
- Adequate and complete information management to help identify, assess, manage and communicate risks in an appropriate manner at the corresponding levels.

These principles, together with a series of interrelated tools and processes included in the Company's strategy planning, such as risk appetite, risk profile assessment, scenario analysis, and the structure of risk reports, plus budgetary processes, form a holistic control structure for the Santander Portugal.

Risk Identification and Management

The following key risks are established in the Corporate Risk Framework:

- Credit Risk: it is the risk of financial loss caused by non-compliance or deterioration in the credit quality of a customer or counterparty, which the Bank financed or with which it entered a contractual obligation;
- Market Risk: it is the risk incurred as a result of the effects that changes in market factors, interest rates, exchange rates, variable income and commodities, among others, may have on income or capital;
- Liquidity Risk: it is the risk that the Bank might not have the necessary liquid financial resources to meet its obligations as they fall due, or that can only be obtained at a high cost;
- Structural Risk: it is the risk of changes in the value or margin creation of banking book assets or liabilities as a result of changes in market factors and in the behaviour of the balance sheet. It also includes the risks associated with insurance and pensions, and the risk of the Santander Group not having sufficient capital, either in quantity or quality, to satisfy its internal business goals, regulatory requirements or market expectations;
- Operational Risk: it is defined as the risk of loss due to the inadequacy or failure of internal or personnel processes and systems or due to external events, including legal risk and risk of conduct;
- Regulatory Compliance Risk: it is the risk of non-compliance with legal and regulatory requirements, as well as with the expectations of supervisors, which can result in legal or regulatory sanctions, including fines or other economic consequences;
- Model Risk: it is the risk of loss resulting from wrong forecasts, which lead the Bank to adopt measures that are not the most appropriate, or from the inappropriate use of a model;
- Reputational Risk: it is risk of immediate or potential negative economic impact for the Bank due to damages on the perception of the Bank's image by employees, customers, shareholders / investors and society in general;
- Strategic Risk: it is risk of loss or damage resulting from strategic decisions or from their poor implementation, which have an impact on the medium- and long-term positioning of the main stakeholders, or that result from an inability to adapt to external developments.

In addition, the elements of climate-related risks - physical and transactional - are identified as factors that may exacerbate existing risks in the medium and long term.

The classification of risks is essential for their effective management and control. All identified risks must therefore be associated with the above-mentioned risk categories, in order to organize their management, control and related information.

Risk Governance

Santander Portugal has a robust risk management structure that seeks to effectively control its risk profile, in accordance with the appetite defined by the Board of Directors.

This governance structure is based on the distribution of roles between the three lines of defence, a strong committee structure, and a close relationship with the corporation. All of this is supported by a risk culture implemented throughout the Bank – Risk Pro.

The Bank follows a three-pronged model (lines of defence) to ensure effective risk management and control:

- 1st Line: Risk Management — business and support functions that create risks, and are primarily responsible for their management;
- 2nd Line: Risk Control and Supervision — risk control functions that control risk exposure, ensuring their supervision and questioning, enabling a holistic view of the risks involved in all activities;
- 3rd Line: Risk Assurance — Internal Audit, which ensures an independent analysis.

While each of the three lines of defence has a separate organizational structure and a certain degree of independence, they must collaborate whenever necessary to ensure that business objectives are met. The Risk, Compliance and Conduct, and Internal Audit areas have direct access to the Board of Directors and to its Committees.

1st line of defence: Risk Management

The business lines and all support functions that generate risk exposure constitute the first line of defence. The first line of defence identifies, measures, controls, tracks and reports the risks that they give rise to, and applies the policies, models and procedures that regulate risk management. Risk generation must be in accordance with the approved risk appetite and associated limits. The person in charge of any unit that gives rise to a risk is primarily responsible for managing that risk.

The first line of defence is responsible for the following:

- Establishing an appropriate environment for managing all risks associated with the business;
- Proposing, in collaboration with the second line of defence areas:
  - The risk appetite to the Board of Directors, for approval by the Board;
  - Lower limits proportionate to risk appetite, for approval by the relevant body.
- Implementing mechanisms to manage the risk profile within the risk appetite and lower limits;
- Ensuring that operating management models are effective for business needs.

The first line of defence shall support and promote the Bank's risk management culture.

Second Line of Defence: Risk Control and Supervision

The Risk, and the Compliance and Conduct areas, as the second line of defence, will independently oversee and challenge the risk management activities carried out by the first line of defence. This second line of defence shall ensure, within their respective scope of responsibility, that risks are managed in accordance with the risk appetite defined by top management, and shall promote a strong risk management culture throughout the organisation.

The second line of defence is responsible for:

- Overseeing risk management as carried out by the first line of defence;
- Checking compliance with established policies and limits, and assessing whether the business remains within the risk appetite;
- Questioning business proposals and issuing an opinion on them. It shall provide top management and business units with the necessary elements to understand the risks of different businesses and activities;
- Providing a consolidated view of risk exposure; including the risk profile;
- Providing detailed material risk assessments and closely monitor emerging risks;
- Defining the metrics that should be used in measuring risk, and reviewing and challenging the risk appetite and lower limits proposed by the first line of defence;
- Checking that there are adequate policies and procedures to manage the business within the defined risk appetite.

Within the Bank's structure, the second line of defence includes the Risks and the Compliance and Conduct areas, although the organizational structures within the second line of defence may vary by type of risk.

The responsibility of the second line of defence includes the obligation to report to the appropriate governing bodies, as required, the risks, risk appetite and breaches thereof.

The second line of defence shall adopt and promote a common risk management culture. It shall also provide guidance, advice and expert judgment on all relevant risk-related matters.

Third Line of Defence: Risk Assurance

Internal Audit is a permanent function, independent of any other function or unit, whose mission is to provide the Board of Directors and Senior Management with an independent guarantee on the quality and effectiveness of the internal control, risk management (current or emerging countries), and governance processes and systems, thus contributing to protecting the organisation's value, solvency and reputation. To this end, the Internal Audit evaluates:

- The effectiveness and efficiency of the processes and systems referred to above;
- Compliance with applicable supervision regulations and requirements;
- Reliability and integrity of financial and operational information;
- Patrimonial integrity.

The Risk, Compliance and Conduct and Internal Audit areas are adequately separated and independent, and have direct access to the Board of Directors and to its Committees.

Risk Committee Structure

The Board of Directors is responsible for risk management and control and, in particular, for the approval and periodic review of risk appetite and for framing risk, as well as for promoting a strong risk culture throughout the organization. In order to perform these functions, the Board depends on several Committees with specific risk-related responsibilities.

The ***Chief Risk Officer (CRO)*** is responsible for monitoring all risks, and for questioning and advising business lines on risk management. The CRO has direct access to the Board of Directors and to the Executive Committee.

Other bodies that together form the highest level of risk governance, with powers delegated by the Executive Committee, are the Executive Risk Committee and the Risk Control Committee, which are detailed below.

- *Executive Risk Committee (ERC)*

  This Committee is the highest body in risk decision-making. The Executive Risk Committee takes decisions on risk-taking at the highest level, ensuring that they are within the limits set by the Bank's risk appetite.

  Chair: Chief Executive Officer (CEO).

- *Risk Control Committee (RCC)*

  The Risk Control Committee is responsible for risk control, determining whether the risks arising from business lines are managed according to the risk appetite limits set by the Bank, taking into account a holistic view of all risks. This involves identifying and monitoring current and emerging risks, and assessing their impact on the Bank's risk profile.

  Chair: *Chief Risk Officer (CRO)*.

In addition, each risk factor has its own regular forums and / or committees to manage and control the relevant risks.

Management Processes and Tools

With the objective of effectively controlling and managing risk, the Bank has a series of key processes and tools, as described below:

Risk appetite and limit structure

At the Bank, the Risk Appetite (from the acronym RAS - Risk Appetite Statement), is defined as the amount and type of risks that it is considered prudent to accept in the execution of the business strategy so that the Bank can maintain its normal activity in the event of unexpected events. When establishing this appetite, various adverse scenarios that may have a negative impact on the levels of capital, liquidity, profitability and / or share prices are taken into account.

The Board of Directors establishes the risk appetite annually, and it is then transferred to management limits and policies by type of risk, portfolio and business segment, within the defined rules.

Business Model and Risk Appetite Fundamentals

The risk appetite is consistent with the Santander Group risk culture and business model. The main elements that define this business model and support risk appetite are the following:

- A medium-low, predictable risk profile based on a business model centred on commercial banking, with an internationally diversified presence and significant market shares, with a wholesale banking business model that gives priority to client relations in the main markets of the Group;
- Generation of stable, recurring earnings and shareholder remuneration, on a strong capital and liquidity basis with an effective diversification of financing sources.
- A structure of independent, autonomous subsidiaries in terms of capital and liquidity, ensuring that no subsidiary has a risk profile that could jeopardise the Group's solvency.
- An independent risk function with Senior Management involvement that reinforces our strong risk culture and a sustainable return on capital.
- A global, holistic view of all risks within a robust control and monitoring environment: all risks, all companies, and all countries.
- A business model centred on those products in which the Group considers itself as sufficiently knowledgeable and capable of effective management (systems, processes, and resources).
- A model of conduct that takes care of the best interests of our employees, clients, shareholders, and society in general.
- A remuneration policy that aligns the individual interests of employees and managers with the Group's risk appetite, and is consistent with the Group's long-term performance.

General Principles of Risk Appetite

The risk appetite in all entities belonging to the Santander Group, including Santander Totta SGPS is governed by the following principles:

- **Responsibility of the Board and Top Management.** The Board of Directors is the ultimate responsible for defining the Bank's risk appetite, as well as for monitoring compliance therewith.
- **Enterprise-wide risk, comparing and questioning the risk profile.** The risk appetite must consider all significant risks, facilitating an aggregated view of the risk profile through the use of quantitative metrics and qualitative indicators.
- **Forward-looking view.** Risk appetite should consider the desirable risk profile in the short and medium term, taking into account both the most likely circumstances, and the

adverse or stress scenarios).

- **Linked to strategic and business planning.** Risk appetite is a fundamental component of strategic and business planning, and it is integrated into management through its translation into management policies and limits, as well as through the participation of all lines of defence in key appetite processes.
- **Common principles and a common risk language for the entire organization.** The risk appetite of the various units, including that of the Bank, is in line with the Group's risk appetite.
- **Periodic review, comparison and adaptation to best practices and regulatory requirements.** Follow-up and control mechanisms to maintain the risk profile, and thus adopt the necessary corrective and mitigating measures in case of non-compliance.

Limit, follow-up and control structure

Risk appetite is expressed in qualitative terms and by limits, structured around 5 main axes:

1. Income volatility:
   - Maximum loss that the Bank is willing to take in the face of a chronic stress scenario.
2. Solvency:
   - Minimum capital position that the Bank is prepared to take in a chronic stress scenario;
   - Maximum leverage level that the Bank is willing to take in a chronic stress scenario.
3. Liquidity:
   - Minimum structural liquidity position;
   - Minimum liquidity horizons that the Bank is willing to take in the face of various chronic stress scenarios;
   - Minimum liquidity coverage position.
4. Concentration:
   - Concentration by individual client;
   - Concentration on non-investment grade counterparties;
   - Concentration on large exposures.
5. Non-Financial Risks
   - Qualitative indicators on non-financial risks:
     a. Fraud
     b. Technology
     c. Security and cyber risk
     d. Litigation
     e. Miscellaneous
   - Maximum operational risk losses;
   - Maximum risk profile.

Compliance with risk appetite limits is monitored regularly. The specialized control areas inform the Board and its Committees on a monthly basis regarding the risk profile.

Linking risk appetite limits to the limits used in managing business units and portfolios is a key element for ensuring the effectiveness of risk appetite as a management tool. Thus, the policies and limits used in management, for the various types and categories of risk, are directly related to the principles and limits defined for risk appetite.

Risk Profile Assessment (RPA)

Exercises are carried out at the Bank to identify and assess the various types of risks to which it is exposed, involving all lines of defence, establishing management standards that comply with regulatory requirements, reflecting the best market practices, and reinforcing the Bank's risk culture.

The results of Risk Identification and Assessment (RIA) exercises are included in the assessment of the Bank's risk profile, known as RPA. This exercise analyses the evolution of risks and identifies areas for improvement in each block:

- **Risk performance**, in order to know the residual risk for each type of risk through a set of metrics and indicators calibrated according to international standards;
- **Evaluation of the monitoring environment,** which assesses the degree of implementation of the target operational model as part of our advanced risk management;
- **Prospective analysis,** based on stress metrics or on the identification and assessment of the main threats to the Bank's strategic plan (Top Risks), allowing the establishment of specific action plans to mitigate their potential impacts.

Scenario analysis

Another fundamental instrument used by the Bank to ensure robust risk management and control is the analysis of the possible impacts arising from different scenarios related to the environment in which the Bank operates. These scenarios are expressed both in terms of macroeconomic variables, as well as through other variables that affect the Bank's risk profile.

This "scenario analysis" is a very useful tool for risk management at all levels.

In order to assess the Bank's resistance to stress scenarios, as well as to identify possible mitigation actions to be implemented, should the forecasted scenarios start to materialize. The objective is to reinforce income stability, as well as that of the capital and liquidity levels.

Risk Management in the 1st half of 2021

Introduction

For Santander Portugal, quality in risk management is a fundamental axis of its activity, in keeping with the corporate policy of the Group to which it belongs. Prudence in risk management combined with the use of advanced management techniques was a decisive factor, in the last year and a half, not only due to the emergence of the pandemic that affected the entire world, but also due to the continued demands from the financial markets.

The Group's strong risk culture is embedded across the entire activity and structure of the Bank, decisively influencing the way in which all processes are carried out, taking into account not only the surrounding environment, but also attitudes, behaviours, values and the principles that each of us demonstrates in the face of the different types of risks we face. This risk culture is especially important in very challenging times, such as this last year and a half, enabling both the Bank and the various teams to swiftly adapt to different circumstances.

Credit Risk - Main vectors of the business

The first half of 2021 was marked by the continued careful management of the pandemic in the day-to-day commercial and risk management of our clients.

The intensity of the client monitoring and follow-up work was maintained, namely through the first line of defence (Commercial area), jointly with the second line of defence (Risk area).

Periodic analyses of the most critical and worrisome sectors were conducted, based on the study and analysis of client portfolios, consisting of 4 chapters:

1. **Sectoral framework**: a brief sectorial analysis based on the collection of information available from various official information sources;
2. Analysis of the universe of portfolioed customers (customers with a risk manager): analysis of the main risk metrics and individual analysis (jointly between the Commercial and the Risk areas) of the main economic groups, establishing an outlook / degree of concern for them;
3. **Analysis of the universe of non-portfolioed customers (customers without a risk manager): the main risk metrics for this type of customers were analysed (level of classification of operations** Stage 1 – without increased risk; Stage 2 – with significantly increased risk; Stage 3 – *Non-Performing Exposure*), level of hedging by guarantees; type of contracted products, among others.
4. **Conclusions / Credit Policies to be adopted**: as a result of the previous analysis, guidelines were defined for the Commercial and Risk areas in the future management of credit risk.

All these studies were presented in a specific forum for each of them, in which members from the Commercial and Risk areas took part. They were also presented and discussed in the Bank's last credit decision step.

For customers (private individuals and small companies) whose credit decision is made mostly through decision-making models considered as "automatic", factors have been incorporated that help mitigate and anticipate potential future problems arising from the pandemic and after the end of the moratoria.

The analysis and monitoring of behavioural metrics in these clients were strengthened in order to detect in advance the possible deterioration in their real payment capacity.

The maturity of private moratoria was monitored on a daily basis, monitoring the maturities of instalments and their respective settlement.

Commercial solutions were made available to clients who expressed the need to keep receiving support, so that they could balance themselves financially and meet their credit responsibilities.

The basic operating principles regarding the analysis and granting of credit risk remained unchanged:

- Maintaining the principle of segmentation in the processing of credit risk, differentiating the approach to risks in the light of the characteristics of the clients and of the products;
- Maintaining the strictness of the admission criteria and, consequently, of the quality of risk admitted in each segment, with a view to preserving the good quality of the loan portfolio;
- At the level of portfolioed risks the policy of proximity with customers was reinforced, in order to anticipate their credit needs, the reviews of their credit lines, and forestall possible problems in their repayment ability;
- This action and the loan quality level of the Bank's clients, allowed non-performing loans and credit at risk to be kept under control and at acceptable levels;
- The development of improvements in admission processes in order to respond to client requests in a quicker and more effective way has been continued;
- The pandemic implied the intensification of client monitoring and review meetings, which is the Bank's usual practice, and which is included in its internal policies, for the early detection of loan-portfolio alerts;
- In the standardised (or not portfolioed) risks, with a view to ongoing improvement and efficiency of the admission process, and bearing in mind the objective of portfolio quality, the Bank conducted the update and maintenance of the automatic decision models, particularly the scoring and behavioural systems used in the Individuals and Business segments;

- Also, in the matter of standardised risks, the focus remained on ensuring portfolio quality, always seeking to anticipate the deterioration of the quality of the credit portfolio;
- Thus, the defined admission strategies were maintained in the Bank's decision-making systems, as was recourse to behavioural systems for identifying preventative and roll-over measures to be offered to customers ;
- In terms of Corporate Risk Management, the permanent focus on knowledge and monitoring of the loan portfolio was maintained, with a view to strictly control its risk, seeking to provide adequate and timely management information in order to allow measures to be taken with a view to proper management of the Bank's risks;
- Attention was also paid to the Bank's in-house models, almost all of which have already been recognised (by the Regulators) as advanced (IRB) models for the calculation of the own-funds requirements, as well as their increasing inclusion in management.

Credit Risk

Credit risk is originated by the possibility of specific losses arising from non-fulfilment of all or part of the financial obligations contracted with the Bank by its customers.

The organisation of the credit-risk function at Banco Santander Portugal is specialised in the light of the customer typology, throughout the entire risk-management process, between portfolioed customers (made-to-measure or personalised treatment), and standardised or mass-treatment customers (not portfolioed).

Portfolioed clients are those that, fundamentally due to their level of risk, are assigned a risk analyst. This group includes wholesale banking companies, financial institutions and some of the retail banking companies. The assessment of these clients' risk is performed by the analyst, supplemented with decision-support tools based on in-house risk-assessment models.

Standardised customers are those that do not have an assigned risk analyst specifically designated to monitor them. This group includes Private customers, Individual Entrepreneurs and non-portfolioed Retail Banking companies. Assessment of these risks is based on in-house valuation and automatic decision-making models, complemented by specialised risk-analyst teams in a subsidiary manner when the model is not sufficiently precise.

Risk measurement metrics and tools

The Santander Bank uses its own in-house classification or ratings for the different customer segments to measure the credit quality of a customer or transaction, each rating or scoring corresponding to a likelihood of default.

The overall classification tools are applied to the country-risk, financial institutions and global wholesale banking segments, both in determining their rating and in monitoring the risks assumed. These tools assign a certain rating to each client as a result of a quantitative or automatic module, based on data/balance sheet ratios or macroeconomic variables, complemented by the analysis performed by the risk analyst assigned to monitor the given client.

In the case of retail banking companies and institutions, the assignment of a certain rating is based on the modules referred to above, in this case quantitative or automatic (analysing the borrowing behaviour of a sample of clients and its correlation with a set of data and accounting ratios), and qualitative, entrusted to a risk analyst for analysis, who shall perform the final review of the rating assigned.

The ratings assigned are reviewed periodically, incorporating new financial information that meanwhile becomes available, as well as, at qualitative level, the experience arising from assessment of the existing credit relationship. This frequency increases in the case of clients for whom the internal risk alert and classification systems so require.

For the standardised-risk portfolios, both of Private individuals and of not-portfolioed businesses, scoring tools and decision-making models are implemented, which automatically assign an assessment/decision of the transactions presented. These decision tools are complemented with a behavioural scoring model, an instrument that allows greater predictability of the risks assumed and are used both for pre-sale and for sale.

Credit risk parameters

Client and/or transaction evaluation by rating or scoring constitutes an assessment of the creditworthiness, which is quantified by the likelihood of default (PD). In addition to evaluating the client, quantitative risk analysis considers other aspects such as the term of the transaction, the type of product and the existing collateral. What is thus taken into account is not just the likelihood that the client may not fulfil its contractual obligations (PD) but that the exposure at default (EAD) may be estimated as well as the percentage of the EAD that may not be recovered (loss given default or LGD).

These are the factors (PD, LGD and EAD) that constitute the main credit-risk parameters, which, taken jointly, allow a calculation of the expected loss and the unexpected loss. The expected (or likely) loss is considered an additional activity cost (reflecting the risk premium), and this cost is appropriately reflected in the price of the operations; and the unexpected loss, which is the basis of the calculation of regulatory capital under the rules the Basel capital accord (BIS II). This unexpected loss is in respect of a very large, though rather unlikely loss that, given its nature, is not considered recurrent and must therefore be duly covered by own funds.

In small and medium enterprises, the balance-sheet information serves not only to assign the rating, but also to obtain explanatory factors of the likelihood of default. In retail portfolios, the PD is calculated by observing the entries into default, correlating them with the scoring assigned to the transactions. Excepted are portfolios in which, as a result of lesser in-house default experience, such as financial institutions, country risk, or global wholesale banking, the calculation of these parameters is performed on the basis of alternative sources of information, such as market prices or studies by agencies of recognised experience and expertise with a portfolio of a sufficient number of entities (these are designated as low-default portfolio).

LGD calculation is based on the observation of the process of recovery of defaulting transactions, taking into account not only the revenues and costs associated with this process, but also the moment they are produced and the indirect costs arising from the recovery activity.

The EAD estimate is based on the comparison of the use of the compromised credit facilities at the time of default and in a normal situation, in order to identify the real consumption of the credit facilities at the time of default.

The estimated parameters are immediately assigned to transactions that are in a normal situation, and are differentiated for low default portfolios and for the others.

Credit-risk Cycle

The risk-management process consists of identifying, measuring, analysing, controlling, negotiating and deciding on the risks incurred by the Bank's operations.

This process begins in the business areas, which propose a certain propensity to risk. These risks are analysed by special committees, which act under powers delegated by the Executive Committee on the Executive Risk Committee (ERC). The ERC establishes the risk policies and procedures and determines the limits and delegation of powers.

Planning and establishing limits

Establishing risk limits is conceived as a dynamic process that identifies the risk profiles that the Bank is willing to assume through the assessment of the business proposals and the opinion of the Risks area.

A pre-classification model is used for large corporate groups, a model based on an economic capital measurement and monitoring system.

At the level of the portfolioed risks, the most basic level is that of the client and when certain characteristics are involved — usually a level of relative importance — it is subjected to an individual limit, usually called pre-classification, through a more simplified system and usually for those clients who meet certain requirements (good knowledge and rating, etc.).

At the level of standardised risks, the planning and limit setting process is undertaken by means of joint preparation, by the Risk and Business areas, of the Strategic Commercial Plans (PEC), where the expected results of the deal in terms of risk and profitability are reflected, as are the limits to which the activity, the management of the associated risks, and the means of support required must be subjected.

Study of the risk, transaction decision, and monitoring and control

Studying the risk involved is a prerequisite for authorising any credit operation at Santander Portugal. This study consists of analysing the client's ability to fulfil its contractual obligations towards the Bank, entailing the credit quality of the client, its credit operations, its solvency and profitability. Additionally, a study and review are conducted of the valuation assigned when there is an alert or event that affects the client/transaction.

The purpose of the transactions-decision process is their analysis and decision, taking into account the risk profile and the relevant elements of the transaction in the definition of a balance between risk and profitability.

In order to maintain adequate quality control over the loan portfolio, in addition to the actions carried out by Internal Audit, there is a specific monitoring function within the Risk area, comprising teams and their heads. This function is also specialised in the light of client segmentation and is fundamentally based on a continuous process of observation, allowing advance detection of possible occurrences in the evolution of risk, of the transaction, and of the client, for the purpose of implementing measures, in advance, to mitigate them.

Irregularities and Recoveries Management

Recoveries management at Santander Portugal is a strategic, comprehensive and business activity. The specific objectives of the recoveries process are the following:

- Ensure the collection or settlement of amounts in an irregular situation, favouring negotiated solutions for the customer's loan situation to return to normal. If a negotiated solution is not possible, an effort will be made to recover the loans through the courts.
- Maintain and strengthen the relationship with customers, safeguarding their behaviour regarding the commitments they have contractually entered into with the Bank.

Recoveries activity is structured in keeping with the commercial segmentation of clients: Private Individuals, Businesses and Companies, with specific management models. The management of recoveries, so segmented, also respects the different management stages: preventive management, management of irregularities, and management of non-performing loans and bankruptcies, each of which has specific models, strategies and circuits. This activity is shared with the business areas.

In May 2020, Santander Portugal initiated the development of an End to End transformation project, called “Collections and Recoveries,” which aims at the massive management of (non-portfolioed) clients, through the development of strategies, procedures and commercial offers in an omnichannel environment (differentiated communication channels according to the type of client), constituting an advanced approach, to help manage any impacts after the end of the moratoria in this segment of private clients and micro and small companies.

Counterparty risk

Counterparty risk, latent in contracts entered into in financial markets – organised or over-the counter (OTC) markets – consists of the possibility of default by the counterparties of the contracted terms, and subsequent occurrence of financial losses for the institution.

The types of transactions involved include the purchase and sale of securities, interbank money market transactions, contracting repos, loans of securities and derivative instruments.

Control of these risks is performed through an integrated system that allows approved limits to be recorded, and provides information as to their availability for the various products and maturities. The same system also allows transverse control of the concentration of risks by certain groups of customers/counterparties.

The risk in derivative positions, called Credit Risk Equivalent (CRE) is calculated as the sum of the present value of each contract (or current replacement cost) with the respective potential risk, a component that reflects an estimate of the maximum amount expected to maturity, depending on the volatilities of the underlying market factors and contracted flow structure.

During 2020 current exposure of the transactions on interest-rate indexes (Euribor) decreased sharply, reflecting the evolution of medium- and long-term market rates. With regard to exposure to financial groups, structural interest-rate risk hedging transactions were maintained, having the LCH Clearnet as clearing house. BANIF's securitization operations were maintained. The amount of exposure of derivatives with the financial groups dropped significantly due to the increase of the risk coefficient of the long-term interest-rate operations.

Trading, structural and liquidity market risk

This chapter focuses on risk management and control activities related to market risk, distinguishing trading activity, structural risks and liquidity risks. The main methodologies and metrics used by the Bank for this purpose are also briefly described.

The scope of activities subject to market risk includes the operations where equity risk is assumed as a result of possible changes in market factors (interest rate, exchange rate, variable income and credit spread, among others), as well as the liquidity risk of the various products and markets in which the Group operates and the liquidity risk of the balance sheet. It includes trading activity risks and structural risks, both affected by market movements.

The measurement and control of these risks are carried out by a unit independent from management.

The risks of trading activities arise from financial service activities for clients with non-complex instruments, focusing on hedging of exchange-rate and interest-rate risks. Transactions with clients are hedged with the market, so as to ensure a residual exposure to this type of risk.

The methodology applied in 2021 within the scope of Bank Santander Portugal for the negotiation activity is the Value at Risk (VaR). Used as the basis is the historic simulation methodology with a 99% confidence level and a one-day time horizon, statistical adjustments were applied that allow swift and effective inclusion of more recent events that condition the risk levels assumed.

Additionally, Stress Testing is used, which consists of defining the behavioural scenarios of differing financial variables and obtaining the respective impact on net income when applying them to the portfolios. These scenarios can replicate the behaviour of financial variables in the light of past events (such as crises) or, on the contrary, plausible scenarios can be determined that do not correspond to past events. In short, scenario analysis seeks to identify the potential risk under extreme market conditions and in the fringes of likelihood of occurrence not covered by the VaR.

Several sensitivity measures (BPV and Greeks), and equivalent volumes are also calculated

In parallel, there is daily monitoring of the positions and of the income statement, which includes credit valuation adjustment (CVA) and debit valuation adjustment (DVA).

The reliability of the VaR model is assessed periodically through a backtesting analysis. Backtesting is a comparative analysis between the calculations of the Value at Risk (VaR) and the daily "clean" results (clean P&L — result associated with the revaluation of the closing portfolios of the previous day at the closing prices of the next day), where the specific/sporadic deviations of the results found, compared to the estimated measurements, are analysed.

The backtesting analyses performed comply with the BIS recommendations as regards comparison of the internal systems used in the measurement and management of the financial risks. Additionally, hypotheses tests are carried out in backtesting: excess tests, normality tests, average excess measurements, among others.

Quantitative limits are used for the trading portfolios, which are classified into two groups established in the light of the following objectives:

- Limits to protect the volume of potential future losses. Examples of this type of limits include limits for VaR, on sensitivity measures (BPV and Greeks) or on equivalent positions;
- Limits intended to protect/accommodate the volume of actual losses or to protect income levels already achieved during the period. Such limits aim to generate alerts on positions that are generating losses (loss triggers), allowing decisions to be taken before the maximum loss limit is reached (stop loss), from which point it will be considered that the losses have reached an unacceptable level and the positions will be closed immediately.

The VaR remained at very low levels, standing at €6,000 towards the end of June 2021.

Control of the Balance-Sheet Structural Risk

Control of the structural risk of the balance-sheet is directed at the interest-rate risk and the liquidity risk.

The interest-rate risk arises from mismatches between maturities, the repricing of assets and liabilities, and the impact that adverse movements in interest rates may have on the Bank's economic value or net interest income.

The liquidity risk is the risk that the Bank will not have the net financial resources required to meet its obligations when due or that it may incur in excessive costs to meet such obligations.

Methodologies

The interest rate risk in the consolidated balance sheet is measured through modelling the items in assets and liabilities sensitive to interest-rate variations in accordance with their indexing and re-appraisal structure. This model allows the measurement and control of the risk originating directly from the movement of the income curve, particularly its impact on net interest income and on the Bank's equity.

Additionally, other risk indicators are calculated, such as value at risk (VaR) and scenario analysis (stress test).

The liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by conducting stress tests that seek to identify the potential risk under extreme market conditions. In parallel, ratios are estimated on the current items of the balance sheet that act as indicators of structural and short-term liquidity requirements as well as intraday liquidity indicators in normal and stress situations.

The LCR (Liquidity Coverage Ratio) calculated in accordance with ECB rules stood at 131.8% in the end of the 1st half of 2021.

Limits

Control of the balance-sheet risks is ensured by applying a structure of quantitative limits that aim to keep exposures within the authorised levels. The limits focus on the following indicators:

- Interest rate: sensitivity of net interest income and net worth, stress test of the ALCO portfolio, VaR;
- Liquidity: Liquidity buffer, stress scenarios, short-term and structural liquidity ratios, asset encumbrance and concentration ratios.

Operational Risk

Definition and objectives

Banco Santander Portugal defines operational risk as the risk of loss arising from shortcomings or errors in internal processes, human resources or internal systems, or derived from external circumstances.

Operational risk is inherent to all products, activities, processes and systems and is generated in all business and support areas. Thus, all employees are responsible for managing the operational risk inherent to their activities, processes and systems in their regular positions.

The main objective in the matter of operational risk control and management is the identification, evaluation, measurement, control, mitigation and reporting of that risk, while the identification and mitigation of the sources of risk constitute a priority for Santander Portugal regardless of whether they have given rise to actual losses or not.

For the purpose of calculation of own-funds requirements, and in the matter of hedging the operational risk, the Group opted for the Standard Method laid down in the BIS II rules.

Management model

Santander Portugal's organisational model, in terms of management and control of the Operational Risk results from the Group's adaptation to the Basel II approach.

Supervision and control of operational risk is carried out through its governing bodies. In this regard, the Board of Directors and the Executive Committee periodically include in their management, the treatment of relevant aspects in the management and mitigation of Operational Risk.

In order to comply with regulatory requirements and in accordance with the best practices in the banking sector, the Group defined an organizational model structured around three lines of defence.

The first line of defence therefore consists of all the business units and support functions, and is responsible for the operational risk originated in their areas, the main function of which is the identification, evaluation, monitoring, mitigation and reporting of this risk.

The second line of defence comprises the area that controls Operational Risk, and it is responsible, on the one hand, for supervising the actual control of operational risk in its various aspects, and, on the other, for assessing whether it is managed as defined and has due regard for the tolerance levels established for the purpose. The second line of defence is an independent function, and it complements the first line management and control functions.

The third line of defence consists of Internal Audit, an independent body with control functions that periodically evaluates whether the policies, methodologies and procedures are properly implemented.

The various stages of the management and control model allow:

- Identification of the operational risk inherent in all the Bank's activities, products, processes and systems;

- Definition of the operational risk profile, by measuring metrics and indicators by area and time horizon, and establishment of tolerance limits and risk appetite;
- Drawing up and monitoring the operational risk budget;
- Promotion of the involvement and integration of all employees in the operational risk culture by conducting training in the matter of operational risk;
- Measurement and assessment of the operational risk in an objective, continuous and consistent manner, based on regulatory and other requirements (Basel, Bank of Portugal, among others);
- Conducting continuous and systematic monitoring of the sources of exposure to risk and implementation of the respective control mechanisms to minimize possible losses;
- Establish measures and actions that reduce and mitigate operational risk;
- Prepare periodic operational risk presentations and reports, and disclose them to the various management and supervision bodies (internal and external).

The operational-risk control model implemented provides us with the following benefits:

- Promotes the development of a robust operational-risk culture;
- Allows full and effective management of the operational risk (identification, measurement/assessment, control/mitigation and reporting);
- Improves the knowledge of operational risks, both real and potential, and establishes their relationship with the business and support lines;
- Enhances the improvement of processes and controls and mitigates/reduces potential losses;
- Facilitates the establishment of operational-risk appetite limits.

As regards the identification, measurement and assessment of operational risk, several quantitative and qualitative instruments were defined, which together facilitate diagnoses in the field of operational risk and rating/ evaluation of the various areas regarding management of their own risk.

Quantitative analysis is mainly conducted through instruments that record and quantify the potential level of losses associated with operational-risk events, in particular:

- Database of internal events, the objective of which is to log operational-risk events, with or without possible accounting impacts. There are accounting-reconciliation procedures that ensure the quality of the information contained in the database;
- Database of external events that provides quantitative and qualitative information, and facilitates a more detailed and structured analysis of relevant events that may occur in the sector;
- Scenario analysis, in which various business areas, second line and operational-risk co-ordinators take part, with the objective of identifying potential events entailing low likelihood and high severity for the institution. The possible impact is assessed and, if necessary, additional controls and/or mitigation measures are identified that will minimise their impact.

The qualitative analysis allows an assessment of aspects related with the risk profile. The instruments used are mostly the following:

- RCSA – Risk Control Self-Assessment, the main objective of which is to identify and assess operational risks in relation to existing controls, and identify possible mitigation measures;
- ORIs (Operational Risk Indicators) are parameters of a different nature (metrics, indices and measurements), which provide useful information on risk exposure. These indicators and respective limits are reviewed periodically to warn about changes that might anticipate the materialisation of major risks;
- Recommendations from internal and external audit and regulators that provide relevant information on risk, allowing identification of possible weaknesses and improvement measures.

Santander Portugal also develops specific supervisory and control models in terms of technological and cyber risk management in order to ensure the adequate follow-up of Santander Portugal's information systems and the reinforcement of cyber protection. Nevertheless, the principle is one of standardisation and, therefore, the models are perfectly aligned with the tools and with the operational-risk management instruments previously mentioned.

Additionally, there is also a set of various tools that complete and ensure a solid control environment, in particular:

- Policies & procedures;
- Action plans and / or corrective / mitigating actions;
- Crisis management and Business Continuity Plan;
- Risk-transfer mechanisms and insurance;
- Agreement with third parties and supplier control.

Santander Portugal implemented an advanced operational-risk management programme, with the main objectives of involving all employees and management bodies in the control and mitigation of operational risk. The implementation and disclosure of Santander Portugal's risk culture enable a more efficient evaluation and monitoring of operational risk and simplify decision-making by the business areas and Management.

As in previous years, the Bank continues to act to improve the efficiency of its operational-risk management tools, including a specific application that is used by the first lines of defence and the various control areas. It is an integrated tool that enables synergies to be generated among the different areas, and fosters the use of common risk assessment and control methodologies. This application also incorporates the database of events, the control system, the metrics / indicators, and the institution's action / risk mitigation plans.

Compliance and Reputational Risk

Compliance risk translates as the likelihood of occurrence of negative impacts for the institution, with projection on net income or share capital, arising from infringement of legal rules, specific determinations, contractual obligations, rules of conduct and relationships with clients, ethical principles and established practices concerning the business carried out, which give rise, in particular, to sanctions of a legal or regulatory nature, impairment of business opportunities, reduction of the potential for expansion or inability to demand fulfilment of contractual obligations by third parties.

In turn, Reputational Risk is understood to be the likelihood of occurrence of negative financial impacts for the Institution, reflected in net income or share capital, resulting from an unfavourable perception of its public image, reasoned or not, by customers, suppliers, analysts, employees, investors, the media and any other entities with which the institution is related, or by public opinion in general.

Santander Portugal has a set of policies aimed at managing these risks, as defined in the previous paragraphs, establishing mechanisms and procedures that: i) help minimise the likelihood of their materialisation; ii) help identify, report to the Board and overcome situations that may have arisen; iii) ensure monitoring and control; and iv) show, if necessary, that these risks are among Santander Portugal's main concerns, and that it has the organisation and means to prevent, detect, anticipate, mitigate, and, where appropriate, overcome them.

Without prejudice to all other aspects arising from the above and other existing internal regulations, it is justified to specifically mention the instruments identified in the list below, due to their particular impact on the prevention and management of the aforementioned risks.

Compliance risk management policies and instruments

- Global Compliance Policy;
- Prevention of Money Laundering and Financing of Terrorism Policy;
- General Code of Conduct, Code of Conduct in Client Relations, and Code of Conduct in the Stock Market;
- Marketing and Product Follow-up Policies and Procedures;
- Consumer Protection Policy;
- General Conflicts of Interest Policy;
- Transactions with Related Parties Policy;
- General Policy on the Protection and Processing of Personal Data;
- Corruption Prevention Policies (Competition Protection Policy, Corporate Defence Policy, and Corruption Prevention Programme) — Santander has a Corporate Corruption Prevention Programme, including, among others: i) A whistleblowing channel (open channel), through which any employee can confidentially and anonymously report possible breaches of the Corporate Corruption Prevention Programme, and ii) other possible irregularities);
- Incentives Policy;
- Policies related to taxation: FACTA and CRS policy and tax planning;
- Fiduciary Risk Policy and Procedures.

Reputational risk policies

- Reputational Risk Policy;
- Sensitive Sectors Policy (regulates the financing for certain sectors considered as sensitive because of their possible social, political or cultural repercussions, establishing the guidelines to assess and decide on the involvement with these same sectors, in order to be able to identify and prevent the associated reputation risk);
- Policy for the Defence Sector (setting the criteria to be followed in financial activities related with this sector, and providing an analysis procedure for all operations and clients covered by the sector).
- General Policy on Financing of Political Parties.

In this context, it is also worth mentioning that Santander Portugal has an autonomous organic Responsible Banking area, and has specific internal regulations in force on this matter, such as the General Sustainability Policy, the Human Rights Policy, the Corporate Culture Policy, and the Policy on Contributions for Social Purposes.

Mention should also be made to the social and environmental sectoral policies (energy, mines and mining sector, and soft commodities), which are monitored by the Risk area, and define the criteria to be followed in all financial activities related to these sectors.

ADDITIONAL INFORMATION

Money laundering prevention

Bank Santander Portugal's compliance function in terms of money laundering and financing of terrorism (AML/CFT) is embodied in the AML/CFT area, integrated in the Compliance and Conduct area, which materializes the compliance function and that works independently and permanently.

The PBCFT area has functional autonomy and reports to the Chief Compliance Officer.

Its main objective is to manage compliance risks relating to money laundering, financing of terrorism and sanctions, ensuring that the activity is carried out in accordance with all applicable regulations, in the prevention and minimization of damage, in particular resulting from any sanctions, as well as of a reputational nature.

For this purpose, in addition to a "Head of Regulatory Compliance" and a specialized, exclusively dedicated organic structure, there are internal regulations and specific procedures and controls in place, incorporating the internal control system in the field of AML/CFT, which is subject to an annual audit.

The head of regulatory compliance in this matter is responsible for:

- Participating in the definition and issuance of a prior opinion on PBCFT policies, procedures and controls;
- Permanently monitoring the adequacy, sufficiency and timeliness of AML/CFT control policies and procedures, proposing the necessary updates;
- Participating in the definition, monitoring and evaluation of the internal training policy;
- Ensuring the centralization of all relevant information coming from the various business areas of the obliged entity;
- Playing the role of interlocutor with the judicial, police, supervisory and inspection authorities, namely by fulfilling all communication duties, and ensuring the exercise of other communication and collaboration obligations.

