Annual Report
Proposal

2020

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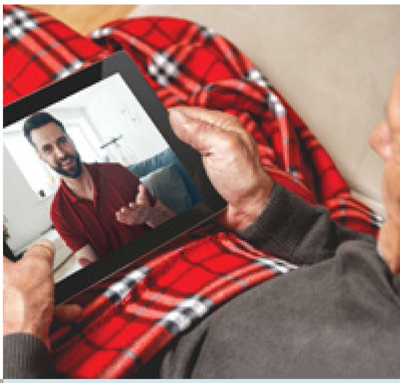


Santander

Santander Totta, SGPS, S.A.

Santander Totta, SGPS

Santander Totta, SGPS, S. A.
Rua do Ouro, 88 – 1100-063 Lisbon
Share Capital: €1,972,962,079.58
Registered at the Lisbon Commercial Registry under single registration and VAT number 507 096 851
LEI: 5493005RLLC1P7VSVC58

This report was approved by the Bank's Board of Directors on April 20, 2021

TABLE OF INDICATORS

BALANCE SHEET AND RESULTS (million euro)	Dec-20	Dec-19	Var.
Total Net Assets	58,330	56,083	+4.0%
Loans and advances to customers (net)	41,683	39,068	+6.7%
Customers' Resources	43,208	42,420	+1.9%
Total shareholders' equity	4,720	4,264	+10.7%
Net Interest Income	786.6	855.7	-8.1%
Net Fees and Other Income	400.1	413.6	-3.3%
Net Income from Banking Activities	1,317.7	1,377.1	-4.3%
Net Operating Income	740.5	772.7	-4.2%
Income before taxes and non-controlling interests	405.0	739.8	-45.3%
Consolidated net income attributable to the shareholders of ST, SGPS	295.6	527.3	-43.9%

RATIOS	Dec-20	Dec-19	Var.
ROE	6.9%	12.7%	-5.7 p.p.
ROA	0.5%	0.9%	-0.4 p.p.
Efficiency ratio	43.8%	43.9%	-0.1 p.p.
CET I ratio*	20.6%	15.0%	+5.6 p.p.
Tier I ratio*	23.9%	18.3%	+5.6 p.p.
Capital ratio*	24.4%	18.6%	+5.8 p.p.
Non-Performing Exposure Ratio	2.6%	3.2%	-0.6 p.p.
Non-Performing Exposure coverage ratio	66.8%	53.1%	+13.7 p.p.
Cost of credit	0.45%	(0.02%)	+0.47 p.p.
Loans-to-deposits ratio (tranformation ratio)	116.1%	111.3%	+4.7 p.p.

RATING	Dec-20	Dec-19
FitchRatings	BBB+	BBB+
long term	Baa3	Baa3
Standard & Poor´s	BBB	BBB
long term	A	A

Other Data	Dec-20	Dec-19	Var.
Employees	6,012	6,226	-214
Employees in Portugal	5,980	6,188	-208
Branches	477	542	-65
Total Branches and Corporate Centers in Portugal	469	532	-63

* Fully implemented with results net of payout

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

The year 2020 was marked by the outbreak of the COVID-19 pandemic, which for Santander caused the death of the Chairman of its Board of Directors, Mr. António Vieira Monteiro, generating great sorrow and a painful sense of loss at the Bank. As a result of decades of management experience in Banking, Mr. Vieira Monteiro was a profound expert of the banking business and of the Portuguese business fabric, being known for his strict risk management, which was notable in the path of building Santander's solidity, leaving behind – thanks to his vision –, a legacy that will be always present in the way Santander supports the economy and society in Portugal.

With all the unexpected events that came with the pandemic, in 2020 we were all challenged at all levels, both in our professional activity and in our personal lives. The same also happened at Santander Portugal, which had to face the challenges posed by the pandemic, particularly in its ability to keep supporting its clients' projects, but also to keep protecting its employees and suppliers.

During the year, the Bank increased its market share in the production of mortgage credit to 24%, and, from the very first moment, it was by the companies' side, either by providing agreed credit facilities with State guarantee, or through other financing schemes, with a 18% share of new production on an annual average.

The ongoing digital and commercial transformation was critical for the Bank's support to the economy, with significant growth in digital clients (+20%), including senior citizens, for whom the “Here and Now” programme was launched to encourage the use of digital channels, so that, in the security of their homes, they could carry out their day-to-day banking operations.

The Bank strengthened its position as the largest private bank acting in Portugal in terms of credit and assets, and, together with the significant reinforcement of provisions to face the future impacts of the pandemic, it achieved a net result of €296 million in the financial year. In 2020, the Bank allocated €7.7 million for community support projects, including for Santander Universities. Of these, €3 million were earmarked for measures aimed at combating COVID-19, with special emphasis on research, acquisition of hospital supplies, support for the most vulnerable sectors of society, and Higher Education Institutions projects, achieving a total of 365 institutions supported either directly and indirectly, and over 54,000 people that were benefited.

Santander's support to the economy and society at large has been acknowledged, whether by the best bank ratings in Portugal, or by the various awards obtained, as the best bank by "Euromoney" and by "Global Finance", as the best Bank to work for in Portugal by “Great Place to Work,” and, most importantly, as the best quality of service in the banking sector in Portugal.

And I am pleased to see, in these awards, the recognition of the tireless work of our employees, who were and are at the forefront, contributing to the progress of people and companies.

José Carlos Sítima

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Stakeholders,

The year 2020 was extremely challenging for everyone, largely because of the Covid-19 pandemic, which caused a public health emergency, with profound economic impacts globally and in Portugal, and which hit us in a particular way with the death of the Chairman of our Board of Directors, Mr. António Vieira Monteiro, to whom I would like to pay tribute once again.

In this context, Santander's mission to contribute to the progress of families and companies has gained even more relevance, especially considering its position as the largest private bank in Portugal.

Banks, and Santander in particular, were clearly part of the solution in this crisis, adopting concrete measures to support their employees, customers and society in general, aiming to mitigate the effects of the pandemic.

If regarding our employees we have put their safety first since the very first hour, namely by promoting teleworking whenever possible, and by providing all health security guarantees to those who remained in their jobs, as was the case with branches, regarding our clients we said, unequivocally, "Present!"

Firstly, with the implementation of credit moratoria for the families and companies most affected by the pandemic, with Santander supporting about 90,000 clients in the amount of more than €9 billion.

In terms of granting credit, which is so relevant at this stage to help overcome liquidity restrictions, we increased the total credit granted by €2.7 billion, of which one billion for companies, where we achieved an average production share of 18%, while maintaining our leadership position in agreed credit facilities, including those created specifically to support companies and businesses in the fight against the pandemic.

But we did more, namely by launching the "Here and Now" initiative for clients over 65, which aimed not to sell products or services, but just to show the availability of Santander's employees to talk to these clients and see if they needed any help to overcome the limitations imposed by the lockdown in the best possible way.

We have not stopped being by the side of those who need most support. In 2020, Santander invested about €7.7 million in community support projects, through sustainability initiatives, and through Santander Universities. With this investment, the Bank supported, both directly and indirectly, 365 associations, in projects related to education, protection of minors, health, disability, social inclusion and care for the elderly, achieving a direct impact on more than 54,000 people in the local community. It is also important to note that since the beginning of the Covid-19 crisis, we have tripled the amount of our social responsibility budget, in terms of donations to institutions.

In this difficult context, we also maintained our focus on transforming the Bank, which involves simplifying and digitizing processes, and adapting the commercial offer in order to serve our clients in the way they want, when they want, and where they want.

It was this permanent focus on our clients, and on serving them as they wish to be served, in a Simple, Close and Fair way, that allowed us to be recognized by our clients as the Bank that rendered the best service in the last quarter of 2020. We are particularly proud of this recognition!