The Chief Compliance Officer is responsible, in particular, for coordinating the AML/CFT area and for assessing the situations submitted to him by the head of Regulatory Compliance.

In 2021, the following reports were made to Supervisors:

i) A PBCFT report as determined by Bank of Portugal Instruction No. 5/2019;

ii) The Report provided for in Article 18.1 of CMVM Regulation No. 2/2020 concerning PBCFT."

Shareholder Structure

Shareholder	Number of shares	%
Banco Santander, SA	196,996,017,344	99.85%

Treasury shares

In keeping with the resolution passed by the Annual General Meeting held on May 25, 2021, Santander Totta SGPS, S. A., may directly or through a dependent company, acquire treasury shares as well as sell those purchased up to the limit and under the other conditions set by law.

Taking into account European Central Bank recommendation (ECB/2020/19) of March 27, 2020, the purchase of treasury shares is suspended until this recommendation has lapsed.

On December 31, 2020, Santander Totta, SGPS, held 113.595.456 treasury shares corresponding to 0.058% of its share capital. During the first half of 2021, Santander Totta SGPS did not purchase any own shares.

The acquisition is part of the general policy of Santander Totta SGPS, in the sense of acquiring shares from shareholders outside the Santander Group wishing to sell them.

TRANSACTION WITH OWN SHARES - 1st HALF 2021

	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31-12-20	113,595,456	0.02	2,447,158	0.058%
Purchases	-	-	-	-
Disposals	-	-	-	-
30-06-21	113,595,456	0.02	2,447,158	0.058%

ALTERNATIVE PERFORMANCE INDICATORS

A set of Alternative Performance Indicators (API) used in the Management Report is presented, prepared in accordance with guidelines issued by ESMA (European Securities and Markets Authority) on October 5, 2015 (ESMA/2015/1415pt).

For management analysis the Bank uses a set of indicators to measure profitability, efficiency and turnover dynamics. Most of these indicators are derived from the financial information disclosed in accordance with the accounting standards in force (IFRS information), but others are calculated using management information (MIS information), not directly relatable to the IFRS information. Similarly, some indicators might be calculated by correcting non-recurrent movements, aiming to translate the underlying dynamics of the Bank's business, profitability and efficiency.

The indicators are detailed hereunder with reference, as far as possible, to the IFRS information.

Net interest income

"Interest income" less "Interest expenses."

Income from equity instruments

"Dividend income", as presented in the Income Statement.

Results from Associated Companies

"Proportion of profits or losses of investments in subsidiaries, joint ventures and associated companies accounted for by using the equity method", as presented in the Income Statement.

Net fees

"Fee and commission income" less "Fee and commission expenses."

Other Operating Results

"Other operating income" less "Other operating expenses", as presented in the Income Statement.

Insurance Activity

Sum of "Gross margin from life insurance where the risk is that of the policyholder" with "Gross margin from insurance activity", as presented in the Income Statement.

Commercial Revenue

Sum of "net interest income", "Income from equity instruments", "Results from associates" "Net fees" and "Other operating income."

Gain/losses on financial assets

Sum of "Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net value," plus "Gains or losses on financial assets and liabilities, held for trading, net value," plus "Gains or losses on non-negotiable financial assets mandatorily accounted for at fair value through profit or loss, net value," plus "Gains or losses from hedge accounting, net value," plus "Exchange differences, net value," plus "Gains or losses on derecognition of investments in branches, joint ventures and associates, net value," as presented in the Income Statement.

Operating income

Commercial margin plus results of financial transactions.

Operating Costs

Sum of "Staff Costs," plus "Other administrative expenses," plus "Depreciation," as presented in the Income Statement.

Net Operating Income

Operating income minus Operating costs.

Impairment, net provisions and other results

Sum of "provisions or reversal of provisions," plus "impairments or reversal of impairments of financial assets not accounted for at fair value through profit or loss," plus "impairments or reversal of impairments of non-financial assets," plus "other gains or losses, net value," plus "profits or losses on non-current assets and disposal groups classified as held for sale not eligible as discontinued operations," plus "cash contributions to resolution funds and deposit guarantee systems," as presented in the Income Statement.

Income Before Taxes and Non-controlling Interests

Operating income less impairments, net provisions and other results.

Taxes

“Tax expenses or income related to the results of continuing operations,” as presented in the Income Statement.

Income after taxes and non-controlling interests

Income before tax and non-controlling interests after deduction of taxes.

Non-Controlling Interests

“Profits or losses for the year - attributable to uncontrolled minority interests,” as presented in the Income Statement.

Consolidated Net Income for the period attributable to ST, SGPS shareholders

Income after taxes and before non-controlling interests, less "non-controlling interests."

Efficiency Ratio

Ratio between operating costs and operating income.

Loans / Deposits Ratio (transformation ratio)

Calculated in accordance with Bank of Portugal Instruction 23/2011.

Commercial Gap

Difference between "loans granted and other receivable balances at amortised cost" and "clients’ resources and other loans.”

Business Volume

Sum of loans and advances to clients (gross) and clients’ resources

Gross loans & advances to customers

Corresponds to the sum of the following balance sheet items: “Financial assets accounted for at fair value through other comprehensive income - loans and advances," plus "Financial assets at amortized cost - debt securities," plus "Financial assets at amortized cost - Loans and advances," excluding “Other balances receivable” and “Loans and advances - credit institutions,” as set out in notes 8 and 9 of the chapter “Notes to the Consolidated Financial Statements,” and notes 7 and 8 of the chapter “Notes to the Separate Financial Statements.” Amounts before impairments.

Net loans & advances to customers

Gross client loans, net of impairments. Impairments correspond to the sum of “Impairments for debt securities” plus “Impairments for loans and advances - clients and other balances receivable” as set out in note 9 of the chapter “Notes to the Consolidated Financial Statements,” and in Note 8 of the chapter “Notes to the Separate Financial Statements.”

Loans to individuals (mortgage and consumer) and companies

Defined in accordance with the Management Information System (MIS).

Non-Performing Exposure Ratio

Non-performing exposure (NPE), defined in accordance with the document "Guidance to banks on non-productive loans" of the European Central Bank (March 2017), as a ratio of total exposure, including off-balance sheet items.

Cost of Loans

Ratio between "impairment of financial assets at amortised cost" (from the income statement) and the average of "gross loans and advances to customers" (from the balance sheet).

Non-performing Exposure Coverage Ratio

Impairments of non-performing exposures in relation to total non-productive exposures (NPE).

Deposits

Corresponds to the item "Client Deposits" - see note 16 (in the chapter of the Notes to the Consolidated Financial Statements), and note 15 (in the chapter of the Notes to the Separate Financial Statements).

Off-balance sheet resources

Sum of investment funds and insurance marketed and other resources, which information is obtained through Santander Asset Management and/or the Management Information System (MIS).

Customer’s Funds

Sum of balance sheet client funds (deposits) and off-balance sheet resources.

Liquidity Coverage Ratio (LCR)

The LCR (liquidity coverage ratio), in accordance with article 412(1) of Regulation (EU) No. 575/2013, shall be equal to the ratio of the liquidity reserve of a credit institution and its net liquidity outflows during a 30-calendar day stress period.

Return on Equity (RoE)

Ratio between net income for the period and equity at the beginning of the period (annualised amounts).

Return on Assets (RoA)

Ratio between net income and net assets (annualised amounts).

Declaration to which article 246(1)(c) of the Securities Code refers

Article 246(1)(c) of the Securities Code determines that each of the persons in charge of the company issue a declaration the content of which is defined therein.

The members of the Board of Directors of Santander Totta SGPS, S. A., identified by name herein, each signed the declaration transcribed hereunder:

“I hereby declare, under the terms of and for the purposes set out in article 246(1)(c) of the Securities Code that, to the best of my knowledge, the condensed financial statements for the 1st six months of the 2021 period were prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, financial position and results of Santander Totta SGPS, S. A., and of the companies included in the consolidation perimeter, and that the interim management report faithfully sets out the information required under article 246(2) of the Securities Code".

Board of Directors

José Carlos Brito Sítima	Pedro Aires Coruche Castro e Almeida
Chair	Deputy-Chair

Manuel António Amaral Franco Preto

Member

CONSOLIDATED FINANCIAL STATEMENTS

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED BALANCE SHEET STATEMENT AS OF JUNE 30, 2021 AND DECEMBER 31, 2020

(Amounts expressed in thousand Euros)

	Notes	30-06-2021	31-12-2020
ASSETS			
Cash, cash balances at central banks and other demand deposits	5	**7,637,955**	**4,543,652**
Financial assets held for trading	6	**737,763**	**901,010**
Non-trading financial assets mandatorily at fair value through profit or loss	7	**3,051,516**	**3,195,742**
Equity instruments		933,259	817,078
Debt securities		2,118,257	2,378,664
Financial assets at fair value through other comprehensive income	8	**6,214,107**	**8,457,676**
Equity instruments		73,388	72,768
Debt securities		3,081,067	5,244,837
Loans and advances		3,059,652	3,140,071
Financial assets at amortised cost	9	**40,313,768**	**39,833,021**
Debt securities		3,861,490	3,965,219
Loans and advances		36,452,278	35,867,802
Derivatives – Hedge accounting	10	**17,920**	**23,719**
Investments in subsidiaries, joint ventures and associates	11	**128,287**	**131,136**
Tangible assets	12	**587,268**	**584,511**
Investment property		249,520	250,531
Property, Plant and Equipment		337,748	333,980
Intangible assets	12	**37,646**	**39,231**
Tax assets	13	**400,979**	**393,876**
Other assets	14	**154,764**	**175,428**
Non-current assets and disposal groups classified as held for sale	15	**53,085**	**51,461**
TOTAL ASSETS		**59,335,058**	**58,330,463**
LIABILITIES			
Financial liabilities held for trading	6	**741,020**	**920,602**
Financial liabilities designated at fair value through profit or loss	16	**3,245,943**	**3,261,337**
Financial liabilities measured at amortised cost	17	**48,497,147**	**47,052,864**
Deposits		45,233,721	44,280,137
Debt securities issued		3,022,345	2,560,585
Other financial liabilities		241,081	212,142
Derivatives – Hedge accounting	10	**354,896**	**522,283**
Provisions	18	**1,084,721**	**950,932**
Commitments and guarantees given		57,897	57,466
Other provisions		1,026,824	893,466
Tax liabilities	13	**364,972**	**391,264**
Share capital repayable on demand	19	**54,303**	**64,692**
Other liabilities	20	**564,067**	**446,049**
TOTAL LIABILITIES		**54,907,069**	**53,610,023**
EQUITY			
Capital	21	**1,972,962**	**1,972,962**
Equity instruments issued other than capital	21	**400,000**	**600,000**
Accumulated other comprehensive income	21	**(111,275)**	**4,172**
Items that may not be reclassified to profit or loss		(629,521)	(658,627)
Items that may be reclassified to profit or loss		518,246	662,799
Retained earnings	21	**143,089**	**197,228**
Other reserves	21	**1,942,498**	**1,651,171**
Treasury shares	21	**(2,447)**	**(2,447)**
Profit or loss attributable to owners of the parent	22	**81,394**	**295,559**
Minority interests [Non-controlling interests]	23	**1,768**	**1,795**
TOTAL EQUITY		**4,427,989**	**4,720,440**
TOTAL LIABILITIES AND EQUITY		**59,335,058**	**58,330,463**

The accompanying notes form an integral of the consolidated balance sheet for the period ended at June 30, 2021

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AS OF JUNE 30, 2021 AND 2020

(Amounts expressed in thousand Euros)

	Notes	30-06-2021	30-06-2020
Interest income	25	550,554	576,678
Interest expenses	25	(167,148)	(177,340)
NET INTEREST INCOME		**383,406**	**399,338**
Dividend income	26	1,533	1,733
Proportion of profits or losses from investments in subsidiaries, joint ventures and associates accounted for using the equity method	27	6,443	5,064
Fee and commission income	28	255,351	237,055
Fee and commission expenses	28	(52,272)	(53,918)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	29	142,561	80,041
Gains or losses on financial assets and liabilities held for trading, net	29	(2,623)	1,050
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	29	1,305	4,957
Gains or losses from hedge accounting, net	29	-	147
Exchange differences, net	29	6,296	5,636
Gains or losses from derecognition of investments in subsidiaries, joint ventures and associates, net value		23	-
Gains or losses on derecognition of non-financial assets, net	30	(25)	61
Life insurance gross margin where the risk is with the policyholder	31	47,045	34,524
Gross margin from insurance activity	31	(38,513)	(26,746)
Other operating income	32	9,907	10,971
Other operating expenses	32	(6,182)	(4,922)
TOTAL OPERATING INCOME, NET		**754,255**	**694,991**
Administrative expenses	33	**(258,812)**	**(261,859)**
Staff expenses		(158,669)	(161,307)
Other administrative expenses		(100,143)	(100,552)
Cash contributions to resolution funds and deposit guarantee schemes	34	**(37,679)**	**(35,624)**
Financial liabilities designated at fair value through profit or loss	12	**(25,409)**	**(25,901)**
Provisions or reversal of provisions	18	**(238,749)**	**(1,354)**
Commitments and guarantees given		(431)	(3,146)
Other provisions		(238,318)	1,792
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	18	**(68,778)**	**(100,863)**
Financial assets at fair value through other comprehensive income		1	71
Financial assets at amortised cost		(68,779)	(100,934)
Impairment or reversal of impairment on non-financial assets	18	**(1,384)**	**(8,538)**
Other profit or loss, net	1.3 l)	**(29,565)**	**(29,258)**
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	35	**10,303**	**(67)**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		104,182	231,527
Tax expense or income related to profit or loss from continuing operations	13	**(22,767)**	**(58,545)**
PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**81,415**	**172,982**
PROFIT OR LOSS FOR THE PERIOD		**81,415**	**172,982**
Attributable to minority interest [non-controlling interests]	23	**21**	**66**
Attributable to owners of the parent		**81,394**	**172,916**

The accompanying notes form an integral part of the consolidated statement of profit and loss for the period ended June 30, 2021

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS OF JUNE 30, 2021 AND 2020

(Amounts expressed in thousand Euros)

	30-06-2021		30-06-2020	
	Attributable to the shareholders of ST, SGPS	Attributable to non-controlling interests	Attributable to the shareholders of ST, SGPS	Attributable to non-controlling interests
Profit or loss for the year	81,394	21	172,916	66
Other comprehensive income	**(114,044)**	**(49)**	**104,938**	**48**
Items that will not be reclassified to profit or loss				
Actuarial gains or losses on defined benefit pension plans				
. Gross amount	30,443	13	(54,286)	(24)
. Tax effect	-	-	-	-
Share of other recognised income and expense of Investments in subsidaries, joint ventures and associates				
. Gross amount	38	-	-	-
. Tax effect	-	-	-	-
Share of other recognised income and expense of entities accounted at fair value through other comprehensive income				
. Gross amount	84	-	-	-
. Tax effect	261	-	-	-
Items that may be reclassified to profit or loss				
Cash flow hedges				
. Fair value	52,266	22	60,022	26
. Tax effect	(16,203)	(7)	(18,607)	(8)
Financial liabilities designated at fair value through other comprehensive income				
Valuation gains or (-) losses taken to equity				
. Fair value	(166,406)	(72)	(205,487)	(89)
. Tax effect	51,586	22	62,832	26
Change in business model (Nota 1.3 c)				
. Initial impact				
. Gross amount	-	-	373,007	165
. Tax effect	-	-	(115,632)	(51)
. Fair value changes				
. Gross amount	(102,980)	(40)	8,760	4
. Tax effect	31,144	13	(2,716)	(1)
. Shadow reserve changes				
. Gross amount	7,664	-	(5,997)	-
. Tax effect	(1,801)	-	2,823	-
Share of other recognised income and expense of Investments in subsidaries, joint ventures and associates				
. Gross amount	(189)	-	295	-
. Tax effect	49	-	(76)	-
Total comprehensive income for the period	**(32,650)**	**(28)**	**277,854**	**114**

The accompanying notes form an integral part of the consolidated statements of other comprehensive income for the period ended June 30, 2021

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS ENDED JUNE 30, 2021 AND DECEMBER 2020

(Amounts expressed in thousand Euros)

	Capital	Equity instruments instruments issued other than capital	Accumulated Other comprehensive income: Fair value	Accumulated Other comprehensive income: Taxes	Retained earnings	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Minority interests: Other comprehensive income (acum.)	Minority interests: Other items	Total
Balances as at December 31, 2019	**1,972,962**	**600,000**	**(226,905)**	**10,498**	**(137,618)**	**1,518,234**	**(2,447)**	**527,258**	**122**	**1,466**	**4,263,570**
Appropriation of net income											
. Transfer to reserves	-	-	-	-	396,046	131,212	-	(527,258)	(218)	218	-
Income distribution - "Aditional Tier 1 Instruments"	-	-	-	-	(61,200)	-	-	-	-	-	(61,200)
Sale of equity instruments at fair value											
through other comprehensive income	-	-	(2,312)	589	-	1,723	-	-	-	-	-
Other	-	-	-	-	-	2	-	-	-	5	7
Consolidated comprehensive income in 2020	-	-	324,208	(101,906)	-	-	-	295,559	202	-	518,063
Balances as at December 31, 2020	**1,972,962**	**600,000**	**94,991**	**(90,819)**	**197,228**	**1,651,171**	**(2,447)**	**295,559**	**106**	**1,689**	**4,720,440**
Appropriation of net income											
. Transfer to reserves	-	-	-	-	5,635	289,924	-	(295,559)	(109)	109	-
Redemption of "Aditional Tier 1 Instruments"	-	(600,000)	-	-	-	-	-	-	-	-	-
Issuance of "Aditional Tier 1 Instruments"	-	400,000	-	-	-	-	-	-	-	-	-
Income distribution - "Aditional Tier 1 Instruments"	-	-	-	-	(59,775)	-	-	-	-	-	(59,775)
Sale of equity instruments at fair value											
through other comprehensive income	-	-	(1,497)	94	-	1,403	-	-	-	-	-
Other	-	-	-	-	1	-	-	-	-	1	2
Consolidated comprehensive in 1st. half of 2021	-	-	(179,080)	65,036	-	-	-	81,394	(28)	-	(32,678)
Balances as at June 30, 2021	**1,972,962**	**400,000**	**(85,586)**	**(25,689)**	**143,089**	**1,942,498**	**(2,447)**	**81,394**	**(31)**	**1,799**	**4,627,989**

The accompanying notes form an integral part of the consolidated statements of changes in shareholders' equity for the period ended June 30, 2021

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE PERIODS ENDED JUNE 30, 2021 AND 2020

(Amounts expressed in thousand Euros)

	Notes	30-06-2021	30-06-2020
CASH FLOW FROM OPERATING ACTIVITIES:			
Interest and commissions received		779,052	771,817
Payment of interest and commissions		(254,119)	(175,467)
Administrative expenses		(306,297)	(275,966)
Pension Fund contributions		-	-
Foreign exchange and other operating results		(3,846)	(16,161)
Recovery of uncollectable loans		4,365	4,453
Insurance premiums receipts / (Payments)		19,857	17,820
Operating results before changes in operating assets and liabilities		239,012	326,496
(Increase) decrease in operating assets:			
Financial assets at amortized cosst - credit institutions		5,932	710,019
Financial assets held for trading		163,248	92,890
Financial assets at amortized cost		(569,329)	(2,383,061)
Assets and liabilities at fair value through profit or loss		(7,837)	(203,604)
Non-current assets held for sale		(444)	9,829
Investment properties		1,011	(2,397)
Other assets		6,000	(7,690)
		(401,419)	(1,784,014)
Increase / (decrease) in operating liabilities			
Financial liabilities at amortized cost - financial institutions		(575,358)	3,551,633
Financial liabilities at amortized cost - customers		1,567,598	964,947
Financial liabilities held for trading		(179,582)	(89,186)
Other liabilities		115,483	85,900
		928,141	4,513,294
Net cash flow from operating activities before income taxes		765,734	3,055,776
Income tax paid		(31,423)	(17,342)
Net cash flow from operating activities		734,311	3,038,434
CASH FLOW FROM INVESTING ACTIVITIES:			
Dividends received		1,533	10,680
Purchase of financial assets at fair value through other comprehensive income		(1,921)	(155,614)
Sale/redemption of financial assets at fair value through other comprehensive income		2,011,149	1,293,152
Other financial assets mandatorily at fair value through profit or loss		146,498	47,907
Income from financial assets at fair value through other comprehensive income		30,909	12,324
Purchase of tangible and intangible assets		(23,591)	(31,628)
Sale of tangible assets		7,339	1,457
Net cash flow from investing activities		2,171,916	1,178,278
CASH FLOW FROM FINANCING ACTIVITIES:			
Redemption of securities and subordinated debt		460,058	(89,338)
Interest paid on bonds issued		(10,782)	(10,371)
Other equity instruments		(200,000)	-
Dividends paid		-	-
Income Distribution - "Additional Tier 1 Instruments"		(61,200)	(61,200)
Net cash flow from financing activities		188,076	(160,909)
Net Increase / (Decrease) (a) in cash and cash equivalents		3,094,303	4,055,803
Cash and cash equivalents at the beginning of the period		4,543,652	3,500,397
Cash and cash equivalents at the end of the period		7,637,955	7,556,200

The accompanying notes form an integral part of the consolidated statements of cash flows for the periods ended June 30, 2021 and 2020

INTRODUCTION

Santander Totta, SGPS, S. A. (hereinafter also the "Company", "Santander Totta" "ST SGPS" or "Group") was incorporated on December 16, 2004, within the scope of the Banco Totta & Açores, S. A. (Totta) demerger/merger operation. Under the terms of this operation, the shares held by Totta in Foggia, SGPS, S. A. (Foggia), then Totta Seguros — Companhia de Seguros de Vida, S. A. ("Santander Totta Seguros" or the "Company") were detached from Totta's assets and used to pay up the Santander Totta share capital in kind. On the same date, Totta's other assets and liabilities, in conjunction with Banco Santander Portugal, S. A. (BSP), were incorporated by merger into Companhia Geral de Crédito Predial Português, S. A. (CPP) which changed its name to Banco Santander Totta, S. A. ("Bank"). Santander Totta's purpose is the management of holdings in other companies as an indirect form of exercising economic activities, and its registered office is in Portugal.

On December 20, 2015, following the liquidation measure applied by the Bank of Portugal to Banif – Banco Internacional do Funchal, S. A. (Banif), the Bank acquired the banking business and a set of assets, liabilities, off-balance-sheet items and assets under management belonging to this entity.

Following the decision of the Single Resolution Board with regard to the application of a liquidation measure to Banco Popular Español, S. A., taken on June 7, 2017, through the instrument for the sale of the whole of the business, with the transfer of the whole of the shares representing the share capital of Banco Popular Español, S. A., to Banco Santander, S. A., the latter came to hold indirectly the whole of the share capital and voting rights of Banco Popular Portugal, S. A. (BAPOP). In this regard, on December 27, 2017, the Bank purchased the entire capital and voting rights of BAPOP, carrying out on that date the merger by incorporation.

Santander Totta is included in the consolidation of Banco Santander, S. A. (*ultimate parent*).The main balances and transactions maintained with companies of the Santander Group during the six months period ended on June 30, 2021, and the financial year of 2020 are detailed in Note 38.

The Group has a nationwide network of 378 branches (434 branches as at December 31, 2020). It also has several branches and representative offices abroad, and holdings in subsidiaries and associated companies.

The Company's financial statements for the first half of 2021 were approved at the Board of Directors meeting on September 21, 2021.

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of Presentation of the Accounts

The consolidated financial statements of Santander Totta have been prepared on a going concern basis, based on the books and accounting records maintained in accordance with the principles enshrined in the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Union, in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, of July 19, effective as of January 1, 2020, transposed into the Portuguese legal framework by Decree-Law 35/2005, of February 17, by Bank of Portugal Notice No. 5/2005 of December 30. As regards Group companies that use different accounting standards, adjustments are made for their conversion to the IAS/IFRS.

The accounting policies used by the Group in the preparation of its consolidated financial statements as at June 30, 2021, are consistent with those used in the preparation of the financial statements as at December 31, 2020, applying in particular IAS 34 (Interim Financial Reporting).

The consolidated financial statements are presented in thousands of euros, rounded to the nearest thousand.

In preparing the financial statements, the Group follows the historical cost convention, modified when applicable, by measuring at fair value: — Financial assets held for trading; — Financial assets not mandatorily held for trading accounted for at fair value through profit or loss; — Financial assets carried at fair value through other comprehensive income; — Derivatives.

The Group's financial statements have been prepared on a going concern basis, as the Board of Directors considers that the Group has the necessary resources to continue operating. The assessment made by the Board of Directors is based on a wide range of information related to current and future conditions, including projections of future profitability, cash flows, capital requirements and sources of financing. The projections made are based on different scenarios, and also include the impact on the Bank's activity of the uncertainty caused by the Covid-19 pandemic.

The preparation of financial statements in conformity with the IFRS requires the use of certain critical accounting estimates, implying also judgement by the Board as to the application of the Group's accounting policies. The areas of the financial statements involving a greater degree of judgement or complexity, or the areas in which the assumptions and estimates are significant in the preparation of this set of financial statements are detailed in Note 2.

Within the scope of the application of the IFRS as approved by the European Union, the Bank adopted the following standards, amendments and interpretations with reference to January 1, 2021:

- **IFRS 16** (amendment), "Leases — COVID-19 related rent concessions." This amendment permits lessees (but not lessors), as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications when three criteria are cumulatively met: i) the change in lease payments results in a revised remuneration of the lease that is equal to, or less than, the remuneration immediately before the change; ii) any reduction of the lease payments only affects payments due on or up to June 30, 2021; and iii) there are no significant changes to other terms and conditions of the lease. Lessees who choose to apply this exemption, account for the change in rental payments, as lease variable rents in the period(s) in which the event or condition that triggers the payment reduction occurs. This amendment is applied retrospectively with the impacts reflected as an adjustment to retained earnings (or another component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee applies the amendment for the first time.

- **IFRS 4** (amendment), "Insurance contracts — deferral of the application of IFRS 9." This change refers to the temporary accounting consequences following from the difference between the date of entry into force of IFRS 9 — Financial Instruments, and the future IFRS 17 — Insurance Contracts. In particular, the amendment made to IFRS 4 postpones until 2023 the expiry date of the temporary exemption from the application of IFRS 9 in order to align the effective date of the latter with that of the new IFRS 17.

- **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** (amendments), "Reform of the reference interest rates — phase 2." These amendments address issues that arise during the reform of a reference interest rate, including the replacement of a reference interest rate with another alternative, allowing for the adoption of exemptions such as: i) changes in the hedging designation and documentation; ii) amounts accumulated in the cash flow hedge reserve; iii) retrospective assessment of the effectiveness of a hedging relationship under IAS 39; iv) changes in hedging ratios for groups of items; v) presumption that an alternative reference rate, designated as a risk component not specified by contract, is separately identifiable and qualifies as a hedged risk; and vi) updating the effective interest rate, without recognizing gain or loss, for financial instruments measured at amortized cost with changes in contractual cash flows as a result of the IBOR reform, including leases that are indexed to an IBOR.

Within the scope of the Reform of the reference interest rates, and in order to manage and control the revision of reference interest rates (which include, among others, EONIA, LIBOR and EURIBOR: The EONIA will be discontinued as of January 2022, LIBOR should be discontinued in December 2021, and EURIBOR remains a valid index), the Santander Group created a working group, which includes the Group, to ensure a smooth transition in all entities and assess possible impacts.

In the wake of the standards and interpretations referred to above, no material impacts were identified:

Additionally, by the date of approval of these financial statements, the following standards and improvements were issued and have not yet been adopted by the Group, by virtue of their application not yet being mandatory or they have not yet been endorsed by the European Union:

- **IAS 1** (amendment), “Presentation of financial statements — classification of liabilities” (to be applied in periods beginning on or after January 1, 2023). This amendment seeks to clarify the classification of liabilities as current or non-current balances in the light of the rights that an entity has to defer their payment at the end of each reporting period. The classification of liabilities is not affected by the expectations of the entity (the assessment should determine whether a right exists, but should not consider whether the entity will or will not exercise such right), or by events occurring after the reporting date, such as non-compliance of a covenant. This amendment also includes a new definition of settlement of a liability. This amendment is applied retrospectively.

- **IAS 16** (amendment) "Proceeds before intended use." This amendment is still subject to endorsement by the European Union. Change in the accounting treatment given to consideration obtained on the sale of products that result from production in testing phase of tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. This change is applied retrospectively, without restatement of the comparatives.

- **IAS 37** (amendment) "Onerous contracts – costs of fulfilling a contract" (to be applied in periods beginning on or after January 1, 2022). This amendment specifies that in assessing whether a contract is or is not onerous, only the expenses directly related to the fulfilment of the contract can be considered, such as the incremental costs related to direct labour and materials, and the allocation of other directly related expenses such as the allocation of expenditure on depreciation of tangible assets used to fulfil the contract. This change will be applied to contracts that, at the beginning of the first annual reporting period to which the change is applied, also include unfulfilled contractual obligations, with no restatement of the comparative.

- **IFRS 3** (amendment) "References to the conceptual framework" (to be applied in financial periods beginning on or after June 1, 2022). This amendment updates the references to the Conceptual Framework in the wording of IFRS 3, no changes having been introduced to the accounting requirements for concentrations of business activities. This amendment also clarifies the accounting treatment to be adopted in respect of liabilities and contingent liabilities under IAS 37 and IFRIC 21, and prohibits the registration of contingent assets of the acquiree in a concentration of business activities. This amendment is applied retrospectively.

- **Improvements to the 2018 – 2020 standards** (to be applied in periods beginning on or after January 1, 2022). This cycle of improvements amends the following standards: IFRS 1, IFRS 9, IFRS 16 and IAS 41.

- **IAS 1** (amendment), 'Disclosure of Accounting Policies' (to be applied in periods beginning on or after January 1, 2023). Amendment to accounting policy disclosure requirements based on the definition of "material" rather than "significant". Information relating to an accounting policy is material if, in its absence, the users of the financial statements are not able to understand other financial information included in those same financial statements. Intangible information regarding accounting policies need not be disclosed. IFRS Practice Statement 2 was also amended to clarify how the concept of "material" is applied to the disclosure of accounting policies.

- **IAS 8** (amendment), "Disclosure of accounting estimates" (to be applied in periods beginning on or after January 1, 2023). Introduces the definition of accounting estimate and how it is distinguished from changes in accounting policies. Accounting estimates are now defined as monetary values subject to uncertainty in their measurement, used to achieve the objective(s) of an accounting policy.

- **IFRS 16** (amendment), "Leases — Rent bonuses related to COVID-19 after June 30, 2021" (to be applied in periods beginning on or after January 1, 2021). This amendment extends the date of application of the amendment to IFRS 16 – "Leases — Rent bonuses related to COVID-19" from June 30, 2021, to June 30, 2022. The conditions for applying the practical expedient remain, where: i) if the lessee is already applying the 2020 practical expedient, it will have to continue to apply it to all lease contracts with similar characteristics, and under comparable conditions; and ii) if the lessee has not applied the practical expedient to the 2020 eligible rent bonuses, it cannot apply this extension to the 2020 amendment. This amendment is applied retrospectively with the impacts reflected as an adjustment to the opening balance of results carried over from the annual reporting period in which the lessee first applies this change.

- **IAS 12** (amendment), "Deferred tax relating to assets and liabilities associated with a single transaction" (to be applied in periods beginning on or after January 1, 2023). IAS 12 now requires entities to recognize deferred tax on certain specific transactions, when their initial recognition gives rise to equal amounts of taxable temporary differences and deductible temporary differences. Transactions subject to registration of: i) assets under right of use and lease liabilities;

and ii) provisions for dismantling, restoration or similar liabilities, and the corresponding amounts recognized as part of the cost of the related asset, when not relevant for tax purposes on the date of initial recognition. These taxable differences are no longer subject to the exemption from initial recognition of deferred taxes. The cumulative effect of the initial application of this change is recognized as an adjustment to the opening balance of retained earnings (or other equity component, as appropriate) for the earliest comparative period presented.

- **IFRS 17** (new), "Insurance contracts" (to be applied in periods beginning on or after January 1, 2023). This new standard replaces IFRS 4 and applies to all entities that issue insurance contracts, reinsurance contracts, and investment contracts with discretionary-participation features. IFRS 17 is based on the current measurement of technical liabilities, which are revalued on each reporting date. Current measurement may be made by applying the building block approach or the premium allocation approach. The complete model is based on discounted cash flow scenarios weighted by the likelihood of occurrence and adjusted for the risk, plus a contractual service margin, which is the estimate of the future profitability of the contract. Subsequent changes of the estimated cash flows are adjusted against the contractual service margin, except if it becomes negative. IFRS 17 is applied retrospectively with some exemptions as of the transition date.

- **IFRS 17** (amendment), "Insurance contracts" (to be applied in annual periods beginning on or after January 1, 2023). This amendment includes specific changes in eight IFRS 17 areas, such as: i) scope; ii) level of aggregation of insurance contracts; iii) recognition; iv) measurement; v) modification and derecognition; vi) presentation of the Statement of financial position; vii) recognition and measurement of the Income Statement; and viii) disclosures. This amendment also includes clarifications, which aim to simplify some of the requirements of this standard and speed up its implementation.

In the wake of the standards and interpretations referred to above, no material impacts were identified:

1.2. Consolidation of subsidiary companies and entities under joint control, and registration of associated companies (IFRS 10, IFRS 11, IAS 28 and IFRS 3)

The consolidated financial statements now presented reflect the assets, liabilities, income, expenditures, other comprehensive income and cash flows of the Group and of the entities directly or indirectly controlled by it (Note 4), including special-purpose entities.

Subsidiaries are entities controlled by the Group. The Group controls another entity when it has the power to manage that entity's relevant activities, and when it is exposed, or has right, to the variability in the returns generated by its involvement with that entity and can take possession thereof through the power it holds over that entity's relevant activities. The financial statements of subsidiary companies are consolidated using the full consolidation method as soon as the Group takes control over their business until such time as control ceases. All significant balances and transactions between the consolidated companies have been eliminated. Additionally, where applicable, consolidation adjustments are made in order to ensure consistency in the application of the accounting principles. The amount corresponding to the interests of third parties in subsidiary companies consolidated through the global integration method is presented under “Non-controlling Minority Interests” (Note 23). Additionally, as a result of applying IFRS 10 – “Consolidated Financial Statements”, the Group includes entities with a special purpose in its consolidation perimeter, namely vehicles and funds created within the scope of securitization operations, when it exercises actual financial and operational control over them, and when it is exposed to most of the risks and benefits associated with the respective activity.

The accumulated losses of a subsidiary are allocated to the non-controlling interests in the proportion held, which might imply recognition of non-controlling interests of a negative amount.

In a step-acquisition transaction resulting in the acquisition of control, any non-controlling interest previously held is revalued at fair value with a contra entry in profit or loss at the time of calculation of the goodwill. At the time of a partial sale, resulting in loss of control over a subsidiary, any remaining non-controlling interest held is revalued at fair value on the date of sale and the gain or loss resulting from such revaluation is recorded with a contra entry in profit or loss.

On the other hand, the Group manages assets held by investment funds, whose participation units are held by third parties. The financial statements of investment funds are not included in the Group's consolidation perimeter, except when the Group controls these investment funds, namely when it has more than 50% of its participation units, in which case those funds are consolidated by the global integration method. In accordance with IAS 32 and IFRS 10, the amount corresponding to the participation of third parties in investment funds that were consolidated using the global integration method is presented as a liability under “Share capital repayable on demand.” Interests that do not control the results of the Novimovest Fund are recognized as a deduction under the caption “Other operating income/expenses”, given the nature of the main income earned by that fund.

Financial investments in associated companies are carried using the equity method as from the moment the Group comes to have significant control until such time as it ceases. Associated companies are entities in which the Group has significant influence but does not control them. Significant influence is understood to exist when one has a (direct or indirect) financial holding of more than 20% but less than 50% (with voting rights proportionate to the holding) or the power to take part in decisions on the financial and operational policies of an entity, but without control or joint control over it.

Under the equity method, the consolidated financial statements include the portion attributable to the Group's total equity and of the profits and losses recognised by the associated companies. Dividends allocated by associated companies reduce the amount of the investment made by the Group. The Group performs impairment tests for its investments in associated companies whenever there are signs of impairment. Impairment losses recorded in prior periods may be reversible, up to the limit of the accumulated losses.
Goodwill corresponds to the positive difference between the acquisition cost of the business and the actual equivalent percentage in the fair value of the assets, liabilities and contingent liabilities of the subsidiaries and associated companies acquired, as well as any equity instruments issued by the Group. With a minimum annual frequency, the Group performs goodwill impairment tests in accordance with the requirements of IAS 36 – "Impairment of assets." For this purpose, goodwill is allocated to cash-flow generating units, never greater that the group of assets comprising each of the Group’s operational segments, determination of the respective recoverable amount being based on estimates of future cash flows updated on the basis of discount rates considered appropriate by the Group, based on appropriate, accepted methods. Impairment losses related to goodwill are recorded in profit or loss for the year and cannot be reversed. The goodwill of associated companies is included in the carrying amount of the holding, and is subject to impairment tests.

On the date of the first adoption of the IFRS, the Group decided not to apply IFRS 3 – "Business combinations" retrospectively. Thus, the goodwill resulting from acquisitions that occurred until January 1, 2004, is deducted from equity in keeping with the previous accounting policy. On the other hand, the negative consolidation differences previously recorded have been added to equity, as permitted by IFRS 1.

Acquisitions of subsidiaries and associated companies arising after January 1, 2004, were recorded using the purchase method. The Group recognised the fair value of the assets acquired and liabilities assumed or valued them in accordance with the International Financial Reporting Standards applicable to certain assets and liabilities in which the former is not the measurement principle laid down in IFRS 3 – Business combinations. The acquisition cost was equal to the amount determined on the date of purchase of the assets acquired and liabilities incurred or assumed and of the contingencies, under the terms of IFRS 3. In this way, the Group applied IAS 19 to the assets acquired and liabilities assumed related with employee benefits and IAS 12 to the assets acquired and liabilities assumed in connection with income taxes.

Additionally, whenever it is determined that the fair value of the assets acquired and liabilities incurred or assumed – and after its confirmation under the terms of IFRS 3 – is greater than the acquisition cost (gain on the purchase at a discount), the difference is recognised in the income statement. Under the terms of IFRS 3, the Group has a maximum period of one year, from the date of acquisition, to obtain missing information and possibly correct retrospectively the value of the assets acquired and liabilities assumed and, consequently, the result determined at the time of the purchase.

With application of the amendments to IFRS 3 and IAS 27, the Group defined as its accounting policy valuation at fair value through profit or loss in cases where there is change of control by acquisition of subsidiaries in different stages. In these cases, the holding acquired prior to the moment of change of control is revalued at fair value through profit or loss. Goodwill is determined on that date as the difference between the total acquisition cost and the proportion of the fair value of the assets and liabilities of the subsidiary. Similarly, on application of the amendments to the standards referred to above, the Group revalued in profit or loss the holdings in which it had lost control.

The accounting policies of subsidiaries and associated companies are altered, where necessary, to ensure that they are applied consistently by all Group companies.

1.3. Summary of the Main Accounting Policies

The most significant accounting policies used in the preparation of the attached financial statements were as follows:

a) Accrual accounting

Santander Totta uses the accrual-accounting principle for most items of the financial statements. Thus, expenses and income are recorded as and when generated, regardless of the time of payment or receipt.

b) Foreign currency transactions

The Company's accounts are prepared in the currency of the economic environment in which it operates ("functional currency"), and are expressed in euros.

Transactions in currencies other than the functional currency, and the corresponding income and expenses, are recorded at the exchange rate ruling on the date on which they occur. On each reporting date, assets and liabilities expressed in a currency other than the functional currency are translated at the closing exchange rate (Bank of Portugal fixing).

As of June 30, 2021, the exchange rates of the main currencies other than the functional currency were:

USD — 1.1884
GBP — 0.858050

c) Financial instruments

The classification of **financial assets** follows three main criteria:

- The business model under which financial assets are managed;
- The type of financial instrument, that is (i) derivative financial instruments, (ii) equity instruments or (iii) financial debt instruments; and
- The contractual cash flow characteristics of the financial debt instruments (which represent just payments of principal and interest).

In this connection, the categories of financial assets laid down for debt financial instruments are:

- A financial debt instrument that (i) is managed under a business model whose objective involves keeping the financial assets in the portfolio and receiving all of their contractual cash flows and (ii) has contractual cash flows on specific dates that correspond exclusively to the payment of principal and of interest on the outstanding principal – must be measured at amortised cost unless designated at fair value through profit or loss under the fair value option – "Hold to Collect".

- A financial debt instrument that (i) is managed under a business model whose objective is achieved either through the receipt of contractual cash flows or through the sale of financial assets and (ii) include contractual clauses that give rise to cash flows that correspond exclusively to the payment of principal and of interest on the outstanding principal – must be measured at fair value through the statement of other comprehensive income (“FVTOCI"), unless it is designated at fair value through profit or loss under the fair value option – "Hold to Collect & Sale".

- All other financial debt instruments must be measured at fair value through profit or loss ("FVPL").

The Group assessed its business models on the basis of a broad set of indicators of which emphasis is given to its business plan and current risk-management policies. For the "Hold to Collect” business model, in order to assess the frequency and materiality of the sales, quantitative thresholds were defined based on past experience. The sales projected for the financial assets classified in this business model do not exceed the thresholds defined by the Group.

The other financial instruments, specifically equity instruments and derivatives, are by definition classified at fair value through profit or loss. For equity instruments, there is the irrevocable option of designating that all fair-value variations are recognised under other comprehensive income, in which case, only the dividends are recognised in profit or loss, because gains and losses are not reclassified to profit or loss even when they are derecognised/sold.

Reclassifications between financial instrument portfolios

According to the requirements of IFRS 9, reclassification between financial instrument portfolios can only take place if the Bank decides to change the business model to management of a portfolio of financial assets. According to the mentioned standard, these changes must be infrequent, and must comply with the following requirements, namely:

- The change in the respective business model must be taken by the Management;
- This change is expected to have a significant impact on the entity's operations; and
- The change must be demonstrable to external entities.

In March 2020, due to the events mentioned in Note 8, the Bank's Management took the decision to discontinue the activity of granting loans that require stable financing and in large amounts and terms, within this activity is direct financing to the Portuguese state. This decision was (i) duly documented internally, (ii) disseminated throughout the Bank's structure, and (iii) duly communicated to all stakeholders. Management understands that credits impacted by changes in the business model have a significant impact on the Bank's balance sheet, as can be seen in Note 8.

In view of the above, and once all the impact requirements defined in IFRS 9 have been met, the Bank proceeded to reclassify the respective contracts, and they are now measured at fair value through other comprehensive income, when previously they were measured at amortized cost. The difference between the fair value and the respective balance sheet value on the reclassification date, was recognized in other comprehensive income, as shown:

	Measurement	
	At amortized cost	At fair value through other comprehensive income
Credit granted	2,300,000	2,300,000
Interest receivable	49,478	49,478
Fair value	-	373,172
Value adjustments of hedged assets	258,180	258,180

Sale of credits

Gains and losses obtained on the sale of credits on a definitive basis are recorded in the income statement item "Impairment of financial assets at amortized cost." These gains or losses correspond to the difference between the selling price that was set and the carrying amount of those assets, net of impairment losses.

Securitised credit not derecognised

The Group does not derecognise from assets the credits sold in the securitisation operations when:

- it maintains control over operations;
- it continues to receive substantial part of their remuneration; and
- it maintains a substantial part of the risk of the credits transferred.

Credits sold and not derecognised are carried under “Financial assets at amortized cost,” and are subject to accounting criteria identical to other credit operations. Interest and commissions associated with the securitised credit portfolio are accrued in keeping with the respective term of the credit operations.

Maintenance of the risk and/or benefit is represented by bonds of a higher risk issued by the securitisation vehicle. The amount carried under assets and liabilities represents the proportion of the risk/benefit held by the Group (ongoing involvement).
The bonds issued by securitisation vehicles and held by Group entities are eliminated in the consolidation process.

Derecognition
Assets are derecognised when (i) the Group's contractual right to receive their cash slows expires, (ii) the Group has substantially transferred all the risks and benefits inherent in holding them; or (iii) notwithstanding retaining a part, but not substantially the whole, of the risks and benefits inherent in holding them, the Group shall have transferred control over the assets.

Guarantees provided and irrevocable commitments

Liabilities for guarantees provided and irrevocable commitments are recorded in off-balance sheet items for the value-at-risk, and interest flows, commissions or other income are recorded in profit or loss over the life of these transactions.

Performance guarantees are initially recognised at fair value, which is normally evidenced by the amount of the fees received over the duration of the contract. At the time of contractual termination, the Bank has the right to reverse the guarantee, the amounts being recognised under Financial assets at amortized cost after the transfer of the compensation of losses to the beneficiary of the guarantee.

Recognition of income and expenses from fees and commissions

Income from fees and commissions obtained in the execution of a significant act, such as commissions on loan syndications, are recognised in profit or loss when the significant act has been finalised.

Income from fees and commissions obtained as the services are provided are recognised in profit or loss for the period to which it refers.

Income from fees and commissions that form an integral part of the remuneration of financial instruments are recorded in profit or loss using the effective interest rate method.

Recognition of expenses with fees and commissions is carried out using the same criteria adopted for income.

Financial assets recorded at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity and debt instruments that are recorded at the time of their initial recognition at fair value, plus transaction costs, and they are subsequently measured at fair value. Gains and losses related to subsequent variation of the fair value are reflected under a specific equity heading named "Other Accumulated Comprehensive Income" until their sale, when they are reclassified to profit or loss for the period, with the exception of equity instruments that remain in share capital.

Interest is calculated in accordance with the effective interest-rate method, and carried in profit or loss under "Interest income."

Income from floating-rate securities is recognised in the income statement under "Dividend Income" on the date when they are allocated. In accordance with this criterion, interim dividends are recorded as income in the period in which its distribution is decided.

Financial assets and liabilities held for trading and financial assets and liabilities not held for trading must be carried at fair value through profit or loss.

Financial assets held for trading include floating income securities traded on active markets acquired for the purpose of their sale in the short term. Trading derivatives with net amount receivable (positive fair value), as well as the options bought are included under Financial Assets held for trading. Trading derivatives with net amount payable (negative fair value), as well as the options sold are included under Financial Liabilities held for trading.

Financial assets and liabilities held for trading, and financial assets and liabilities not held for trading, must be carried at fair value through profit or loss. They are initially recognised at fair value, the expenses associated with the transactions being recognised in profit or loss at the initial moment. Gains and losses arising from subsequent valuation at fair value are recognised in the income statement under the headings "Gains or losses on financial assets and liabilities held for trading, net value" and "Gains or losses on financial assets not held for trading mandatorily carried at fair value through profit or loss, net value", respectively.

The fair value of financial assets held for trading and traded on active markets is their most representative bid-price, within the bid-ask interval, or their closing price on the reporting date. If a market price is not available, the fair value of the instrument is estimated on the basis of valuation techniques, including pricing models or discounted cash flow techniques. When discounted cash flow techniques are used, the future financial flows are estimated in keeping with management's expectations, and the discount rate used corresponds to the market rate for financial instruments of similar characteristics. In the price valuation models, the data used correspond to information on market prices.

The fair value of derivative financial instruments that are not traded on the stock market, including the credit-risk component assigned to the parties involved in the transaction (Credit Value Adjustments, and Debit Value Adjustments), is estimated based on the amount that would be received or paid to settle the contract on the date in question, considering current market conditions, as well as the credit rating of the parties involved.

Financial liabilities measured at amortised cost

Financial liabilities are initially valued at their fair value, which normally corresponds to the consideration received, net of transaction costs, and are subsequently recorded at amortized cost, in accordance with the effective interest rate method, with the exception of the requirement to recognize the changes in the fair value of financial liabilities resulting from changes in the entity's own credit risk, to be recognized in equity, rather than in results as previously required, unless this accounting treatment generates an "accounting mismatch". Subsequent reclassifications of these variations to profit or loss are not allowed, not even at the time of the repurchase of these liabilities.

Financial liabilities correspond mainly to the resources of central banks and of other credit institutions, customers' deposits and bond issues.

Repo Operations

Securities sold with repurchase agreement are kept in the portfolio where they were originally recorded. Funds received are recorded on the settlement date, in a specific account under liabilities, with accrual of the respective interest payable.

Secondary market transactions

The Group repurchases bonds issued in the secondary market. Purchases and sales of own bonds are included in the proportionately under the respective items of debt issued (principal, interest and commissions), and the difference between the amount settled and the write-off, or the increase of liabilities, are recognised immediately in profit or loss.

Hedge accounting

The new IFRS 9 hedge accounting model aims not only to simplify the process of creating and maintaining hedging relationships, but also to align the accounting of these relationships with the risk-management activities of each institution, extending the eligibility of a greater number of hedged and hedging instruments, but also types of risk.

The new standard still does not provide rules for the accounting of hedges called macro-hedging, and these are still to be defined by the IASB. Because of this limitation of IFRS 9, and with regard to hedge accounting, institutions may choose to maintain the accounting principles of IAS 39 (only for hedge accounting) until the completion of the macro-hedging project by the IASB. In this framework, the Group decided to continue applying the hedge accounting defined within the scope of IAS 39.

The Group uses derivative financial instruments in particular to hedge the interest-rate risk arising from financing and investment activities. Derivatives that qualify for hedge accounting are carried at their fair value, and gains or losses are recognised in keeping with the Group's hedge-accounting model.

Under the terms of the standard, application of hedge accounting is only possible when all the following requirements are met:

- Existence of formal documentation of the hedge relationship, and of the Bank's risk-management strategy;
- Initial expectation that the hedge relationship is highly effective;
- The effectiveness of the hedge can be reliably measured;
- The hedge is valued on a continuous basis and effectively determined as being highly effective throughout the financial reporting period;
- Regarding the hedge of a planned transaction, it is highly probable and presents an exposure to variations in cash flows that could ultimately affect results.

Hedge accounting is only applied once all those requirements are met. Likewise, if at any time the effectiveness of the hedge no longer lies in the interval between 80% and 125%, hedge accounting is discontinued.

Fair-value hedges

Gains or losses on the revaluation of a hedging derivative financial instrument are recognized in profit or loss. Should the hedge be effective, the gains or losses resulting from the change in fair value of the hedged item relative to the risk being hedged are also recognised in profit or loss.

If a hedging instrument matures or is terminated early, the gain or loss recognised in the valuation of the hedged risk as value adjustments of the hedged items is amortised over its remaining term. If the hedged asset or liability is sold or settled, all amounts recognised in the valuation of the hedged risk are recognised in profit or loss for the period, and the derivative financial instrument is transferred to the trading portfolio. If the hedge is no longer effective, the gains or losses recognised as value adjustments of the hedged items are amortised through profit or loss during their remaining term.

In the case of exchange-rate hedges of monetary items, hedge accounting is not applied, and the gain or loss on the derivative is recognised in the income statement, as are foreign-exchange variations of the monetary items.

Cash flow coverage

Cash-flow hedges are understood to be the hedge of an exposure relating to the variability of future cash flows, which may be assigned to a specific risk associated with a recognised asset or liability, or to a highly probable future transaction, and may affect profit or loss.

In this sense, the Group contracted financial derivatives to hedge the future interest flows of part of its mortgage loan portfolio remunerated at a floating rate. It also contracted financial derivatives instruments to hedge future flows from the sale of part of its portfolio at fair value through other comprehensive income.
Application of cash-flow hedge accounting is subject to the general requirements referred to above for hedge accounting and entails the following records:

- The gain or loss on the hedging instrument in that part considered effective is recognised directly in a specific item of equity; and

- The non-effective part is recorded in profit or loss.

Additionally, the gain or loss on the hedging instrument recognised in equity corresponds to the lesser of the following amounts:

- The accumulated variation in the fair value of the hedging instrument from the start of the hedge; and
- The accumulated variation in the fair value of the hedging instrument, relative to the risk, from the start of the hedge.

In this sense, and if applicable, the part not recognised in equity of the gain or loss on the hedging instrument is reflected in profit or loss.

Cash-flow hedge accounting must be discontinued if the hedging instrument expires or is terminated early, if the hedge ceases to be effective or if it is decided to terminate the designation of the hedging relationship. In these cases, the cumulative gain or loss resulting from the hedging instrument must continue to be separately recognised in equity, and is reflected in profit or loss in the same period of time as the recognition in profit or loss of the gains or losses of the hedged item. Should the Group hedge an operation that is not expected to be realised, the amount of derivative still recognised in Equity is immediately transferred to the year's profit or loss, the derivative being transferred to the Group's trading portfolio.

Loan impairment

IFRS 9 determines that the concept of impairment based on expected losses is to be applied to all financial assets except for financial assets at fair value through profit or loss and equity instruments measured at fair value through Other comprehensive income.

The Group applies the IFRS 9 concept to financial assets at amortised cost, debt instruments and loans and advances measured at fair value through other comprehensive income, off-balance sheet exposures, finance leasing, other receivables, financial guarantees and loan commitments not carried at fair value.

With the exception of purchased or originated credit-impaired financial assets (referred to as POCI) (which are described separately below), impairment losses must be estimated through a provision for losses of an amount equal to:

- expected loss for credit risk at 12 months, that is, total estimated loss resulting from default events of the financial instrument events that are possible within 12 months of the reporting date (called Stage 1);

- or expected loss for credit risk to maturity, that is, the total estimated loss resulting from all possible default events throughout the life of the financial instrument (referred to as Stage 2 and Stage 3). A provision for expected loss per credit risk to maturity is required for a financial instrument if the credit risk of that financial instrument has increased significantly since the initial recognition or if the financial instrument is impaired.

The expected loss for credit risk is an estimate weighted by the probability of the present value of the loan losses. This estimate results from the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the effective interest rate of the financial instruments.

The Group measures the expected loss individually or on a collective basis for portfolios of financial instruments that share similar risk characteristics. The adequacy of the provision for losses is based on the present value of expected cash flows of the asset using the original effective interest rate of the asset, regardless of being measured individually or collectively.

Impaired financial assets

A financial asset is impaired when one or more events that have a negative impact on the estimated future cash flows of the financial asset have occurred. Financial assets with a reduction of the recoverable amount of loans are referred to as Stage 3 assets. The Group has adopted the internal definition of non-performing loans as the criterion for the identification of Stage 3 loans. The internal definition of non-performing loans is governed by objective and subjective criteria, and is used for the management of the Group's credit risk and for the calculation of the regulatory capital using advanced credit-risk methods.

Purchased or originated credit-impaired (POCI) financial assets

Financial assets classified as POCI are treated differently, in that they are in an impaired situation. In the revaluation of assets, the expected loss to maturity is applied. For these assets, the Bank classifies them in Stage 3 for the net amount of the expected loss. The associated interest is calculated by applying the effective interest rate to the net amount.

Significant increase of the credit risk

The Group monitors all financial assets in order to assess whether there has been a significant increase of the credit risk since their initial recognition. If there has been a significant increase of the credit risk, the Bank estimates the loan-loss provision to maturity (LTPD (lifetime probability of default)), and not over 12 months.

The Group uses scoring and rating systems for internal credit-risk management. These notations allow an assessment of the risk level of the transactions or of the customer at all times, and they are considered in the credit-risk approval and monitoring decisions. The models are based on series of data that are considered predictors of the risk of default, which apply judgements, that is, the credit-risk notations are defined using qualitative and quantitative factors that are indicative of the risk of default. The notations consider current characteristics and past events, and their significance for the level of risk is studied.

The Group uses different criteria to determine whether the credit risk has increased significantly per asset portfolio, in particular:

- Limits of relative variation of the accumulated PD for the residual maturity of the transaction. The limits of relative variation are differentiated by PD level to the extent that variations of risk in very low risk transactions may not represent a significant increase of the risk. It should be noted that customers with no alteration of the credit-risk notation can have a significant deterioration (accumulated PD variation above the defined limit) for evolution of the residual term (sensitivity of the transactions differentiated over time) or by alterations of future expectations regarding the economy.

- Regardless of the outcome of the aforesaid evaluation, the Group assumes that the credit risk of a financial asset has increased significantly since the initial recognition when the contractual payments are overdue by more than 30 days or when the transactions are identified as loans restructured for financial difficulties.

Measurement of expected credit-risk loss for impairment-loss purposes

Credit risk parameters

The main concepts used to measure the expected credit-risk loss are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These concepts are calculated through statistical models developed internally, and are adjusted to reflect prospective information.

PD is an estimate of the likelihood of default over a given time horizon. The models that have been developed estimate this probability over sufficiently broad horizons for application in the residual maturity of the financial assets. The calculation is based on statistical classification models (rating and scoring) that detail the level of risk of the individual counterparties. The classification models (rating and scoring) are used in management and are based on internal data comprising both quantitative and qualitative factors. The estimate is based on current conditions, adjusted to take into account the estimates of future conditions that will affect the PD.

LGD is an estimate of the total loss, should the asset enter into default. It is based on the difference between the contractual cash flows due and those that the Bank expects to receive, taking into account the cash flows of existing guarantees. The LGD models for secured assets consider the valuation of the guarantees, taking into account selling expenses, the time to execute the guarantees, collateralisation level, etc. The LGD models for unsecured assets consider recovery time, recovery rates, and recovery expenses. The calculation is based on cash flows discounted at the original effective interest rate of the loan. The estimate is based on current conditions, adjusted to take into account the estimates of future conditions that will affect the LGD.

EAD is an estimate of exposure on a date of future default, taking into account the expected changes in the exposure after the reporting date. The Group's modelling approach for EAD reflects the expected changes in the outstanding balance over the loan's lifetime exposure allowed by the current contractual terms, such as amortisation profiles, total or partial early repayment, and changes in the use of unused commitments before entry into default.

The Group assesses the expected credit-risk loss for the purpose of impairment losses, considering the risk of default during the maximum contractual period during which the entity is exposed to the credit risk. However, for financial instruments such as credit cards, credit lines and overdraft facilities that include a loan and an unused commitment component, the Group's contractual ability to demand repayment and to cancel the unused commitment does not limit the Group's exposure to loan losses to the contractual period of notice. For such financial instruments, the Group measures the Expected Credit Risk Loss for the period historically observed as the average life of these instruments.

Collective analysis

When the expected credit-risk loss is measured collectively, the financial instruments are grouped on the basis of common risk characteristics, such as instrument type, customer type, credit risk degree as measured by the ratings or scoring system, type of collateral, date of initial recognition, relationship between loan and value of the guarantee (LTV).

The groupings are reviewed regularly to ensure that each group comprises homogeneous exposures.

Individual analysis

The process of quantification of impairment losses through an individual analysis is applied to customers with individually significant Stage 3 exposure (assets impaired and in default) (exposure greater than €0.5 million).

The process involves calculation of an estimated loss, taking into account anticipated future cash flows under several different scenarios, each using specific factors and circumstances of the customers, in particular, execution of guarantees in situations in which customers do not generate sufficient cash flows for payment of the debt, or projection and discount of the cash flows of the deal for the remaining customers. The net present value of cash flows is calculated considering the original effective interest rate of the contracts.
This evaluation process is updated at least every quarter, but more frequently if there are changes of circumstances that may affect the cash-flow scenarios.

Incorporation of forward-looking information

The Group's Office of Economic Studies models economic-forecast scenarios for the Group's various planning exercises, in particular, budget, strategic planning and ICAAP. In this connection, different macro-economic scenarios are generated, including two pessimistic scenarios, one base scenario, and two optimistic scenarios.

For the purpose of impairment losses, a pessimistic scenario is used, the base scenario, and an optimistic scenario. The Group applies probabilities to the forecast scenarios identified. The base scenario is the most likely outcome, and consists of information used by the Group for strategic planning and budgeting. The estimates are updated at least once a year and are subject to annual monitoring exercises.

d) IFRS 16 — Leases

Method for measuring the right of use and lease liability

IFRS 16 defines a set of new requirements for applying this standard, namely regarding the classification and measurement of leasing operations from the lessee's perspective. As lessee, the Group records a right-of-use asset that is recognized under Tangible Assets and Intangible Assets

(Note 12), and a lease liability that is recognized under Financial Liabilities accounted for at amortized cost — other financial liabilities — commitments with future rents (Note 17), on the effective date of the respective operation:

i. The lease liability is measured by the present value of future lease payments to be incurred during the life of the contract, using a discount rate differentiated by maturity. In the estimate of the liabilities consideration is given to the fixed payments, to the variables that depend on a rate or index, to the amounts relating to the exercise of the purchase option, and to when the Group is reasonably certain that it will exercise its right.

   The lease liability is remeasured whenever a contractual amendment occurs, and at the time the lease liability is revalued, the effects of the revaluation are recognized against the right to use (asset). In the event of a change in the term of the contract or of an alteration as to the valuation of the exercise of the option, a new discount rate must be estimated and, consequently, the liability remeasured.

ii. The right of use is initially measured at cost at the value of the lease liability, adjusted for subsequent contractual changes, and it is depreciated using the straight method until the contract expires, and is subject to impairment tests.

e) Tangible Assets

Tangible assets used by the Group to carry on its business are carried at acquisition cost (including directly attributable expenses), less accumulated depreciation and impairment losses, as and when applicable.

Depreciation of tangible assets is accrued systematically, in monthly instalments, over the period of the estimated useful life of the assets, which corresponds to the period during which the assets are expected to be available for use, as detailed hereunder:

	Years of useful life
Premises	50
Equipment	4 to 10

Non-recoverable expenses incurred with construction works on buildings that are not owned by the Group (leased) are depreciated over a period of time compatible with their expected useful life or of the lease, if less, which on average corresponds to a period of ten years. Maintenance and repair expenses are recognized under “Other administrative expenses.”

Whenever there is an indication that the tangible fixed asset may be impaired, an estimate of its recoverable value is made. To this end, the branches are considered cash-flow generating units, and impairment losses are recorded in situations where the recoverable amount of property where the branch is located — through its use in the operations or through its sale —, is less than its net carrying amount. Impairment losses are recognised in the income statement, and they are reversed in subsequent reporting periods when the reasons for their initial recognition cease. To this end, the new depreciable amount shall not exceed its carrying amount had impairment losses not been assigned to the asset, considering the depreciation that it would have undergone.

The criteria followed in the valuation of the properties normally consider the market comparison method, and the amount detailed in the valuation corresponds to the market value of the property in its current state.

The Group's premises that are undergoing sale are carried under "Other assets." These assets were transferred at their net carrying amount in accordance with IAS 16 (acquisition cost, net of accumulated depreciation and impairment losses), and are tested for impairment at the time of their reclassification and subsequently subject to periodic valuations to determine possible impairment losses.

Gains and losses on the sale of these assets are recognized under "Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operational units."

f) Intangible assets

The Group records under this heading expenses incurred with development of projects relating to information technologies implemented and at implementation stage, as well as those relating to software purchased, in every case where their expected impact has to be reflected in years subsequent to that in which they are incurred.

Amortisation of intangible assets is accrued, in twelfths, over their estimated period of useful life, which is three years on average.

Internally developed software is recognized under intangible assets when, among other requirements, it can be seen that they are usable and capable of being sold and, additionally, they are identifiable, and it is possible to demonstrate their ability to generate future economic benefits.

g) Investment properties

Investment properties comprise buildings and land held by Novimovest — Fundo de Investimento Imobiliário Aberto (Novimovest) to earn income or for capital appreciation or both, and not for use in the provision of goods or services or for management purposes.

Investment properties are carried at fair value, determined by periodic valuations performed by specialised independent entities. Variations of the fair value of investment properties are recognised directly in the income statement for the period.

Costs incurred with investment properties in use, namely maintenance, repairs, insurance and property taxes (municipal property tax) are recognized in the income statement for the period to which they refer. Ameliorations that are expected to generate additional future economic benefits are capitalised.

h) Non-current assets and disposal groups classified as held for sale

The Group essentially recognizes under "Non-current assets and disposal groups classified as held for sale," real estate, equipment and other assets received by way of payment in kind or auction for the payment of overdue loan transactions when they are available for immediate sale in their present condition and there is a likelihood of their sale within a one-year period. If they do not meet these criteria, those assets are carried under "Other assets" (Note 14).

Their initial recognition is at the lower of their fair value, less expected selling costs and the carrying amount of the loans granted constituting the object of the recovery, being tested for impairment on the date of reclassification to non-current assets held for sale. Subsequently, these assets are measured at the lesser of the initial recognition amount and fair value less costs to sell, and they are not depreciated. Unrealized losses on these assets, thus determined, are recorded in profit or loss.

If, on a subsequent date, the facts that led to the recording of impairment losses no longer exist due to an increase of the fair value less costs of sale, the impairment losses will be reverted up to the limit of the amount that the assets would have, had they not been reclassified to non-current assets held for sale.
When it is a matter of discontinued operational units, in accordance with the provisions of IFRS 5 – "Non-current assets held for sale and discontinued operations," the Group does not recognise potential gains on these assets.

i) Provisions

A provision is set aside where there is a present (legal or constructive) obligation resulting from past events in respect of which there will be a probable outflow of funds that can be determined reliably. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle the liability on the reporting date, in accordance with the information provided by the Group’s legal and tax consultants.

In this way, the liabilities item "Provisions" includes provisions set aside to cover, *inter alia*, the post-employment benefits specific to certain members of the Bank’s Board of Directors, the restructuring plan approved by the Executive Committee, ongoing legal proceedings, and other specific risks arising from its business

j) Employee post-employment benefits

Banco Santander Totta S. A.

The Bank endorsed the Collective Bargaining Agreement (ACT) for the banking industry, and therefore its employees or their families are entitled to retirement, disability and survivors’ pensions.

For employees admitted to the Bank up until December 31, 2008, the existing pension plan was a defined-benefit plan, in that it established the criteria for the determination of the value of the pension that an employee would receive during retirement in the light of the length of service provided and the respective remuneration on retirement, the pensions being updated annually on the basis of the remuneration provided for in the ACT for personnel in service. For these employees, the Bank is liable for the full amount of the pensions provided for in the ACT. To cover the liabilities under this defined-benefit plan, the Bank has a Pension Fund.

As from January 1, 2009, employees taken on by the Bank came to be included in Social Security, and are covered by a supplementary defined-contribution pension plan and by the rights acquired under Clause 93 of the ACT. The plan is funded through contributions by employees (1.5%) and by the Bank (1.5%), calculated on the basis of the actual monthly remuneration. For this purpose, each employee can opt for an open pension fund at his or her choice.

Employees of the former Totta have always been enrolled in Social Security, and therefore the Bank's liability with regard to the defined-benefit plan in respect of those employees has consisted of payment of supplements.

In October 2010 an agreement was concluded between the Ministry of Labour and Social Solidarity, the Portuguese Banks Association and the Financial Sector Federation (FEBASE), for the inclusion of banking sector employees in the General Social Security Regime. As a result of that agreement, Decree-Law 1-A/2011, of January 3, was published in 2011, which determined that banking sector workers who were in active service on the date of its entry into force (January 4, 2011) would be covered by the General Social Security Regime, as regards old-age pension and in the event of maternity, paternity and adoption. In view of the supplementary nature laid down in the rules of the Collective Bargaining Agreement of the Banking Sector, the Bank continues to cover the difference between the amount of the benefits paid under the General Social Security Regime for the events included and for those laid down under the terms of that Agreement.

Liabilities for past services recognized as at December 31, 2010, were not altered with the publication of the aforesaid Decree-Law, since the reduction of the amount of the pensions payable by the Bank related with workers in active service was applicable to the future services of the employees, beginning on January 1, 2011. Thus, the cost of the current service fell as from that date, but the Bank came to bear the Single Social Charge (TSU) of 23.6%. On the other hand, the Bank is still liable for the payment of invalidity and survivors' pensions and of sickness benefits.

Following the approval by the Government of Decree-Law 127/2011, of December 31, a Tripartite Agreement has been established between the Government, the Portuguese Banks Association and the Banks' Employees Trade Unions on the transfer to the sphere of social security of the liabilities for pensions payable to retirees and pensioners as of December 31, 2011.

This Decree-Law established that the liabilities to be transferred correspond to pensions payable as of December 31, 2011, at constant values (update rate of 0%) in the component provided for in the ACT. The liabilities in respect of the updates of the pensions, supplementary benefits, contributions to the SAMS on retirement and surviving relative pensions, death allowances and deferred survival pensions are still the responsibility of the institutions.

Additionally, employees of the Bank's former London Branch (now representative office) are covered by a defined-benefit pension plan, for which the Bank has a separate pension fund.

On the other hand, in February 2010, a supplementary defined-contribution pension plan was approved for a number of directors of the Bank, insurance having been taken out for the purpose.

On December 20, 2015, following the resolution measure applied by the Bank of Portugal to Banif, the Bank took over the pension liabilities of a number of Banif workers.

On August 8, 2016, the Ministry of Labour published a new ACT in the Work and Employment Bulletin (BTE). The most significant changes were the following:

i) Change in the formula for determining the employer's contribution to the SAMS, which is no longer a percentage of the pension and becomes a fixed amount (€89.01 per beneficiary and €38.52 in the case of pensioners); and
ii) Introduction of a new benefit called end of career bonus — pension bonus. This benefit, because it is allocated on the date of retirement or in the event of death, is considered a post-employment benefit and therefore comes to form part of the retirement liabilities.

On December 27, 2017, within the scope of the purchase and merger of BAPOP, the Bank assumed the pension liabilities of all this entity’s workers.

The Bank’s liabilities for retirement pensions are calculated by external experts (Mercer (Portugal), Limitada) on the basis of the Projected Unit Credit method. The discount rate used in actuarial studies is determined based on the market rates of the bonds of companies of high quality in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with maturity similar to the end date of the obligations of the plan. The post-employment benefits of employees also include medical care (SAMS), as well as the death benefit and the bonus on retirement.

According to IAS 19 — "Employee Benefits" remunerations are recorded directly in equity (other comprehensive income), and under the heading "Staff Costs" of the income statement, the following components being recognized:

- Cost of current services;
- Net interest with the pension plan;
- Expenses incurred with early retirement, corresponding to the increase of liabilities on retirement; and
- Gains and losses resulting from the alteration of the conditions of the plan.

The net interest with the pension plan is calculated by the Bank by multiplying the net asset/liability involved in retirement pensions (liabilities less the fair value of the Fund's assets) by the discount rate used in determining the retirement-pension liabilities. Thus, net interest represents the interest cost associated with the retirement-pension liabilities net of the theoretical return on the Fund's assets, both measured on the basis of discount rate used in the calculation of the liabilities.

Remeasurement gains and losses, namely: (i) actuarial gains and losses resulting from differences between actuarial assumptions used and the amounts actually incurred (gains and losses of experience), as well as changes of actuarial assumptions, and (ii) gains and losses arising from the difference between the theoretical returns on the Fund's assets and the amounts obtained, are recognized in the income statement with a contra-entry in "Other comprehensive income."

Pension liabilities, less the fair value of the assets of the Pension Fund, are carried under "Other assets" or "Other liabilities," depending on the existence of surplus or insufficient funding. Recognition of a surplus of fair value of the plan’s assets over its discounted liabilities depends on the existence of a reduction of future contributions, or on the reimbursement of contributions made.

Bank of Portugal Notice No. 4/2005 determines the obligation of full funding by the Pension Fund of the liabilities for pensions payable and a minimum level of funding of 95% of the past-service liabilities of personnel in service.

Santander Totta Seguros ("Company")

In accordance with the Collective Bargaining Agreement (ACT) then in force for the insurance industry, the Company had undertaken to provide cash benefits to complement the pensions attributed by Social Security to employees admitted to the sector up until June 22, 1995, when the ACT came into force, including those transferred from Seguros Génesis within the scope of the agreement between this entity and the Company on June 29, 2001. These benefits consisted of a percentage that increases with the number of years of service of the employee, applied to the salary scale in force upon retirement.

Under the new Collective Bargaining Agreement for the insurance industry, signed on December 23, 2011, the former defined-benefit pension plan was replaced with regard to employees in service as at January 1, 2012, by a defined-contribution plan, the current value of liabilities for past services as at December 31, 2011, having been transferred to the individual account of each participant. This change was not applicable to pension liabilities payable to employees who were already retired or pre-retired on December 31, 2011. However, on that date, the Company had no workers in this situation.

In July 2002, the Company joined the Company Retirement Open Pension Fund managed by Santander Pensões – Sociedade Gestora de Fundos de Pensões, S. A. (an entity of the Santander Group).

k) Corporation Tax

The Group is subject to the tax system established in the Corporation Tax Code (IRC). Current taxes are calculated based on the Group's taxable income and that of the Group companies, determined in accordance with the tax rules approved or substantively approved on the financial reporting date.

Following the enactment of Law No. 2/2014, of January 16 (IRC Reform), and of the wording provided by the 2021 State Budget Law (Law No. 75-B/2020 of December 31), the taxation of corporate earnings for 2021 and 2020 came to be the following:

- IRC rate of 21% on taxable profit;
- Municipal surcharge at a rate between 0% and 1.5% on taxable profit;
- State surcharge at a variable rate on taxable income in accordance with the following tiers:
  - Up to €1,500k 0%
  - between €1,500k and €7,500k 3%
  - between €7,500k and €35,000k 5%
  - over €35,000k 9%

In this way, the changes mentioned above imply that the tax rate used by the Group in determining and recording deferred taxes was 31%.

With the publication of the Supplementary Budget for 2020 (Law No. 27-A/2020, of July 24), tax losses calculated in the 2020 tax periods can be used in the twelve subsequent tax periods. Additionally, the counting of the period for reporting tax losses is suspended for two tax periods.

Thus, tax losses generated between fiscal years 2014 and 2016, inclusive, may be used in the fourteen subsequent taxation periods, while those generated between 2017 and 2020, inclusive, may be used in the seven subsequent taxation periods.

The deduction of losses to be carried out each year may not exceed 70% of the respective taxable income (80%, in the case of tax losses generated in 2020), and the remainder may be used by the end of the reporting period.

Law 98/2019 of September 4 approved a new regime in the matter of the impairments of credit institutions and other financial institutions, also establishing the regime applicable to impairment losses recorded in previous taxation periods not yet accepted for tax purposes.

Since this new system is of optional nature during a five-year adjustment period commencing on or after January 1, 2019, the expected accession to the new tax regime, applicable in the matter of impairments of credit institutions and other financial institutions, is dependent on a communication addressed to the Director General of the Tax and Customs Authority by the end of the tenth month of the current tax period (see Article 4.1 of this Law). In this sense, the Group adhered to the definitive regime established in Articles 2 and 3 of this law in 2019.

The Santander Group decided to apply as from 2017 the Special Taxation of Groups of Companies Regime (RETGS). Under this regime, the Group's taxable profit/tax loss corresponds to the sum of the taxable profit/tax loss that comes to be determined by the parent company through the algebraic sum of tax results determined in the periodic separate statements of each company. The companies covered by this scheme are Santander Totta — the controlling company; and Taxagest, Banco, Santander Totta Seguros, TottaUrbe and Gamma — controlled companies. The gain obtained by application of the RETGS is allocated to the entities in question in a manner proportional to the taxable income of each company.
Deferred tax assets and liabilities correspond to the amount of the tax recoverable and payable in future periods resulting from temporary differences between the carrying amount of an asset or liability and its taxation base. Tax credits are also recorded as deferred tax assets.
Deferred tax liabilities are recognized on all taxable temporary differences, except those related to: i) the initial recognition of goodwill; or ii) the initial recognition of assets and liabilities, which do not result from a concentration of business activities, and which at the date of the transaction do not affect the accounting or tax results.

The Group does not recognise deferred tax assets or liabilities for the deductible or taxable temporary differences associated with investments in subsidiaries and associated companies, as it is not likely that the difference will revert in the foreseeable future.

Deferred tax assets are recognized when they are expected to be recoverable and up to the amount that it is likely that there are future taxable profits that will accommodate the deductible temporary differences.

Deferred tax assets and liabilities have been calculated on the basis of the tax rates approved or substantially approved on the reporting date, which constitute the best estimate of the rate to be in force for the period when it is expected that the asset will be realised, or the liability incurred.

Current taxes and deferred taxes are reflected in profit or loss, with the exception of taxes relating to transactions directly recorded in equity, in particular, potential gains and losses on Financial assets at fair value through other comprehensive income in cash-flow hedging derivatives, as well as those associated with actuarial deviations relating to pension liabilities, which are also recorded in equity.

Management periodically reviews the position taken in preparing tax returns regarding situations in which the application of the tax regime is subject to interpretation, and assesses the likelihood that the Tax Administration will accept the adopted tax treatment. The Group measures assets / liabilities arising from uncertain income tax positions, considering the most likely amount or the expected amount, whichever is more appropriate in each circumstance.

l) Banking sector contribution, and Solidarity Tax on the banking sector

The Bank is covered by the banking sector contribution scheme defined in Law No. 55-A/2010 of December 31.

With the publication of Law 27-A/2020, of July 27, the Bank is now covered by the Solidarity Tax on the banking sector. This contribution aims to strengthen the financing mechanisms of the social security system.

m) Technical provisions

Santander Totta Seguros – Companhia de Seguros de Vida, S. A., sells life insurance and, until December 2014, sold non-life insurance.

Insurance contracts and investment contracts with a discretionary profit-sharing component sold by Santander Totta Seguros are carried in the consolidated financial statements of Santander Totta under the terms laid down in IFRS 4. In this sense, the technical provisions carried in the consolidated financial statements correspond to the technical provisions recorded at Santander Totta Seguros for such contracts:

- Provision for unearned premiums and deferred acquisition costs

  The provision for unearned premiums corresponds to the deferral of premiums issued, which is calculated policy by policy from the reporting date until the expiry of the period related to the premium.

  This provision is applicable to life and non-life risk products. Santander Totta Seguros defers acquisition costs relating to brokerage commissions incurred with the sale of the respective insurance policies.

- Mathematical provision for the life business

  The mathematical provision is intended to meet future costs arising from life insurance contracts, and it is calculated for each policy in accordance with the actuarial bases approved by the Insurance and Pension Funds Supervisory Authority. This provision is also applicable to discretionary profit-sharing investment contracts.

- Provision for rate commitments

The provision for rate commitments is set aside when the effective rate of return of the financial instruments that represent the life insurance mathematical provisions and the financial liabilities arising from investment contracts without discretionary profit-sharing is lower than the technical interest rate used in the determination of those mathematical provisions and financial liabilities.

- Provisions for claims

The provision for claims is intended to cover indemnities payable relating to claims incurred but not yet settled, and is determined as follows:

i) Based on the analysis of claims outstanding at yearend and on the resulting estimate of the liability existing at that date;
ii) By the estimate of the amounts required to meet the liabilities for claims incurred but not reported (IBNR);
iii) By the estimate of the administrative expenses to be incurred in the future settlement of claims currently under management.

-Provision for profit-sharing to be attributed

This is the net amount of the fair-value adjustments of the investments allocated to the life insurance with profit sharing, in the part estimated of the policyholder or beneficiary of the contract.

The determination of the share of the profit to be allocated to the policyholders is based on the statutory financial statements of Santander Totta Seguros prepared in accordance with accounting principles generally accepted in Portugal for the insurance sector. In this sense, for the purpose of preparation of the consolidated financial statements, such financial assets are classified under Other financial assets at fair value through Other comprehensive income, and the respective unrealised gains and losses, net of taxes, are carried under "Other accumulated comprehensive income", under consolidated equity. Additionally, the policyholders' part is carried under "Technical provisions of liabilities (provision for profit-sharing to be attributed – shadow reserve)", with a contra-entry under "Accumulated comprehensive income", under consolidated equity, in order to avoid distortions at the level of the income statement and consolidated equity (shadow accounting, as provided for in IFRS 4).

- Provision for allocated profit sharing

The provision for allocated profit sharing corresponds to the amounts allocated and not yet distributed to the beneficiaries of insurance contracts, and it is calculated in accordance with the technical bases of each product. The profit-sharing is paid to beneficiaries of the contracts or distributed to the insurance policies under the terms established in the respective general conditions of the policy.

- Technical provisions for reinsurance ceded

  Corresponds to the reinsurers' share of the total liabilities of Santander Totta Seguros, and it is calculated in accordance with the reinsurance treaties in force, based on the percentages ceded and other existing clauses.

- Provision for risks in progress

  The provision for risks in progress corresponds to the sum required to cover probable indemnities and costs to be borne following the year-end in excess of the amount of unearned premiums and of enforceable premiums in respect of non-life insurance contracts in force. This provision is calculated on the basis of the ratios of the claims, expenses, cession and income determined in the year, as defined by the Insurance and Pension Funds Supervisory Authority.

n) Adjustments of receipts pending collection

These aim to adjust the amount of receipts pending collection to their estimated realisable value and are calculated in accordance with the principles established by the Insurance and Pension Funds Supervisory Authority.

o) Recognition of income and expenses — insurance

Premiums of life insurance contracts and investment contracts with discretionary profit-sharing are recorded when issued, under "Gross margin on insurance activity — Gross premiums written, net of reinsurance," in the income statement.