Naturally, the Bank's profit and loss account ended up not being immune to the situation we all faced in 2020, however, it did not fail to demonstrate the resilience of our business model.

We ended the year with a net income of €296 million, 44% below the result of the previous year, reflecting the 4% drop in operating income, but above all due to the anticipated constitution of provisions to face the potential risks of the pandemic on credit quality. The cost of credit increased to 45 bp, despite the reduction in the NPL ratio to 2.6%.

We achieved an ROE of 6.9%, strengthening our capital with a CET1 ratio of 20.6%, comfortably covering the increasingly demanding regulatory requirements.

And we kept benefiting from external recognition, with the awards as the "Best Bank in Portugal" by the *Euromoney* and *Global Finance* magazines. We also got the confirmation that we are the best bank to work for in Portugal, through the "Great Place to Work," as well as a Responsible Family Company for the Más Familia Foundation, which awards recognize the resilience and mission spirit of Santander's employees.

To the Santander team, who have worked so hard in 2020 to achieve all of these results, in conditions that were often very difficult, I would like to deeply thank you, feeling sure that this result is above all yours.

The year 2021 will continue to be marked by the pandemic, and by the continuous transformation of the Bank, a transformation whose ultimate goal is to keep being the best Bank for our clients and employees, to remain profitable for our shareholders, and with the capacity to keep supporting society in general.

All stakeholders can count on our commitment and on the professionalism of our team, to remain faithful to our purpose of supporting families and companies in Portugal to prosper, in a Simple, Close and Fair manner, and faithful to our ambition of continuing to be the best and most solid bank in Portugal.

Pedro Castro e Almeida

CORPORATE CULTURE, AWARDS, DISTINCTIONS AND OTHER RELEVANT FACTS IN 2020

Corporate Culture

By being responsible we generate confidence

Santander Portugal

Santander Portugal is a benchmark bank in the Portuguese financial sector. The Bank's mission is to help people and companies prosper, aiming to be the best digital, open financial-services platform, acting responsibly and conquering the permanent trust of our employees, clients, shareholders, and society.

Thus, the Bank offers its clients a customised, differentiated service, through innovative products and services, new digital solutions and flexible communication channels, along with modern, welcoming service spaces, such as the WorkCafé or our SmartRed branches, with enhanced digital features.

Digital transformation is an important part of our strategic development. The context experienced in 2020 and in the beginning of 2021 shows quite clearly the relevance of digital transformation for the daily lives of customers. Thus, Santander has invested and strengthened its digital services, through the development of new applications such as Santander Wallet or the development of contactless technology in its means of payment. In 2020, important partnerships were established with Apple, Garmin and FitBit, which made of Santander a pioneer in providing customers with fast, agile, secure solutions for their daily payments, seeking to position itself as the Digital Payments Bank.

In terms of Business support, it is worth highlighting the non-financial support program that made the Bank stand out, and that empowered companies and their training and knowledge managers in strategic areas for their development and that of their companies, as is the case of support for the internationalization of their business. Training courses are provided through partnerships with the main Portuguese universities through online courses and face-to-face training.

With regard to supporting society, Santander is committed to the UN Sustainable Development Goals, and has established the 11 Responsible Banking goals in order to guarantee the sustainable development of its activity.

It is worth highlighting the Bank's commitment to Education, focusing on its relationship with the main Higher Education institutions in Portugal, and through the policy of scholarships awarded by Santander Universities, which reached about 4,000 beneficiaries.

In 2020, 800 Santander Future Scholarships were awarded, an initiative that promotes the pursuance of Higher Education studies by students with academic success and in need of financial support.

As part of its social responsibility policy, the Bank invests in community support projects, through sustainability initiatives and through Santander Universities. Through this investment, the Bank directly and indirectly supported 365 associations in projects related to education, protection of minors, health, disability, social inclusion and care for the elderly, with a direct impact on about 54,169 people in the local community.

Santander Brand

Santander seeks to position itself as a close, reliable, relevant brand in the lives of the Portuguese people, stressing its commitment to the development of society, acting in a Simple, Close and Fair manner. This is our mission, the way we do things, the ***Santander Way.***

Our purpose is to meet the needs of our clients, supporting companies in job creation, contributing to the financial empowerment of people (so that they receive the education and training they need), supporting the transition to a low carbon economy (through the financing of renewable energies), while duly considering the social and environmental risks and opportunities of financing operations.

Towards the end of 2020, Santander launched the institutional campaign **"Ser Santander"** [Being Santander], intended to be an aggregating concept through a more human, closer, genuine way of feeling. Santander aims to assert itself an example of trust and hope by believing in ideas, investing in innovation, and leading change, so that everyone can believe in a better future.

Awards, distinctions and other relevant facts in 2020

Best Bank in Portugal	Within the scope of the Awards for Excellence 2020**, Santander Portugal was distinguished with the award** "Best Bank in Portugal 2020**" by Euromoney magazine**. The awards distinguish those 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 too, the Bank was distinguished, and Santander received the award "**Best Investment Bank in Portugal 2020**." 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 elected Santander Portugal as the **"Best Bank in Portugal 2020**," within the scope of the "*World's Best Banks 2020*." Objective criteria were taken into account for selecting the winners, such as profitability, evolution of assets, geographic scope, development of new business, and product innovation.
Most Reputed 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 2020"** 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's *Private Banking* was considered by the **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 the magazine Global Finance 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 the annual awards of this publication. The magazine highlighted the Bank's leadership, based on its global scale and local scope, its customer-centric strategy, and diversification.
Best Contact Centre for the Banking Sector	Santander Portugal's *Contact Centre* was considered the ***"Best Contact Centre* 2020**" in the sector, within the scope of the *Best Awards 2020*, organized by the **Portuguese Contact Centre Association.** Santander won in the Banking category, having won the Gold Trophy, awarded to the Corporate Service Centre, and the Silver Trophy, awarded to SuperLinha. The Corporate Service Centre was also distinguished with a Bronze Trophy, in the category *Contact Centres* with less than 50 Agents.
Best Bank to Work For	Santander Portugal was considered the **"Best Bank to Work For in Portugal,"** for the fourth consecutive time, standing, simultaneously, in the Top 3 of the best large companies (with more than 1,000 employees) to work for in the country, by the **Great Place to Work Institute**. The ranking is based on the answers of the employees working for these companies, and on the analysis of the mentioned Institute to the policies and practices of the companies in terms of people management, in comparison with the other participants.
Responsible Family Company	As an employer, Santander recently saw its certification for "Level of Excellence - grade A" renewed, as a **"Family Responsible Company - efr,"** a certification awarded by the **Más Familia Foundation and ACEGE**. The assessment took into account a set of indicators such as job quality, working time and spatial flexibility, inclusion and reconciliation of family and work life, family support, personal and professional development, and equal opportunities.

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

Best Real Estate Overall 2020 in Portugal, in the Banking category: Euromoney Real Estate Survey, *Euromoney*

Corporate distinctions

"Excellence in Leadership in Western Europe" award for its response to the pandemic crisis caused by COVID-19, *Euromoney*

"Best Bank in the World in Diversity and Inclusion 2020, "*Euromoney*

"Best Bank in the World for SMEs 2020," *Euromoney*

"World's Best Workplaces 2020," for the second consecutive year Banco Santander is included in the world list of 25 companies considered as, *Great Places to Work*

These awards are the responsibility of the entities that grant them

Support in combating the COVID-19 pandemic

In 2020, the Bank tripled its Corporate Responsibility budget, **providing more than €3 million to help fight COVID-19**, in particular for research, purchase of hospital equipment, support for the most vulnerable sectors of society and projects of Higher Education Institutions. Various measures were also implemented to support employees, clients - through moratoria and credit facilities to companies - and suppliers.