Investment contracts with no discretionary component in the profit sharing, marketed by Santander Totta Seguros, are carried in the consolidated financial statements as "Financial liabilities measured at amortised cost."

Securities allocated to insurance business are those that represent liabilities for insurance and contracts and financial liabilities for investment contracts with and without discretionary profit-sharing, which are carried in the consolidated financial statements under "Financial assets carried at fair value through other comprehensive income," with the exception of securities allocated to contracts where the investment risk is borne by the policyholder (unit-linked contracts), which are carried under "Financial assets not held for trading mandatorily carried at fair value through profit or loss."

p) Treasury shares

Treasury shares are recoded as a debit in the capital accounts for the purchase price and are not subject to revaluation, the portion of the dividend to be distributed in respect of these shares being retained under equity. Gains and losses realised on the sale of treasury shares, as well as the respective taxes, are recorded directly in equity, and do not affect the year's profit or loss.

q) Equity instruments

An instrument is classified as an equity instrument when there is no contractual obligation for its settlement to be made through the delivery of cash or another financial asset, regardless of its legal form, showing a residual interest in the assets of an entity after deducting all its liabilities.

Costs directly attributable to the issuance of equity instruments are recorded against equity as a deduction from the amount of the issuance. Amounts paid and received for purchases and sales of equity instruments are recorded under equity, net of transaction costs. Allocations made on account of equity instruments are deducted from equity as dividends when declared.

r) Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the Company's shareholders by the weighted average number of outstanding common shares, excluding the average number of common shares acquired by the Company and held as own shares.

For the calculation of diluted earnings per share, the weighted average number of outstanding common shares is adjusted to reflect the effect of all potential diluting common shares.

s) Cash & cash equivalents

For purposes of the preparation of the cash-flow statement, the Group considers as "Cash and cash equivalents" the balance of "Cash and deposits at central banks and other current deposits," in that the items carried under this heading have a maturity period not exceeding 3 months, and their risk of variation of value is immaterial.

2. MAIN ESTIMATES AND UNCERTAINTIES REGARDING THE APPLICATION OF THE ACCOUNTING POLICIES

Estimates and judgements impacting on the Group’s consolidated financial statements are continually assessed, representing on each reporting date the Board of Directors’ best estimate, taking into account historical performance, accumulated experience and expectations as to future events that, in the circumstances at issue, are believed to be reasonable.

The intrinsic nature of the estimates may mean that the actual reflection of the situations that have been estimated may, for financial reporting purposes, differ from the estimated amounts.

Employee post-employment benefits (Note 36)

Retirement and survivor pensions are estimated based on actuarial evaluations carried out by external experts certified by the Insurance and Pension Fund Supervisory Authority (ASF). These estimates incorporate a set of financial and demographic assumptions, including the discount rate, mortality and invalidity tables, pension and salary growth, among others. The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities. Estimated salary and pension growths take into account the country’s current situation and the consequent prospect of smaller increases in the future, or even maintenance of current values. The mortality table used was based on the recommendation of the actuary.

The assumptions adopted correspond to the best estimate of the Group's Board of Directors as to the future behaviour of the above variables.

Valuation of financial instruments not traded on active markets (Note 39)

Valuation models or techniques are used in the valuation of financial instruments not traded on active markets. Accordingly, the valuations obtained correspond to the best estimate of the fair value of those instruments on the reporting date.

The fair value of the instrument is estimated using valuation techniques that include price valuation models or discounted cash flow techniques. When discounted cash flow techniques are used, the future cash flows are estimated in accordance with management's expectations, and the discount rate used corresponds to the market rate for financial instruments of similar characteristics.

To ensure an appropriate segregation of duties, the value of those financial instruments is determined by a body independent of the trading function.

Determination of impairment losses (Notes 9, 18 and 39)

Impairment losses on loans are calculated as indicated in Note 1.3 (c). In this way, the determination of impairments through individual analysis corresponds to the judgement of the Board of Directors regarding the economic and financial situation of its customers, and to its estimate of the value of the guarantees associated with the respective loans, with the consequent impact on expected future cash flows. The determination of impairments through collective analysis is performed on the basis of parameters for comparable types of operations, such as instrument type, customer type, credit-risk degree as measured by the ratings or scoring system, type of collateral, date of initial recognition, relationship between loan and collateral value (LTV), and inclusion of prospective information.

Non-current assets and disposal groups classified as held for sale and other assets (Notes 14 and 15)

Properties, equipment and other goods received as payment in kind or acquired in payment of past-due credit operations are carried at the amount agreed by negotiation or judicial means, after deduction of the lesser of the costs the Bank expects to incur with their sale, or their quick-sale value, if lower. Properties are subject to periodic appraisal conducted by independent evaluators, which incorporate various assumptions, particularly as to the evolution of the property market and, where applicable, expectations as to the development of real-estate projects. The assumptions used in the appraisal of these properties have an impact on their valuation and hence on the calculation of the impairment. Whenever the value resulting from these valuations (net of selling expenses) is lower than the value at which such properties are accounted for, impairment losses are recorded.

Taxes (Note 13)

Recognition of deferred tax assets assumes the existence of profits and future taxable matter. Additionally, current and deferred taxes were determined on the basis of the interpretation of current tax legislation. Thus, changes to tax laws or to their interpretation by the relevant authorities may have an impact on the amount of current and deferred taxes. For the purpose of analysis of the recoverability of deferred tax assets (tax losses), the Group projects taxable profits on the basis of assumptions. Thus, the recoverability of deferred tax assets depends on the implementation of the strategy of the Group's Board of Directors.

Determination of the outcome of legal proceedings in progress and restructuring provisions (Notes 18 and 42)

A provision is recognized where there is a present (legal or constructive) obligation resulting from past events in respect of which there will be a probable outflow of funds that can be determined reliably. The outcome of the legal proceedings in progress, as well as the respective amount of the provision corresponding to the best estimate of the amount to be spent to settle the liability on the balance/sheet date, is assessed in accordance with the opinion of the Group's lawyers/legal advisers and decisions of the courts to date, which, however, might not come about.
Regarding restructuring plans, the charges arising from the constructive obligation of reorganisation were considered, with the definition of the initiatives to be developed supported by a detailed formal plan with minimum elements of approach and quantification and identification of the impacted factors.

Determination of liabilities for insurance contracts (Note 18)

Determination of the Company's liabilities for insurance contracts is based on the methodologies and assumptions described in Note 1.3(m) above.

Given its nature, the determination of provisions for insurance contract claims and other liabilities has a certain degree of subjectivity, and the amounts actually incurred may differ from the estimates recognised in the balance sheet.

However, the Company considers that the liabilities determined on the basis of the established methodologies adequately reflect the best estimate, as at June 30, 2021, of the liabilities to which it is bound.

Reinsurance ceded

The provision for unearned premiums of reinsurance ceded, the mathematical provision for reinsurance ceded and the provision for ceded reinsurance claims correspond to the reinsurers' share of the Company's total liabilities and are calculated under the terms of the reinsurance treaties in force on the reporting date. The provision for profit-sharing in ceded reinsurance is also estimated on the reporting date, based on the contractual conditions set out in the said reinsurance treaties.

3 DISCLOSURES BY SEGMENTS

Under the terms of IFRS 8, disclosures by operating segment are presented below in accordance with information as analysed by the Group's management (Executive Committee) bodies:

Corporate Investment Banking:

Essentially includes the Group's business on the financial markets and with large enterprises, involving provision of financial advisory services, Corporate and Project Finance in particular, as well as brokering, custody and settlement of securities services.

(Expressed in thousands of euros, except where otherwise stated)

Retail Banking:

Essentially refers to operations of granting loans and attracting resources related to private customers and businesses with a turnover of less than €10 million, channelled through the branch network, and services provided by complementary channels.

Corporate Banking:

This area comprises businesses with turnover between €10 million and €125 million. This business is underpinned by the branch network, corporate centres and specialised services, and includes several products, namely loans, project finance, trade, exports and real estate.

Insurance Management:

This area includes life insurance that, in the cross-selling strategy, is placed through the Group's branch network.

Corporate Activities:

This area considers the entire business carried on within the Group that supports the main activities but is not directly related to the customers' business areas, including liquidity management, balance-sheet hedging and the Group's structural funding.

The breakdown of the income statement by operating segment for the six-month period ending on at June 30, 2020, and 2021, is as follows:

	30-06-2021					
	Global Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Net interest income	26.299	220.172	43.345	257	93.333	383.406
Dividend income	-	-	-	-	1.533	1.533
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates measured at equity method	-	-	-	5.347	1.097	6.443
Fee and commission income	22.051	177.122	12.141	(2.764)	(5.472)	203.079
Gains/Losses on financial operations	4.048	3.203	290	13.396	126.599	147.537
Other operating income	-	1.552	-	660	1.513	3.725
Insurance activity	-	-	-	8.532	-	8.532
Total operating income, net	**52.398**	**402.049**	**55.776**	**25.428**	**218.603**	**754.255**
Administrative expenses	(12.638)	(225.131)	(14.686)	(4.400)	(1.956)	(258.812)
Cash contributions to resolution funds and deposit guarantee systems	-	-	-	-	(37.679)	(37.679)
Depreciation	(1.666)	(23.299)	(213)	(231)	-	(25.409)
	38.094	**153.619**	**40.877**	**20.797**	**178.968**	**432.355**
Impairment and provisions, net of reversals	1.078	(30.521)	(8.206)	(2)	(271.260)	(308.911)
Profit or loss from non-current assets held for sale	-	-	-	-	10.303	10.303
Other results	-	-	-	-	(29.565)	(29.565)
Profit or loss before tax from continuing operations	39.172	123.098	32.671	20.795	(111.554)	104.182
Taxes	(12.143)	(38.161)	(10.128)	(4.011)	41.676	(22.767)
Non-controlling interests	-	-	-	-	(21)	(21)
Profit or loss for the period	**27.029**	**84.938**	**22.543**	**16.784**	**(69.900)**	**81.394**

(Expressed in thousands of euros, except where otherwise stated)

	30-06-2020					
	Global Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Net interest income	35.803	234.618	43.433	221	85.263	399.338
Dividend income	-	-	-	-	1.733	1.733
Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates	-	-	-	4.313	751	5.064
Fee and commission income	24.298	166.671	12.201	(2.039)	(17.994)	183.137
Gains/Losses on financial operations	3.392	2.860	209	(780)	86.211	91.892
Other operating income	-	1.651	-	456	3.942	6.049
Insurance activity	-	-	-	7.778	-	7.778
Total operating income, net	**63.493**	**405.800**	**55.843**	**9.949**	**159.906**	**694.991**
Administrative expenses	(12.798)	(222.246)	(18.888)	(6.156)	(1.771)	(261.859)
Cash contributions to resolution funds and deposit guarantee systems	-	-	-	-	(35.624)	(35.624)
Depreciation	(1.605)	(23.147)	(878)	(271)	-	(25.901)
	49.090	**160.407**	**36.077**	**3.522**	**122.511**	**371.607**
Impairment and provisions, net of reversals	(6.769)	15.016	3.491	51	(122.544)	(110.755)
Profit or loss from non-current assets held for sale	-	-	-	25	(92)	(67)
Other results	-	-	-	-	(29.258)	(29.258)
Profit or loss before tax from continuing operations	**42.321**	**175.423**	**39.568**	**3.598**	**(29.383)**	**231.527**
Taxes	(13.120)	(54.381)	(12.266)	329	20.893	(58.545)
Non-controlling interests	-	-	-	-	(66)	(66)
Profit or loss for the period	**29.201**	**121.042**	**27.302**	**3.927**	**(8.556)**	**172.916**

As at June 30, 2021, and December 30, 2020, the breakdown of the assets and liabilities allocated to each business segment, in accordance with information used by the Group's Management for decision-making, is as follows:

	30-06-2021					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Assets						
Financial assets at fair value through other comprehensive income	-	-	-	-	3,059,652	3,059,652
Financial assets at amortized cost						
Mortgage loans	-	21,253,040	-	-	-	21,253,040
Consumer loans	-	1,667,743	-	-	-	1,667,743
Other loans	3,469,386	6,356,487	6,503,466	-	-	16,329,339
Other balances receivable	-	73,665	-	-	989,981	1,063,646
Total allocated assets	**3,469,386**	**29,350,934**	**6,503,466**	**-**	**4,049,633**	**43,373,420**
Total non-allocated assets						15,961,638
Total Assets						**59,335,058**
Liabilities						
Financial liabilities at amortised cost						
Deposits - customers	1,105,173	29,867,134	6,541,162	-	-	37,513,469
Debt securities issued	-	-	-	-	3,022,346	3,022,346
Total allocated resources	**1,105,173**	**29,867,134**	**6,541,162**	**-**	**3,022,346**	**40,535,814**
Total non-allocated Liabilities						14,371,255
Total Liabilities						**54,907,069**
Guarantees and sureties given	**144,735**	**530,887**	**964,926**	**-**	**-**	**1,640,548**

(Expressed in thousands of euros, except where otherwise stated)

	31-12-2020					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Assets						
Financial assets at fair value through other comprehensive income	-	-	-	-	3,140,071	3,140,071
Financial assets at amortized cost						
Mortgage loans	-	20,669,687	-	-	-	20,669,687
Consumer loans	-	1,680,478	-	-	-	1,680,478
Other loans	3,742,164	6,329,283	6,121,185	-	-	16,192,633
Other balances receivable	-	52,845	-	-	1,237,378	1,290,223
Total allocated assets	**3,742,164**	**28,732,293**	**6,121,185**	**-**	**4,377,449**	**42,973,092**
Non-allocated assets						15,357,371
Total Assets						**58,330,463**
Liabilities						
Financial liabilities at amortised cost						
Deposits - customers	1,333,795	29,117,077	5,488,154	-	-	35,939,026
Debt securities issued	-	-	-	-	2,560,585	2,560,585
Total allocated resources	**1,333,795**	**29,117,077**	**5,488,154**	**-**	**2,560,585**	**38,499,611**
Total non-allocated Liabilities						15,110,412
Total Liabilities						**53,610,023**
Guarantees and sureties	**180,278**	**520,765**	**911,700**	**-**	**-**	**1,612,743**

As at June 30, 2021, and December 31, 2020, the Bank did not have relevant business in any distinct geography other than that of the domestic business.

The accounting policies used in preparing the financial information by segments were consistent with those described in note 1.3 of these Notes.

(Expressed in thousands of euros, except where otherwise stated)

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE YEAR

As at June 30, 2021, and December 31, 2020, the subsidiaries and associated companies, and their most significant financial data taken from the respective financial statements, excluding adjustments on the conversion to IAS/IFRS can be summarised as follows:

Company	Direct Participation (%)		Effective Participation (%)		Total Assets (net)		Shareholder's Equity		Profit or loss for the period	
	30-06-2021	31-12-2020	30-06-2021	31-12-2020	30-06-2021	31-12-2020	30-06-2021	31-12-2020	30-06-2021	31-12-2020
SANTANDER TOTTA, SGPS,S.A.	Headquarters	Headquarters	100.00	100.00	4,155,040	3,848,195	3,555,206	3,812,090	2,144	7,089
BANCO SANTANDER TOTTA, S.A.	99.96	99.96	99.96	99.96	58,365,231	57,448,833	3,931,683	3,990,610	53,973	275,210
TOTTA (IRELAND), PLC (2)	-	-	99.96	99.96	584,371	536,675	456,339	461,336	5,675	1,455
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. (1)	-	-	99.96	99.96	133,383	134,313	129,410	127,726	1,683	583
TAXAGEST,SGPS,SA	1.00	1.00	99.96	99.96	55,738	55,745	55,734	55,744	(9)	(3)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	-	-	78.71	78.71	261,507	311,513	255,461	304,335	1,629	341
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	-	-	99.96	99.96	7,268	7,249	6,992	6,810	181	63
HIPOTOTTA NO. 4 PLC	-	-	-	-	535,840	562,050	(5,095)	(3,564)	1,615	1,088
HIPOTOTTA NO. 5 PLC	-	-	-	-	546,808	572,173	(12,813)	(10,508)	2,271	923
HIPOTOTTA NO. 4 FTC	-	-	-	-	475,217	505,515	472,855	499,365	1,690	168
HIPOTOTTA NO. 5 FTC	-	-	-	-	483,433	504,601	480,956	503,853	1,764	398
Operações de Securitização geridas pela GAMMA, STC	-	-	-	-	2,629,938	2,804,742	-	-	-	-
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	-	-	21.85	21.85	353,140	368,375	96,251	110,136	5,172	23,919
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	-	-	25.76	25.76	107,604	107,131	101,951	101,807	144	1,210
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	100.00	100.00	100.00	100.00	4,210,435	4,224,577	186,346	170,534	17,382	26,907
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	125,737	132,548	35,675	36,552	7,284	14,776
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	55,356	52,919	22,861	21,018	4,107	4,001
MAPFRE SANTANDER PORTUGAL Co. SEGUROS	-	-	49.99	49.99	12,809	13,655	7,745	8,215	(470)	(1,149)

(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2021, and December 31, 2020, the business, the location of the registered office and the consolidation method used for the companies included in the consolidation were as follows:

Company	Activity	Head office	Consolidation Method
Santander Totta, SGPS, S.A.	Holding Company	Portugal	Headquarters
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Full
TOTTA (IRELAND), PLC (2)	Investment management	Ireland	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. (1)	Real estate management	Portugal	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Issuance and management of credit cards	Portugal	Equity
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitized loans fund	Portugal	Full
Operações de Securitização geridas pela GAMMA, STC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Real estate fund	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitized loans fund	Portugal	Full
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Real estate fund	Portugal	Equity
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	Insurance	Portugal	Full
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity
MAPFRE SANTANDER PORTUGAL Co. SEGUROS	Insurance	Portugal	Equity

(1) The equity of this subsidiary included supplementary capital contributions amounting to €99,760k.

(2) By virtue of this subsidiary closing its economic year on November 30, the amounts reflected in the "Income for the period" columns correspond to the net income determined between December 1, 2020, and June 30, 2021 (December 1, 2020, and December 31, 2020).

In October 2020, the Group sold to Mapfre Seguros Gerais, S. A. 50.01% of Popular Seguros share capital, for the total amount of €14,400, having recorded a net gain of €5,775k. Additionally, as a result of the sale and loss of control over the aforementioned companies, the Group generated a gain due to the appreciation at fair value of the remaining 49.99% shares in €9,713k (Note 30). The disposal of the stake in Popular Seguros was made in the context of the Shareholders' Agreement, signed on October 14, 2020, between Santander Totta Seguros, Banco Santander Totta, S. A., and Mafre Seguros Gerais, S. A., within the scope of which the corporate governance mechanisms that give Grupo Santander and Grupo Mafre joint control over the entity were established. As a result of this agreement, a distribution agreement was signed between the company and Banco Santander Totta, S. A., whereby the Bank will market the company's products until December 2037 on an exclusive basis.

In accordance with IFRS 10, which superseded IAS 27 and SIC 12, the Group includes in its consolidated financial statements the special purpose entities (SPEs) created within the scope of the securitisation operations when it controls them, that is, when it has the majority of the risks and benefits associated with their business, in particular the bonds that they issued with a higher degree of subordination – *equity pieces*.

(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2021, and December 31, 2020, the composition of the balance sheets of the Aegon Santander Portugal Life and Non-life companies was as follows:

	30-06-2021			31-12-2020		
	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total
Cash and cash equivalents and demand deposits	8,838	6,510	15,348	16,342	6,689	23,031
Financial assets at fair value through other comprehensive income	78,358	42,538	120,896	73,833	40,146	113,979
Tangible assets	303	-	303	298	-	298
Intangible assets	8,790	4,772	13,562	9,721	5,063	14,784
Technical reserves for reinsurance ceded	26,296	671	26,967	29,106	501	29,607
Other debtors for insurance operations and other operations	2,930	761	3,691	3,163	406	3,569
Accruals and deferrals	193	104	297	60	114	174
Other assets	29	-	29	25	-	25
	125,737	55,356	181,093	132,548	52,919	185,467
Technical reserves	67,534	18,083	85,617	66,257	17,840	84,097
Other financial liabilities	3,612	65	3,677	4,181	-	4,181
Other creditors for insurance operations and other operations	9,833	8,563	18,396	20,925	11,351	32,276
Liabilities - taxes and levies	4,536	2,315	6,851	1,817	769	2,586
Accruals and deferrals	4,547	3,470	8,017	2,816	1,941	4,757
Share Capital	7,500	7,500	15,000	7,500	22,500	30,000
Revaluation reserves	1,290	604	1,894	1,535	745	2,280
Deferred tax reserves	(336)	(157)	(493)	(399)	(194)	(593)
Other reserves	14,617	6,236	20,853	13,140	5,836	18,976
Retained earnings	5,319	4,570	9,889	-	3,130	3,130
Net income	7,284	4,107	11,391	14,776	4,001	18,777
	125,736	55,356	181,092	132,548	67,919	200,467

As at June 30, 2021, and December 31, 2020, the composition of the Novimovest Fund balance sheet was as follows:

	30-06-2021	31-12-2020
Real estate portfolio	249,520	250,531
Accounts receivable	7,092	8,070
Cash and banks	4,696	52,874
Accruals and deferrals	199	38
	261,507	311,513
Fund capital	255,461	304,335
Adjustments and provisions	2,843	3,867
Accounts payable	1,072	1,461
Accruals and deferrals	2,131	1,850
	261,507	311,513

As at June 30, 2021, and December 31, 2020, the consolidated net income includes a profit of €1.283k and €268k, respectively, attributable to the Novimovest Fund.

(Expressed in thousands of euros, except where otherwise stated)

5. CASH, CASH BALANCES AT CENTRAL BANKS, AND OTHER CURRENT DEPOSITS

The composition of this heading is as follows:

	30-06-2021	31-12-2020
Cash	250,735	336,121
Demand deposits in central banks		
European Central Bank	6,919,212	3,932,058
Other demand deposits at credit institutions		
Demand deposits	468,008	275,473
	7,637,955	4,543,652

In accordance with the regulations in force, credit institutions established in participating Member States are subject to setting aside minimum reserves in accounts held with the participating National Central Banks. The basis of incidence includes all deposits at central banks and with financial and monetary institutions located outside the Euro Zone, and all client deposits with maturities less than two years. A coefficient of 1% is applied to this base and an amount of €100,000 is deducted. Compliance with the mandatory minimum deposits, for a given observation period, is carried out taking into consideration the average of balances of deposits at the Bank of Portugal during that period. The minimum required reserves are remunerated at the RFI rate (on these dates this rate is zero).

On September 12, 2019, the ECB Council decided to introduce a two-tier system for the remuneration of excess reserves, exempting part of the surplus liquidity of the institutions, that is, the part of the reserves that exceeds the mandatory reserves, of the negative remuneration at the interest rate applicable to the permanent deposit facility. The ECB Council decided, inter alia, to exempt a multiple of the mandatory reserves of the institutions, and decided to set at six the initial multiplier 'm' of the mandatory reserves of the institutions that is used to calculate the portion exempt from the excess reserves of the institutions in relation to all eligible institutions, and at zero per cent the initial interest rate applicable to the exempt excess reserves. The said multiplier 'm' and the interest rate applicable to the exempt free reserves can be adjusted over time by the ECB Council.

6. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

The headings of financial assets and liabilities held for trading have the following composition:

	30-06-2021	31-12-2020
Financial assets held for trading		
Derivatives with positive fair value	737,763	901,010
Financial liabilities held for trading		
Derivatives with negative fair value	741,020	920,602

(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2021, and 31 December 2020, the following derivatives are recorded:

	30-06-2021				31-12-2020			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
OTC markets								
Forwards								
Purchases	407,706	5,782	5,300	482	401,114	6,820	6,736	84
Sales	407,102				401,024			
Swaps								
Currency swaps								
Purchases	606,533	1,386	355	1,031	1,084,783	512	3,335	(2,823)
Sales	605,453				1,086,821			
Interest rate swaps	25,537,054	670,248	701,009	(30,761)	26,478,426	831,103	863,703	(32,600)
Equity swaps	348,722	30,107	3,634	26,473	352,863	21,154	4,828	16,326
Options								
Currency swaps								
Purchases	61,641	549	551	(2)	7,961	309	311	(2)
Sales	61,641				7,961			
Equity options								
Purchases	31,378	857	1,339	(482)	46,765	1,439	2,113	(674)
Sales	31,378				46,765			
Caps & Floors	926,572	28,834	28,832	2	961,240	39,673	39,576	97
	29,025,180	737,763	741,020	(3,257)	30,875,723	901,010	920,602	(19,592)

As at June 30, 2021, the assets and liabilities headings relating to "Derivative financial instruments" are reduced by the amounts of approximately €5.033k and €1.982k of "Credit Value Adjustments and Debit Value Adjustments", respectively (€5.300k and €5.053k as at December 31, 2020, respectively), in accordance with the method described in Note 39.

As at June 30, 2021, and December 31, 2020, almost all the trading derivative financial instruments were hedged back-to-back with Banco Santander, S. A.

7. FINANCIAL ASSETS NOT HELD FOR TRADING MANDATORILY ACCOUNTED FOR AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of this heading is as follows:

	30-06-2021	31-12-2020
Equity instruments	933,259	817,078
Debt instruments		
National public issuers	1,322,219	1,427,030
Other national issuers	796,038	951,634
	3,051,516	3,195,742

The interest and the income from the valuation of these financial assets at their fair value were reflected in the income statement under "Gains or losses on financial assets not held for trading mandatorily accounted for at fair value through profit or loss" (Note 29).

(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2021, and December 31, 2020, the breakdown of this heading is as follows:

	30-06-2021					31-12-2020				
	"Unit link" products		Other products			"Unit link" products		Other products		
Description	Capital	Interest receivable	Capital	Interest receivable	Fair Value	Capital	Interest receivable	Capital	Interest receivable	Fair Value
Debt instruments										
Treasury Bonds	1,303,692	18,177	344	6	1,322,219	1,411,512	15,518	-	-	1,427,030
Non-subordinated debt	791,479	4,518	41	-	796,038	937,902	13,732	-	-	951,634
Equity instruments	800,438	-	132,821	-	933,259	683,228	-	133,850	-	817,078
	2,895,609	22,695	133,206	6	3,051,516	3,032,642	29,250	133,850	-	3,195,742

8. FINANCIAL ASSETS RECORDED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The composition of this heading is as follows:

	30-06-2021								
				Fair Value Reserve					
	Acquisition cost	Interest receivable	Hedge adjustment	Positive	Negative	Total	Other	Impairment (Note 18)	Book Value
Debt Instruments									
Treasury bonds	2,579,503	30,145	44,962	329,256	(155)	329,101	(2,354)	-	2,981,357
Other issuers	98,048	609	-	1,119	(53)	1,066	-	(13)	99,710
	2,677,551	30,754	44,962	330,375	(208)	330,167	(2,354)	(13)	3,081,067
Equity instruments	73,041	-	-	347	-	347	-	-	73,388
	2,750,592	30,754	44,962	330,722	(208)	330,514	(2,354)	(13)	3,154,455
Loans and advances	2,300,000	67,803	243,027	448,822	-	448,822	-	-	3,059,652
	5,050,592	98,557	287,989	779,544	(208)	779,336	(2,354)	(13)	6,214,107

	31-12-2020								
				Fair Value Reserve					
	Acquisition cost	Interest receivable	Hedge adjustment	Positive	Negative	Total	Other	Impairment	Book Value
Debt Instruments									
Issued by residents									
Treasury bonds	4.443.870	70.285	58.098	552.768	(45)	552.723	36.676	-	5.161.652
Other issuers	81.575	575	-	1.181	(132)	1.049	-	(14)	83.185
	4.525.445	70.860	58.098	553.949	(177)	553.772	36.676	(14)	5.244.837
Equity instruments	72.288	-	-	480	-	480	-	-	72.768
	4.597.733	70.860	58.098	554.429	(177)	554.252	36.676	(14)	5.317.605
Loans and advances	2.300.000	31.153	314.480	494.438	-	494.438	-	-	3.140.071
	6.897.733	102.013	372.578	1.048.867	(177)	1.048.690	36.676	(14)	8.457.676

In order to place greater emphasis on the development of its core business (retail banking — mortgages and SMEs), during the first quarter of 2020, the Bank changed its business plan having revised its financing strategy and allocation of resources, which will imply the discontinuation of activities (through sale or maturity) that require stable financing and in large amounts and terms. In view of the Bank's strategic change, and taking into account its new business model ("hold to collect and sale"), this type of credit, which was previously measured at amortized cost, is now measured at fair value through other comprehensive income, the respective impacts of which can be seen in Note 1.3 c).

(Expressed in thousands of euros, except where otherwise stated)

The Treasury Bonds headings had the following characteristics:

	30-06-2021				31-12-2020			
Description	Acquisition cost	Interest receivable	Gain/loss	Book value	Acquisition cost	Interest receivable	Gain/loss	Book value
Treasury bonds - Portugal								
Maturing in 1 year	10,281	73	52	10,406	14,844	165	109	15,118
Maturing between one and three years	49,544	1,161	2,515	53,220	61,745	444	3,171	65,360
Maturing between three and five years	1,852,593	21,773	312,487	2,186,853	2,433,745	53,880	391,300	2,878,925
Maturing between five and ten years	255,969	2,560	27,511	286,040	1,239,224	10,652	186,058	1,435,934
Maturing over ten years	18,634	69	1,204	19,907	6,975	122	1,484	8,581
	2,187,021	25,636	343,769	2,556,426	3,756,533	65,263	582,122	4,403,918
Treasury bonds - Spain								
Maturing in 1 year	35,982	424	204	36,610	21,239	452	117	21,808
Maturing between one and three years	45,716	895	1,157	47,768	72,104	1,385	1,697	75,186
Maturing between three and five years	77,774	1,212	4,824	83,810	77,504	410	5,761	83,675
Maturing between five and ten years	104,532	1,187	6,677	112,396	395,818	2,107	40,208	438,133
Maturing over ten years	8,310	265	344	8,919	8,411	123	677	9,211
	272,314	3,983	13,206	289,503	575,076	4,477	48,460	628,013
Treasury bonds - Other countries								
Maturing in 1 year	4,920	49	18	4,987	12,711	60	68	12,839
Maturing between one and three years	40,144	251	2,363	42,758	42,985	291	2,768	46,044
Maturing between three and five years	23,427	45	1,431	24,903	27,600	131	1,823	29,554
Maturing between five and ten years	46,709	167	7,682	54,558	16,285	56	3,643	19,984
Maturing over ten years	4,968	14	3,240	8,222	12,680	7	8,613	21,300
	120,168	526	14,734	135,428	112,261	545	16,915	129,721
	2,579,503	30,145	371,709	2,981,357	4,443,870	70,285	647,497	5,161,652

9. FINANCIAL ASSETS AT AMORTIZED COST

The Debt securities sub-heading has the following composition:

	30-06-2021	31-12-2020
Debt securities	3,836,569	3,925,660
Interest receivable	16,350	15,704
Value adjustments of hedged assets	20,684	36,021
Commissions associated with amortized cost (net)	(962)	(1,021)
	3,872,641	3,976,364
Impairment of debt securities (Note 18)	(11,151)	(11,145)
	3,861,490	3,965,219

(Expressed in thousands of euros, except where otherwise stated)

The Loans and Advances sub-heading has the following composition:

	30-06-2021	31-12-2020
Loans and advances - customers		
To corporate customers		
Discount and other credit securities	400.052	412.444
Loans	8.493.659	8.085.223
Current account loans	844.213	826.486
Overdrafts	104.893	88.995
Factoring	1.536.865	1.675.690
Finance leasing	1.094.378	1.086.732
Other credits	29.581	47.989
To individuals		
Mortgage loans	21.202.403	20.603.727
Consumer credit and others	2.237.955	2.236.961
	35.943.999	35.064.247
Overdue loans and interest	459.561	451.255
Interest receivable	51.993	56.694
Values adjustments of hedged assets	11.846	21.142
Deferred expenses	119.679	108.086
Commissions associated with amortized cost (net)	(139.602)	(134.483)
Supply contracts	644	644
	504.121	503.338
	36.448.120	35.567.585
Other balances receivable		
Margin accounts	651.612	865.734
Checks payable	73.665	52.845
Sundry debtors and other cash equivalents	332.647	355.794
	1.057.924	1.274.373
Loans and advances - credit instituitions		
Deposits	13.173	13.173
Loans	1.193	7.127
Interest receivable	1	3
Commissions associated at amortized cost	(6)	(7)
	14.361	20.296
Loans and advances	37.520.405	36.862.254
Impairment of loans and advances - customers and other balances receivable	(1.068.016)	(994.326)
Impairment of loans and advances - credit instituitions	(111)	(126)
Impairment of loans and advances (Note 18)	(1.068.127)	(994.452)
	36.452.278	35.867.802

In the first half of 2021 and in the financial period ended on December 31, 2020, portfolios of loans granted to individuals and companies were sold, with a carrying amount of €514k and €114.639k, respectively. As a result of these transactions, in the first half of 2021 and in 2020 gains were recorded in the net amount of €(98)k, and of €2.620k, respectively (Note 18).

(Expressed in thousands of euros, except where otherwise stated)

In the first half of 2021 and in the financial period ended in December 31, 2020, the heading "Domestic loans – To individuals — Residential" included loans assigned to the autonomous property of the mortgage loans issued by the Bank in the amounts of €10.033.671k and €10.278.006k, respectively (Note 17).

Movements under impairments of credit during the first halves of 2021 and 2020 are presented in Note 18.

The breakdown by stage of the portfolio of loans and other receivable balances at amortised cost is as follows:

	30-06-2021			31-12-2020		
	Gross value	Impairment	Coverage	Gross value	Impairment	Coverage
Stage 1	34,635,247	(96,713)	0.28%	35,195,266	(93,158)	0.26%
Stage 2	5,396,003	(219,592)	4.07%	4,252,383	(163,132)	3.84%
Stage 3	1,361,796	(762,973)	56.03%	1,390,969	(749,307)	53.87%
	41,393,046	(1,079,278)		40,838,618	(1,005,597)	

The evolution that occurred in exposure and in impairments for credit granted and other receivables at amortized cost in the first half of 2021 and in 2020 was as follows:

	Loans and advances at amortized cost				Impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 31-12-2019	37,353,568	2,022,651	1,622,680	40,998,899	65,257	72,855	784,127	922,239
Transfers								
Stage 1 to 2	(755,816)	755,816	-	-	(2,576)	16,815	-	14,239
Stage 1 to 3	(42,407)	-	42,407	-	(319)	-	9,694	9,375
Stage 2 to 3	-	(55,117)	55,117	-	-	(3,716)	21,766	18,050
Stage 2 to 1	466,874	(466,874)	-	-	1,432	(20,191)	-	(18,759)
Stage 3 to 2	-	49,114	(49,114)	-	-	3,963	(18,141)	(14,178)
Stage 3 to 1	4,731	-	(4,731)	-	51	-	(1,777)	(1,725)
Change in business model	(2,331,153)	-	-	(2,331,153)	-	-	-	-
Idiosyncratic overlay	(2,433,000)	2,433,000	-	-	-	57,000	-	57,000
Macro Overlay	-	-	-	-	39,400	46,700	47,300	133,400
Write offs and sales	-	-	(133,327)	(133,327)	-	-	(91,621)	(91,621)
Origination net of amortization	2,932,469	(486,207)	(142,063)	2,304,199	(10,087)	(10,294)	(2,041)	(22,422)
Balance as at 31-12-2020	35,195,266	4,252,383	1,390,969	40,838,618	93,158	163,132	749,307	1,005,597
Transfers								
Stage 1 to 2	(729,198)	729,198	-	-	(2,597)	30,017	-	27,420
Stage 1 to 3	(26,714)	-	26,714	-	(165)	-	5,967	5,802
Stage 2 to 3	-	(29,637)	29,637	-	-	(1,834)	10,147	8,313
Stage 2 to 1	433,164	(433,164)	-	-	1,532	(17,110)	-	(15,578)
Stage 3 to 2	-	24,648	(24,648)	-	-	1,823	(7,324)	(5,501)
Stage 3 to 1	2,434	-	(2,434)	-	33	-	(311)	(278)
Overlay Re-rating	(1,000,000)	1,000,000	-	-	-	39,000	-	39,000
Write offs and sales	-	-	(1,368)	(1,368)	-	-	(1,173)	(1,173)
Origination net of amortization	760,295	(147,425)	(57,074)	555,796	4,752	4,564	6,360	15,676
Balance as at 30-06-2021	34,635,247	5,396,003	1,361,796	41,393,046	96,713	219,592	762,973	1,079,278

(Expressed in thousands of euros, except where otherwise stated)

10. DERIVATIVESS – HEDGE ACCOUNTING

The composition of this heading is as follows:

	30-06-2021					
	Book Value		Notional amounts			
Type of financial instrument	Assets	Liabilities	Up to 3 months	Between 3 and 1 year	Over 1 year	Total
Hedging derivatives						
Fair value hedge						
Interest rate swaps						
Liabilities and loans	2,962	65,981	171,770	21,602	2,884,456	3,077,828
Other financial assets at fair value through other comprehensive income	-	288,915	-	-	3,380,000	3,380,000
Equity swaps	422	-	8,946	14,205	8,227	31,378
Cash flow hedge						
Interest rate swaps						
Cash flows	14,536	-	-	3,000,000	-	3,000,000
	17,920	354,896	180,716	3,035,807	6,272,683	9,489,206

	31-12-2020					
	Book Value		Notional amounts			
Type of financial instrument	Assets	Liabilities	Up to 3 months	Between 3 and 1 year	Over 1 year	Total
Hedging derivatives						
Fair value hedge						
Interest rate swaps						
Liabilities and loans	250	85,727	441	329,362	2,752,466	3,082,269
Financial assets at fair value through other comprehensive income	-	374,018	-	-	3,380,000	3,380,000
Equity swaps	563	-	10,512	20,503	7,523	38,538
Cash flow hedge						
Interest rate swaps						
Cash flows	22,906	-	-	3,000,000	-	3,000,000
Forwards sale	-	62,538	2,049,092	-	-	2,049,092
	23,719	522,283	2,060,045	3,349,865	6,139,989	11,549,899

The Group carries out derivatives transactions within the scope of its business, managing its positions based on expectations regarding the evolution of the markets, satisfying the needs of its customers, or hedging positions of a structural nature. The interest-rate risk implicit in the securitisation and mortgage loans issuances are also managed by the Bank through contracting derivative financial instruments.

The Group trades derivatives, namely in the form of exchange-rate or interest-rate contracts or a combination of both. These transactions are carried out in over-the-counter (OTC) markets.

Over-the-counter derivatives trading is usually based on a standard bilateral contract, which encompasses the set of operations on derivatives existing between the parties. In the case of inter-professional relations, a *Master Agreement of the International Swaps and Derivatives Association (ISDA).* In the case of relations with customers, a contract of the Bank.

In this type of contract, offsetting liabilities is provided for in the event of default (the coverage of this offset is provided for in the contract and is governed by Portuguese law, and, for contracts with foreign counterparts or executed under foreign law, in the relevant jurisdictions).

(Expressed in thousands of euros, except where otherwise stated)

The derivatives' contract may also include a collateralisation agreement of the credit risk generated by the transactions governed by it. It should be noted that the derivatives contract between two parties usually covers all OTC derivative transactions carried out between these two parties, be they used to hedging or not.

In accordance with the standard, parts of operations commonly known as "embedded derivatives" are also separated and carried as derivatives, in a manner such as to recognize the fair value of these operations in profit or loss.

All derivatives (embedded or autonomous) are carried at fair value.
Derivatives are also recorded in off-balance-sheet accounts at their theoretical value (notional value). The notional value is the reference value for the calculation of flows of payments and receipts originated by the operation.

The fair value corresponds to the estimated value that the derivatives would have if they were traded on the market on the reference date. The evolution of the fair value of derivatives is recognized in the relevant balance sheet accounts and has immediate impact on profit or loss.

11. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES

The composition of this heading is as follows:

	30-06-2021		31-12-2020	
	Effective Participation (%)	Book Value	Effective Participation (%)	Book Value
AEGON Santander Portugal Não Vida	49.00	19,345	49.00	18,442
AEGON Santander Portugal Vida	49.00	35,862	49.00	36,292
Fundo de Investimento Imobiliário Lusimovest	25.77	26,272	25.77	26,235
Unicre - Instituição Financeira de Crédito, S.A.	21.85	33,222	21.85	36,347
Mapfre Santander Portugal Co. Seguros	49.99	13,586	49.99	13,820
		128,287		131,136

As at June 30, 2021, and December 31, 2020, the financial investments held with Unicre included goodwill. The impairment test conducted on the goodwill at Unicre revealed no impairment losses in this financial investment.

As of this day, there are no liabilities to be met before the associated companies, nor are there any contingent liabilities to be recognized by the Company arising from the holdings therein.

(Expressed in thousands of euros, except where otherwise stated)

12. TANGIBLE AND INTANGIBLE ASSETS

The composition of this heading is as follows:

Investment properties:

During 2013, following the subscription of several units, the Group came to consolidate, using the full consolidation method, the Novimovest Real Estate Fund, whose main asset are rental properties.

As at June 30, 2021, and December 31, 2020, the characteristics of properties held by the Novimovest Real Estate Fund were as follows:

	30-06-2021	31-12-2020
Land		
Urbanized	13,485	13,485
Non-urbanized	1,141	1,141
Finished constructions		
Rented	176,464	172,173
Not rented	48,004	39,824
Construction projects	10,426	23,908
	249,520	250,531

The operations under "Investment properties" in the first half of 2021 and in 2020 were as follows:

	Balances at 31-12-2020	Increases	Fair value valuation	Sales	Balances at 30-06-2021
Properties held by Novimovest Real Estate Fund	250,531	176	(176)	(1,011)	249,520

	2020				
	Balances at 31-12-2019	Increases	Fair value valuation	Sales	Balances at 30-06-2020
Properties held by Novimovest Real Estate Fund	252,513	4,084	(689)	(999)	254,909

The effect of the valuation at fair value of the properties held by the Novimovest Real Estate Fund is recorded in the income statement under "Other Operating Gains / Losses — Investment Properties" (Note 32).

Investment properties held by the Group are appraised bi-annually, or more frequently if an event occurs in the meantime giving rise to doubts as to the value of the latest appraisal conducted by specialised, independent entities in accordance with the method described in Note 15.

The form of determination of the fair value of the investment properties in accordance with the levels set out in IFRS 13 is as follows:

	Level 3	
	30-06-2021	31-12-2020
Investment properties	249,520	250,531

(Expressed in thousands of euros, except where otherwise stated)

OTHER TANGIBLE ASSETS AND INTANGIBLE ASSETS:

The operations under these headings during the first half of 2021 and in 2020 is as follows.

	31-12-20				Write-offs and sales		Transfers: From/to other assets		Transfers: Between Others			30-06-2021			
	Gross amount	Accumulated depreciation	Impairment (Note 18)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount (Note 14)	Accumulated depreciation (Note 14)	Gross amount	Imparidade (Note 18)	Depreciation	Gross amount	Accumulated depreciation	Impairment (Note 18)	Net amount
Tangible assets															
Property															
Property for own use	402,826	(141,579)	(23,624)	778	(10,528)	10,519	(7,949)	2,670	-	17,477	(4,064)	385,127	(132,454)	(6,147)	246,526
Leasehold expenditure	26,770	(21,871)	-	221	(4,632)	4,562	-	-	-	-	(315)	22,359	(17,624)	-	4,735
Other property	166	(80)	-	-	-	-	-	-	-	-	(1)	166	(81)	-	85
Rights of use (IFRS 16 - Note 17)	37,155	(12,335)	-	-	-	-	-	-	-	-	(2,356)	37,155	(14,691)	-	22,464
	466,917	(175,865)	(23,624)	999	(15,160)	15,081	(7,949)	2,670	-	17,477	(6,736)	444,807	(164,850)	(6,147)	273,810
Equipment	173,304	(108,865)	-	5,938	(4,285)	3,274	(530)	194	(32)	-	(7,171)	174,395	(112,568)	-	61,827
Other tangible assets	2,188	(75)	-	-	(1)	-	-	-	-	-	(1)	2,187	(76)	-	2,111
	175,492	(108,940)	-	5,938	(4,286)	3,274	(530)	194	(32)	-	(7,172)	176,582	(112,644)	-	63,938
	642,409	(284,805)	(23,624)	6,937	(19,446)	18,355	(8,479)	2,864	(32)	17,477	(13,908)	621,389	(277,494)	(6,147)	337,748
Intangible assets															
Software	122,297	(86,345)	-	9,010	-	-	-	-	1,334	-	(11,501)	132,641	(97,846)	-	34,795
Other intangible assets	5,013	(4,385)	-	1,511	(637)	-	-	-	(1,302)	-	-	4,585	(4,385)	-	200
Consolidation differences	2,651	-	-	-	-	-	-	-	-	-	-	2,651	-	-	2,651
	129,961	(90,730)	-	10,521	(637)	-	-	-	32	-	(11,501)	139,877	(102,231)	-	37,646

(Expressed in thousands of euros, except where otherwise stated)

	31-12-2019				Write-offs and sales		Transfers				30-06-2020			
							From/to other assets							
	Gross amount	Accumulated depreciation	Impairment (Note 18)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount (Note 14)	Accumulated depreciation (Note 14)	Gross amount	Depreciation in the period	Gross amount	Accumulated depreciation	Impairment (Note 18)	Net amount
Tangible assets														
Properties														
Properties for own use	413,714	(137,398)	(6,147)	2,584	(15)	-	(4,806)	1,418	-	(4,257)	411,477	(140,237)	(6,147)	265,093
Leasehold expenditure	28,213	(22,336)	-	312	(94)	109	-	-	-	(1,014)	28,431	(23,241)	-	5,190
Other real estate	166	(79)	-	-	-	-	-	-	-	(1)	166	(80)	-	86
Rights of use	41,288	(6,190)	-	-	-	-	-	-	-	(3,072)	41,288	(9,262)	-	32,026
	483,381	(166,003)	(6,147)	2,896	(109)	109	(4,806)	1,418	-	(8,344)	481,362	(172,820)	(6,147)	302,395
Equipment	162,718	(99,414)	-	11,150	(2,333)	1,807	(95)	33	-	(7,093)	171,440	(104,667)	-	66,773
Other tangible assets	2,188	(70)	-	-	-	-	-	-	-	(3)	2,188	(73)	-	2,115
	164,906	(99,484)	-	11,150	(2,333)	1,807	(95)	33	-	(7,096)	173,628	(104,740)	-	68,888
	648,287	(265,487)	(6,147)	14,046	(2,442)	1,916	(4,901)	1,451	-	(15,440)	654,990	(277,560)	(6,147)	371,283
Intangible assets														
Software purchased	95,096	(65,142)	-	15,251	-	-	-	-	2,068	(10,461)	112,415	(75,603)	-	36,812
Other intangible assets	5,009	(4,385)	-	2,330	-	-	-	-	(2,068)	-	5,271	(4,385)	-	886
Consolidation differences	2,651	-	-	-	-	-	-	-	-	-	2,651	-	-	2,651
	102,756	(69,527)	-	17,581	-	-	-	-	-	(10,461)	120,337	(79,988)	-	40,349

(Expressed in thousands of euros, except where otherwise stated)

13. TAX ASSETS AND LIABILITIES

The breakdown of these headings is as follows:

	30-06-2021	31-12-2020
Current tax assets	57,058	55,981
Deferred tax assets	343,921	337,895
	400,979	393,876
Current tax liabilities	66,967	3,759
Deferred tax liabilities	298,005	387,505
	364,972	391,264
Deferred taxes	45,916	(49,610)

Taxes in the income statement have the following composition:

	30-06-2021	30-06-2020
Current taxes	(53,540)	(58,445)
Deferred taxes	30,773	100
	(22,767)	(58,345)

The operations under deferred tax assets and liabilities during the first half of 2021 and in 2021 were as follows:

	Balances at 31-12-2020	Other Comprehensive Income	Income statement	Balances at 30-06-2021
Provisions/Impairment temporarily not accepted for tax purposes:				
Deferred tax assets	161,562	-	34,258	195,820
Deferred tax liabilities	(5,221)	-	-	(5,221)
Revaluation of tangible assets:				
Deferred tax assets	1,430	-	(143)	1,287
Deferred tax liabilities	(1,978)	-	83	(1,895)
Tax losses carried forward	12,809	-	-	12,809
Pensions:				
Actuarial deviations	21,643	-	(8,480)	13,163
Early retirement pensions	40,749	-	(305)	40,444
Transfer of pension liabilities to the Social Security	3,555	-	(162)	3,393
Insurance activity:				
Fair value of insurance liabilities - Shadow reserve	10,794	(1,801)	-	8,993
Fair value of insurance liabilities - Other	(90)	-	7	(83)
Other financial assets at fair value through other comprehensive income	(338,786)	82,764	-	(256,022)
Cash flow hedging derivatives	13,836	(16,210)	-	(2,374)
Other financial assets at fair value through profit or loss	45,787	-	(584)	45,203
Securitization operations	(23,996)	-	429	(23,567)
Integration costs	6,560	-	5,803	12,363
Other	1,736	-	(133)	1,603
	(49,610)	64,753	30,773	45,916

(Expressed in thousands of euros, except where otherwise stated)

	Balances at 31-12-2019	Other Comprehensive Income	Income statement	Other	Balances at 31-12-2020
Provisions/Impairment temporarily not accepted for tax purposes:					
Deferred tax assets	190,072	-	(28,510)	-	161,562
Deferred tax liabilities	(5,221)	-	-	-	(5,221)
Revaluation of tangible assets:					
Deferred tax assets	1,716	-	(286)	-	1,430
Deferred tax liabilities	(2,121)	-	143	-	(1,978)
Tax losses carried forward	185,562	-	(15,054)	(157,699)	12,809
Pensions:					
Actuarial deviations	38,157	-	(16,514)	-	21,643
Early retirement pensions	39,802	-	947	-	40,749
Transfer of pension liabilities to the Social Security	3,878	-	(323)	-	3,555
Insurance activity:					
Fair value of insurance liabilities - Shadow reserve	7,251	3,543	-	-	10,794
Fair value of insurance liabilities - Other	(108)	-	18	-	(90)
Other financial assets at fair value through other comprehensive income	(232,976)	(103,087)	(2,723)	-	(338,786)
Cash flow hedging derivatives	16,436	(2,600)	-	-	13,836
Other financial assets at fair value through profit or loss	37,517	-	8,270	-	45,787
Securitization operations	(24,381)	-	385	-	(23,996)
Integration costs	10,532	-	(3,972)	-	6,560
Other	941	-	353	442	1,736
	267,057	(102,144)	(57,266)	(157,257)	(49,610)

In order to use the deferred taxes carried over from BANIF, on May 29, 2018, the Bank submitted a replacement Model 22 (Corporate Income Tax) statement, regarding the 2015 financial year. The presentation of that tax statement was motivated by the calculation of the result of BANIF's 2015 financial year and the approval, by the Minister of Finance, of the request for the transfer of BANIF's deferred taxes to the Bank (see Order No. 138/2018/MF, of March 30, 2018). However, by Order of the Deputy Director of the Major Taxpayers Unit dated November 26, 2019 ("Order of the Tax Authority"), the Bank was only recognized the right to use BANIF's deferred taxes for the years 2009 to 2014. As it disagreed with the Order of the Tax Authority, on January 13, 2020, the Bank filed a hierarchical appeal to the Minister of Finance. On June 30, 2020, the Deputy-Director-General of the Tax Management — Income Taxes area decided to dismiss the hierarchical appeal submitted. Since the Order of the Tax Authority and the Order of the Deputy Director-General only recognized the Bank's right to take advantage of BANIF's deferred taxes in the total amount of €92,301k, the Bank may demand — under the agreement with the Portuguese authorities involved in Banif's termination proceedings — a compensation of €157,699k, either in cash or treasury bills. In order to comply with this decision, the Bank transferred the amount in question, from this heading to the heading "Other balances receivable."

Dividends distributed to the Bank by subsidiaries and associated companies located in Portugal or in a European Union Member State are not taxed within the sphere of the latter as a result of the application of the arrangements provided for in Article 51 of the Corporate Tax Code that provides for the elimination of double taxation of distributed profits.

The tax authorities are entitled to review the Bank's tax situation during a period of four years (five years for Social Security), except in cases where there are tax losses carried forward and any other tax deduction or credit, situations in which the expiry is that of the exercise of that right.

The Bank was subject to a tax inspection up to and including 2017. As a result of the inspection, it was subject to an additional Corporate Tax assessment and to various corrections to the tax loss used in that year. In the matter of Stamp Duty, the Bank was also subject to an additional assessment. The corrections made to taxable income covered various matters and most corrections are merely temporary.

(Expressed in thousands of euros, except where otherwise stated)

As for the additional assessments received, the Bank paid off the amounts assessed. Nevertheless, the majority of the additional assessments were subject to administrative claim and/or judicial review.

The Santander Group decided to apply as from 2017 the Special Taxation of Groups of Companies Regime (RETGS). This new regime is reflected in the algebraic sum of the tax results determined in the separate periodic returns of each company. The companies covered by this scheme are Santander Totta — the controlling company; and Taxagest, Banco, Santander Totta Seguros, TottaUrbe and Gamma — controlled companies.

14. OTHER ASSETS

The breakdown of this heading is as follows:

	30-06-2021	31-12-2020
Technical provisions for reinsurance ceded		
For unearned premiums	3,487	2,811
Life insurance Mathematics	66	1
For profit sharing	-	72
For claims	16,068	14,626
	19,621	**17,510**
Debtors and other applications		
Direct insurance and reinsurance debtors	4,563	3,716
Promises in lieu of payment, auctions and other assets received in lieu of payment	209,353	233,480
Gold, other precious metals, coins and medals	3,145	3,145
Other income receivable	14,091	11,088
Deferred costs	1,721	1,487
Other	2,797	8,317
	235,670	**261,233**
Impairment losses (Note 18):		
Debtors and other applications	(31)	(30)
Promises in lieu of payment, auctions and other assets received in lieu of payment	(100,496)	(103,285)
	(100,527)	**(103,315)**
	154,764	**175,428**

The mathematical provisions set up for life-insurance contracts represent, as a whole, the commitments entered into with the insured, which include those relating to the profit-sharing, the right to which they have acquired. These provisions were calculated using the PF60/64, GKF80, GRF95 and GRM95 mortality tables for life insurance, and the PM60/64, and GKM80 GKM95 for insurance in the event of death. The technical interest rates (discount rates) were 3% and 4%, respectively.

(Expressed in thousands of euros, except where otherwise stated)

The heading "Other" includes asset/(liability) operations pending settlement as detailed below:

	30-06-2021		31-12-2020	
	Other assets	Other liabilities (Note 20)	Other assets	Other liabilities (Note 20)
Values in transit and other transactions to be settled	1,089	(22,869)	1,885	(22,457)
Balances to be settled in ATM's	-	(228,215)	30	(110,761)
Tranfers within SEPA	-	-	1,991	-
Other	1,708	(69,314)	4,411	(79,769)
	2,797	(320,398)	8,317	(212,987)

The operations under "Payment in kind promises, auctions and other assets received as payment in kind" during the six-month period ended on June 30, 2021, and in 2020 were as follows:

	December 31, 2020					Transfers / ANCDV		Tranfers/ tangible assets	Other		Impairment			June 30, 2021		
	Gross amount	Impairment	Net amount	Increases	Sales	Capital	Impairment (Note 15)	Capital (Note 12)	Capital	Impairment	Increases	Reversals	Utilisation	Gross amount	Impairment	Net amount
Assets received as settlement of defaulting																
Real estate	51.356	(29.490)	21.866	-	-	(7.843)	1.643	-	-	-	-	-	-	43.513	(27.847)	15.666
Lieu of payment	1.856	(64)	1.792	83	-	(551)	-	-	-	-	(45)	21	-	1.388	(88)	1.300
Auctions	15.783	(6.316)	9.467	3.949	(2.265)	(9.594)	-	-	-	-	(1.675)	3.534	1.515	7.873	(2.942)	4.931
Other	32.545	(25.941)	6.604	1.460	(949)	(92)	-	-	-	-	(1.177)	429	234	32.964	(26.455)	6.509
Own real estate properties for sale	47.073	(29.980)	17.093	268	(6.387)	-	-	5.615	-	(3.650)	(622)	2.766	3.022	46.569	(28.464)	18.105
Other property for sale	84.867	(11.494)	73.373	-	(7.821)	-	-	-		-	(3.620)	-	414	77.046	(14.700)	62.346
	233.480	(103.285)	130.195	5.760	(17.422)	(18.080)	1.643	5.615	-	(3.650)	(7.139)	6.750	5.185	209.353	(100.496)	108.857

	December 31, 2019					Transfers/ANCDV	Tranfers/ tangible assets	Impairment			June 30, 2020		
	Gross amount	Impairment	Net amount	Increases	Sales	Capital (Note 15)	Capital (Note 12)	Increases	Reversals	Utilisation	Gross amount	Impairment	Net amount
Assets received as settlement of defaulting													
Real estate	64,026	(28,141)	35,885	-	-	12,957	-	-	-	(17,239)	76,983	(45,380)	31,603
Lieu of payment	1,976	(86)	1,890	-	-	(176)	-	(1)	-	-	1,800	(87)	1,713
Auctions	16,474	(5,203)	11,271	3,411	-	(2,970)	-	(1,259)	62	-	16,915	(6,400)	10,515
Other	33,454	(26,911)	6,543	1,451	(1,816)	(155)	-	(710)	708	120	32,934	(26,793)	6,141
Own real estate properties for sale	42,407	(27,467)	14,940	40	(2,503)	-	3,450	(1,627)	635	687	43,394	(27,772)	15,622
Other property for sale	97,206	(384)	96,822	7,065	(8,797)	-	-	(7,021)	387	103	95,474	(6,915)	88,559
	255,543	(88,192)	167,351	11,967	(13,116)	9,656	3,450	(10,618)	1,792	(16,329)	267,500	(113,347)	154,153

The determination of impairment losses is performed according to the methodology described in Note 15.

As at June 30, 2020, and December 31, 2020, the method for determining the fair value of assets received by donation in payment in accordance with the levels defined in IFRS 13 is level 3.

15. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The operations under this heading were as follows:

	31-12-2020				Transfers/NCAHS		Impairment (Note 18)			30-06-2021		
	Gross amount	Accummulated impairment (Note 18)	Increases	Sales	Capital (Note 14)	Impairment	Allocation	Reversal	Utilization	Gross amount	Accummulated impairment (Note 18)	Net amount
Real estate	92,345	(41,291)	505	(17,745)	18,080	(1,643)	(3,770)	3,319	2,956	93,185	(40,429)	52,756
Equipment	2,006	(1,599)	1,534	(1,198)	-	-	(637)	94	129	2,342	(2,013)	329
	94,351	(42,890)	2,039	(18,943)	18,080	(1,643)	(4,407)	3,413	3,085	95,527	(42,442)	53,085

	31-12-2019				Transfers/NCAHS		Impairment (Note 18)			30-06-2020		
	Gross amount	Accummulated impairment (Note 18)	Increases	Sales	Capital (Note 14)	Impairment	Allocation	Reversal	Utilization	Gross amount	Accummulated impairment (Note 18)	Net amount
Real estate	74,822	(31,223)	33,191	(10,833)	(9,656)	-	(3,561)	3,842	(2,334)	87,524	(33,276)	54,248
Equipment	2,047	(1,603)	635	(582)	-	-	(68)	75	75	2,100	(1,521)	579
	76,869	(32,826)	33,826	(11,415)	(9,656)	-	(3,629)	3,917	(2,259)	89,624	(34,797)	54,827

(Expressed in thousands of euros, except where otherwise stated)

These assets are carried at the amount agreed by negotiation or judicial means, after deduction of the lesser of the expenses the Group expects to incur with their sale, or their quick-sale value. On the other hand, assets recovered following the termination of finance lease contracts are carried under Assets for the amount of principal outstanding on the date of termination of the contract.

Real estate is subject to periodic appraisals performed by independent appraisers. Whenever the amount arising from these appraisals (net of selling costs) is lower than the amount at which the properties are carried, impairment losses are recorded. If, on a subsequent date, the facts that led the Group to record impairment losses no longer exist, the Group will reverse the impairment losses, up to the limit of the amount that the assets would have, had they not been reclassified to non-current assets held for sale.

The appraisal of these properties is carried out in accordance with one of the following methods, applied according to the specific situation of the asset:

a) Market method
The market comparison criterion is based on real-estate transaction figures
for similar properties comparable to the property constituting the object of the study obtained through market research conducted in the area the property is located.

b) Income method
This method is intended to estimate the value of the property based on the capitalisation of its net rent, updated to the present moment, using the discounted cash flows method.

The valuations performed on the properties referred to above are performed by independent, specialised entities accredited by the Securities Markets Commission (CMVM).

As at June 30, 2021, and December 31, 2020, the method for determining the fair value of non-current assets held for sale in accordance with the levels defined in IFRS 13 is level 3.

16. FINANCIAL ASSETS RECORDED AT FAIR VALUE THROUGH PROFIT OR LOSS

Liabilities for life insurance where the risk lies with the policyholder are carried under this heading.

The heading "Liabilities for life insurance where the risk lies with the policyholder" corresponds to amounts received from customers for subscription of Unit link products of the Group’s Insurer, and the subsequent gains and losses on the financial investments in which the amounts received were invested.

	30-06-2021	31-12-2020
Liabilities for life insurrance where the risk rests with the policyholder	3,245,943	3,261,337

(Expressed in thousands of euros, except where otherwise stated)

17. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

The "Deposits" sub-heading has the following composition:

	30-06-2021	31-12-2020
Deposits - Central banks		
Resources from Bank of Portugal - Deposits	7,428,642	6,781,961
Resources from other Central Banks - Deposits	500	9,859
	7,429,142	**6,791,820**
Deposits - Credit institutions		
Sale operations with repurchase agreement	207	1,255,805
Deposits	215,140	228,651
Other resources	12,684	11,571
Expenses with deferred charges	(174)	-
Very short-term resources	63,110	52,970
Interests payable	143	294
	291,110	**1,549,291**
Deposits - Customers		
Term deposits	14,310,303	14,502,014
Demand deposits	22,397,924	20,655,034
Structured deposits	23,235	38,643
Savings deposits	628,165	686,479
Others	126,825	27,421
Interests payable/deferred expenses	4,909	6,318
Financial insurance products without profit sharing	21,986	22,880
Value adjustments for hedging operations	122	237
	37,513,469	35,939,026
Deposits	**45,233,721**	**44,280,137**

(Expressed in thousands of euros, except where otherwise stated)

The "Debt securities" sub-heading has the following composition:

	30-06-2021			31-12-2020		
	Issued	Reacquired	Balance	Issued	Reacquired	Balance
Mortgage bonds						
Opening balance	8,800,000	(6,800,000)	2,000,000	8,050,000	(5,300,000)	2,750,000
Issued	-	-	-	1,500,000	-	1,500,000
Reacquired	-	-	-	-	(1,500,000)	(1,500,000)
Redeemed	(200,000)	200,000	-	(750,000)	-	(750,000)
Final balance	8,600,000	(6,600,000)	2,000,000	8,800,000	(6,800,000)	2,000,000
Interest payable	-	-	11,127	-	-	9,314
Cost-related commissions	-	-	(20,822)	-	-	(23,161)
	8,600,000	(6,600,000)	1,990,305	8,800,000	(6,800,000)	1,986,153
Bonds issued in the scope of securitization operations						
Opening balance	3,806,917	(3,192,235)	614,682	4,269,014	(3,525,535)	743,479
Redeemed	(228,235)	182,689	(45,546)	(462,097)	333,300	(128,797)
Final balance	3,578,682	(3,009,546)	569,136	3,806,917	(3,192,235)	614,682
Interest payable	-	-	-	-	-	676
Cost-related commissions	-	-	(45,242)	-	-	(48,659)
	3,578,682	(3,009,546)	523,894	3,806,917	(3,192,235)	566,699
Other Bonds						
Opening balance	-	-	-	-	-	-
Issued	500,000	-	500,000	-	-	-
Final balance	500,000	-	500,000	-	-	-
Interest payable	-	-	129	-	-	-
	500,000	-	500,129	-	-	-
Subordinated liabilities						
Opening balance	345,692	(338,093)	7,599	296,139	(288,540)	7,599
Issued	-	-	-	320,000	(320,000)	-
Redeemed	-	-	-	(270,447)	270,447	-
Final balance	345,692	(338,093)	7,599	345,692	(338,093)	7,599
Interest payable	-	-	418	-	-	134
	345,692	(338,093)	8,017	345,692	(338,093)	7,733
	13,024,374	(9,947,639)	3,022,345	12,952,609	(10,330,328)	2,560,585

Under the law, holders of the covered bonds have a special creditor privilege over the autonomous assets and liabilities, which constitutes a guarantee of the debt to which the bondholders will have access in the event of the issuer's insolvency.

The conditions of the covered bonds issued within the scope of securitisation operations and of other subordinated liabilities are presented in Annexes I and II, respectively.

Between May 2008 and June 2021, the Group undertook twenty-six covered-bond issuances under the €12.5 billion Covered Bonds Programme. As at June 30, 2021, and December 31, 2020, the covered bonds had an autonomous assets and liabilities consisting of:

	30-06-2021	31-12-2020
Loans and advances to customers (Note 9)	10,033,671	10,278,006
Interests on loans	5,566	6,682
Derivatives	(137,099)	(184,234)
	9,902,138	10,100,454

(Expressed in thousands of euros, except where otherwise stated)

The "Other Financial Liabilities" sub-heading has the following composition:

	30-06-2021	31-12-2020
Cheques and orders payable	101,242	62,261
Creditors and other resources		
Creditors for other futures transactions	5,217	8,350
Public sector	22,544	32,175
Creditors by factoring contracts	47,047	47,418
Creditors for supplies of goods	6,679	2,348
Others	35,483	34,358
Commitments to future income (IFRS16 application)	22,869	25,232
	241,081	212,142

Commitments with future rents corresponds to the adoption of IFRS 16, and their movement during the first half of 2021 and 2020 was as follows:

	Liabilitie to rent	Right to use (Note 12)
Balances as at December 31, 2019	**35,356**	**35,098**
Depreciation 2020	(6,557)	(6,145)
Outs	(5,604)	(6,170)
Ins	1,617	1,617
Rent extentions and modification	420	420
Balances as at December, 2020	**25,232**	**24,820**
Depreciation 2021	(2,363)	(2,356)
Balances as at June, 2021	**22,869**	**22,464**

18. MOVEMENT IN PROVISIONS AND IMPAIRMENTS

The composition of this heading is as follows:

	30-06-2021	31-12-2020
Impairment for guarantees and commitments assumed	**57,897**	**57,466**
Pensions and other post-employment defined benefit obligations	14,279	14,201
Reestructuring	233,893	69,308
Pending legal issues and tax disputes	6,918	17,310
Other provisions	75,436	81,688
Other provisions	**330,526**	**182,507**
	388,423	**239,973**
Technical provisions	**696,298**	**710,959**
Provisions	**1,084,721**	**950,932**

(Expressed in thousands of euros, except where otherwise stated)

The operations under "Provisions" during the first halves of 2021 and 2020, were as follows:

	2021					
	31-12-2020	Increase	Reversals	Utilization	Transfers/Other	30-06-2021
Impairment for guarantees and assigned commitments (Note 24)	57.466	1.428	(997)	-	-	57.897
Other provisions	182.507	246.055	(7.737)	(61.449)	(28.850)	330.526
	239.973	247.483	(8.734)	(61.449)	(28.850)	388.423

	2020					
	31-12-2019	Increase	Reversals	Utilization	Transfers/Other	30-06-2020
Impairment for guarantees and assigned commitments (Note 24)	53,249	4,236	(1,090)	-	-	56,395
Other provisions	181,079	2,323	(4,115)	(14,887)	(1,304)	163,096
	234,328	6,559	(5,205)	(14,887)	(1,304)	219,491

	2021						
	Balance at 31-12-2020	Increase	Reversals of impairment losses	Utilization and other	Balance at 30-06-2021	Recovery of past due loans	Gain/loss from loan sales
Impairments or reversal of impairments of financial assets not accounted for at fair value through profit or loss:							
Impairment for debt securities (Note 9)	11,145	8,195	(8,189)	-	11,151	-	-
Impairment for loans and advances (Note 9)	994,452	237,567	(166,127)	2,235	1,068,127	(2,765)	98
Impairment losses on financial assets at fair value through other comprehensive income (Note 8)	14	-	(1)	-	13	-	-
	1,005,611	245,762	(174,317)	2,235	1,079,291	(2,765)	98
Impairments or reversal of impairments of non financial assets				-			
Non-current assets held for sale (Note 15)	42,890	4,407	(3,413)	(1,442)	42,442	-	-
Tangible assets (Note 12)	23,624	-	-	(17,477)	6,147	-	-
Other assets (Note 14)	103,315	7,139	(6,749)	(3,178)	100,527	-	-
	169,829	11,546	(10,162)	(22,097)	149,116	-	-

	2020						
	Balance at 31-12-2019	Increase	Reversals of impairment losses	Utilization and other	Balance at 30-06-2020	Recovery of past due loans	Gain/loss from loan sales
Impairments or reversal of impairments of financial assets not accounted for at fair value through profit or loss:							
Impairment for debt securities	4.057	4.599	(5.143)	-	3.513	-	-
Impairment for loans and advances	918.182	356.603	(251.730)	(7.330)	1.015.725	(4.453)	1.058
Impairment on financial assets at fair value through other comprehensive income	89	57	(128)	-	18	-	-
	922.328	361.259	(257.001)	(7.330)	1.019.256	(4.453)	1.058
Impairments or reversal of impairments of non financial assets							
Non-current assets held for sale	32.826	3.629	(3.917)	2.259	34.797	-	-
Tangible assets	6.147	-	-	-	6.147	-	-
Other assets	88.418	10.618	(1.792)	16.329	113.573	-	-
	127.391	14.247	(5.709)	18.588	154.517	-	-

19. SHARE CAPITAL REPAYABLE ON DEMAND

As at June 30, 2021, and December 31, 2020, this item represented participation units of the Novimovest Fund not held by the Group.

(Expressed in thousands of euros, except where otherwise stated)

20. OTHER LIABILITIES

The composition of this heading is as follows:

	30-06-2021	31-12-2020
Personnel expenses		
Vacation and vacation subsidies	31,548	41,524
Other variable remuneration	17,737	22,348
End career prize	1,389	1,377
Christmas subsidies	9,729	-
Other personnel expenses	3,920	2,607
Other expenses	121,108	95,617
Liabilities with pensions and other benefits (Note 36)		
Santander liabilities	1,122,949	1,123,784
Santander pension fund book value	(1,140,792)	(1,143,046)
London branch liabilities	53,068	56,628
London branch pension fund book value	(49,467)	(48,718)
Former Banif liabilities	160,103	160,544
Former Banif pension fund book value	(97,395)	(93,369)
Former BAPOP liabilities	181,293	181,921
Former BAPOP pension fund book value	(190,054)	(186,718)
Other liabilities for direct insurance and reinsurance	5,835	4,193
Deferred income	12,698	14,370
Liability operations to be settled (Note 14)	320,398	212,987
	564,067	446,049

21. EQUITY

As at June 30, 2021, and December 31, 2020, the share capital of Santander Totta, SGPS, S. A., was represented by 197,296,207,958 shares, each of a par value of €1, fully subscribed and paid up by the following shareholders:

	30-06-2021		
	Number of shares	Participation (%)	Amount
Santander Group	196,996,017,344	99.85%	1,969,960
Other	186,595,158	0.09%	1,866
Treasury Shares	113,595,456	0.06%	1,136
	197,296,207,958	100.00%	1,972,962

Equity instruments issued, except Share Capital

On December 30, 2015, the Company issued "€300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments," bonds that qualify for the capital Tier 1 ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV – Capital Requirements Directive). This operation has no set term, has a call option by the Company from the end of the 5th year, and an interest rate of 9.9% per annum during the first five years. As it is an Additional Tier 1 instrument, the corresponding interest payment is decided at the discretion of the Company and is subject to compliance with a number of conditions. The issuance of this instrument was carried out following the redemption of the TAF preference shares, after approval by the European Central Bank. In January 2021, the Company reimbursed this instrument.

(Expressed in thousands of euros, except where otherwise stated)

On June 20, 2016, the Company again issued "€300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments," bonds that qualify for the capital Tier 1 ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV – Capital Requirements Directive). This operation has no set term, has a call option by the Company from the end of the 5th year, and an interest rate of 10.5% per annum during the first five years. As it is an Additional Tier 1 instrument, the corresponding interest payment is decided at the discretion of the Company and is subject to compliance with a number of conditions. The issuance of this instrument was carried out following the redemption of the BST Porto Rico preference shares, after approval by the European Central Bank. In June 2021, the Company reimbursed this instrument.

On January 14, 2021, the Company made a third issuance of "€400.000.000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments," bonds that qualify for the capital Tier 1 ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV – Capital Requirements Directive). This operation has no set term, has a call option by the Company from the end of the 5th year, and an interest rate of 4.9% per annum during the first five years. As it is an Additional Tier 1 instrument, the corresponding interest payment is decided at the discretion of the Company and is subject to compliance with a number of conditions.

Other accumulated comprehensive income

As at June 30, 2021, and December 31, 2020, the breakdown of reserves for accumulated comprehensive income was as follows:

	30-06-2021	31-12-2020
Other comprehensive income - Gross amount		
Financial assets at fair value through other comprehensive income	779,111	1,048,630
Financial assets at fair value through other comprehensive income from companies in equity method	2,099	3,529
Hedging instruments within the scope of cash flow hedges	7,654	(44,612)
The valuation of insurance liabilities ("shadow reserve")	(38,257)	(45,920)
Remeasurements of pension liabilities		
Pension Fund of BST	(778,913)	(795,390)
Pension Fund of the Lond branch of BST	(12,203)	(16,573)
Pension fund of Former Banif	(38,780)	(43,248)
Pension fund of Former BAPOP	(2,336)	(7,464)
Remeasurements of companies in equity method	(3,961)	(3,961)
	(85,586)	94,991
Other comprehensive income - Tax impact		
Financial assets at fair value trough other comprehensive income	(236,921)	(319,652)
Financial assets at fair value through other comprehensive income from companies in equity method	(540)	(905)
Hedging instruments within the scope of cash flow hedges	(2,373)	13,829
The valuation of insurance liabilities ("shadow reserve")	8,990	10,791
Tax impact of remeasurements	204,199	204,199
Tax impact of equity remeasurements of companies in equity method	956	919
	(25,689)	(90,819)
	(111,275)	4,172

Deferred taxes were calculated based on legislation currently in force and correspond to the best estimate of the impact of the realisation of the potential gains and losses included in the revaluation reserves.

Revaluation reserves cannot be used for the allocation of dividends or to increase share capital.

(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2021, and December 31, 2020, the breakdown of "Retained earnings" and of "Other reserves" was as follows:

	30-06-2021	31-12-2020
Retained earnings	143,089	197,228
Other reserves		
Legal reserve	364,349	363,640
Merger reserves	640,575	640,575
Consolidated reserves		
Companies consolidated under the full method	912,180	624,920
Companies consolidated under the equity method	25,394	22,036
	1,942,498	1,651,171

Legal reserve

In accordance with the provisions of Decree-Law 298/92, of December 31, amended by Decree-Law 201/2002, of September 26, the Company sets aside a legal reserve until it equals the share capital, or the sum of the free reserves formed and of the retained earnings, if greater. To this end, a fraction of not less than 10% of the net income for the period of the separate business is annually transferred to this reserve, until the said amount is achieved. This reserve may be used only to cover accumulated losses or to increase the share capital.

Merger reserve

In accordance with legislation in force, the merger reserve is considered equivalent to the legal reserve, and may only be used to cover accumulated losses or increase the share capital.

(Expressed in thousands of euros, except where otherwise stated)

22. PROFIT OR LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY

As at June 30, 2021, and June 30, 2020, the determination of consolidated profit can be summarized as follows:

	30-06-2021		30-06-2020	
	Profit or loss for the period	Contribution to the consolidated net income	Profit or loss for the period	Contribution to the consolidated net income
Profit or loss of ST SGPS (individual basis)	2,144	2,144	1,744	1,744
Profit or loss of other Group companies:				
Banco Santander Totta, S.A.	53,973	53,950	157,611	157,543
Totta (Ireland), Plc.	4,127	4,126	4,447	4,445
Unicre, Instituição Financeira de Crédito, S.A.	5,172	1,130	2,549	557
Santander Totta Seguros, S.A.	17,382	17,382	11,049	11,049
TottaUrbe, Empresa de Administração e Construções, S.A.	1,683	1,682	1,033	1,032
Aegon Santander Portugal Vida - Companhia de Seguros, S.A.	7,284	3,569	6,974	3,417
Novimovest - Fundo de Investimento Imobiliário Aberto	1,629	1,282	558	439
Aegon Santander Portugal Não Vida - Comapnhia de Seguros, S.A.	4,107	2,013	1,828	896
Taxagest, S.A.	(9)	(9)	(1)	(1)
Lusimovest Fundo de Investimento Imobiliário	144	37	724	187
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	181	181	38	38
Mafre Santander Portugal Co. Seguros	(470)	(235)	(242)	(242)
		85,108		179,360
Elimination of dividends received:				
Totta (Ireland), PLC		(9,124)		-
Unicre - Instituição Financeira de Crédito, S.A.		(4,704)		(3,191)
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.		(4,968)		(7,700)
Mapfre Santander Portugal		-		(1,247)
		(18,796)		(12,138)
Adjustments related with securitization operations		(1,532)		(600)
Cancellation of provisions for securities and intragroup participations		-		(1,387)
Other		14,470		5,937
		12,938		3,950
		81,394		172,916

Basic earnings per share are calculated by dividing the consolidated net income attributable to the Group's shareholders by the weighted average number of common shares in circulation during the period.

	30-06-2021	30-06-2020
Consolidated net income attributable to the shareholders of ST, SGPS	81,394	172,916
Weighted average number of ordinary shares issued	197,296,207,958	197,296,207,958
Weighted average number of own shares	113,595,456	113,595,456
Weighted average number of ordinary shares outstanding	197,182,612,502	197,182,612,502
Basic earnings per share attributable to the shareholders of ST, SGPS (In Euro)	0.0004	0.0009

Basic earnings per share are the same as diluted earnings per share since there are no contingently issuable common shares, including options, warrants or equivalent financial instruments as of the reporting date.

(Expressed in thousands of euros, except where otherwise stated)

23. MINORITY INTERESTS [NON-CONTROLLING INTERESTS]

In the first half of 2021 and in the financial year of 2020 the value of non-controlling interests in the balance sheet and income statement corresponds to the proportion of the holdings of third parties in the Bank's share capital.

24. OFF-BALANCE-SHEET ACCOUNTS

The breakdown of off-balance-sheet liabilities is as follows:

	30-06-2021	31-12-2020
Guarantees given and other contingent liabilities		
Guarantees and sureties	635,531	648,253
Commitments for credit granted		
Revocable	6,047,511	6,063,686
Irrevocable	629,734	949,459
	6,677,245	7,013,145
Other commitments granted		
Non-financial guarantees and sureties	1,005,017	964,490
Other irrevocable commitments	387,934	363,131
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	7,138	7,507
Other commitments granted	-	200,215
	1,469,058	1,604,312
	8,781,834	9,265,710
Assets pledged as guarantee		
Bank of Portugal	152,325	148,206
Deposit Guarantee Fund	78,901	87,998
Investor Indemnity System	8,416	8,516
Assets pledged as guarantee in monetary policy operations	16,921,590	15,995,107
	17,161,232	16,239,827
Liabilities for services provided		
Deposit and custodial services	35,207,584	36,048,845
Amounts received for collection	528,125	444,411
Other values	133,359	113,603
	35,869,068	36,606,859

Assets pledged as collateral for monetary policy operations correspond to the collateral pool that the Bank has with the European Central Bank, to ensure operational liquidity.