The "Here and Now" service for people over 65

To support customers over the age of 65, unfamiliar with adhering to and operating digital channels, Santander created the **"Here and Now"** initiative, to give them all the necessary support and prevent them from going to branches during the period of the pandemic.

Pioneering digital payment solutions

Santander launched new digital technology-based contactless solutions, which allow customers to pay with smartwatches or bracelets, namely with Apple, Garmin and Fitbit devices. It also launched the digital card, which allows the immediate delivery of a digital bank card to clients when they open an account.

Responsible Family Certification

Santander was awarded the **level of Excellence** as a Responsible Family Company (efr), a certification granted by the Más Familia Foundation and ACEGE, now achieving the second highest score: A. The Bank has more than 75 measures to support the reconciliation of employees' personal and professional lives.

José Carlos Sítima appointed Chairman of the Board of Directors of Santander Portugal

University projects against COVID-19

Santander launched the **Uni.Covid-19 Award** to support projects by young university students and the rest of the academic community, which contributed to responding to the emergency situation related to COVID-19. Altogether, 14 initiatives from various parts of the country were awarded, among 336 applications received.

Innovative programming school

Santander is one of the founding partners of **42 Lisbon**, a revolutionary educational project of international prestige in the programming field, entirely free of charge for students, and which has now arrived in Portugal.

580 tablets in nursing homes across the country

As part of the initiative **“Let's give it a talk,”** Santander offered 580 tablets to nursing homes and health homes (IPSS) across the country, so that its users could make video calls and thus have a Christmas closer to their family members and friends.

CUSTOMERS AND THE BANK'S DISTRIBUTION NETWORK

The digital and commercial transformation have allowed the growth of the digital customer base and the increase of transactionality through the various remote channels

Customers

930k (+20%)
Digital customers
Var YOY

+ 155k digital customers
Sustained growth throughout 2020

54.9%
Digital customers[1]

Use of channels

42% (+7.1pp)
Digital sales
Var YOY

55% (4T'20)

5.7mn (+28%)
Transactions[3]

16.5mn (+4,5%)
Accesses[3]
Var YOY

950k (acum. 2020)
Cards on electronic platforms [4]

New digital solutions

Digital Payments Bank

Apple Pay available, for quick, simple and secure payments.

Contactless technology on all new cards issued.

Digital payment through smartwatches (Garmin) and bracelets (FitBit).

Instant digital card for customers who sign up for a debit card.

Santander Wallet available on the Santander app, with several features.

1 – % of active customers
2 – Average digital sales in 2020, for products that are sold on physical and remote channels. 55% for the months of October, November
3 – Average transactions in digital monetary and voluntary channels in 2020. Average total private accesses (Netbanco and Mobile) in 2020.
4 – Cards scanned on Apple electronic platforms, Garmin, Fitbit and Comercios Online

One Santander: building a bank for a better experience for our customers, reaching **Position #1 in NPS***

Continuous improvement of our customer service ...	...reinforcing the relationship with our customers...	...through constant improvement of the operating and technological model
Simplified commercial offer to customers through differentiating products	**New distribution models** that privilege the relationship, convenience and quick access to the Bank	**Shared processes and technological excellence,** taking advantage of the synergies of an international Group
World 1 | 2 | 3 Individuals and Companies (non-financial solution for companies) *Daily Banking* Santander Boutique for digital sales	Omni channel strategy in customer relationships New branch concepts: WorkCafé, Smart Red, MoneyClub	Simplification of internal processes *Agile* methodology Task automation: +70 digital workers, +40 automation solutions and + 10,000 daily tasks

*According to the corporate benchmark study that evaluates customers' Net Promoter Score (NPS) index

For each client to feel truly at home in our Bank, we have six different branch concepts, adapted to their different needs

Clássico

A Proven Branch – With the quality of service that our clients know so well.
Based on a robust network – Present throughout the Mainland territory and also in the islands.
Combining simple and immediate – Providing an agile service for cash operations.

Universitário

A Branch by your door – Located close to the main university campus in the country.
Accompanying students – Providing support, at a time when everything is new, including experience with Banks.
Giving them the best commercial offers – From the ease opening of an account, to the competitive conditions of the debit card.

Money Club

A Branch facing the future – A University Kiosk located on the NOVA SBE Campus, in Carcavelos, of which we are a founding partner.
Young, like them – To give them all the services they need, without having to leave the Campus.
Open to knowledge – In a sophisticated environment, where they can study and discuss ideas.

Smart Red

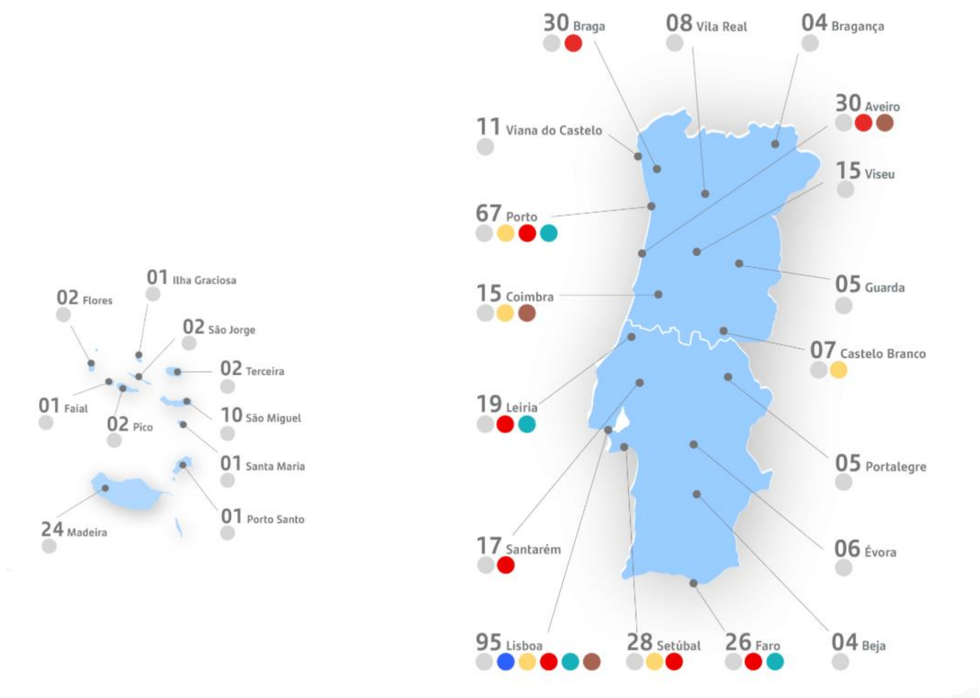
A space with end-to-end technology – Equipped with touch screens that screen customers according to the purpose of their visit. **With a strong focus on audiovisuals –** Which work as a communication support in the interaction with clients.
Easily accessible by everyone – With wide spaces and without physical barriers.

Work Café

A coffee, at the Branch – Served in a large, modern space, with cafeteria service.
For all those who visit us – Whether clients or the general public, are looking for a pleasant space.
Where ideas are served hot – In an inviting open space for studying, meeting and relaxing.

Próximo

A Branch with a 100% digital service – With extended hours and service via email, phone or video call.
But it hardly seems so – Because we provide all the services available at physical branches.
Which is very close to clients – By assigning them a dedicated manager, with whom they can talk permanently.



RESPONSIBLE BANKING

- Being responsible is the basis of trust, and only acting in a **Simple, Personal and Fair** manner can we earn the trust of our customers and of all the stakeholders with whom we relate.
- We seek to ensure that, in the course of our current business, **we foster sustainable and inclusive** growth of society, reducing social and economic inequalities among the population, while, at the same time**, we support the development of the communities where we are present.**
- Besides investing in the **community**, Santander also acts in the areas of **financial empowering**, **climate finance** and **reduction of consumption and emissions**.

Main areas of activity as part of the sustainability policy

- Higher Education
- Social Well-being
- Financial Literacy
- Environment
- Entrepreneurship and job creation
- Culture

The main Sustainable Development Goals (SDG) where Santander's business and investment in the community has a higher incidence

We are committed to reducing poverty and strengthening the well-being of the local economies in which we operate. Through microcredit, products and services, and community investment programs, we train and help millions of people every year.

We lead the support to Higher Education. Through Santander Universities - a pioneering and unique program in the world - we help Universities and students prosper, with a focus on education, entrepreneurship and employment. Santander Scholarships are one of the largest scholarship programs financed by the private sector.

We foster a diverse, inclusive work environment. We guarantee equal opportunities and promote gender equality at all levels as a strategic priority. We also support initiatives that promote diversity.

We are leaders in financing renewable energy projects. We also help our customers finance energy efficiency, low emissions, hybrid and electric vehicles projects, and other more sustainable mobility solutions.

Our team is prepared and committed, allowing us to respond and satisfy our clients' needs, help entrepreneurs create businesses and jobs, and strengthen local economies.

We develop products and services for the most vulnerable in society, giving them access to financial services, and teaching them the concepts and skills they need to manage their finances in the best possible way. We support diversity and inclusion in our business.

We fund the construction of sustainable infrastructures that guarantee basic services and promote inclusive economic growth. We also promote affordable housing opportunities.

We support the fight against climate change in two main ways: by reducing our environmental footprint and by helping our customers in their transition to a more sustainable economy.

We promote transparency, the fight against corruption, and the need for solid institutions for sustainable development. Our policies and codes of conduct regulate our activity and behaviours, and establish commitments to move towards a more responsible Bank.

To move forward with our responsible banking agenda, we take part in regional and international initiatives and working groups.

Main Highlights in 2020

- Since the beginning of the COVID-19 crisis, the Bank has **tripled the amount of its social responsibility budget**ing terms of donations to institutions that support those most in need. Santander Portugal allocated about **€1 million** for research, for purchasing hospital supplies, and for supporting the most vulnerable sectors of society.
- **Santander Universities** and Higher Education Institutions in Portugal channelled about **€2 million** to initiatives that support university students and Portuguese families, in order to respond to the social, economic and public health needs arising from COVID-19. Within the framework of patronage programs between the Bank and Universities, several institutions are using Bank funds to support students experiencing the social and economic effects of the pandemic. As a first step, funds were made available to students who are already in a situation of economic emergency. Since September, 850 Social Support scholarships have been awarded - the **Santander Future Scholarships.**
- With its investment in community support projects, the Bank has already supported, since the beginning of the year, **365 IPSS [Private Social Solidarity Institutions]**, in projects related to education, protection of minors, health, disability, social inclusion and care for the elderly, achieving a direct impact on **54,000 people** in the local community.
- The Bank also promotes **financial culture** initiatives and support for people in unfavourable socio-economic situations. Since 2019, **311,000** people have been financially empowered.
- It also takes on **commitments that reinforce its long-standing concern for the environment:**
  - Santander announced that it became a **carbon neutral company** in 2020, as well as its commitment **to remove single-use plastics from its facilities by 2021.**
  - On December 9, 2019, Santander signed the Business Mobility Pact for the City of Lisbon (PMEL), together with the World Business Council for Sustainable Development (WBCSD), the Lisbon City Council, and 55 other companies, with the aim of creating greener, more efficient mobility solutions.
  - On January 29, 2020, Santander signed the **Lisbon Green Capital 2020 Commitment - Climate Action Lisbon 2030**, an initiative of the Lisbon City Council aimed at challenging companies, citizens and all organizations to contribute towards sustainability in the city of Lisbon.
  - In the end of May, Santander signed the Manifesto **"Harnessing the crisis to launch a new sustainable development paradigm"** promoted by BCSD Portugal, through which the largest Portuguese companies commit themselves to promoting a more sustainable development model, a new path for a fairer and more balanced development model.

- In the central buildings of Santander Portugal, **7 unique Christmas trees** were installed. Each Christmas tree consisted of 540 smaller trees (stone pines, cork oaks, holm oaks, cedar, carob, birch, and ash trees). In 2021, **3,780 trees** will be planted in Lisbon, Abrantes and Vila Nova de Gaia.

COVID-19 measures

As far as Community support measures, in the current context of the COVID-19 pandemic, the following measures stand out:

- **APB – Portuguese Banking Association** – contribution towards the donation of 100 fans and 100 monitors for the National Health Service, by reinforcing APB's donations heading.
- **Donation to one of the solidarity accounts of AEP** (Portugal Entrepreneurs Association), under the **SOS Coronavirus** initiative, for the acquisition of medical material and equipment for health professionals at the São João Hospital (Porto), and to support the Food Bank against Hunger.
- **Support for the Tech4COVID movement –** donation to buy personal protective equipment for hospitals. The equipment was supplied to the various Regional Health Departments (ARS), which distributed it to hospitals.
- **Acquisition of equipment to carry out COVID-19 tests** in the Autonomous Region of the Azores, to allow quick detection of the virus and consequent medical action.
- **Participation in the campaign** "United for Portugal," promoted by the Impresa Group, co-promoted by the Portuguese Football Federation and with the support of *SIC Hope* to raise funds to acquire hospital material and personal protective equipment for social organizations.
- **Participation in the Global Response to COVID19 –** An initiative promoted by the European Commission to raise funds to support the research, development and distribution of a COVID19 vaccine.
- **Dona Estefânia Hospital –** Every year, the Bank organizes an internal Christmas solidarity campaign to support a different institution, with donations from the Bank and its employees. In 2020, it supported the project *"Grow to Protect,"* whose goal is to expand and improve the treatment conditions in the Paediatric Infectious Disease Unit of the Dona Estefânia Hospital. With the outbreak of COVID-19, remodelling these facilities became even more urgent. More than 1,100 employees participated in this solidarity initiative, and the Bank doubled the amount of these donations.
- **Campaign #NuncaDesistir [Never Give Up] –** Santander Portugal was the financial partner of the solidarity campaign #NeverGiveUp, created by *Independent Ideas* and supported by the *LAPS Foundation*, intended to mobilize the Portuguese to raise funds to feed families in need of support in this context of national emergency. The Bank provided the means of payment for the donations and made a donation to the Portuguese Red Cross and to the Food Emergency Network.
- **Santander Solidary Fund –** An internal fund through which Santander employees actively contributed with their donations to ensure access to food by vulnerable individuals and households during the COVID-19 crisis. The Bank doubled the amount collected, and thus **more than €84,000** have been allocated for meals, to lend support to a vast network of institutions, which, with the amount received from the Fund, were able to **support more than 5,500 people.** In total, the Fund helped more than 80 Private Social Solidarity Institutions (IPSS) in different regions throughout the country.

In order to support the cash requirements of its **suppliers**, the Bank established immediate payment of all invoices, regardless of the payment period established.