Guarantees and other contingent commitments have the following exposure per stage:

	30-06-2021							
	Exposure				Impairment (Note 18)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commitments for credit granted	6,056,610	610,487	10,148	6,677,245	4,767	890	97	5,754
Financial guarantees	569,271	26,449	39,811	635,531	532	394	26,456	27,382
Other commitments granted	1,287,190	42,107	139,761	1,469,058	379	215	24,167	24,761
	7,913,071	679,043	189,720	8,781,834	5,678	1,499	50,720	57,897

(Expressed in thousands of euros, except where otherwise stated)

	31-12-2020							
	Exposure				Impairment (Note 18)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commitments for credit granted	6,408,141	596,264	8,740	7,013,145	4,617	658	13	5,288
Financial guarantees	570,269	36,870	41,114	648,253	542	434	25,587	26,563
Other commitments granted	1,400,968	52,668	150,676	1,604,312	361	149	25,105	25,615
	8,379,378	685,802	200,530	9,265,710	5,520	1,241	50,705	57,466

Deposit Guarantee Fund

Pursuant to Decree-Law 298/92 of December 31, the Deposit Guarantee Fund was established in November 1994 in order to secure the deposits made at credit institutions, in accordance with the limits established in the General Credit Institutions Regime. The initial contribution to the Fund, established by an Order-in-Council of the Ministry of Finance, was made through the delivery of cash and deposit securities, and has been amortised over 60 months as from January 1995. Except for what is referred to in the following paragraph, the regular annual contributions to the Fund are recognised as an expense for the period to which they relate.

Until 2011, as permitted by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Deposit Guarantee Fund, having also entered into an irrevocable commitment to the Deposit Guarantee Fund to pay up the 10 % of the annual contribution, if and when so requested. The total unpaid accumulated amount as at June 30, 2021, and December 31, 2020, for which this commitment was entered into totalled €68,969k. The assets pledged to the Bank of Portugal are reflected under off-balance-sheet headings at their market value. In the first half of 2021 and in the financial year of 2020, the Bank paid 100% of the annual contribution in the amounts of €50k and €48k, respectively (Note 34).

Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as expenses. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at June 30, 2021, and December 30, 2020, these liabilities amounted to €7.138k and €7.507k, respectively.

(Expressed in thousands of euros, except where otherwise stated)

25. NET INTEREST INCOME

The composition of this heading is as follows:

	30-06-2021	30-06-2020
Interest income		
Interest on cash and deposits at central banks and credit institutions	28	172
Interest on non-trading financial assets mandatorily at fair value through profit or loss	473	177
Interest on financial assets at fair value through other comprehensive income	67,572	48,385
Interest on financial assets at amortized cost		
Loans and advances - Credit instituitions	65	1,255
Debt securities	28,524	28,630
Loans and advances - customers	272,712	331,098
Interest on resources at Central Banks and other Credit institutions	45,524	7,031
Interests on hedging derivatives	135,046	157,639
Others	610	2,291
	550,554	576,678
Interest expenses		
Interest on financial liabilities measured at amortized cost		
Deposits - Credit instituitions	(2,436)	(2,289)
Deposits- customers	(3,340)	(13,169)
Debt securities issued	(15,852)	(19,315)
Interest on other financial liabilities	-	(3,137)
Interest on assets from central banks and credit institutions	(9,391)	(941)
Interest on customers' assets	(1,151)	(416)
Interests on hedging derivatives	(134,189)	(137,124)
IFRS 16	(199)	(283)
Others	(590)	(666)
	(167,148)	(177,340)
	383,406	399,338

26. DIVIDEND INCOME

This item refers to dividends and income received, and is broken down as follows:

	30-06-2021	30-06-2020
SIBS – Sociedade Interbancária de Serviços, S.A.	1,533	1,733

(Expressed in thousands of euros, except where otherwise stated)

27. PERCENTAGE OF PROFIT OR LOSS FROM INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED COMPANIES ACCOUNTED THROUGH THE EQUITY METHOD

The composition of this heading is as follows:

	30-06-2021	30-06-2020
AEGON Santander Portugal Não Vida	2,013	896
AEGON Santander Portugal Vida	3,569	3,417
Lusimovest - Fundo de Investimento Imobiliário	37	187
Unicre - Instituição Financeira de Crédito	1,059	564
Mapfre Santander Portugal Co. Seguros	(235)	-
	6,443	5,064

(Expressed in thousands of euros, except where otherwise stated)

28. INCOME AND EXPENSES FROM FEES AND COMMISSIONS

The composition of this heading is as follows:

	30-06-2021	30-06-2020
Fee and commission income		
On guarantees given	8,324	8,773
On commitments to third parties	3,030	2,507
By services provided		
Deposit and custodial services	2,518	2,816
Collection and administration of values	7,139	7,895
Real estate and mutual fund management	15,144	11,524
Transfers	894	636
Card management	43,269	40,532
Annuities	21,468	15,514
Credit operations	24,937	25,228
Other services rendered	3,149	6,798
On operations carried out on behalf of third parties		
On securities	7,868	8,584
Other	23	40
Other commission received		
Insurance companies	55,092	50,964
Demand deposits	48,967	42,969
Checks	2,501	2,806
Other	11,028	9,469
	255,351	237,055
Fee and commission expenses		
On guarantees received	(1,446)	(1,353)
On banking services rendered by third parties		
Collection and administration of values	(2,510)	(2,441)
Cards	(32,224)	(30,956)
Credit operations	(1,618)	(1,575)
Other services rendered	(3,349)	(3,421)
On operations carried out by third parties		
Securities	(1,731)	(1,566)
Others	(3,546)	(3,388)
Other commissions paid	(5,848)	(9,218)
	(52,272)	(53,918)
	203,079	183,137

(Expressed in thousands of euros, except where otherwise stated)

29. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

The composition of these headings is as follows:

	30-06-2021	30-06-2020
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**142.561**	**80.041**
Financial assets at fair value through other comprehensive income	127.280	78.888
Debt instruments	127.280	78.888
Financial assets at amortized cost (debt instruments)	2.242	-
Others	13.039	1.153
Gains or losses on financial assets and liabilities held for trading, net	**(2.623)**	**1.050**
Derivative instruments	(2.623)	1.050
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**1.305**	**4.957**
Debt securities	1.526	2.860
Equity instruments	(221)	2.097
Gains or losses from hedge accounting, net	**-**	**147**
Hedging derivatives	(109.041)	(178.819)
Hedged element	109.041	178.966
Exchange differences, net	**6.296**	**5.636**

In the period ended on June 30, 2021, and 2020, the gains recorded under "Financial assets accounted for at fair value through other comprehensive income" came from the sale of public debt bonds.

30. GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

The composition of this heading is as follows:

	30-06-2021	30-06-2020
Gains on property investments	38	107
Losses on property investments	(63)	(46)
	(25)	61

(Expressed in thousands of euros, except where otherwise stated)

31. GROSS MARGIN FROM THE INSURANCE BUSINESS

The composition of the gross margin from insurance is as follows:

	30-06-2021	30-06-2020
Gross margin of life insurance where the the investment risk is of the policyholder	47,045	34,524
Gross margin of insurance activity		
Commissions and profit sharing on reinsurance ceded	11,447	11,847
Gross written premiums net of reinsurance	3,168	5,922
Costs with claims net of reinsurance	(66,329)	(53,285)
Change in technical reserves net of reinsurance	8,507	4,085
Interests and net income of assets allocated to technical reserves	4,990	5,135
Net gains of assets allocated to technical reserves	(259)	253
Charges for services and commissions associated with technical reserves	(37)	(703)
	(38,513)	(26,746)

Technical provisions include liabilities for insurance contracts and financial liabilities for investment contracts with discretionary profit-sharing.

Financial liabilities for investment contracts without discretionary profit-sharing are not considered when determining the gross margin of the insurance business.

32. OTHER OPERATING INCOME AND EXPENSES

The composition of this heading is as follows:

	30-06-2021	30-06-2020
Other operating income		
Rents earned	4,814	5,479
Income from rendering of services	1,513	1,491
Change in fair value of investment properties	-	1,637
Others	3,580	2,364
	9,907	10,971
Other operating expense		
Change in fair value of investment properties	(176)	(2,368)
Expenses with customers	(3,713)	(1,407)
Others	(2,293)	(1,147)
	(6,182)	(4,922)

During the first six months of 2021 and 2020, the heading “Rents earned” includes the amounts of €4.811k and €5.474k, respectively, in respect of the rents received by the Novimovest Real Estate Fund (Note 12).

The heading “Costs with Clients” includes expenses with internal and external fraud.

(Expressed in thousands of euros, except where otherwise stated)

33. ADMINSTRATIVE EXPENSES

The composition of this heading is as follows:

Staff costs

	30-06-2021	30-06-2020
Remuneration		
Management and supervisory boards	2.326	2.731
Employees	106.969	112.095
Other variable remuneration	10.841	6.454
	120.136	121.280
Mandatory social charges		
Charges on remuneration	29.598	30.721
Pension funds (Note 36)	3.953	4.106
Other mandatory social charges	522	529
	34.073	35.356
Other staff expenses		
Staff assignments	586	609
Supplementary pension plan (Note 36)	210	291
Other	3.664	3.771
	4.460	4.671
	158.669	161.307

Other administrative expenses

	30-06-2021	30-06-2020
External supplies:	4,426	5,481
External services:		
Specialized services	38,901	38,559
Maintenance of software and hardware	32,681	28,590
Communications	3,408	4,414
Maintenance and repairs	2,039	2,233
Advertising and publishing	3,864	6,522
Other lease operations (short-term and low-value leases)	2,231	2,434
Travel, lodging and entertainment expenses	748	1,315
Transportation	2,057	2,138
Insurance	954	1,082
Other services	3,339	3,181
Contributions and donations	3,514	3,273
Other taxes	1,981	1,330
	100,143	100,552

(Expressed in thousands of euros, except where otherwise stated)

34. CASH CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

	30-06-2021	30-06-2020
Contributions to the Resolution Fund		
National Resolution Fund	(12,853)	(12,875)
Single Resolution Fund	(24,776)	(22,701)
Contributions to the Deposit Guarantee Fund	(50)	(48)
	(37,679)	(35,624)

Decree-Law 24/2013 of February 19, established the regime governing bank contributions to the new Resolution Fund, created for the purpose of prevention, mitigation and containment of the systemic risk. According to Bank of Portugal Notice No. 1/2013 and Instructions Nos. 6/2013 and 7/2013, payment is laid down of an initial contribution and periodic contributions to the Resolution Fund.

Within the scope of the single Resolution mechanism, the annual contributions will be transferred to the Single Resolution Fund, in accordance with article 3(3) of the agreement on the transfer and pooling of the contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014. The Bank of Portugal, as the liquidation authority, determines the amount of the contribution of each institution depending on the risk profile of each entity. In December 2015 the Bank paid an additional contribution to the Resolution Fund in the amount of €13,318k, in accordance with a letter received from the Bank of Portugal in November 2015. In 2021 and 2020, and as provided for in the Bank of Portugal's letter, the Single Resolution Council (CUR) allowed banking institutions, in these years, to opt for the use of irrevocable payment commitment, in the proportion of 15% of the amount of the annual contribution. The annual contribution amounted to €29.149k and €26.707k, respectively.

35. PROFIT OR LOSS WITH NON-CURRENT ASSETS HELD FOR SALE

The composition of this heading is as follows:

	30-06-2021			30-06-2020		
	Gain	Loss	Net	Gain	Loss	Net
Assets received in lieu of payment	3,918	(241)	3,677	2,869	(5,562)	(2,693)
Other non-financial assets	15,065	(8,439)	6,626	18,322	(15,696)	2,626
	18,983	(8,680)	10,303	21,191	(21,258)	(67)

36. EMPLOYEE POST-EMPLOYMENT BENEFITS

To determine the liabilities for past services of the Bank (Santander and BAPOP Plan) in respect of employees in service and those already retired, actuarial studies were conducted by Mercer (Portugal), Limitada. The current value of the past-service liabilities, as well as the related costs of current services, were calculated based on the Projected Unit Credit method.

(Expressed in thousands of euros, except where otherwise stated)

The Bank's liabilities for retirement pensions, health care and death benefits as at June 20, 2021, and December 31, 2020, as well as the respective coverage, are detailed as follows:

	Santander		BAPOP	
	30-06-2021	31-12-2020	30-06-2021	31-12-2020
Estimate of responsibilities for past services:				
- Pensions				
.Current employees	295,782	303,442	64,451	64,619
.Pensioners	54,574	52,496	7,698	7,806
.Retired staff and early retired staff	588,874	583,248	95,515	95,972
	939,230	939,186	167,664	168,397
- Healthcare systems (SAMS)	168,776	169,721	12,880	12,782
- Death subsidy	6,421	6,399	749	742
- Retirement bonus	8,522	8,478	-	-
	1,122,949	1,123,784	181,293	181,921
Coverage of responsibilities:				
- Pension fund equity value	1,140,792	1,143,046	190,054	186,718
Excess / insufficient funding (Note 20)	17,843	19,262	8,761	4,797
Actuarial and financial deviations generated in the period				
- Change in assumptions	-	-	-	-
- Experience adjustments:				
.Other actuarial (gains) / losses	6,397	4,984	(992)	(80)
.Financial (gains) / losses	(22,890)	(8,445)	(4,136)	(493)
	(16,493)	(3,461)	(5,128)	(573)
	(16,493)	(3,461)	(5,128)	(573)

The main assumptions used by the Bank to determine its liabilities for retirement pensions as at June 31, 2021, and December 31, 2020, were as follows:

Mortality Table	
Female	TV 88/90 (-1)
Male	TV 88/90
Rate of return on pension fund assets	1.10%
Technical actuarial rate (discount rate)	1.10%
Wage growth rate	0.75%
Pension growth rate	0.50%
Inflation rate	0.45%

Decree-Law 167-E/2013, of December 31, changed the normal age of access to retirement under the general Social Security regime to 66 years (in 2019 the normal retirement age is 66 years and 5 months), though the sustainability factor was no longer applicable to beneficiaries who retire at that age.

The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities.

The operations under liabilities for past services during the first half of 2021 and in the financial year of 2020, can be detailed as follows:

(Expressed in thousands of euros, except where otherwise stated)

	Santander		BAPOP	
	30-06-2021	31-12-2020	30-06-2021	31-12-2020
Responsibilities at beginning of the period	1,123,784	1,131,980	181,921	181,503
Cost of current services	2,733	5,580	683	1,348
Cost of interests	5,970	12,023	819	1,634
(Actuarial Gains)/Losses	6,397	4,984	(992)	(80)
Early retirements	15,179	21,682	481	785
Amounts paid	(32,371)	(54,946)	(1,929)	(3,889)
Employee Contributions	1,257	2,481	310	620
Responsabilities at end of period	1,122,949	1,123,784	181,293	181,921

The expenses for the year relating to pensions includes the cost of current services and interest expenses, deducted from the expected return of the Pension Fund assets. In the first half of 2021 and in the fiscal year of 2020, the expenses with pensions have the following composition:

	30-06-2021	31-12-2020
Cost of current services	3,416	6,928
Cost of interests	6,789	13,657
Assets return using discount rate	(6,789)	(13,657)
Defined benefit plan	3,416	6,928
Defined contribution plan	475	1,131
London branch plan	62	119
	3,953	8,178

As from January 1, 2009, the employees taken on by the Bank came to be included in Social Security, and are covered by a supplementary defined-contribution pension plan and by the rights acquired under Clause 93 of the ACT. The plan is funded through contributions by employees (1.5%) and by BST (1.5%), calculated on the basis of the actual monthly remuneration. For this purpose, each employee can opt for an open pension fund at his or her choice into which the Bank transfers its contribution.

Estimated salary and pension growths take into account the country's current situation, and the consequent prospect of smaller increases in the future, or even maintenance of current values.

The average duration of pension liabilities of the employees of Santander, of BAPOP and of Banif, is 15 years, including those in active service and pensioners.

The operations under actuarial deviations in the first half of 2021 and in the fiscal year of 2020, was as follows:

	Santander		BAPOP	
	30-06-2021	31-12-2020	30-06-2021	31-12-2020
Deviations at beginning of the period	795,764	799,225	7,464	8,037
Actuarial (Gains) / Losses	6,397	4,984	(992)	(80)
Financial (Gains) / Losses	(22,890)	(8,445)	(4,136)	(493)
Deviations at the end of period	779,271	795,764	2,336	7,464

(Expressed in thousands of euros, except where otherwise stated)

The Santander Pension Fund is managed by Santander Pensões — Sociedade Gestora de Fundos de Pensões, S. A., and the BAPOP Pension Fund is managed by Santander Totta Seguros — Companhia de Seguros de Vida, S. A. As at June 31, 2021, and December 31, 2020, the number of participants of the Funds was the following:

	Santander		BAPOP	
	30-06-2021	31-12-2020	30-06-2021	31-12-2020
Current employees				
Defined benefit plan	3,667	3,885	692	722
Defined contribution plan	470	460	111	119
Pensioners	1,307	1,282	28	34
Retired staff and early retired staff	5,603	5,773	160	157
	11,047	11,400	991	1,032

The operations under the Bank's Pension Fund during the first half of 2021 and in 2020 were as follows:

	Santander		BAPOP	
	30-06-2021	31-12-2020	30-06-2021	31-12-2020
Fund Value at the beginning of the period	1.143.046	1.160.573	186.718	185.459
Bank contribution (monetary)	-	14.470	-	2.401
Employee contribution	1.257	2.481	310	620
Net income of the fund:				
Income from assets using discount rate	5.970	12.023	819	1.634
Income of the fund above the discount rate	22.890	8.445	4.136	493
Amounts paid	(32.371)	(54.946)	(1.929)	(3.889)
Fund Value at the end of the period	1.140.792	1.143.046	190.054	186.718

The yields of the Pension Fund amounted to Santander 2.56% and BAPOP 2.8% in 2021, and Santander 1.92% and BAPOP 2.06% in 2020.

The investments and allocation policy of the Pension Fund determines that the asset portfolio be structured in compliance with security, profitability and liquidity criteria, through a diverse set of investments, namely shares, bonds, other debt securities, holdings in collective-investment institutions, bank deposits, other monetary assets, and land and buildings included in the land registry.
On the other hand, that policy is guided by risk-diversification and profitability criteria and the Fund's Management Company may opt for a more or less conservative policy by increasing or decreasing the exposure to equities or bonds, according to its expectations as to the evolution of the markets and in accordance with the defined investment limits.
The investment policy of the Pension Fund in force provides for the following limits:

(Expressed in thousands of euros, except where otherwise stated)

Asset Class	Expected buckets
Bonds	40% a 95%
Real estate	0% a 25%
Equities	0% a 20%
Liquidity	0% a 15%
Alternatives	0% a 10%
Commodities	0% a 5%

As at June 30, 2021, and December 31, 2020, the composition of the Pension Fund was as follows:

	Santander		BAPOP	
	30-06-2021	31-12-2020	30-06-2021	31-12-2020
Debt instruments:				
. Rating A	97,089	88,135	10,861	19,894
. Rating BBB	349,907	370,511	78,857	68,026
. Rating BB	29,437	13,764	8,132	3,476
. Without rating to the issuance and issuer	53,773	67,857	1,489	10,937
Real estate funds	116,483	125,008	913	913
Mutual funds	365,648	352,167	75,145	72,747
Deposits	52,210	53,779	11,509	7,382
Real estate				
. Commercial spaces	19,480	19,515	-	-
. Land	1,149	1,149	-	-
Equity instruments:				
. Portuguese shares – listed	140	136	-	-
. Foreign shares – listed	33,467	29,893	-	-
Derivative financial instruments	805	632	117	110
Others	21,204	20,500	3,031	3,233
	1,140,792	1,143,046	190,054	186,718

As at June 30, 2021, and December 31, 2020, the method for the determination of the fair value of the assets and liabilities mentioned above (except for deposits and others), adopted by the Management Companies as recommended in the IFRS 13 (Note 39), was as follows:

	30-06-2021				31-12-2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	574,283	-	55,262	629,545	563,806	-	78,794	642,600
Investment Funds	440,793	-	117,396	558,189	424,914	-	125,921	550,835
Equity instruments	33,607	-	-	33,607	30,029	-	-	30,029
Derivative financial instruments	922	-	-	922	742		-	742
Real estate	-	-	20,629	20,629	-	-	20,664	20,664
	1,049,605	-	193,287	1,242,892	1,019,491	-	225,379	1,244,870

In 2010 insurance was taken out at Santander Totta Seguros – Companhia de Seguros de Vida, S. A., to meet the liabilities of a new supplementary defined-contribution pension plan attributed to the Bank's senior management. The initial contribution to the new plan amounted to €4,430k. In the half-year period ended in June 30, 2021, and 2020 the premium paid by the Bank amounted to €210k and €291k, respectively (Note 33).

This plan covers the contingencies of retirement, death and permanent absolute disability for customary work or invalidity.

(Expressed in thousands of euros, except where otherwise stated)

For all these contingencies, the benefits to be received by the beneficiaries will equal the accumulated balance in the supplementary plan on the date on which the benefits are realised. In the case of the beneficiary's death this amount will be further increased by €6,000.

Defined-benefit pension plan – former London Branch

As at June 30, 2021, and December 31, 2020, the main assumptions used in the calculation of retirement pension liabilities related with the pension plans covering the employees of Bank's London Branch were as follows:

	30-06-2021	31-12-2020
Mortality table	100% S3NMA_Light/ 100% S3NFA_Light	100% S3NMA_Light/ 100% S3NFA_Light
Technical actuarial rate (discount rate)	1.8%	1.2%
Wage growth rate	3.0%	2.7%
Pension growth rate	2.2%	2.1%
Inflation rate	3.4%	2.7%

As at June 30, 2021, and December 31, 2020, the liabilities for the defined-benefit pension plan and its coverage presented the following detail:

	30-06-2021	31-12-2020
Estimated liabilities for past-services	53,068	56,628
Coverage – Pension Fund asset value	49,467	48,718
Amount not funded – London Branch	(3,601)	(7,910)

The operations under liabilities for past services can be detailed as follows:

	30-06-2021	31-12-2020
Liabilities at the beginning of the period	56,628	51,848
Cost of current services	13	17
Interest cost	353	921
Actuarial (gains)/ losses	(3,425)	5,036
Amounts paid	(501)	(1,194)
Liabilities at the end of the period	53,068	56,628

The operations under this heading were as follows:

	30-06-2021	31-12-2020
Book value at the beginning of the period	48,718	44,654
Net income of the fund:		
. Income from assets using discount rate	305	819
. Income of the fund above/(bellow) the discount rate	945	1,910
Contribution of the Branch	-	2,529
Amounts paid	(501)	(1,194)
Book value at the end of the year	49,467	48,718

(Expressed in thousands of euros, except where otherwise stated)

The operations under actuarial deviations were as follows:

	30-06-2021	31-12-2020
Deviations at the beginning of the period	16,573	13,447
Actuarial (gains)/ losses	(3,425)	5,036
Financial (gains)/ losses	(945)	(1,910)
Deviations at the end of the period	12,203	16,573

As at June 30, 2021, and December 31, 2020, the portfolio of the Pension Fund of the London Branch included the following assets:

	30-06-2021	31-12-2020
Debt instruments	25,506	25,299
Equity instruments	21,224	20,771
Others	2,738	2,648
Fund value	49,467	48,718

Liabilities for defined-benefit pension plans expose the Bank to the following risks:

- Investment risk – the updated value of liabilities is calculated on the basis of a discount rate determined with reference to high-quality bonds — in terms of credit risk — denominated in euros; if the return of the Pension Fund is below that discount rate, it will create a shortfall in the funding of the liabilities.

- Interest-rate risk — a decrease of the interest rate of bonds will increase the pension liabilities.

- Longevity risk – the updated amount of liabilities is calculated on the basis of the best estimate at the time of the expected mortality of the participants, before and after the retirement date. An increase in life expectancy for plan participants will increase pension liabilities.

- Salary risk – the updated amount of liabilities is calculated on the basis of an estimate of the future salary of the participants. Thus, an increase in participants' salaries will increase pension liabilities.

Pension Fund – Banif

As a result of the liquidation measure applied to Banif on December 20, 2015, a number of employees were transferred to the Bank, as were the corresponding liabilities for past services. Also transferred were the liabilities for retired employees, employees who retired early, pensioners and former participants with vested rights. On January 27, 2016, authorisation was requested to the Insurance and Pension Funds Supervisory Authority for the transfer to the Bank of Banif's position as associate of the Banif Pension Fund, with regard to the defined-benefit pension plan, subpopulations A and B, and in defined-contribution pension plans II and III. By letter dated June 7, 2016, the Bank of Portugal stated that the parties should revise some of the terms of the Contract for the Termination of the Share of the Pension Fund. The process is undergoing final assessment by the Insurance and Pension Funds Supervisory Authority.

(Expressed in thousands of euros, except where otherwise stated)

Banif employees were covered by different types of pension plans:

a) The first pension plan — the defined-benefit plan —, was subdivided between the Banif population and the population of the former Banco Banif e Comercial dos Açores (BBCA), with different benefits. Defined-benefit pension plan I – BANIF subpopulation: (i) payment of disability, presumable disability and survivor pensions complementing the Social Security scheme; (ii) future payment of mandatory contributions for post-employment medical care (SAMS, the Medical-Social Assistance Services). For employees eligible for the retirement pension, the contribution of 6.5% was made on pensions, and for employees associated with the defined-contribution plan, the benefit was changed to a single capital on retirement, corresponding to 6.5% of the capital constituted, based on the initial contribution plus the amount of the future contributions. Future contributions to the SAMS were changed in accordance with the new ACT rules.

b) Defined-benefit pension plan I – former BBCA subpopulation (closed to new subscribers): (i) payment of retirement, disability, presumable disability and survivors' pensions, in accordance with the ACT and the regimes introduced by Decree-Law 1-A/2011 of January 3 and Decree-Law 127/2011 of December 31; (ii) future payment of mandatory contributions relating to post-employment medical care (SAMS), and (iii) death benefits, both under the terms of the ACT.

Banif had two defined-contribution pension plans:

c) Pension plan II – monthly contribution by Banif of 4.5% of the remuneration to which the plan applies and an initial contribution on the date of constitution of the Plan, which included all employees taken on by Banif before January 1, 2007, with the exception of those included following the merger by incorporation of the former BBCA, who are not covered by the Company Agreement. The initial contribution was calculated on the basis of: (i) supplementary old-age pensions estimated in the evaluation of liabilities performed by the Responsible Actuary of the Pension Plan on December 31, 2006; and (ii) of the current value of the future contributions.

d) Pension plan III — contribution by Banif of 1.5% of the remuneration of employees taken on after January 1, 2007, provided they had not died, retired or terminated the contract by the date of entry into force of the Company Agreement.

The breakdown of the estimated liabilities for past services as at June 30, 2021, and December 31, 2020, using the Bank's assumptions, is as follows for the defined-benefit pension plan (considering both the Banif and the former BBCA sub-populations):

	30-06-2021				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	19,433	8,498	120	1,149	29,200
Retired staff, pensioners and early retirements	113,752	10,679	486	-	124,917
Former participants with vested rigths	3,540	2,446	-	-	5,986
Total liabilities for past services	136,725	21,623	606	1,149	160,103
Book value of the pension fund					97,395
Insufficient fund					(62,708)

(Expressed in thousands of euros, except where otherwise stated)

	31-12-2020				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	20,612	8,597	124	1,140	30,473
Retired staff, pensioners and early retirements	112,917	10,680	482	-	124,079
Former participants with vested rigths	3,530	2,462	-	-	5,992
Total liabilities for past services	137,059	21,739	606	1,140	160,544
Book value of the pension fund					93,369
Insufficient fund					(67,175)

As at June 30, 2021, and December 31, 2020, the breakdown of the portfolio of the Banif Pension Fund associated with the defined-benefit pension plan by asset type is as follows:

	30-06-2021		31-12-2020	
Type of Asset	Total	Relative weight	Total	Relative weight
Debt Instruments	60,103	60.04%	40,269	41.97%
Mutual funds	1,644	1.64%	3,294	3.43%
Real estate fund	57	0.06%	387	0.40%
Real estate properties	13,734	13.72%	13,734	14.31%
Equity instruments	18,018	18.00%	32,607	33.98%
Other	6,544	6.54%	5,663	5.90%
	100,100		95,954	
Assets to be transfered	(2,705)		(2,585)	
	97,395		93,369	

The value of the assets to be transferred corresponds to the amount of the assets of the Pension Fund's portfolio to be allocated to the coverage of the liabilities relating to Banif employees who were not transferred to the Bank.

37. SECURITISATION OPERATIONS

Description of the operations

Between July 2003 and January 2018, the Bank securitised part of its mortgage-loan portfolio through thirteen operations, the initial amount of which was €25,450,000k. In the older transactions the loans were sold for their par (book) value to loan securitisation funds denominated Fundos Hipototta FTC. A substantial part of the securitisations was repurchased by the Bank under the said agreements, while the Hipototta No. 4 and Hipototta No. 5 were maintained. In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were assigned. The loans were assigned to Gamma – Sociedade de Titularização de Créditos (Gamma STC), which financed the transaction through the issue of Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating and, consequently, remuneration. These bonds were fully acquired by the Bank.

The Hipototta Funds (No. 4 and No. 5) are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S. A. The Bank continues to manage the loan contracts, delivering to the Hipototta Funds (No. 4 and No. 5) all amounts received thereunder. The Santander Group has no direct or indirect holding in Navegator.

(Expressed in thousands of euros, except where otherwise stated)

As a form of funding, Hipototta Funds (No. 4 and No. 5) issued securitisation units of an amount identical to the loan portfolios acquired, which were fully subscribed by Hipototta Funds (No. 4 and No. 5) PLC, having its registered office in Ireland.

On the other hand, Hipototta Funds (No. 4 and No.º 5) FTC delivered all amounts received from the Bank and from the Directorate General of the Treasury to Hipototta Funds (No. 4 and No. 5) PLC, separating the instalments into principal and interest.
As a form of funding, Hipototta Funds (No. 4 and No. 5) PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration.

As at June 30, 2021, bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC

Debt issued	Amount Initial	Amount Current	Rating Fitch	Redemption date	Early redemption date	Remuneration Until early redemption	Remuneration After early redemption
Class A	2,616,040	413,016	A	September, 2048	December, 2014	3M Euribor + 0,12%	3M Euribor + 0,24%
Class B	44,240	15,026	A	September, 2048	December, 2014	3M Euribor + 0,19%	3M Euribor + 0,40%
Class C	139,720	47,454	BB-	September, 2048	December, 2014	3M Euribor + 0,29%	3M Euribor + 0,58%
	2,800,000	475,496					
Class D	14,000	7,000	NR	September, 2048	December, 2014	Residual income generated by the securitized portfolio	
	2,814,000	482,496					

Hipototta nº 5 PLC

Debt issued	Amount Initial	Amount Current	Rating S&P	Rating Moody´s	Redemption date	Early redemption date	Remuneration Until early redemption	Remuneration After early redemption
Class A1	200,000	-			February, 2060	February, 2014	3M Euribor + 0,05%	3M Euribor + 0,10%
Class A2	1,693,000	376,044	A	Aa3	February, 2060	February, 2014	3M Euribor + 0,13%	3M Euribor + 0,26%
Class B	26,000	26,000	A	Aa3	February, 2060	February, 2014	3M Euribor + 0,17%	3M Euribor + 0,34%
Class C	24,000	24,000	A	A1	February, 2060	February, 2014	3M Euribor + 0,24%	3M Euribor + 0,48%
Class D	26,000	26,000	A	Baa2	February, 2060	February, 2014	3M Euribor + 0,50%	3M Euribor + 1,00%
Class E	31,000	31,000	BBB	Ba2	February, 2060	February, 2014	3M Euribor + 1,75%	3M Euribor + 3,50%
	2,000,000	483,044						
Class F	10,000	6,000	CCC-	Ca	February, 2060	February, 2014	Residual income generated by the securitized portfolio	
	2,010,000	489,044						

The bonds issued by Hipototta No. 4 PLC earn interest quarterly on March, June, September and December 30 each year. The bonds issued by Hipototta No. 5 PLC earn interest quarterly on February 28, and on May, August and November 30 each year.

The Bank has the option to redeem the bonds in advance on the dates indicated above. For all the Hipototta, the Bank has call option to repurchase the loan portfolios at par when these are equal to or less than 10% of the initial amount of the operations.

Additionally, up to 5 days before the interest-payment dates in each quarter, the Hipototta are entitled to make partial repayments of bonds issued of classes A, B and C, as well as of classes D and E in the case of Hipototta No. 5 PLC, in order to adjust the amount of the liabilities to that of the assets (loan portfolio).

The Hipototta No. 4 class D bonds, and the Hipototta No. 5 class F bonds constitute the last liability to be settled.

(Expressed in thousands of euros, except where otherwise stated)

The remuneration of the bonds of these classes corresponds to the difference between the yield of the securitised loan portfolios and the sum of all costs of the operations, namely:

- Taxes;
- Expenses and commissions calculated on the value of the portfolios (custody fee and servicer fee charged by the Bank, and management fee, charged by the Funds);
- Interest on the bonds of the other classes;
- Losses due to default.

On the date on which the securitisations were contracted, subordinated loans were concluded between the Bank and Hipototta, which correspond to credit facilities/lines in case of a need for liquidity on the part of Hipototta. Swap Agreements were also concluded between the Santander Group and securitisation vehicles, and between the Bank and the Santander Group intended to hedge the interest-rate risk.

Banif securitisation operations

In the wake of the liquidation measure applied to Banif, the Bank acquired a number of securitisation operations issued by the said entity, and the corresponding securitised loans and bonds issued were transferred.

Atlantes Mortgage No. 2

An operation concluded in March 2008, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issuance of Atlantes Mortgage No. 2, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 2

Debt issued	Amount Initial	Amount Current	Rating S&P	Rating Fitch	Redemption date	Remuneration Until early redemption
Class A	349,100	94,115	AA(sf)	AA	September, 2060	3M Euribor + 0,33%
Class B	18,400	11,717	AA(sf)	A+	September, 2060	3M Euribor + 0,95%
Class C	7,500	4,776	BBB(sf)	BBB+	September, 2060	3M Euribor + 1,65%
	375,000	110,608				
Class D	16,125	9,837	NR	NR	September, 2060	Residual income generated by the securitized portfolio
	391,125	120,445				

Azor Mortgage No. 2

An operation carried out in July 2008, when the mortgage loans originated at the former BBCA were assigned to Gamma STC. To finance itself, Gamma STC issued Azor Mortgages No. 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage nº 2

Debt issued	Amount Initial	Amount Current	Rating S&P	Rating Fitch	Redemption date	Remuneration Until early redemption
Class A	253,500	69,032	AA (sf)	A (sf)	December, 2065	Euribor 3 m + 0,3%
Class B	46,500	43,080	NR	NR	December, 2065	Euribor 3 m + 0,8%
	300,000	112,112				
Class C	6,750	6,750	NR	NR	December, 2065	Residual income generated by the securitized portfolio
	306,750	118,862				

(Expressed in thousands of euros, except where otherwise stated)

Atlantes Mortgage No. 3

An operation concluded in October 2008, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issuance of Atlantes Mortgage No. 3, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 3

Debt issued	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Until early redemption
Class A	558,600	164,865	AA	AA (sf)	August, 2061	3M Euribor + 0,2%
Class B	41,400	23,644	NR	NR	August, 2061	3M Euribor + 0,5%
	600,000	188,509				
Class C	57,668	42,110	NR	NR	August, 2061	Residual income generated by the securitized portfolio
	657,668	230,619				

Atlantes Mortgage No. 4

An operation concluded in February 2009, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issuance of Atlantes Mortgage No. 4, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 4

Debt issued	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Until early redemption
Class A	514,250	183,163	A+	A+	December, 2064	3M Euribor + 0,15%
Class B	35,750	20,171	NR	NR	December, 2064	3M Euribor + 0,3%
	550,000	203,334				
Class C	74,250	55,975	NR	NR	December, 2064	Residual income generated by the securitized portfolio
	624,250	259,309				

Atlantes Mortgage No. 5

An operation concluded in December 2009, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issuance of Atlantes Mortgage No. 5, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 5

Debt issued	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Until early redemption
Classe A	455,000	148,247	AAA	AA-	November, 2068	3M Euribor + 0,15%
Classe B	45,000	27,370	NR	NR	November, 2068	3M Euribor + 0,3%
	500,000	175,617				
Classe C	66,250	47,415	NR	NR	November, 2068	Residual income generated by the securitized portfolio
	566,250	223,032				

(Expressed in thousands of euros, except where otherwise stated)

Atlantes Mortgage No. 7

An operation concluded in November 2010, in which a portfolio of residential mortgage loans was assigned. The loans were assigned to Gamma STC, which financed the operation through the issuance of Atlantes Mortgage No. 7, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 7

Debt issued	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Until early redemption
Class A	357,300	116,142	A+	AA-	August, 2066	3M Euribor + 0,15%
Class B	39,700	21,583	NR	NR	August, 2066	3M Euribor + 0,3%
	397,000	137,725				
Class C	63,550	47,058	NR	NR	August, 2066	Residual income generated by the securitized portfolio
	460,550	184,783				

Hipototta 13

In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the transaction through the issuance of Hipototta 13, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration. The whole of these bonds was acquired by the Bank.

Hipototta 13

Debt issued	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Until early redemption
Class A	1,716,000	944,065	NR	A+(sf)	October, 2072	Euribor 3 m + 0,6%
Class B	484,000	484,000	NR	NR	October, 2072	Euribor 3 m + 1%
	2,200,000	1,428,065				
Class C	66,000	44,027	NR	NR	October, 2072	Residual income generated by the securitized portfolio
	2,266,000	1,472,092				
VFN	0.001	0.001	NR	NR	October, 2072	No remuneration

During the financial year of 2021 the Azor Mortgage No. 1 operation was wound up.

38. RELATED ENTITIES

The Company's related entities with which it maintained balances or transactions in the first half of 2021 were as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Banco Santander Totta	Portugal
Gamma - Sociedade de Titularização Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest,SGPS, S.A.	Portugal
Totta (Ireland), PLC	Ireland
Santander Totta Seguros - Compª de Seguros De Vida, S.A.	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Mafre Santander Portugal, Co Seguros	Portugal
Special Purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Securitization Operations managed by Gamma STC	Portugal

Name of the related entity	Head office
Entities under direct or indirect control by the Group	
Abbey National Treasury Services plc	United Kingdom
All Funda Bank, SA	Spain
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Bank Zachodni WBK SA	Poland
Consulteam - Consultores de gestão, Lda	Portugal
Caceis	France
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Ingeniería de Software Bancário, S.L.	Spain
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank,National Association	United Kingdom
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Gestao de Ativos SFIM, SA	Portugal
Santander Global Thechnology, S.L., Soci	Spain
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Global Facilities, S.L.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander Tecnología España, S.L.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander International Debt, S.A.	Spain
Santander UK plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

The Company's related entities, with which it maintained balances or transactions in 2020 were as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Banco Santander Totta	Portugal
Gamma - Sociedade de Titularização Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest,SGPS, S.A.	Portugal
Totta (Ireland), PLC	Ireland
Santander Totta Seguros - Compª de Seguros De Vida, S.A.	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Mafre Santander Portugal, Co Seguros	Portugal
Special Purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Securitization operations managed by Gamma STC	Portugal

Name of the related entity	Head office
Entities under direct or indirect control by the Group	
Abbey National Treasury Services plc	United Kingdom
All Funda Bank, SA	Spain
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Bank Zachodni WBK SA	Poland
Consulteam - Consultores de gestão, Lda	Portugal
Caceis	France
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank,National Association	United Kingdom
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Gestao de Ativos SFIM, SA	Portugal
Santander Global Thechnology, S.L., Soci	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander UK plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2021, and December 31, 2020, the balances and transactions maintained during these periods with related parties were as follows:

	30-06-2021		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from other credit instituitons	44.465	-	1.636
Financial assets held for trading	293.645	-	-
Financial assets not mandatorily held for trading at fair value through profit or loss	1.556	-	5.277
Financial assets at fair value through other comprehensive income	24.292	-	4.689
Financial assets at fair value Loans and advances	652.509	49.238	2.518
Derivatives – Hedge accounting	3.384	-	-
Investments in subsidiaries, joint ventures and associates	-	128.287	-
Other assets	13	13.976	168
Liabilities:			
Financial liabilities held for trading	728.723	-	-
Financial liabilities at amortised cost			
Deposits - Credit Instituitions	14.592	-	2.732
Deposits - Customers	-	53.224	27.211
Debt securities issued	538.527	-	-
Derivatives – Hedge accounting	75.284	-	-
Other liabilities	4.399	8	8.585
Profit and Loss:			
Interest income	(115.690)	(136)	(18)
Interest expenses	128.957	-	-
Fee and commission income	(420)	(35.035)	(544)
Fee and commission expenses	718	-	1.976
Results of financial assets and liabilities at fair value through profit or loss	(55.700)	-	21
Gross margin of life insurance where the risk is of the policyholder	-	-	(21)
Exchange differences, net	(1.228)	-	-
Administrative expenses	4.393	-	19.371
Proportion of profit or loss from investments in subsidiaries, joint ventures and associates accounted for joint ventures and associates accounted for equity method	-	(6.443)	-
Other operating income/expenses	-	(102)	-
Off balance sheet items:			
Guarantees provided and other contingent liabilities	71.918	620	184.268
Guarantees received	1	-	162
Commitments to third parties	112.170	2.009	7.519
Currency operations and derivatives	26.787.139	-	-
Responsibilities for services rendered	401.331	119.787	6.259.431

(Expressed in thousands of euros, except where otherwise stated)

	31-12-2020		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from other credit instituitons	22,417	-	98,764
Financial assets held for trading	311,568	-	-
Financial assets not mandatorily held for trading at fair value through profit or loss	1,675	-	7,533
Financial assets at fair value through other comprehensive income	1,634	-	9,712
Financial assets at fair value Loans and advances	791,508	42,600	2,780
Derivatives – Hedge accounting	813	-	-
Investments in subsidiaries, joint ventures and associates	-	131,136	-
Other assets	436	15,088	68
Liabilities:			
Financial liabilities held for trading	896,236	-	-
Financial liabilities at amortised cost			
Deposits - Credit Instituitions	6,489	-	2,416
Deposits - Customers	-	35,256	25,282
Debt securities issued	40,039	-	-
Derivatives – Hedge accounting	97,877	-	-
Other liabilities	-	-	9,438
Profit and Loss:			
Interest income	(192,099)	(263)	(53)
Interest expenses	208,825	-	-
Fee and commission income	(340)	(60,970)	(833)
Fee and commission expenses	3,077	-	3,943
Results of financial assets and liabilities at fair value through profit or loss	87,216	-	-
Gross margin of life insurance where the risk is of the policyholder	-	-	(64)
Gross margin of insurance activity	-	-	(26)
Exchange differences, net	(8,768)	-	-
Administrative expenses	7,894	-	44,447
Proportion of profit or loss from investments in subsidiaries, joint ventures and associates accounted for joint ventures and associates accounted for equity method	-	(14,553)	-
Other operating income/expenses	-	(129)	-
Off balance sheet items:			
Guarantees provided and other contingent liabilities	54,890	620	190,052
Guarantees received	1	-	162
Commitments to third parties	114,170	1,976	29,996
Currency operations and derivatives	27,822,340	-	-
Responsibilities for services rendered	11,504	112,860	6,359,254

Transactions with related entities arise from normal business and are carried out under market conditions.