Other investment initiatives in the Community

- **Programme Here and Now – "Let's give it a talk" initiative –** In cooperation with the commercial network throughout the country, including the autonomous regions of Madeira and the Azores**, tablets and communications cards were allocated to 580 nursing homes and health homes** in the areas of influence of the Bank's branches, so that **the elderly could speak with their family members during this period of lockdown.**
- **3rd Edition of the "Participatory Donation" –** In this initiative, Santander employees in Portugal chose **Ajuda de Berço, Academia do Johnson, Associação Salvador** and **CrescerSer** as the winning institutions of the third edition of this Award. Eleven NGOs (Ajuda de Mãe, Associação Brigada do Mar, Associação Coração Amarelo - Porto, Mais Proximidade Melhor Vida Association, Montes Altos Social Centre, Rugby School of Galicia, ADFP Foundation - Assistance, Development and Professional Training, HELPO, Missão País, Movimento de Defesa da Vida e Saúde sobre Rodas) also received honorable mentions.
- The **Orquestra Geração** [Generation Orchestra] is a project of social intervention through music, mainly through the creation of children orchestras in schools, in impoverished and at-risk areas, where children from different ethnic backgrounds live together.
- The **Orquestra sem Fronteiras (OSF) [Orquestra without Borders] Association** supports and helps retain young talents from the Portuguese and Spanish border regions, preventing them from dropping out from their music studies, and rewarding academic merit.

It intends to establish its activity in the area of the Iberian borders, thus fulfilling an urgent mission: to implement, in this wide area of both countries, a regular, quality musical programme in the field of classical music, through an orchestra made up of musicians from both sides of the border. These musicians find valuable work experience at the OSF, avoiding the flight of talent to coastal and urban areas, while giving people access to this form of culture.

- Santander Portugal supported the **Johnson Academy**, an NGO that promotes the social inclusion of children and young people from vulnerable contexts through sports (namely football). The "Remate Solidário" [Solidary Kick] event took place within the context of the *UEFA Champions League* final in Lisbon.

- **EPIS scholarships** – In partnership with this organization of entrepreneurs for social inclusion, Santander Portugal awarded six "**Special Young People Banco Santander**" grants. The purpose of these grants is to reward schools with projects aimed at promoting the professional and occupational integration of young people with special educational needs, in partnership with employers, which constitute best practices that can be replicated by other schools.

- **Salvador Association –** Santander supports the employability project of the Salvador Association for people with motor disabilities. This program includes vocational guidance, training sessions for developing specific skills, searching job offers, as well as organizing recruitment meetings and accompanying employers during the recruitment processes. The Bank hired four people from the Employability Program of the Salvador Association.

Financial Empowerment

- To support our clients over the age of 65, unfamiliar with the adhesion and operation of digital channels, we have launched the **"Here and Now"** service, through which all commercial managers and other employees assist these clients in all digital channels registration and operation procedures (Netbanco and App), as well as in their payments, whether by card or by wire transfer, each of which will not fail to personally accompany the clients it helped until the end of the lockdown period.
- Santander Portugal has 79 branches in communities with low population density or low income, especially on the islands of Madeira and the Azores. These branches and ATMs have benefited more than 140,000 people since 2019.
- **Santander moratoria solution**: During the COVID-19 period, the Bank made available to its clients, namely through digital channels, a solution to immediately suspend the payment of all their credits, including housing credit, other mortgage loans, personal loans, and other consumer loans.
- ***Junior Achievement*** – During the academic year 2019/20, 53 employees from Santander Portugal participated as volunteers in the ***Portugal Junior Achievement Program***. The number of volunteers has been reduced due to the COVID-19 pandemic. Santander employees shared their knowledge and experience with 1st to 12th grade students on topics such as citizenship, financial literacy and entrepreneurship. There were 57 implementations of the Program, and the sessions reached 696 students.
- Santander Portugal launched a **financial literacy** blog with articles on savings and investment, to help clients make more informed and conscious decisions on their finances.
- The Bank also offers several **free online courses and workshops, aimed at SMEs, to improve their entrepreneurial skills.**

Universities

Santander and Higher Education Institutions in Portugal channelled about **€2 million** for initiatives that support university students and Portuguese families, in order to respond to the social, economic and public health needs arising from the COVID-19 crisis.

- Within the framework of patronage programs between the Bank and Universities, several institutions are using Bank funds to support students experiencing the social and economic effects of the pandemic. Since September, more than 800 Social Scholarships have been awarded - **the Santander Future Scholarships**.

- The measures taken also include purchasing computers, in order to ensure that all students can have access to distance learning. This measure will also cover employees of Higher Education Institutions.

- In the **Health** area, Santander funds have allowed Universities and Polytechnic Institutes to intensify their role in combating COVID-19, adapting their laboratories for the production of screening tests and using 3D printers to produce personal protective equipment for health professionals.

- Additionally, the Bank created an immediate allocation fund, in order to accelerate social impact projects related to COVID-19, developed by voluntary university students.

- The Bank delivered the **Santander UNI.COVID-19 Award** in the global amount of €30k, intended to distinguish and support projects and ideas promoted by university students, and by the remaining academic community, that may contribute to responding to the emergency situation related to COVID-19.

- The **2nd edition of the Santander Global Scholarships** was also launched. There are 315 social grants that allow undergraduate and master students with financial difficulties to carry on with their international mobility programs, despite the COVID-19 pandemic.

- The Bank supports the **1**st **Eco *Campus* in Portugal**, at UTAD. In addition to the scholarships awarded to undergraduate and graduate students, the Bank financed the University's desire to make its campus a harmonious, energy efficient, sustainable, carbon neutral space.
- Santander is a founding partner of **Academy 42 Lisbon**, an innovative, inclusive, internationally recognized programming school, which is free of charge for students.

Sustainable Finance

Banco Santander's corporate banking area has played an important role in sustainable financing in Portugal. Over the past 5 years, more than €510 million have been financed through various operations with a positive impact on the environment and society, be it in the production of energy through renewable sources, in waste treatment, in the circular economy, in health or in education. Namely, the construction of wind and solar parks, hospitals, equipment for the collection and treatment of waste or water have been financed, and the Bank was a prominent partner in financing the construction of a new university campus for the Nova University in Portugal, contributing towards a higher education of excellence in our country. All of these operations have been carried out by using different financing structures, adapted to the needs of each project. More recently, the Bank participated in innovative structures, such as the first issuance of Project Bonds for the Indaqua water concessions, such as Bookrunner in the first two Green Bonds issued in Portugal, by EDP, and in the first Green Mortgage Backed Security issued in Iberia for UCI, and this year with the participation in the first issuance of Green Hybrid Bonds launched by EDP.

BUSINESS FRAMEWORK

International Economy

In 2020, the world economy experienced a deep recession, with a GDP drop of 3.5%, as a result of the pandemic associated with the SARS-CoV-2 virus, which causes the disease COVID-19. In March 2020, as a result of the spread of the virus on a global scale, the World Health Organization (WHO) declared the situation as a pandemic.

Many countries adopted temporary, exceptional measures relating to the epidemiological situation, seeking to restrict contact between people to a minimum, leading to a widespread lockdown, with the closure of non-core activities, which had economic consequences of historic proportions.

Despite the fact that the lockdown was only implemented in March, the GDP contracted significantly in the 1st quarter, a situation that worsened in the second quarter as stricter confinement measures were adopted in April. In May the restrictions started to be gradually lifted, but the activity levels remained far below those recorded before the pandemic.

The summer period, in the northern hemisphere, brought about a reduction in contagions, a withdrawal of confinement measures, and a progressive recovery of economic activity, materialized in more solid growth in the third quarter.

In the fall, with the normal conviviality among people, together with the return to school and the seasonality of the virus, a new pandemic wave unfolded, leading to the imposition of new lockdown measures, which became more restrictive (although less than in the first wave) by the end of the year, when new, more contagious strains appeared, whose effects became more visible as early as 2021.

World Economic Growth

	2019	2020 E	2021 P
World	2.8	-3.5	5.5
Advanced Economies	1.6	-4.9	4.3
USA	2.2	-3.4	5.1
Euro Area	1.3	-7.2	4.2
United Kingdom	1.4	-10.0	4.5
Japan	0.3	-5.1	3.1
Developing Countries	3.6	-2.4	6.3
Africa	3.2	-2.6	3.2
Asia	5.4	-1.1	8.3
China	6.0	2.3	8.1
Central and Eastern Europe	2.2	-2.8	4.0
Middle East	1.4	-3.2	3.0
Latin America	0.2	-7.4	4.1
Brazil	1.4	-4.5	3.6

Source: IMF (January 2021)

As a result of the dynamics in the second half of the year, the contraction of economic activity in 2020 was less pronounced than what was estimated in the initial phase of the pandemic, although with significant regional and sectoral differences.

The International Monetary Fund (IMF), in the January 2021 update of its "World Economic Outlook," revised its economic forecasts upwards, estimating a less deep recession in 2020 and a more sustained recovery in 2021. In 2020, the world economy contracted by about 3.5%, according to the IMF, and is expected to recover in 2021, with a growth rate of about 5.5%.

But there were clear regional differences. The contraction of economic activity in 2020 was more pronounced in developed economies, as a result of (i) the effects of the pandemic having started earlier, after the contagion from Wuhan, China, (ii) the imposition of a more generalized lockdown; and (iii) the second wave was felt much more strongly in the last third of the year.

However, even in large groups, regional and also national differences are quite significant, with the retraction in economic activity ranging between 7% in the Euro Area and 3% in the USA, reflecting the depth and duration of the lockdowns, as well as the integration of production chains, and also the weight of tourism in the economy.

In the emerging economies, the impacts were different, also, in the light of the spread of the pandemic.

In **China**, where the pandemic will have started, economic activity has evolved better than expected, as a result of the reported control of the pandemic at national level. The economy grew by about 2%, with a more sustained recovery in the second half of the year, the effects of which are likely to be felt most markedly in 2021.

The **US** recorded a 3.4% contraction in economic activity, more pronounced than that recorded during the Great Financial Crisis (2008). However, the less stringent lockdown, especially during the second wave, and the fiscal stimulus measures implemented, contributed to a smaller retraction in economic activity, when compared to other developed economies.

Employment, which saw a severe destruction at the beginning of the pandemic, has not yet fully recovered, which has boosted a prompt response from the US Federal Reserve, with the Fed Funds rate dropping to 0%, as well as the implementation of liquidity and credit granting programmes, and the acquisition of financial assets.

Europe was much more battered by the pandemic, amplified by the interconnections between the various economies.

In the **Euro Area**, economic growth contracted quite sharply, with GDP dropping by 7.2%, a dynamic particularly concentrated in the second quarter, when general lockdown was imposed. Despite a stronger recovery in the third quarter, the second wave at the end of the year delayed this dynamic, with clear differences across countries throughout the year. The contraction in GDP fluctuated between 5% in Germany and 11% in Spain.

All the factors that had marked the European context in 2019, such as the energy transition, protests against structural reforms, or political issues, were put on hold, as the situation was dominated by the pandemic and the sanitary emergency.

In 2020, an agreement was finally reached between the EU and the **United Kingdom**, to formalize the future relationship between the two economies, just at the end of the transition period. The agreement includes the absence of tariffs on trade in goods, keeps the Good Friday agreements for Northern Ireland, but does not cover the possibility of providing financial services. The effects on sectors of activity more favourable to Brexit, such as fisheries (where there is a transitional period of access to British waters) or dairy products, are beginning to be felt now, with phytosanitary rules blocking British exports. The United Kingdom reported a 10% contraction in GDP, as a result of both the pandemic and Brexit.

	GDP	Inflation
Euro Area	-6.8	0.3
Germany	-5.0	0.4
France	-8.3	0.5
Spain	-11.0	-0.3
Italy	-8.8	-0.1

Source: EC (February 2021)

To fight the effects of the pandemic and to contribute to a faster recovery, an agreement establishing the Recovery and Resilience Mechanism was approved in July, with a financial envelope of €750 billion, of which 390 billion are grants to States (below the initial proposal of €500 billion). Additionally, the Multiannual Financial Framework for the period 2021-27, which amounts to €1,074 billion, was also approved.

Under the Recovery and Resilience Mechanism, Portugal should receive a sum of €15 billion in non-repayable grants, and the possibility of accessing another €15 billion in loans. Together with the end of Portugal 2020, plus the new multiannual framework, Portugal should receive almost €58 billion in community funds to be used over the next decade.

The European Central Bank reinforced its orientation of pursuing a monetary policy to support economic recovery, based on the maintenance of negative interest rates, and asset acquisition and liquidity assignment programmes, in order to promote basic conditions conducive to economic recovery and growth.

Thus, new monetary policy mechanisms were created, the *PELTROs – Pandemic Emergency Longer-term Refinancing Operations* – which began in May 2020 and will continue until July/ September 2021, at a fixed refinancing rate, 25bp below the refi rate.

Additionally, the refinancing conditions of the TLTRO III were revised, with the refinancing rates being reduced by 100pb compared to the average refi rate for transactions carried out between June 2020 and June 2021. In June, the total amount of the *PEPP – Pandemic Emergency Purchase Programme* was enlarged by €600 billion, to a total of €1,350 billion, which contributed to a stabilization of risk in the Euro Area.

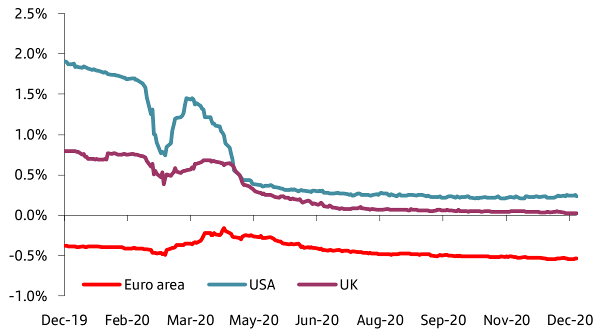
In December, as a result of the second pandemic wave in Europe, the ECB again changed the conditions of TLTRO III and PEPP. The latter was increased by another €500 billion, to €1,850 billion, and is expected to continue until the end of March 2022. TLTRO III will have three new operations, between June and December 2021, while the bonuses were extended for 12 months more, until June 2022. Furthermore, the amount that banks can take, within the context of these operations, was increased to 55% of the reference amount (+ 5pp).

The ECB also extended, until June 2022, the measures adopted in April, relating to the collateral that can be used in refinancing operations, which includes the use of credit pools (which already occurred in Portugal).

In the **emerging economies**, the pandemic also produced significant economic effects, although less adverse than in the advanced economies, partly due to the confinement measures imposed, in contrast to more pronounced health effects during the first wave (which plagued the southern hemisphere during its winter).

Latin America was particularly affected (GDP dropped by about 7.4%), especially Mexico, with an 8.5% recession. Brazil was not immune, and its GDP dropped by 4.5%. The delicate balance between health and economy ended up tipping in favour of the latter.

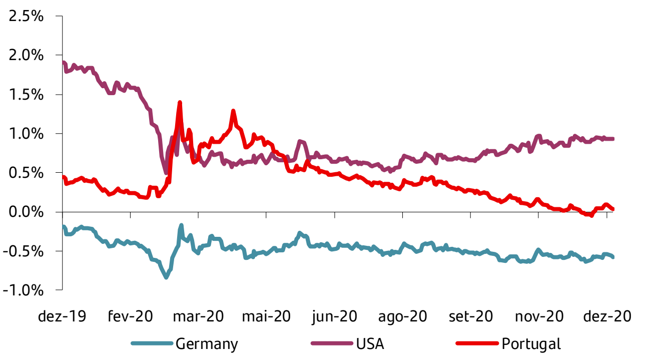
3-Months Interest Rates



Source: Bloomberg

Economic policies have taken on an expansionist tendency. In developed economies, this implied that central banks, as mentioned above, reinforced their asset acquisition and liquidity-providing programs, contributing to a further decline in interest rates along the entire yield curve.