GOVERNING BODIES

Board of Directors

As at June 30, 2021, and December 31, 2020, advances or loans granted to members of the governing bodies, considered key management personnel of the Bank, amounted to €915k and €945k respectively. The deposits of members of the governing bodies were allocated under market conditions. As at June 30, 2021, and 2020, fixed and variable remuneration totalled €2.326 k and €2.731k, respectively.

With regard to post-retirement benefits, the members of the Board of Directors who have an employment tie with the Bank are included in the pension plan of the Collective Bargaining Agreement (ACT) for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3(j).

The Shareholders' General Meeting of the Bank on May 30, 2007, approved the "Regulation on the supplementary award of an old-age or disability pension" to the executive members of the former Totta Board of Directors who came to become executive members (executive committee) of the Bank's Board of Directors in line with what had previously been defined in the former Totta Regulation. Members of the Board of Directors whose length of service is at least fifteen consecutive or interpolated years will be entitled to a pension supplement amounting to 80% of their gross annual salary. For terms of office less than fifteen years, the amount of the retirement pension supplement will be determined by the Remuneration Committee. For these persons, it is currently determined that the retirement pension supplement shall be 65% of the annual gross salary, for terms of office equal to or greater than ten years, and 75% of the annual gross salary for terms of office equal to or greater than twelve years. This defined-benefit pension plan is a supplementary plan and is dependent on the General Social Security Regime.

(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2021, and December 31, 2020, liabilities with this plan amounted to €14.279k and €14,201k, respectively, and were covered by a provision in the same amount carried under "Provisions and other post-employment defined-benefit obligations."

With regard to termination of employment benefits, as provided for in the Companies Code, whenever, by decision of the Bank, the term of office of a member of the governing bodies ends early, the Bank shall compensate the member of the governing body with the future remuneration to which he or she is entitled up until the end of his or her term of office.

39. DISCLOSURES WITHIN THE SCOPE OF APPLICATION OF IFRS 7 AND IFRS 13

Fair Value

The following table summarizes, for each group of financial assets and liabilities, their fair values with reference to June 30, 2021, and December 31, 2020:

	30-06-2021			
	Measured at fair value	Measured at amortized cost	Book Value	Measured at fair value
Assets				
Cash, cash balances at central banks and other demand deposits	-	7.637.955	7.637.955	7.726.273
Financial assets held for trading	737.763	-	737.763	737.763
Non-trading financial assets mandatorily at fair value through profit or loss	3.051.516	-	3.051.516	3.051.516
Financial assets at fair value through other comprehensive income	6.214.107	-	6.214.107	6.214.107
Financial assets at amortised cost	3.113.253	37.200.515	40.313.768	40.343.425
Derivatives – Hedge accounting	17.920	-	17.920	17.920
	13.134.559	44.838.470	57.973.029	58.091.004
Liabilities				
Financial liabilities held for trading	741.020	-	741.020	741.020
Financial liabilities at fair value through profit or loss	3.245.943	-	3.245.943	3.245.943
Financial liabilities at amortised cost				
Deposits	25.364	45.208.357	45.233.721	45.165.973
Debt securities issued	-	3.022.345	3.022.345	3.154.357
Other financial liabilities	-	241.081	241.081	241.081
Derivatives – Hedge accounting	354.896	-	354.896	354.896
Technical provisions	-	691.655	691.655	691.655
	4.367.223	49.163.438	53.530.661	53.594.925

(Expressed in thousands of euros, except where otherwise stated)

	31-12-2020			
	Measured at fair value	Measured at amortized cost	Book Value	Measured at fair value
Assets				
Cash, cash balances at central banks and other demand deposits	-	4,543,652	4,543,652	4,634,092
Financial assets held for trading	901,010	-	901,010	901,010
Non-trading financial assets mandatorily at fair value through profit or loss	3,195,742	-	3,195,742	3,195,742
Financial assets at fair value through other comprehensive income	8,457,676	-	8,457,676	8,457,676
Financial assets at amortised cost	3,147,626	36,685,395	39,833,021	39,995,996
Derivatives – Hedge accounting	23,719	-	23,719	23,719
	15,725,773	41,229,047	56,954,820	57,208,235
Liabilities				
Financial liabilities held for trading	920,602	-	920,602	920,602
Financial liabilities at amortised cost trough profit or loss	3,261,337	-	3,261,337	3,261,337
Financial liabilities at amortised cost				
Deposits	41,528	44,238,609	44,280,137	44,204,245
Debt securities issued	-	2,560,585	2,560,585	2,711,614
Other financial liabilities	-	212,142	212,142	212,142
Derivatives – Hedge accounting	522,283	-	522,283	522,283
Technical provisions	-	710,959	710,959	708,121
	4,745,750	47,722,295	52,468,045	52,540,344

For the headings "Loans at amortized cost" and "Customer deposits", the financial assets and liabilities for which hedge accounting was applied were considered to be measured at fair value, though they were only subject to value correction in relation to the risk hedged.

The following table summarizes, by valuation levels for each group of financial assets and liabilities, their fair values with reference to June 30, 2021, and December 31, 2020:

	30-06-2021			
	Level 1	Level 2	Level 3	Total
Assets				
Cash, cash balances at central banks and other demand deposits	-	7.726.273	-	7.726.273
Financial assets held for trading	-	737.763	-	737.763
Non-trading financial assets mandatorily at fair value through profit or loss	2.919.299	-	132.217	3.051.516
Financial assets at fair value through other comprehensive income	988.605	5.220.394	5.108	6.214.107
Financial assets at amortised cost	-	3.659.558	36.683.867	40.343.425
Derivatives – Hedge accounting	-	17.920	-	17.920
	3.907.904	17.361.908	36.821.192	58.091.004
Liabilities				
Financial liabilities held for trading	-	741.020	-	741.020
Financial liabilities at fair value through profit or loss	-	3.245.943	-	3.245.943
Financial liabilities at amortised cost				
Deposits	-	7.675.703	37.490.270	45.165.973
Debt securities issued	-	2.111.236	1.043.121	3.154.357
Other financial liabilities	-	-	241.081	241.081
Derivatives – Hedge accounting	-	354.896	-	354.896
Technical provisions	-	-	691.655	691.655
	-	14.128.798	39.466.127	53.594.925

(Expressed in thousands of euros, except where otherwise stated)

	31-12-2020			
	Level 1	Level 2	Level 3	Total
Assets				
Cash, cash balances at central banks and other demand deposits	-	4,634,092	-	4,634,092
Financial assets held for trading	-	873,838	27,172	901,010
Non-trading financial assets mandatorily at fair value through profit or loss	3,059,317	-	136,425	3,195,742
Financial assets at fair value through other comprehensive income	3,081,570	5,365,270	10,836	8,457,676
Financial assets at amortised cost	-	3,742,908	36,253,088	39,995,996
Derivatives – Hedge accounting	-	23,719	-	23,719
	6,140,887	14,639,827	36,427,521	57,208,235
Liabilities				
Financial liabilities held for trading	-	890,625	29,977	920,602
Financial liabilities at fair value through profit or loss	-	3,261,337	-	3,261,337
Financial liabilities at amortised cost				
Deposits	-	8,303,367	35,900,878	44,204,245
Debt securities issued	-	2,089,334	622,280	2,711,614
Other financial liabilities	-	-	212,142	212,142
Derivatives – Hedge accounting	-	522,283	-	522,283
Technical provisions	-	-	708,121	708,121
	-	15,066,946	37,473,398	52,540,344

The valuation at fair value of the Group's financial assets and liabilities comprises three levels under IFRS 7 and IFRS 13:

- Level 1 — Financial instruments recorded at fair value based on quotes published in active markets, mainly comprising public debt, some private debt, some investment funds and shares.

- Level 2 — Financial instruments recorded at fair value using prices traded on the market that are not active or for which it is necessary to use valuation models or techniques with inputs that can be observed in the market, either directly (such as prices) or indirectly (derived from prices). This category includes some securities in the portfolio of other financial assets at fair value through other comprehensive income measured with indicative market bids or based on internal valuation models and hedging and trading financial derivative instruments. It should be noted that the internal valuation models used mainly correspond to models for updating future cash flows and valuation methodologies based on the "Black-Scholes" model for structured options and products. The models for updating future cash flows ("present value method") update future contractual flows using the interest rate curves of each currency observable in the market, plus the credit spread of the issuer or entity with a similar rating.

For derivative financial instruments, the main valuation techniques are presented below:

Derivative instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate options	Black-Scholes model, Heath-Jarrow-Morton model
Options-other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

The Group calculates the "Credit Value Adjustment" (CVA) and the "Debit Value Adjustment" (DVA) for hedged financial instruments from financial assets held for trading and hedging derivatives from the perspective of aggregate exposure by counterparty. It simulates the evolution of the joint exposure of all derivatives, with a given counterparty, through stochastic processes. This evolution is grouped into time frames that represent the expected positive and negative future exposures (Positive and Negative Expected Future Exposures). To these exposures is applied an expected loss factor and discount factor for the respective term. The CVA and DVA calculated for each counterparty then result from the sum of expected losses in each term.

Additionally, for the purposes of calculating Credit Value Adjustments and Debit Value Adjustments to derivative financial instruments, the following inputs were used:

- Counterparties with quoted credit default swaps — Quotes published in active markets;
- Counterparties without quoted credit default swaps;
- Quotes published in active markets for counterparties with similar risk; or
  - Likelihood of default calculated taking into account the internal rating assigned to the client (see credit risk section of this Annex) x loss given default (specific for project finance clients and 60% for other clients).

- Level 3 — The Group classifies financial instruments at this level, which are measured using internal models with some inputs that do not correspond to observable market data. In this category, were classified, namely, securities not quoted in active markets for which the Group uses extrapolations of market data and derivatives made within the scope of securitization operations.

To calculate the fair value of financial instruments recorded at amortized cost, the valuation methods used where the valuation techniques, namely through updating future cash flows.
The main assumptions used in determining fair value, by type of financial instrument, were as follows:

- The future cash flows from applications and funds from credit institutions were discounted using interest rate curves for the monetary market;

- For the purposes of discounting future flows from the customer loan portfolio, the fair value of the credit granted was determined taking into account the average spread of production carried out in the last quarter of the year;

- For client demand deposits, it was considered that the fair value was equal to the balance sheet value.

- In the case of liabilities represented by securities, future cash flows were discounted based on the market conditions required for similar issuances at the end of the year;

- In the case of subordinated liabilities, to discount future cash flows, market interest rates applied to similar issuances were considered.

In the first half of 2021 and in the fiscal year ended in December 31, 2020, the operations under financial instruments classified in Level 3 were as follows:

(Expressed in thousands of euros, except where otherwise stated)

	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
December 31, 2019	-	145.438	6.527	151.965
Acquisitions	-	3.727	9.987	13.714
Alienations	-	(3.160)	(4.713)	(7.873)
Redemption	-	(7.318)	(725)	(8.043)
Reclassifications	-	-	-	-
Changes in fair value	27.172	(2.263)	(315)	24.594
Impairment recognized in the year	-	-	75	75
December 31, 2020	27.172	136.425	10.836	174.433
Acquisitions	-	39	2.103	2.141
Alienations	-	(86)	(1.351)	(1.437)
Reimbursement	-	(3.949)	(6.443)	(10.393)
Changes in fair value	(27.172)	(212)	(37)	(27.421)
Impairment recognized in the period	-	-	1	1
June 30, 2021	-	132.217	5.108	137.325

The interest rate curves for the most representative terms and currencies used in the valuation of financial instruments were as follows:

	30-06-2021		31-12-2020	
	EUR	USD	EUR	USD
Overnight	-0.52%	0.15%	-0.53%	0.27%
1 month	-0.52%	0.15%	-0.53%	0.27%
3 months	-0.52%	0.15%	-0.52%	0.24%
6 months	-0.52%	0.15%	-0.52%	0.20%
9 months	-0.51%	0.17%	-0.52%	0.19%
1 year	-0.50%	0.18%	-0.52%	0.19%
3 years	-0.40%	0.56%	-0.51%	0.24%
5 years	-0.26%	0.93%	-0.46%	0.44%
7 years	-0.11%	1.18%	-0.39%	0.66%
10 years	0.10%	1.40%	-0.26%	0.94%

Hedge accounting

As at June 30, 2021, and December 31, 2020, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	30-06-2021					
	Hedged item				Hedging instrument	
	Nominal amount	Value net of impairment	Fair value adjustments	Book value	Nominal amount	Fair Value
Fair value hedge:						
Financial assets at amortised cost	3.068.989	3.080.723	32.530	3.113.253	3.075.656	(63.123)
Financial assets at fair value through other comprehensive income	3.380.000	3.398.422	287.989	3.686.411	3.380.000	(288.914)
Financial liabilities at amortised cost Deposits- Customers	(25.130)	(25.242)	(122)	(25.364)	25.323	525
Cash flow hedge:						
Financial assets at amortised cost	3.000.000	3.000.000	-	3.000.000	3.000.000	14.536
	9.423.859	9.453.903	320.397	9.774.300	9.480.979	(336.976)

(Expressed in thousands of euros, except where otherwise stated)

	31-12-2020					
	Hedged item				Hedging instrument	
	Nominal amount	Value net of impairment	Fair value adjustments	Book value	Nominal amount	Fair Value
Fair value hedge:						
Financial assets at amortised cost	3,079,393	3,090,463	57,163	3,147,626	3,079,393	(85,641)
Financial assets at fair value through other comprehensive income	3,380,000	3,423,945	372,578	3,796,523	3,380,000	(374,018)
Financial liabilities at amortised cost				-		
Deposits- Customers	(41,091)	(41,291)	(237)	(41,528)	41,414	727
Cash flow hedge:						
Financial assets at fair value through other comprehensive income	1,819,500	1,819,500	-	1,819,500	2,049,092	(62,538)
Financial assets at amortised cost	3,000,000	3,000,000	-	3,000,000	3,000,000	22,906
	11,237,802	11,292,617	429,504	11,722,121	11,549,899	(498,564)

Cash flow coverage

The expected periods for the occurrence of cash flows that will affect the results for the period present the following detail:

	30-06-2021					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swap	4,151	10,385	-	-	-	14,536

	31-12-2020					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swap	4,027	4,157	14,722	-	-	22,906

Gains and losses recognised in the income statements for first half of 2021 and in the financial year of 2020, with fair-value hedge transactions, were as follows:

	30-06-2021			30-06-2020		
	Elemento Coberto	Instrumento de cobertura	Liquido	Elemento Coberto	Instrumento de cobertura	Liquido
Ativos financeiros pelo custo amortizado	(24.634)	24.634	-	161.572	(161.572)	-
Ativos financeiros contabilizados pelo justo valor através de outro rendimento integral	(84.590)	84.590	-	(340.574)	340.574	-
Passivos financeiros contabilizados pelo custo amortizado						
Depósitos- clientes	116	(116)	-	100	47	147
Títulos de dívida emitidos	67	(67)	-	83	(83)	-
	(109.041)	109.041	-	(178.819)	178.966	147

RISK MANAGEMENT

CREDIT RISK

Credit risk management at the Group covers the identification, measurement, integration and evaluation of the various credit exposures, and an analysis of their profitability adjusted to the respective risk, both from an overall viewpoint and within every area of activity.

(Expressed in thousands of euros, except where otherwise stated)

Credit-risk management is carried out by an independent body, the Risks Area, which is responsible, in particular, for managing the special customer monitoring system, for the segmentation of the credit risk in the light of the characteristics of the customers and of the products, and for the scoring (applicable to mortgage-loan and consumer-credit operations, credit and business cards) and rating systems used at the Group.

The counterparty risk consists of the latent credit risk in financial markets transactions corresponding to the possibility of default by the counterparties of the terms contracted and subsequent occurrence of financial losses for the Group. The types of transactions covered include the purchase and sale of securities, contracting repos, securities lending and derivative instruments. Given the high complexity and volume of transactions, as well as the requirements of adequate control of the consolidated risks in certain customer segments, the control perimeter is defined in accordance with the segments at issue.

Control of these risks is performed on a daily basis in accordance with an integrated system that allows registration of the approved limits and real-time updating of positions, and provides information on the availability of limits and aggregate exposure, also in real time, for the various products and maturities. The system also allows transverse control (at different levels) of the concentration of risks by groups of customers/counterparties.

The risk in derivative positions (called Credit Risk Equivalent) is calculated as the sum of the present value of each contract (or current replacement cost) with the respective Potential Risk, a component that reflects an estimate of the maximum value expected to maturity, depending on the volatilities of the underlying market factors and the flow structure contracted. The credit risk in derivatives positions is captured through determination of the CVA/DVA.

For specific customer segments (namely global corporate clients) emphasis is given to the implementation of economic-capital limits, incorporating in the quantitative control the variables associated with the creditworthiness of each counterparty.

Risk analyses for customers or economic groups where the Group has an exposure of more than €500,000 are performed by risk analysts who monitor those customers, and are supported by rating models developed by the Group and approved by the regulatory entities. Preparation of these models is mandatory. The assignment of various internal rating levels, ranging from 1.0 to 9.3, is underlain by the degree of risk inherent to the customer and a default probability at one year that the Group monitors and calibrates on a constant and regular basis.

In concrete terms, the rating is determined by the analysis of the following factors, to which are assigned a rating from 1.0 (minimum) to 9.3 (maximum), in accordance with the following weighting:

Department	Weighting
. Demand/Market;	20%
. Partners/Management;	15%
. Access to credit;	10%
. Profitability;	15%
. Flow generation;	25%
.Solvency.	15%

The rating is calculated by the analysts, based on information provided by the customer, general information about the sector and external databases. The final rating is introduced in each of the valuation areas in the Group's information technology system.

(Expressed in thousands of euros, except where otherwise stated)

In this way, the Group's internal rating system can be described as follows:

Rating 1.0 – 3.9: Client of high-default probability;
Rating 4.0 – 6.0: Client of moderate-default probability;
Rating 6,1 – 9,3: Client of low-default probability

As of June 30, 2021, and December 31, 2020, the maximum exposure to credit risk and the respective balance sheet value of financial instruments presented the following detail:

	30-06-2021		31-12-2020	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash, cash balances at central banks and other demand deposits	7.637.955	7.637.955	4.543.652	4.543.652
Financial assets held for trading	737.763	737.763	901.010	901.010
Non-trading financial assets mandatorily at fair value through profit or loss	3.051.516	3.051.516	3.195.742	3.195.742
Financial assets at fair value through other comprehensive income	6.214.107	6.214.107	8.457.676	8.457.676
Financial assets at amortised cost	40.313.768	46.991.013	39.833.021	46.846.166
Derivatives – Hedge accounting	17.920	17.920	23.719	23.719
Investments in subsidaries, joint ventures and associates	128.287	128.287	131.136	131.136
	58.101.315	64.778.560	57.085.956	64.099.101
Guarantees provided	2.028.482	2.028.482	1.975.874	1.975.874
Guarantees provided (Note 19)				
Financial guarantees and sureties	635.531	635.531	648.253	648.253
Non financial guarantees and sureties	1.005.017	1.005.017	964.490	964.490
Documentary credits	387.934	387.934	363.131	363.131
	2.028.482	2.028.482	1.975.874	1.975.874

The maximum exposure in "Financial assets at amortized cost" as of June 30, 2021, and December 31, 2020, is as follows:

	30-06-2021	31-12-2020
Balance sheet value	40.313.768	39.833.021
Other committments (Note 19)		
Revocable	6.047.511	6.063.686
Irrevocable	629.734	949.459
Maximun exposure	46.991.013	46.846.166

In accordance with the requirements set out in Bank of Portugal Instruction No. 4/2018, the Bank began to publish Non-Performing Exposures and Forborne Exposures.

(Expressed in thousands of euros, except where otherwise stated)

In this sense, as at June 30, 2021, and December 31, 2020, the breakdown of performing and non-performing exposures was as follows:

	30-06-2021			31-12-2020		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	40.031.250	(316.305)	0,8%	39.447.649	(256.290)	0,6%
Non-performing exposures						
Households	378.311	(191.172)	50,5%	408.592	(210.498)	51,5%
Corporates	983.485	(571.801)	58,1%	982.377	(538.809)	54,8%
	1.361.796	(762.973)		1.390.969	(749.307)	
	41.393.046	(1.079.278)		40.838.618	(1.005.597)	

The degree of coverage of non-productive exposures net of impairment by real guarantees had the following breakdown:

	30-06-2021			31-12-2020		
	Book value	Collateral	Coverage	Book value	Collateral	Coverage
Non-performing exposures						
Households	187.139	173.511	92,7%	198.094	180.684	91,2%
Corporates	411.684	299.160	72,7%	443.568	314.480	70,9%
	598.823	472.671		641.662	495.164	

Forborne exposures

In accordance with Bank of Portugal Instruction No. 04/2018, institutions must identify and mark, in their information systems, loan contracts of a customer in financial difficulties, whenever there are changes to the terms and conditions of such contracts (including extension of the repayment term, introduction of grace periods, capitalisation of interest, reduction of interest rates, pardon of interest or principal) or the institution contracts new credit facilities for the (total or partial) settlement of the service of the existing debt.

As at June 30, 2021, and December 31, 2020, the breakdown of deferred exposures is as follows:

	30-06-2021			31-12-2020		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	476,553	(19,478)	4.1%	446,717	(19,038)	4.3%
Non-performing exposures						
Households	224,923	(96,815)	43.0%	255,007	(101,886)	40.0%
Corporates	752,268	(391,948)	52.1%	738,656	(378,467)	51.2%
	977,191	(488,763)		993,663	(480,353)	
	1,453,744	(508,241)		1,440,380	(499,391)	

(Expressed in thousands of euros, except where otherwise stated)

LIQUIDITY RISK

The balance sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury, Commercial, Marketing and International areas. Committee meetings are held monthly, and at these meetings the balance-sheet risks are analysed, and strategic options decided.

For the ALM area the following balance-sheet management limits are defined:

- Limits intended to control the interest-rate risk, in particular, the sensitivity of the Net Interest Margin (NIM), and the sensitivity of the Market Value of Equities (MVE) to unexpected interest-rate variations; and
- Limits intended to control the liquidity risk through the net accumulated liquidity and illiquidity coefficient indicators.

The Group's funding policy considers the evolution of the balance-sheet aggregates, the structural situation of the maturities of assets and liabilities, the net interbank debt level in the light of the available lines, maturity dispersal and minimization of the costs associated with the funding activity.

It should be noted that the Group does not perform any liquidity-risk analysis for trading financial instruments.).

As at June 30, 2021, and December 31, 2020, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their maturities, was as follows:

	30-06-2021								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Derivatives	Total
Assets									
Cash, cash balances at central banks and other demand deposits	718,742	-	-	-	6,919,212	-	-	-	7,637,954
Financial assets held for trading	-	-	-	-	-	-	-	737,763	737,763
Non-trading financial assets mandatorily at fair value through profit or loss	-	14,906	89,138	392,297	534,106	961,772	1,007,869	-	3,000,088
Financial assets at fair value through other comprehensive income	2	88,000	113,484	432,190	2,271,338	3,263,798	73,040	-	6,241,852
Financial assets at amortised cost	770,757	1,940,611	5,137,665	10,182,339	7,794,001	18,575,388	-	-	44,400,761
Derivatives – Hedge accounting	-	-	-	-	-	-	-	17,920	17,920
Investments in subsidaries, joint ventures and associates	-	-	-	-	-	-	128,287	-	128,287
	1,489,502	2,043,517	5,340,287	11,006,826	17,518,656	22,800,958	1,209,196	755,683	62,164,625
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	741,020	741,020
Financial liabilities at fair value through profit or loss	3,245,943	-	-	-	-	-	-	-	3,245,943
Financial liabilities at amortized cost									
Deposits - central banks	500	-	-	7,264,073	-	-	-	-	7,264,573
Deposits - credit institutions	241,432	12,623	34,219	-	-	-	-	-	288,275
Deposits - customers	22,551,167	6,040,989	6,623,498	865,517	1,322,620	16,050	-	-	37,419,841
Debt securities issued	-	47,649	110,365	1,275,371	607,981	1,106,934	-	-	3,148,300
Derivatives – Hedge accounting	-	-	-	-	-	-	-	354,896	354,896
Technical provisions	89,937	375,305	15,146	28,245	22,298	99,923	-	-	630,855
	26,128,980	6,476,566	6,783,229	9,433,206	1,952,900	1,222,907	-	1,095,916	53,093,704

(Expressed in thousands of euros, except where otherwise stated)

	31-12-2020								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Undetermined	Total
Assets									
Cash, cash balances at central banks and other demand deposits	611,594	-	-	-	3,932,058	-	-	-	4,543,652
Financial assets held for trading	-	-	-	-	-	-	-	901,010	901,010
Non-trading financial assets mandatorily at fair value through profit or loss	-	224,645	149,118	396,863	590,671	860,611	891,278	-	3,113,186
Financial assets at fair value through other comprehensive income	1,299,742	624,245	134,089	457,597	501,355	5,036,047	72,287	-	8,125,362
Financial assets at amortised cost	613,859	1,971,818	5,528,160	10,125,880	7,274,485	18,773,062	-	-	44,287,263
Derivatives – Hedge accounting	-	-	-	-	-	-	-	23,719	23,719
Investments in subsidaries, joint ventures and associates	-	-	-	-	-	-	131,136	-	131,136
	2,525,195	2,820,708	5,811,366	10,980,340	12,298,569	24,669,720	1,094,701	924,729	61,125,328
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	920,602	920,602
Financial liabilities at fair value through profit or loss	3,261,337	-	-	-	-	-	-	-	3,261,337
Financial liabilities at amortized cost									
Deposits - central banks	9,859	-	-	6,593,892	-	-	-	-	6,603,750
Deposits - credit institutions	621,736	857,756	64,727	3,706	-	-	-	-	1,547,925
Deposits - customers	20,923,899	5,968,620	6,179,342	1,207,339	1,601,585	17,919	-	-	35,898,703
Debt securities issued	-	36,015	125,235	291,285	1,169,651	1,126,425	-	-	2,748,610
Derivatives – Hedge accounting	-	-	-	-	-	-	-	522,283	522,283
Technical provisions	94,335	393,656	15,887	29,626	23,389	104,810	-	-	661,703
	24,911,166	7,256,048	6,385,191	8,125,848	2,794,624	1,249,153	-	1,442,885	52,164,914

Determination of the projected cash flows from financial instruments was based on principles and assumptions used by the Group in management and control of liquidity arising from its business, namely:

- The projected cash flows of variable-remuneration assets and liabilities associated with the interest rate curve are calculated considering the forward interest rate curve;

- Financial instruments classified as "non-structural" were considered to be payable "on demand", with the exception of equity instruments carried as Financial assets at fair value through other comprehensive income, which were considered as having indeterminate maturity. Non-structural financial assets and liabilities correspond to assets not subject to interest-rate variations (cash, deposits at credit institutions and equity instruments classified as Financial assets carried at fair value through other comprehensive income), financial assets not held for trading mandatorily carried at fair value through profit or loss, and assets and liabilities held for trading, whose management is based on control of the exposure to market risk. In this connection, the Bank considers the fair value of the assets and liabilities held for trading as their transactional value payable on demand;

- Operations relating to credit lines without defined maturity or periodically renewable, including bank overdrafts and current account credit facilities, were considered as having an average maturity of 25 months;

- For the subordinated liabilities, the date on which the Group may make early redemption of the bonds that make up this heading was considered;

- The projected flows relating to current accounts have been considered as payable on demand.

MARKET RISK

Market risk generally consists of the potential variation of the value of a financial instrument due to unexpected changes of market variables, such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard method applied for the Group's trading activity is Value at Risk (VaR). The Historic Simulation standard is used as the basis with a confidence level of 99% and a time horizon of one day, statistical adjustments being applied in order to include the more recent events that condition the risk levels assumed.

The calculated VaR is a daily estimate of the maximum potential loss under normal market conditions (individually by portfolios/business areas, and for the whole of the positions), within the assumptions defined in the construction of the model.

At the same time other measures are implemented that allow additional monitoring of the market risk. For unusual market conditions, scenarios are analysed (Stress Testing), which consists of defining extreme scenarios for the behaviour of different financial variables and obtaining their potential impact on profit or loss. In short, the scenario analysis seeks to identify the potential risk under extreme market conditions, and in the fringes of likely occurrence not covered by the VaR.

In parallel, there is daily monitoring of the positions, and an exhaustive control is performed of the changes that occur in the portfolios, in order to detect the possible impacts that may exist for their correction. The daily preparation of the profit and loss account is intended to identify the impact of variations in financial variables or of the alteration of the composition of the portfolios.

The Group also uses sensitivity measures and equivalent positions. In the case of the interest rate, use is made of the Basis Point Value (BPV) – estimated impact on profit or loss for parallel movements in the interest-rate curves. For the control of derivatives activities, due to their atypical nature, specific daily sensitivity measures are carried out, including calculation and analysis of sensitivities to movements of the underlying price (delta and gamma), volatility (Vega), and time (theta).

Quantitative limits are used for the trading portfolios, which are classified into two groups, in the light of the following objectives:

- Limits intended to control the volume of potential future losses (VaR, equivalent positions, and sensitivities); and

- Limits intended to control the volume of actual losses or to protect levels of results already achieved during the period (*Loss Triggers and Stop Losses*).).

With regard to the structural interest-rate risk, it is measured through modelling the asset and liability positions sensitive to interest-rate variations in accordance with their indexing and re-appraisal structure. This model allows the measurement and control of the risks originating directly from the movement of the income curve, particularly their impact on net interest income and on the Group's equity. Additionally, other risk indicators are calculated, such as Value at Risk (VaR) and scenario analysis (Stress Test).

The liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by conducting stress tests that seek to identify the potential risk under extreme market conditions. In parallel, ratios are estimated on the current items of the balance sheet that act as indicators of structural and short-term liquidity requirements.

(Expressed in thousands of euros, except where otherwise stated)

INTEREST RATE RISK

As at June 30, 2021, and December 31, 2020, the breakdown of financial instruments by exposure to the interest-rate risk was as follows:

	30-06-2021				
	Exposure to		Not subject to		
	Fixed rate	Floating rate	interest rate risk	Derivatives	Total
Assets					
Cash, cash balances at central banks and other demand deposits	-	6.919.212	718.743	-	7.637.955
Financial assets held for trading	-	-	-	737.763	737.763
Non-trading financial assets mandatorily at fair value through profit or loss	1.855.173	1.145.301	51.042	-	3.051.516
Financial assets at fair value through other comprehensive income	4.884.365	82.924	1.246.818	-	6.214.107
Financial assets at amortised cost	9.270.054	31.495.079	(451.365)	-	40.313.768
Derivatives – Hedge accounting	-	-	-	17.920	17.920
	16.009.592	39.642.516	1.565.238	755.683	57.973.029
Liabilities					
Financial liabilities held for trading	-	-	-	741.020	741.020
Financial liabilities at fair value through profit or loss	-	3.245.943	-	-	3.245.943
Financial liabilities at amortised cost					
Deposits - central banks	7.492.530	-	(63.388)	-	7.429.142
Deposits - credit institutions	139.391	147.049	4.670	-	291.110
Deposits - customers	15.069.705	22.513.507	(69.743)	-	37.513.469
Debt securities issued	2.496.199	535.522	(9.376)	-	3.022.345
Other financial liabilities	-	52.560	188.521	-	241.081
Derivatives – Hedge accounting	-	-	-	354.896	354.896
	25.197.825	26.494.581	50.684	1.095.916	52.839.006

	31-12-2020				
	Exposure to		Not subject to		
	Fixed rate	Floating rate	interest rate risk	Derivatives	Total
Assets					
Cash, cash balances at central banks and other demand deposits	-	3.932.058	611.594	-	4.543.652
Financial assets held for trading	-	-	-	901.010	901.010
Non-trading financial assets mandatorily at fair value through profit or loss	2.093.999	284.665	817.078	-	3.195.742
Financial assets at fair value through other comprehensive income	6.805.003	92.730	1.559.943	-	8.457.676
Financial assets at amortised cost	6.942.978	32.932.963	(42.920)	-	39.833.021
Derivatives – Hedge accounting	-	-	-	23.719	23.719
	15.841.980	37.242.416	2.945.695	924.729	56.954.820
Liabilities					
Financial liabilities held for trading	-	-	-	920.602	920.602
Financial liabilities at fair value through profit or loss	-	3.261.337	-	-	3.261.337
Financial liabilities at amortised cost					
Deposits - central banks	6.809.859	-	(18.039)	-	6.791.820
Deposits - credit institutions	118.496	1.430.501	294	-	1.549.291
Deposits - customers	15.226.146	20.706.301	6.579	-	35.939.026
Debt securities issued	2.007.599	614.681	(61.695)	-	2.560.585
Other financial liabilities	-	-	212.142	-	212.142
Derivatives – Hedge accounting	-	-	-	522.283	522.283
	24.162.100	26.012.820	139.281	1.442.885	51.757.086

Financial Instruments – non-trading

The method of calculation of the sensitivity of the asset value involves simulation of the change in the market value of the assets and liabilities, based on 100 basis point (bp) shifts of the forward interest-rate curve. This methodology uses the following parameters and assumptions:

- All assets and liabilities sensitive to interest-rate fluctuations are identified, that is, those whose value and respective contribution to net interest income may change due to changes in market rates;
- Assets and liabilities are grouped into homogeneous aggregates according to their exposure to the interest-rate risk;
- For each transaction (contract) the future flows properly distributed by repricing dates (variable rate), or maturity date (fixed rate) are calculated;
- For each aggregate defined above, the transactions are grouped by repricing/maturity dates;
- The time intervals intended to measure the interest-rate gap are defined;
- For each aggregate, the cash flows are grouped on the basis of the intervals created;
- For each product considered sensitive, but that has no defined maturity, distribution parameters are estimated in keeping with previously studied behaviour models; and
- For each interval the total flows of assets and liabilities, and, by difference between them, the interest-rate risk gap of each interval are calculated.

The interest-rate gap allows an approximation of the sensitivity of the asset value and of the net interest income in the light of market-rate variations. This approach has the following assumptions:

- The volumes are always maintained in the balance sheet and are renewed automatically;
- It assumes parallel variations in the interest-rate curve, not considering the possibility of specific movements for different periods of the interest-rate curve; and
- It does not consider the different elasticities between the various products.

From the perspective of variation of the asset value, interest-rate increases entail a decrease of value in the intervals with positive gaps, and an increase of value in the negative gaps. Interest rate reductions have the opposite effect.

General assumptions of this Interest-rate sensitivity analysis

- Balance-sheet Evolution – a static balance sheet is assumed, according to which the amounts of contracts that do not have a fixed maturity date or their renewal is presumed, are replaced with new transactions of the same amount, so that the balance-sheet balances remain constant during the period under analysis;
- Maturities and repricing – the real maturities and repricing of the transactions are considered. Assets and liabilities whose contribution to net interest income and whose carrying amount does not alter with the interest-rate variations are considered non-sensitive;
- Indices – the indices defined contractually are considered, and the spot curve of the date of analysis with the underlying forward curve is used for the simulation; and
- Characteristics of New Business operations (term, repricing, volumes, spread , index, etc.) – the conditions entered in the budget for each product are used. When these characteristics begin to lie outside the market for certain products, the average conditions applied during the previous month or the new commercial guidelines for each of the products at issue are used.

As at June 30, 2021, and December 31, 2020, the sensitivity of the asset value of the Group's financial instruments to positive and negative variations of100 basis points (bp) for a one-year time horizon was:

(Expressed in thousands of euros, except where otherwise stated)

	30-06-2021		31-12-2020	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash, cash balances at central banks	(1.615)	353.288	(2.135)	59.081
Financial assets at fair value through other comprehensive income	(102.057)	107.219	(114.692)	36.461
Financial assets at amortized cost	(974.157)	1.177.285	(1.020.001)	553.086
	(1.077.829)	1.637.792	(1.136.828)	648.628
Derivatives – Hedge accounting	324.217	(360.378)	315.516	(182.302)
Liabilities				
Financial liabilities at amortised cost				
Deposits - central banks	302	134.174	1.260	32.731
Deposits - credit institutions	(230)	231	(1.230)	285
Deposits - customers	(1.186.451)	1.255.610	(1.140.415)	378.920
Debt securities issued	(119.140)	131.294	(107.130)	38.826
Other financial assets	(23.192)	23.616	(25.028)	13.289
	(1.328.711)	1.544.925	(1.272.543)	464.051

Financial Instruments – trading

The basic parameters for calculation of the VaR applicable in general are, besides the calculation method itself, as follows:

- Time horizon: The time period for which potential losses of a portfolio are calculated for the measurement of the (daily) VaR is 1 day.
- Confidence level : both the VaR (potential loss) and the VaE (potential gain) are determined with a confidence level of 99% (1% and 99% percentiles, respectively, of the losses and gains distribution). For purposes of contrast analysis, a VaR and a VaE will also be calculated at a confidence level of 95% (5% and 95% percentiles, respectively).
- Exponential decrease factor : Allows exponential weighting of the variation amounts in market factors over time, giving less weight to observations more distant in time. The exponential decrease factor applied is determined periodically by Market Risk.
- The VaR values used correspond to the highest of those calculated with the decrease factor in force and those calculated using uniform weighting;
- Calculation currency : In the process of calculating the VaR all positions are valued in euros, which guarantees that the risk-free currency is the local currency. However, VaR values are reported in US dollars (USD) in order to allow the aggregation of different units; and
- Market data time window : A 2-year time window is used, or at least 520 data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile gives equal weighting to the set of 520 observations considered. The VaR Weighted Percentile gives a significantly higher weighting to the most recent observations in relation to the reference date of the analysis.
Historical simulation consists of using the historical variations as the distribution model of possible variations in the risk factors. For this reason, the chosen period is sufficiently long and significant for all

(Expressed in thousands of euros, except where otherwise stated)

interactions between the market factors, its volatilities and the correlations among them, to be duly mirrored in the historical period selected.

On the other hand, the complete revaluation of the portfolio requires a valuation of each of the instruments, using the respective mathematical expression to obtain the market value of each individual position. In using forms of revaluation, non-linear effects implicit in certain financial products as a result of changes in market factors are calculated and collected on the VaR values.