10 Year Bond Yields



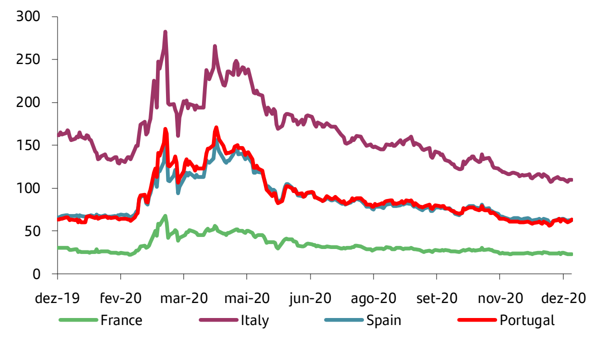
Source: Bloomberg

In general, **short-term interest rates** dropped despite the fact that, at the beginning of the pandemic, they did rise, as a result of a greater perception of risk, which was promptly cleared by the intervention of central banks. In the USA and in the UK, 3-month interest rates came close to zero, while in the Euro Area they converged to levels below the deposit rate.

As far as **long-term interest rates**, the annual evolution was characterized by a general decline, despite some intra-annual differences.

In core markets, such as the USA and Germany, the reaction to the pandemic and central bank measures materialized in a drop in yields. While in the peripheral markets, at first, when the pandemic started, interest rates rose, either because the health situation was very adverse, as in Italy and Spain for instance, or because the risk perception, especially in terms of economic and budgetary impacts, was more negative.

10 Year Bond Yield Spreads (vs Bund) (bp)



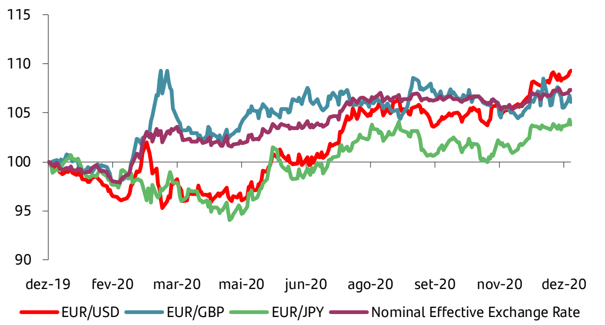
Source: Bloomberg

Thus, in general, credit spreads in the Euro Area increased in March and remained high until May. The ECB's intervention, with the PEPP, allowed for a progressive normalization of spreads, but only at the end of the year did they resume pre-pandemic levels, before assuming slightly lower levels.

In Portugal, the 10-year spread vis-à-vis Germany reached 150 bps, between March and April, subsequently declining, in a phased manner, as above-mentioned, it fell below pre-pandemic levels by the end of the year. The same dynamic was observed in Spain, as well as in Italy, which at the peak reached over 250 bps spread vis-à-vis Germany.

In the **foreign exchange market**, the Euro was characterized by an appreciation trend against the main currencies. Against the dollar, the Euro ended the year at about US$1.21, a 9% appreciation approximately.

Main Exchange Rates (Dec-2019 = 100)



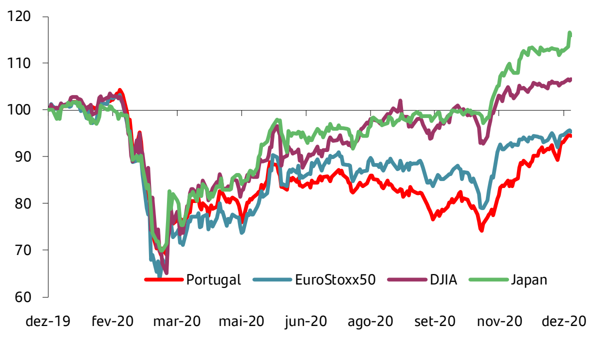
Source: BCE

The **stock markets** reacted negatively to the pandemic, with a significant devaluation in March (about 30%), which was later reversed, as a result of the recovery in economic activity, on the one hand, and the expectations regarding vaccination, on the other, as the development of several vaccines against COVID-19 was being announced.

At the end of the year the North American market recovered absolute maximums, also benefiting from an electoral effect, after the election of Joe Biden to the presidency.

In Europe, the recovery did not prevent a devaluation of about 5%, with the markets being penalized by the greater relative weight of the banking sector, which was particularly affected. The dynamics in Portugal were very similar.

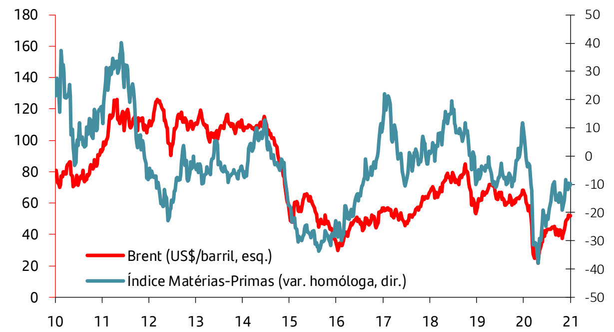
Equity Markets (Dec-2019 = 100)



Source: Bloomberg

Volatility and uncertainty were transmitted to the commodities markets, with the contraction of economic activity resulting in a sharp drop in demand. **Oil** dropped sharply, with Brent touching lows of about $ 20 / barrel to close the year at US$51, still a year-on-year reduction of 24%. West Texas Intermediate (WTI), the reference crude in the US, reached a negative price, reflecting the weak demand (in a technical movement). **Gold** maintained its role as a safe-haven, with a 27% appreciation during the year, to US$1,878 per ounce.

Preços do petróleo Brent, em dólares por barril e Índice de matérias-primas (variação homóloga)



Fonte: Bloomberg

Portuguese Economy

The Portuguese economy also suffered from the effects of the pandemic in 2020. GDP dropped by 7.6%, the largest recorded contraction at least since 1975, and mainly as a result of the decline in economic activity observed in the first two quarters of the year. To the effects of local contagions and the necessary lockdown, were added the effects of a simultaneous halt across Europe (not to mention the World), which was especially felt in the tourism sector.

Macroeconomic Data

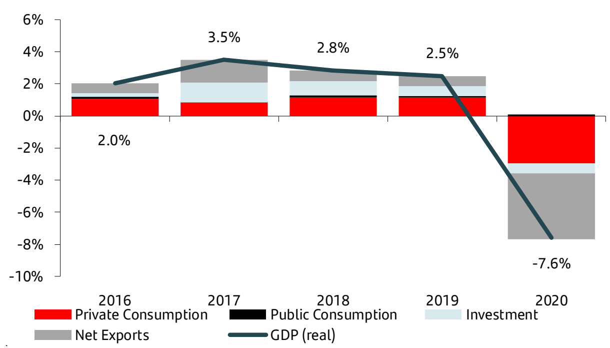
	2019	2020	2021 P
GDP	2.5	-7.6	1.9
Private Consumption	2.6	-5.9	2.6
Public Consumption	0.7	0.5	2.8
Investment	5.4	-4.9	-4.9
Exports	3.9	-18.6	7.8
Imports	4.7	-12.0	5.9
Inflation (average)	0.3	0.0	0.3
Unemployment	6.5	6.8	9.9
Fiscal Balance (% GDP)	0.1	-5.6	-7.8
Public Debt (% GDP)	117.2	133.7	136.9
Current Account Balance (% GDP)	1.2	0.1	0.7

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

In March, the State of Emergency was imposed -following the worsening of the spread of COVID-19 – which was in force between March 18 and May 2, with a general confinement of the population and the closure of non-essential activities. In the first quarter, economic activity contracted by 4.0%, followed by a 13.9% contraction in the second quarter.