As at June 30, 2021, and December 31, 2020, the VaR associated with the interest-rate risk corresponded to:

	30-06-2021	31-12-2020
VaR Percentile 99%	(1)	(1)
VaR Weighted Percentile 99%	-	-

The sensitivity of the equity value associated with insurance products whose investment risk is borne by the policyholder is considered immaterial, due to the symmetrical behaviour of the assets and liabilities associated with these products.

Exchange-rate Risk

The profile defined for the exchange-rate risk is quite conservative, and is embodied in the hedging policy used. Its implementation is the responsibility of the Treasury Area, so the risks involved are not very relevant, and it is implemented primarily through the use of currency swaps. Risk limits are stipulated for the exchange-rate risk that are controlled by the Market Risks area.

As at June 30, 2021, and December 31, 2020, the detail of the financial instruments by currency was as follows:

	30-06-2021			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash, cash balances at central banks and other demand deposits	7.265.937	154.280	217.738	7.637.955
Financial assets held for trading	734.196	987	2.580	737.763
Non-trading financial assets mandatorily at fair value through profit or loss	2.244.755	806.761	-	3.051.516
Financial assets at fair value through other comprehensive income	6.214.107	-	-	6.214.107
Financial assets at amortised cost	39.663.860	610.914	38.994	40.313.768
Derivatives – Hedge accounting	14.943	2.977	-	17.920
Investments in subsidaries, joint ventures and associates	128.287	-	-	128.287
	56.266.085	1.575.919	259.312	58.101.316
Liabilities				
Financial liabilities held for trading	737.513	988	2.519	741.020
Financial liabilities at fair value through profit or loss	3.245.943	-	-	3.245.943
Financial liabilities at amortized cost				
Deposits - central banks	7.429.142	-	-	7.429.142
Deposits - credit institutions	176.352	114.257	501	291.110
Deposits - customers	36.033.174	1.228.233	252.062	37.513.469
Debt securities issued	3.022.345	-	-	3.022.345
Other financial liabilities	241.081	-	-	241.081
Derivatives – Hedge accounting	366.845	(11.643)	(306)	354.896
	51.252.395	1.331.835	254.776	52.839.006

(Expressed in thousands of euros, except where otherwise stated)

	31-12-2020			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash, cash balances at central banks and other demand deposits	4,361,661	28,489	153,502	4,543,652
Financial assets held for trading	898,580	1,748	682	901,010
Non-trading financial assets mandatorily at fair value through profit or loss	3,192,245	3,365	132	3,195,742
Financial assets at fair value through other comprehensive income	8,457,676	-	-	8,457,676
Financial assets at amortised cost	39,153,504	639,964	39,553	39,833,021
Derivatives – Hedge accounting	23,478	241	-	23,719
Investments in subsidaries, joint ventures and associates	131,136	-	-	131,136
	56,218,280	673,807	193,869	57,085,956
Liabilities				
Financial liabilities held for trading	918,159	1,749	694	920,602
Financial liabilities at fair value through profit or loss	3,261,337	-	-	3,261,337
Financial liabilities at amortized cost				
Deposits - central banks	6,791,820	-	-	6,791,820
Deposits - credit institutions	1,431,768	117,260	263	1,549,291
Deposits - customers	34,170,237	1,411,369	357,420	35,939,026
Debt securities issued	2,560,585	-	-	2,560,585
Other financial liabilities	212,142	-	-	212,142
Derivatives – Hedge accounting	520,761	1,507	15	522,283
	49,866,809	1,531,885	358,392	51,757,086

As at June 30, 2021, and December 31, 2020, the VaR associated with the exchange-rate risk corresponded to:

	30-06-2021	31-12-2020
VaR Percentile 99%	4	(8)
VaR Weighted Percentile 99%	(4)	(6)

Asset price risk

Financial Instruments – trading

As at June 30, 2021, and December 31, 2020, the Group had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

40. CAPITAL MANAGEMENT

The Group seeks a high financial solidity based on the maintenance of a capital adequacy ratio — relationship between Eligible Equity Funds and risk-weighted assets. The policy for the distribution of results is conditioned by the maintenance of capital levels that allow the Group to sustain the development of its operations within its risk policy.

The Group uses the mixed method for credit risk, namely the advanced method (IRB) for most credit segments, and the standard method for manual operations, Banif portfolio and BAPOP portfolio. The Group uses the standard method to calculate the market risk. In June 2012, the Group began using the standard method for calculating the operational risk requirements, having till then used the basic indicator method.

As of January 1, 2014, it started reporting capital ratios in accordance with the new regulatory framework of BIS III, which, although it provides for a phasing in period, is more demanding for the core capital ratio (or

(Expressed in thousands of euros, except where otherwise stated)

Common Equity Tier I, CET1), in particular through additional deductions and higher weights in the computation of exposures.

On June 28, 2019, the Group operationalized the first synthetic securitization operation originated by the Bank. The operation is based on a portfolio of Corporates, SMEs, City Councils and ENI's in the amount of € 2.4Bn, in relation to which the Bank buys protection corresponding to a mezzanine tranche with a 1% attachment point and an 8.5% detachment point. The € 181.3Mn mezzanine tranche was fully placed with foreign institutional investors, in the form of a CLN with a premium of 8.7%.

The following table summarises the composition of the regulatory capital and prudential ratios of the Group as of June 30, 2021, and December 31, 2020, (both in BIS III — Phasing in):

Amounts in thousand Euros

	30-06-2021	31-12-2020
A - LEVEL 1 OWN FUNDS (TIER I)	4.347	4.328
Share Capital (includes addicional instruments eligible as Tier I)	2.371	2.571
Reserves and Retained earnings (excluding Non-controlling interests)	1.974	1.853
Eligible minority interests	-	-
Deduction to base own funds	2	(95)
B - LEVEL 2 OWN FUNDS (TIER II)	79	76
Perpetual subordinated liabilities	12	12
Eligible minority interests	-	-
Other elements/deductions to complementary own funds	68	64
C - DEDUCTIONS TO TOTAL OWN FUNDS	-	-
D - TOTAL OWN FUNDS (A+B+C)	4.426	4.404
E - ASSETS WEIGHTED BY RISK	17.554	17.986
RATIOS		
TIER I (A/E)	24,8%	24,1%
CORE CAPITAL (CET1)	22,5%	20,7%
TIER II (B/E)	0,5%	0,4%
CAPITAL ADEQUACY RATIO (D/E)	25,2%	24,5%
LEVERAGE	8,8%	7,8%

41. RESOLUTION FUND

The Resolution Fund is a legal person under public law with administrative and financial autonomy, established by Decree-Law 31-A/2012 of February 10, which is governed by the General Credit Institutions and Financial Companies Regime ("RGICSF") and by its regulation, the mission of which is to provide financial support for the liquidation measures implemented by the Bank of Portugal, in its capacity as the national liquidation authority, and to perform all other functions conferred by law within the scope of implementation of such measures.

The Bank, like the majority of the financial institutions operating in Portugal, is one of the institutions taking part in the Resolution Fund, making contributions resulting from the application of a rate set annually by the Bank of Portugal essentially on the basis of the amount of their liabilities. In 2020, the periodic contribution made by the Bank amounted to €12,853k, based on a contribution rate of 0.048%.

Liquidation measure applied to Banco Espírito Santo, S. A.

Within the scope of its responsibility as supervision and liquidation authority of the Portuguese financial sector, on August 3, 2014, the Bank of Portugal decided to apply to Banco Espírito Santo, S. A. ("BES") a liquidation measure under Article 145-G(5) of the RGICSF, which consisted of the transfer of most of its business to a transition bank called Novo Banco, S. A. ("Novo Banco") created especially for the purpose.

To pay up the Novo Banco share capital, the Resolution Fund, as its sole shareholder, provided €4,900 million, of which €365 million corresponded to own financial resources. A loan was also granted by a banking syndicate to the Resolution Fund in the amount of €635 million, with the participation of each credit institution weighted in the light of several factors, including the respective dimension. The remainder (€3,900 million) consisted of a repayable loan granted by the Portuguese State.

Following the implementation of the said liquidation measure, on July 7, 2016, the Resolution Fund stated that it would review and assess the steps to be taken following the publication of the report on the results of the independent evaluation conducted to estimate the credit recovery level for each class of creditors in a hypothetical scenario of a process of normal insolvency of BES on August 3, 2014. Under applicable law, if it is found that creditors whose credits have not been transferred to Novo Banco entail a larger loss than would hypothetically be the case if BES had entered into liquidation at a moment immediately preceding that of the application of the liquidation measure, those creditors would be entitled to receive the difference from the Resolution Fund.

On March 31, 2017, the Bank of Portugal reported that it had selected the Lone Star Fund for the purchase of Novo Banco, which purchase was completed on October 17, 2017, with the injection, by the new shareholder, of €750 million, which will be followed a new inflow of share capital in the amount of €250 million, to be implemented over a period of up to three years. This operation put an end to Novo Banco's status as a transition bank, the Lone Star Fund having acquired 75% of the Novo Banco share capital and the Resolution Fund the remaining 25%, albeit without voting rights.

On February 26, 2018, the European Commission released the non-confidential version of the decision approving the State aid underlying the Novo Banco sale process, which includes a contingent capitalisation mechanism, under which the Resolution Fund may be called upon to inject capital in the event of occurrence of certain conditions relating to the performance of a restricted set of Novo Banco's assets and to the evolution of the bank's capital levels.

This mechanism is triggered every year on the basis of Novo Banco's annual accounts certified by the respective auditor, and there is a possibility of intra-annual determinations only in the event of default, by Novo Banco, of the prudential requirements. For the purpose of this mechanism, consideration is given to the asset valuation differences (positive or negative) compared to their carrying amounts, net of impairment, as at June 30, 2016 (around €7.9 billion according to information provided by Novo Banco). Thus, economic losses or gains are considered, resulting, for example, from the sale of assets or restructuring of loans, as well as impairments, or their reversal, which are recorded at Novo Banco in accordance with the accounting rules, as well as the financing costs associated with maintaining the assets in the Novo Banco balance sheet.

Under that mechanism, to date, the Resolution Fund made a payment of €2,978 million to Novo Banco in respect of the 2017 to 2019 accounts, having used for the purpose its own financial resources resulting from the contributions paid up, directly or indirectly, by the banking sector, complemented by a State loan of €2,130 million within the scope of the framework agreement between the Portuguese State and the Resolution Fund.

This mechanism will be in force until December 31, 2025 (which may be extended until December 31, 2026), and is limited to an absolute maximum of €3,890 million.

On May 31, 2021, the Resolution Fund entered into a new loan agreement in the amount of €475 million with a number of banks to meet the Fund's financing needs arising from the commitments assumed with Novo Banco under the Contingent Capital Agreement. The Bank's share was €104 million.

Liquidation measure applied to Banif – Banco Internacional do Funchal, S. A.

On December 19, 2015, the Bank of Portugal decided to declare that Banif — Banco Internacional do Funchal, S. A. ("Banif") was “at risk of or was in a situation of insolvency,” and began a process of urgent liquidation of the institution in the form of partial or total sale of its business, which came about with the sale, on December 20, 2015, to Banco Santander Totta S. A. ("Santander Totta") of the rights and obligations including assets, liabilities, off-balance sheet items, and assets under Banif management, for €150 million.

Most of the assets that were not sold were transferred to an asset-management vehicle called Oitante, S. A. ("Oitante"), created specifically for the purpose, which has the Resolution Fund as its sole shareholder. Oitante issued bonds representing the debt, in the amount of €746 million, a guarantee having been provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation also involved public support estimated at €2,255 million, which aimed to cover future contingencies, of which €489 million was financed by the Resolution Fund, and €1,766 million directly by the Portuguese State.

On July 21, 2016, the Resolution Fund made a payment to the State in the amount of €136 million by way of partial early repayment of the liquidation measure applied to Banif, allowing the amount owed to fall from €489 million to €353 million.

To date the findings of the independent evaluation exercise, conducted to estimate the credit recovery level for each class of creditors in the hypothetical scenario of normal insolvency proceedings of Banif as of December 20, 2015, are not yet known. As mentioned above for BES, if it is found that creditors entail a larger loss than would hypothetically be the case if Banif had entered into liquidation at a moment immediately preceding that of the application of the liquidation measure, those creditors would be entitled to receive the difference from the Resolution Fund.

Resolution Fund's liabilities and funding

Following the liquidation measures applied to BES and Banif, and the agreement for the sale of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities arising from:

- the effects of the application of the principle that no creditor of the credit institution under liquidation can assume a loss greater than what it would assume if the institution had gone into liquidation;
- negative effects arising from the liquidation process resulting in liabilities or additional contingencies for the Novo Banco that have to be neutralised by the Resolution Fund;
- lawsuits against the Resolution Fund;
- guarantee given to bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- contingent capitalisation mechanism associated with the process of sale of Novo Banco to Lone Star.

In order to preserve financial stability by promoting the conditions that lend predictability and stability to the contribution effort for the Resolution Fund, the Portuguese government reached an agreement with the

European Commission to alter the conditions of the loans granted by the Portuguese State and by the participating banks to the Resolution Fund. To this end, an addendum to the Resolution Fund funding agreements was formalised, which introduced a number of amendments to the repayment plans, remuneration rates and other terms and conditions associated with these loans so that they are suited to the Resolution Fund's ability to fulfil its obligations in full on the basis of its regular revenues, that is, without a need for the banks participating in the Resolution Fund to be charged special contributions or any other type of extraordinary contribution.

According to the announcement of the Resolution Fund of March 31, 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, on the basis of a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund considered that full payment of its liabilities is assured, as well as the respective remuneration, with no need for recourse to special contributions or any other type of extraordinary contributions on the part of the banking sector.

Notwithstanding the possibility provided for in applicable legislation governing the collection of special contributions, given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate, in which the Bank is included, the public announcements made by the Resolution Fund and the Office of the Minister of Finance state that this possibility will not be used. These financial statements reflect the Board of Directors’ expectation that no special contributions or any other type of extraordinary contributions will be required of the Bank to finance the Resolution Fund.

Any significant changes regarding this matter may have relevant implications for the Bank’s financial statements.

42. COMPETITION AUTHORITY

In 2012 administrative-offence proceedings were instituted by the Competition Authority ("AdC"), for alleged signs of infringement of Article 9 of Law 19/2012, of May 8 (Competition Act).

Within the scope of these proceedings, search and seizure measures were carried out at the premises of the Bank and other credit institutions on March 6, 2013, and indiscriminate documentation was seized to determine possible evidence of infringement of the aforesaid legal precept.

On June 3, 2015, the Bank, like other 14 credit institutions, was notified of the Statement of Objections issued by the AdC regarding the administrative offence under appraisal (Case No. PRC 9/2012), accused of taking part in an exchange of certain commercially sensitive information between competitors.

On September 9, 2019, the Competition Authority issued the final decision, essentially maintaining the theory presented in the 2015 Statement of Objections, namely the presumption of anti-competitive conduct based on the exchange of information between competitors on Mortgage Loans, Consumer Credit and Loans to Companies. Bank Santander Totta was sentenced to a fine of €35 million, plus a fine of €650k applied to BAPOP.

The fine imposed — which could amount to a maximum equivalent to 10% of the annual turnover of the infringing company in the year before the decision —, came to be applied for an amount corresponding to about 2.02% of that indicator (considering not only the penalty imposed on the Bank, but also on BAPOP).

Nevertheless, on October 21, 2019, the Bank judicially challenged the final decision of the Competition Authority, the case now pending before the Competition, Regulation and Supervision Court.

In December 2020, a hearing was held at the Competition Court, in which a consensual solution was reached between the Competition Authority and the appealing banks, including the Bank, regarding the amount of the fine and the types of collateral to be provided, in order to suspend the contested decision. In this regard, the Bank presented a bank guarantee in the amount of €17,825k, issued by the Bank itself, as a way to fulfil the mentioned collateral.

In line with what has been its position throughout the proceedings, the Bank strongly refutes all the arguments underlying the decision of the Competition Authority, and its judicial challenges through the Competition, Regulation and Supervision Court has been supported, in particular, by the opinion of distinguished Law Professors, attesting to the absence of any unlawful conduct by the institution.

The Bank will now await the judgement and subsequent decision on the judicial challenge submitted, and will not waive the exercise of all the legal and judicial faculties ensuring the protection of its interests.

Taking the foregoing into consideration, the Bank's Board of Directors is convinced that probabilities of the Bank not being ordered to pay a fine are greater than being so ordered, and therefore no provision for this process has been recorded in the financial statements as at June 30, 2021.

43. MORATORIA AND NEW PUBLIC GUARANTEE SCHEMES

The current economic crisis caused by the Covid-19 pandemic has increased the risks for the financial system, with special relevance for those related to credit risk. In this context, the adoption of a significant set of measures, both exceptional and temporary, to support families and companies in a situation of insufficient liquidity associated with the economic slowdown should be highlighted. In particular, moratoria schemes were created — of both a legislative and non-legislative nature — to fulfil credit obligations towards the banking system, and for obtaining new financing (for companies) through the contracting of credit facilities with State guarantees (which guarantee the payment of the capital in case of default) in a percentage that varies between 80% - 90%, depending on the size of the company, thus avoiding immediate disruptions in the beneficiaries' liquidity positions.

The European Banking Authority, through the guideline EBA/GL/2020/02, came to detail the conditions that moratoria regimes must fulfil so that covered exposures are not automatically classified as restructured due to the debtors' financial difficulties or to them being in a situation of default. However, this guideline also reinforces the need for credit institutions to keep — also during the period in which the moratoria are in force — a timely monitoring of their exposures that will help them identify any indications that the debtor is unable to fully comply with its credit obligations (unlikeliness to pay), and its consequent marking.

In this context, it is crucial that credit institutions, on the one hand, develop an appropriate strategy to ensure sustainable solutions for debtors who, despite having financial difficulties, remain viable, thus contributing to preserve the Bank's economic value in the medium and long term; while, on the other hand, adopting measures that may allow them to monitor and evaluate the evolution of the risks incurred and the timely marking of the exposures in question, in order to mitigate the negative effects that may arise from the termination of the moratoria ("cliff effects").

From the very first moment, the Bank has had a leading position in supporting its clients affected by the economic crisis resulting from the Covid-19 health crisis, both in terms of the granting of moratoria, and as a leading Bank in the agreed support credit facilities for the economy.

In order to establish the criteria for the admission and classification of refinancing, renegotiation, and / or new credit operations, derived from economic impacts, in particular upon our clients' liquidity as a result of the Covid-19 pandemic, the Extraordinary Policy for Admission and Classification of Covid-19 Risks has been developed and approved by the Bank's own bodies.

In fact, given the strong economic impacts of the health crisis on families and companies, exceptional measures had to be adopted to support them, forcing the definition of a specific Policy that, with both a temporary and extraordinary nature, would define the criteria for admission and rating of renegotiation operations and / or the granting of new credits related to the financial needs of customers arising from liquidity problems.

This Policy incorporated the directions, guidelines and recommendations of the European Banking Authority (EBA), the European Central Bank (ECB), the European Securities and Markets Authority (ESMA), and the International Accounting Standards Board (IASB), and was applied equally to legislative and non-legislative moratoria. Although it is accepted that in the short term it is difficult to carry out a detailed analysis, and it is therefore recognized that there should be no immediate impacts upon the risk ratings of clients, the importance of carrying out an individual analysis of the client's real likelihood of being able to overcome the situation resulting from this crisis, as well as the importance of adequate risk measurement, are both stressed, hoping that institutions prioritise individual assessments of the likelihood of payment by debtors whenever possible.

The current economic context is characterized by a high level of uncertainty regarding the duration and depth of the pandemic, both globally and in Portugal.

Despite the authorities' efforts to mitigate negative impacts on the economy, lockdown measures have resulted in significant reductions in economic activity, and high uncertainty in the recovery dynamics.

Thus, the processes used in calculating impairments require adaptations to take due account of changes in clients' capacity and, consequently, of the impact on expected credit losses.

In order to ensure a consistent approach within the banking industry, the ECB issued a general recommendation on IFRS9 in the context of the Covid-19 pandemic on April 1, 2020 (SSM-2020-0154), indicating in particular that the modelling assumptions and methodologies used in normal situations might have gaps in the current context of extraordinary uncertainty. Thus, particular attention must be paid to the adjustments and overlays that will be required, due to the scarcity of forward-looking information.

Given the level of uncertainty, the ECB gives each institution the necessary degree of freedom to set the speed at which each economy will revert to its level of potential growth, provided it is duly substantiated.

Taking into account the aforementioned guidelines from the supervisor, a Long Run based macroeconomic scenario (hereinafter, the Covid scenario) was defined by the Bank's Study Department.

Thus, the adjustment to be made in this stage of the cycle, framed in the current methodology, is the updating of the Forward-Looking component in the PD and LGD models, based on the Covid scenario. Based on the information available, and in line with the scenarios used at the Bank, a base scenario was used for the purposes of calculating the macroeconomic overlay.

Since the beginning of the Covid-19 pandemic, a number of critical sectors have been identified by the Bank and by the various relevant authorities regarding which there is an increased concern with regard to their future, due to the uncertainty that this pandemic has brought to the whole of society. Since the beginning of April, and in compliance with both the policies instituted at the Bank and with the guidelines of the ECB and EBA, namely that during the term of the moratoria, the monitoring and follow-up activity of clients would have to be reinforced, in order to identify in a timely manner any indications that debtors may not be able to meet their credit obligations after the end of the moratoria. This monitoring and follow-up of clients is being carried out, first through the first line of defence (Commercial Area), and jointly with the second line of defence (Risk Area).

Countries and economic agents linked to the sectors most exposed to international and internal movements of people and goods, were immediately considered as the most vulnerable. Within this universe are the sectors linked to tourism and leisure activities, including the catering sector and the transport sectors (especially air transport), as well as trade in goods and services, including the Automobile Business. In a second line, and possibly due to the impact induced by the progressive closing of economies and the reduction of domestic and international consumption, the industrial, textile and footwear sectors — which are very relevant in the Portuguese economy — were also considered to have a significant potential impact.

Other sectors were also listed for special monitoring, due to their traditional relevance in the national productive structure and in the exposure volume of the banking sector, as well as due to the impact they suffered in the previous economic crisis, as are all real estate and construction sector exposures.

As far as the private sector, the negative impact of the pandemic on household income is quite significant, but the effects vary widely from case to case. The impact on disposable income depends largely on the number of people in the household who get their income from work, as well as their employment status (whether they are permanent workers or self-employed), and the sector for which they work.

After having identified the most critical sectors, studies were carried out on the various client portfolios, subdivided into 4 chapters:

- Sectorial context : brief description of the sectorial context based on the collection of information available from official information sources (National Statistics Institute; Bank of Portugal; Pordata, etc.);
- Analysis of the universe of portfolio clients (clients with a risk manager) : analysis of the main risk metrics and individual analysis of the main economic groups (through the analysis of the available financial information, complemented with "virtual visits" to them), establishing an outlook / degree of concern for them;
- Analysis of the universe of non-portfolio clients (clients without a risk manager) : the main risk metrics for this type of clients were analysed (level of classification of operations (Stage 1; Stage 2 and Stage 3), level of hedging by guarantees; type of contracted products, etc.);
- Conclusions / Credit Policies to be adopted : as a result of the previous analysis, guidelines were defined for the commercial and risk areas in the future management of credit risk in this sector and with clients.

In May 2020, the Bank initiated the development of an End to End transformation project, called "Collections and Recoveries", which aims at the massive and anticipatory management of (non-portfolio) clients, through the development of strategies, procedures and commercial offers in an omnichannel environment (differentiated communication channels according to the type of client), constituting an advanced approach, to help manage any impacts after the end of the moratoria in this segment of private clients and micro and small companies.

The identification of potential impairment needs will depend on the evolution of the Bank's portfolio and on the specific environment at each moment. It is not possible to present *a priori* an exhaustive list of criteria that require an impairment analysis of segments or sub-segments. The idiosyncratic situations identified by the Portfolio Manager led to a reclassification of €2.4 billion from Stage 1 to Stage 2, and the endowment of an idiosyncratic overlay impairment. In the first half of 2021 and for a group of portfolio companies, the Bank carried out a simulation of the impact on the internal rating of the update of the most recent financial statements. This simulation led to a €1.0 billion reclassification from stage 1 to stage 2 and the provision of an overlay re-rating impairment.

(Expressed in thousands of euros, except where otherwise stated)

<u>Operations subject to legislative and non-legislative moratoria, and new loans granted under new public guaranteed schemes in response to the current economic crisis caused by the Covid-19 pandemic</u>

The following tables show the characterization of the transactions that, as at June 30, 2021, and December 30, 2020, were subject to legislative and non-legislative moratoria, as well as the new loans granted under new public guaranteed schemes.

The gross amount of loans and advances covered by the moratoria is as follows:

	30-06-2021						
	Gross amount						
	Performing			Non Performing			
		Of which: subject to restructuring measures	Of which: Stage 2		Of which: subject to restructuring measures	Of which: with reduced probability of payment	Total
Loans and advances subject to moratorium	5,649,098	156,180	1,450,615	498,351	404,860	481,200	6,147,449
of which: Households	2,791,561	114,793	323,401	48,218	43,714	46,447	2,839,779
of which: secured by housing real estate	2,726,623	113,287	213,004	47,618	43,121	45,883	2,774,241
of which: non-financial corporations	2,857,537	41,387	1,127,214	450,133	361,146	434,753	3,307,670
of which: small and medium-sized companies	1,858,579	32,877	303,290	271,510	219,395	262,123	2,130,089
of which: secured by commercial real estate	1,285,430	15,604	124,980	299,370	259,280	286,663	1,584,800

	31-12-2020						
	Gross amount						
	Performing			Non performing			
		Of which: subject to restructuring measures	Of which: Stage 2		Of which: subject to restructuring measures	Of which: with reduced probability of payment	Total
Loans and advances subject to moratorium	8,004,249	294,628	910,217	545,727	450,657	525,377	8,549,976
of which: Households	4,981,154	235,313	480,080	139,891	126,294	130,999	5,121,045
of which: secured by housing real estate	4,551,971	216,345	401,358	115,590	107,741	109,957	4,667,561
of which: non-financial corporations	3,023,095	59,315	430,136	405,836	324,363	394,378	3,428,931
of which: small and medium-sized companies	1,992,188	46,157	370,691	252,725	198,296	241,661	2,244,913
of which: secured by commercial real estate	1,297,684	21,100	151,825	282,193	243,321	275,718	1,579,877

The impairments of loans and advances covered by the moratoria is as follows:

	30-06-2021							
	Impairment							
	Performing			Non Performing				Gross value
		Of which: subject to restructuring measures	Of which: Stage 2		Of which: subject to restructuring measures	Of which: with reduced probability of payment	Total	Entries to non-performing exposures
Loans and advances subject to moratorium	76,288	10,251	51,117	232,083	183,929	223,310	308,371	34,161
of which: Households	16,014	6,014	12,695	21,773	20,456	20,937	37,787	1,894
of which: secured by housing real estate	14,423	5,827	11,428	21,233	19,920	20,423	35,656	1,844
of which: non-financial corporations	60,274	4,237	38,422	210,310	163,473	202,373	270,584	32,267
of which: small and medium-sized companies	46,279	3,730	29,334	127,020	100,819	124,821	173,299	18,600
of which: secured by commercial real estate	25,722	1,165	15,794	117,531	101,116	111,786	143,253	5,214

	31-12-2020							
	Impairment							
	Performing			Non performing				Gross value
		Of which: subject to restructuring measures	Of which: Stage 2		Of which: subject to restructuring measures	Of which: with reduced probability of payment	Total	Entries to non-productive exposures
Loans and advances subject to moratorium	50,396	16,489	37,641	223,478	181,246	216,352	273,875	24,157
of which: Households	19,427	9,224	15,549	49,475	45,513	45,576	68,902	6,126
of which: secured by housing real estate	14,041	7,825	11,648	36,572	34,335	34,638	50,613	3,981
of which: non-financial corporations	30,969	7,266	22,092	174,003	135,733	170,776	204,972	18,031
of which: small and medium-sized companies	26,180	7,001	20,470	106,401	85,218	103,374	132,581	9,596
of which: secured by commercial real estate	10,079	791	7,282	100,991	88,264	100,290	111,070	1,559

(Expressed in thousands of euros, except where otherwise stated)

The breakdown of loans and advances subject to legislative and non-legislative moratoria and by residual term of the moratoria is as follows:

		30-06-2021						
		Gross Amount						
		Performing			Residual term			
	Number of debtors		Of which: legislative moratorium	Of which: Expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months
Loans and advances that have been offered a moratorium	92.076	9.740.101						
Loans and advances subject to moratorium	90.976	9.123.677	6.933.513	2.976.228	6.015.426	132.023	-	-
of which: Households		5.302.613	3.118.741	2.462.833	2.755.701	84.078	-	-
of which: secured by housing real estate		4.866.721	3.040.868	2.092.481	2.690.729	83.512	-	-
of which: non-financial corporations		3.821.065	3.814.772	513.395	3.259.725	47.945	-	-
of which: small and medium-sized companies		2.398.352	2.392.497	268.262	2.099.439	30.650	-	-
of which: secured by commercial real estate		1.717.798	1.716.110	132.998	1.562.917	21.883	-	-

		31-12-2020						
		Gross Amount						
		Performing			Non Performing			
	Number of debtors		Of which: legislative moratorium	Of which: Expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months
Loans and advances that have been offered a moratorium	94.008	9.918.579						
Loans and advances subject to moratorium	92.862	9.303.867	6.684.126	753.891	1.909.225	282.110	17.205	6.341.436
of which: Households		5.426.937	3.068.796	305.892	1.899.864	280.996	17.161	2.923.024
of which: secured by housing real estate		4.951.592	2.997.252	284.031	1.813.146	3.958	179	2.850.276
of which: non-financial corporations		3.876.930	3.615.331	447.999	9.361	1.113	44	3.418.412
of which: small and medium-sized companies		2.464.511	2.343.773	219.598	9.041	876	44	2.234.952
of which: secured by commercial real estate		1.724.109	1.659.676	144.233	3.781	590	-	1.575.505

The loans and advances granted under new public guaranteed schemes in response to the current economic crisis caused by the Covid-19 pandemic, are as follows:

	30-06-2021			
	Gross Amount		Maximum amount of guarantee that	Gross Amount
		Of which: restructured	Public guarantees received	Entries to non-productive exposures
Loans and advances subject to moratorium	1.642.336	-	1.163.291	233
of which: Households	46.140			31
of which: secured by housing real estate	-			-
of which: non-financial corporations	1.596.196	-	1.124.079	4.372
of which: small and medium-sized companies	1.018.061			594
of which: secured by commercial real estate	-			-

	31-12-2020			
	Gross Amount		Maximum amount of	Gross Amount
		Of which: restructured	Public guarantees received	Entries to non-productive exposures
Loans and advances subject to moratorium	1,331,672	-	1,069,839	233
of which: Households	36,090			-
of which: secured by housing real estate	-			-
of which: non-financial corporations	1,295,582	-	1,039,263	190
of which: small and medium-sized companies	877,449			150
of which: secured by commercial real estate	-			-

44. SUBSEQUENT EVENTS

On the date of approval of these consolidated financial statements by the Bank's Board of Directors, there was no event subsequent to June 30, 2021, the reference date of these financial statements, which requires adjustments or modifications of the amounts of assets and liabilities under the terms of IAS 10 – Events after the reporting period.

45. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on September 21, 2021.

46. NOTE ADDED FOR TRANSLATION

These financial statements are a free translation of the financial statements originally issued in the Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

Securities issued	Currency	Amount issued: Total	Amount issued: Subscribed by the Group	Balance sheet	interest to pay / commission to defer	Value adjustment from hedge operations	Total	Interest rate	Issue date	Maturity date	Index
Covered Bonds											
Hipotecária XIV	EUR	750,000	750,000	-	(150)	-	(150)	0.754%	04-03-15	04-03-22	Fixed rate
Hipotecária XVII	EUR	750,000	750,000	-	(196)	-	(196)	0.902%	15-04-16	15-04-23	Fixed rate
Hipotecária XVIII	EUR	750,000	750,000	-	(452)	-	(452)	0.652%	26-07-16	26-07-23	Fixed rate
Hipotecárias XX - 1ª	EUR	750,000	750,000	-	(1,062)	-	(1,062)	1.201%	07-12-17	07-12-27	Fixed rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	(1,214)	-	(1,214)	1.481%	10-04-17	10-04-27	Fixed rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	(3,253)	-	996,747	0.875%	25-04-17	25-04-24	Fixed rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	754	-	1,000,754	1.250%	05-07-19	05-07-29	Fixed rate
Hipotecária XXIV	EUR	1,100,000	1,100,000	-	(2,001)	-	(2,001)	0.412%	05-07-19	05-07-29	Fixed rate
Hipotecárias XXV	EUR	750,000	750,000	-	(606)	-	(606)	0.51%	27-03-20	27-03-25	Fixed rate
Hipotecária XXVI	EUR	750,000	750,000	-	(1,515)	-	(1,515)	0.00%	28-10-20	28-10-30	Fixed rate
Total		8,600,000	6,600,000	2,000,000	(9,695)	-	1,990,305				
Bonds issued on securitization operations from mortgage credit											
Hipotota 4 - Class A - Notes	EUR	413,016	302,242	110,774	(367)	-	110,407	Floating	09-12-05	30-12-48	Euribor 3m+0.12% (until early redemption date in December, 2014); Euribor 3m+0.24% (after early redemption date)
Hipotota 4 - Class B - Notes	EUR	15,026	15,026	-	-	-	-	Floating	09-12-05	30-12-48	Euribor 3m+0.19% (until early redemption date in December, 2014); Euribor 3m+0.40% (after early redemption date)
Hipotota 4 - Class C - Notes	EUR	47,455	47,455	-	-	-	-	Floating	09-12-05	30-12-48	Euribor 3m+0.29% (until early redemption date in December, 2014); Euribor 3m+0.58% (after early redemption date)
Hipotota 4 - Class D - Notes	EUR	7,000	7,000	-	-	-	-	Floating	09-12-05	30-12-48	Residual return generated by securitized portfolio
								Floating			
Hipotota 5 - Class A2 - Notes	EUR	376,044	308,442	67,601	(119)	-	67,482	Floating	22-03-07	28-02-60	Euribor 3m+0.13% (until early redemption date in December, 2014); Euribor 3m+0.26% (after early redemption date)
Hipotota 5 - Class B - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-03-07	28-02-60	Euribor 3m+0.17% (until early redemption date in December, 2014); Euribor 3m+0.34% (after early redemption date)
Hipotota 5 - Class C - Notes	EUR	24,000	24,000	-	-	-	-	Floating	16-03-07	28-02-60	Euribor 3m+0.24% (until early redemption date in December, 2014); Euribor 3m+0.48% (after early redemption date)
Hipotota 5 - Class D - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-03-07	28-02-60	Euribor 3m+0.50% (until early redemption date in December, 2014); Euribor 3m+1.00% (after early redemption date)
Hipotota 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	-	Floating	22-03-07	28-02-60	Euribor 3m+1.75% (until early redemption date in December, 2014); Euribor 3m+3.50% (after early redemption date)
Hipotota 5 - Class F - Notes	EUR	6,000	6,000	-	-	-	-	Floating	22-03-07	28-02-60	Residual return generated by securitized portfolio
Azor Mortgages 2 - Class A	EUR	69,032	69,032	-	-	-	-	Floating	24-07-08	14-12-65	3mth Euribor + 0.30%
Azor Mortgages 2 - Class B	EUR	43,080	43,080	-	-	-	-	Floating	24-07-08	14-12-65	3mth Euribor + 0.8%
Azor Mortgages 2 - Class C	EUR	6,750	6,750	-	-	-	-	Floating	24-07-08	14-12-65	Residual return generated by securitized portfolio
Atlantes Mortage 2 - Class A	EUR	94,115	-	94,115	(11,868)	-	82,247	Floating	05-03-08	18-09-60	3mth Euribor + 0.33%
Atlantes Mortage 2 - Class B	EUR	11,717	11,717	-	-	-	-	Floating	05-03-08	18-09-60	3mth Euribor + 0.95%
Atlantes Mortage 2 - Class C	EUR	4,776	4,776	-	-	-	-	Floating	05-03-08	18-09-60	3mth Euribor + 1.65%
Atlantes Mortage 2 - Class D	EUR	9,837	9,837	-	-	-	-	Floating	05-03-08	18-09-60	Residual return generated by securitized portfolio
Atlantes Mortage 3 - Class A	EUR	164,865	51,382	113,483	(8,642)	-	104,841	Floating	30-10-08	20-08-61	3mth Euribor + 0.20%
Atlantes Mortage 3 - Class B	EUR	23,644	23,644	-	-	-	-	Floating	30-10-08	20-08-61	3mth Euribor + 0.50%
Atlantes Mortage 3 - Class C	EUR	42,110	42,110	-	-	-	-	Floating	30-10-08	20-08-61	Residual return generated by securitized portfolio

Securities issued	Currency	Amount issued: Total	Amount issued: Subscribed by the Group	Amount issued: Balance sheet	Value adjustment: interest to pay / commission to defer	Value adjustment: from hedge operations	Total	Interest rate	Issue date	Maturity date	Index
Atlantes Mortage 4 - Class A	EUR	183,163	-	183,163	(24,246)	-	158,917	Floating	16-02-09	30-12-64	3mth Euribor + 0.15%
Atlantes Mortage 4 - Class B	EUR	20,171	20,171	-	-	-	-	Floating	16-02-09	30-12-64	3mth Euribor + 0.30%
Atlantes Mortage 4 - Class C	EUR	55,975	55,975	-	-	-	-	Floating	16-02-09	30-12-64	Residual return generated by securitized portfolio
Atlantes Mortage 5 - Class A	EUR	148,247	148,247	-	-	-	-	Floating	21-12-09	23-11-68	3mth Euribor + 0.15%
Atlantes Mortage 5 - Class B	EUR	27,370	27,370	-	-	-	-	Floating	21-12-09	23-11-68	3mth Euribor + 0.30%
Atlantes Mortage 5 - Class C	EUR	47,415	47,415	-	-	-	-	Floating	21-12-09	23-11-68	Residual return generated by securitized portfolio
Hipototta nº13 Class A	EUR	944,065	944,065	-	-	-	-	Floating	09-01-18	23-10-72	3mth Euribor + 0.60%
Hipototta nº13 Class B	EUR	484,000	484,000	-	-	-	-	Floating	09-01-18	23-10-72	3mth Euribor + 1%
Hipototta nº13 Class C	EUR	44,027	44,027	-	-	-	-	Floating	09-01-18	23-10-72	Residual return generated by securitized portfolio
Hipototta nº13 Class D	EUR	0	0	-	-	-	-	Floating	09-01-18	23-10-72	
Atlantes Mortage 7 - Class A	EUR	116,142	116,142	-	-	-	-	Floating	19-11-10	23-08-66	3mth Euribor + 0.15%
Atlantes Mortage 7 - Class B	EUR	21,583	21,583	-	-	-	-	Floating	19-11-10	23-08-66	3mth Euribor + 0.30%
Atlantes Mortage 7 - Class C	EUR	45,058	45,058	0	-	-	0	Floating	19-11-10	23-08-66	Residual return generated by securitized portfolio
		3,578,682	**3,009,546**	**569,136**	**(45,242)**	**-**	**523,895**				
Other bonds issued											
Senior Holdco	EUR	500,000		500,000	129	-	500,129	Floating	17-06-21	17-06-27	6mth Euribor +0,974%
		500,000	**-**	**500,000**	**129**	**-**	**500,129**				
Total		**12,678,682**	**9,609,546**	**3,069,136**	**(54,808)**	**-**	**3,014,329**				

SANTANDER TOTTA - SGPS, S.A.

OTHER SUBORDINATED LIABILITIES AS AT JUNE 30, 2021

(Amounts expressed in thousand euros)

		Amount issued			Accrual						
Securities issued	Currency	Issued	Repurchased	Balance sheet	Total	Subscribed by the Group	Consolidated balance sheet	Total consolidated balance sheet	Interest rate	Maturity	Early redemption from:
Obrigações Perpétuas Subordinadas BSP 2001	EUR	13,818	13,818	-	64	64	-	-	1.30%	Perpetual	23-02-11
Obrigações Perpétuas Subordinadas CPP 2001	EUR	4,275	4,275	-	20	20	-	-	1.30%	Perpetual	23-02-11
Obrigações Banco Santander Totta,SA 7,5% 06/10/2026	EUR	7,599	-	7,599	134	-	418	8,017	7.50%	Perpetual	06-10-26
OB. BST 2030 TIER2	EUR	320,000	320,000	-	14	14	-	-	1.58%	Not Perpetual	31-12-25
		345,692	**338,093**	**7,599**	**232**	**98**	**418**	**8,017**			

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