In this quarter, which was the most negative, the economic activity indicator fell sharply, having reached the minimum value of the historical series in April. In the same vein, the economic climate also recorded the lowest value ever. Turnover in services and in the manufacturing industry dropped by about 25% in May, the sharpest year-on-year decline ever. In the construction industry, the more intense YoY contractions were more progressively felt between April and May.

Contributions to GDP Growth (YoY)



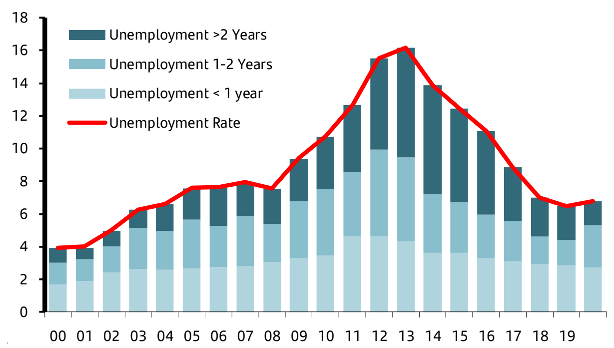
Source: INE

Private consumption was particularly affected, with a 5.9% drop in 2020. This sharp contraction was mostly concentrated in the acquisition of durable goods (car sales dropped by 35% in 2020, to the lowest volume since 2014), and in discretionary spending in non-food goods and services. If, on the one hand, this reflects an increase in savings for precautionary reasons (the savings rate increased to 10.8% in the third quarter), on the other hand it also reflects the impossibility of making certain types of expenditures, with the closure of restaurants and hotels, and other recreational activities.

Families were also strongly affected by the effects of the pandemic on the labour market. In 2020, unemployment increased by 0.3 pp to 6.8%, but greatly influenced by the lockdown, since in the second quarter the unemployment rate fell to 5.8%, with a shift from direct employment to inactivity, due to the impossibility of looking for a job.

Employment was also positively supported by the measures implemented by the Government, with emphasis on the simplified layoff regime, available to companies most affected by the pandemic and / or by mandatory closure. At its peak, it covered more than 115,000 companies and 950,000 workers, with Social Security supporting a third of workers' wages.

Unemployment Rate



Source: INE

Investment also recorded a sharp drop, especially in terms of productive investment, in machinery, equipment and transport material (the latter with a 27% contraction). The construction sector was one of the few that kept working at full speed, and still recorded growth compared to 2019. The housing market remains dynamic, with only a slowdown in prices, while demand has remained sustained.

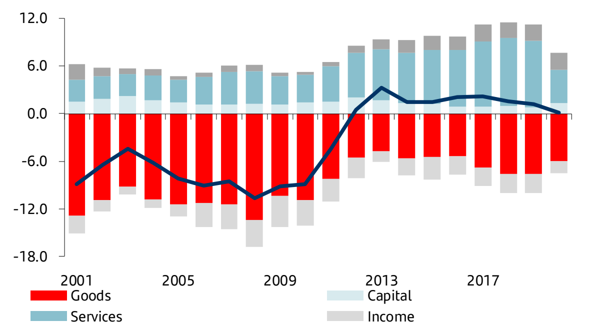
The drop in tourism was reflected in the redirecting of dwellings that were available for local accommodation over to the rental market, with the downward pressure on prices.

Exports of goods and services dropped sharply, with a reduction of about 18.6%. This effect was more visible in services, with the tourism activity recording a reduction of more than 60%, as a result of the pandemic and the closure of the air corridors. In 2020, overnight stays from non-residents dropped by about 75%, cancelling the recovery of recent years. The reopening will depend on the progress of vaccination, especially in Europe.

Imports also dropped, reflecting the drop in domestic demand, both regarding consumption and investment. However, the reduction was less pronounced than that of exports, which also reflects the weight of tourism.

The current and capital accounts recorded a reduction in their surplus, largely due to lower services surplus.

Current and Capital Account (% GDP)



Source: Banco de Portugal, INE

At the beginning of the pandemic, several measures to support the economy were defined, in addition to simplified layoff. The Government announced i) the temporary deferral of tax and contributory obligations, for companies; ii) the creation of credit facilities for companies, guaranteed by the State, up to a maximum limit of €13 billion; and iii) capital and / or interest moratoria on loans to individuals and companies affected by the pandemic. The moratoria have been extended, currently ending between September and December 2021.

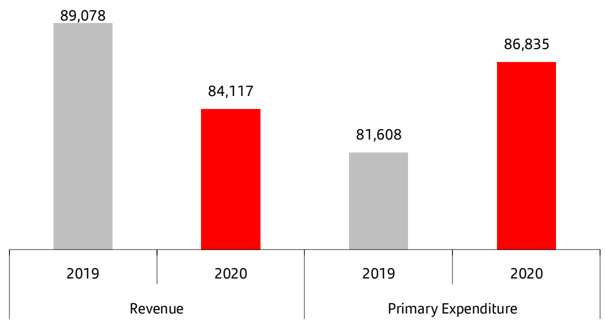
The credit facilities and the moratoria contributed to a growth in the credit portfolio in 2020, thus reversing the trend of recent years. However, indebtedness levels remain below the 2012 highs. In September 2020, corporate indebtedness stood at 129% of GDP, and that of households at 69%.

Public debt has also reversed the trend of recent years, rising to 134% of GDP, reflecting the return of the budget balance to a deficit situation, at 5.6% of GDP.

This evolution reflects the functioning of automatic stabilizers and the discretionary measures to support the economy (such as simplified layoff and support for the resumption of economic activity, for example), as well as the load on the health system, resulting from the health emergency.

Information, from a cash point of view, shows the impacts of the pandemic. Revenues fell by 5.6%, while primary current expenditure increased by 6.4%.

Current Revenue and Primary Expenditure
(€ mn)

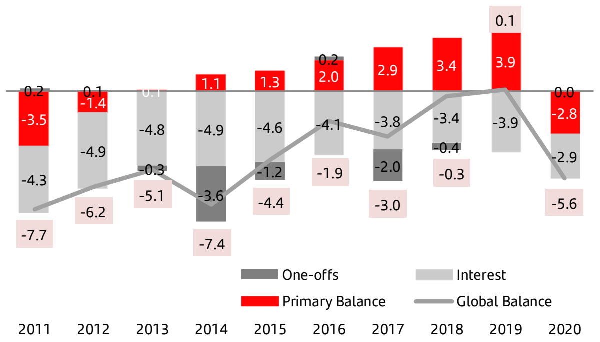


Source: Ministério das Finanças

The Country's credit rating by S&P, Fitch, and Moody's is BBB (stable), BBB (stable) and Baa3 (positive), respectively. DBRS maintains a BBB–high (stable) rating. This situation is consistent with the previous year.

The 10-year yield, on February 15, 2021, was 0.15%, corresponding to a differential of 53 bps vis-à-vis Germany.

Fiscal Balance
(% GDP)



Source: Ministério das Finanças

The Treasury kept regularly accessing the markets, in a context of greater financing needs, as a result of the pandemic. Financing was mostly concentrated in Treasury Bonds, benefiting from the intervention of the ECB, with its programs for the acquisition of financial assets.

Retail products grew, but moderately, with a net increase of 200 million in savings certificates, and 500 million in treasury certificates, which shows the Treasury's ability to retain the certificates that matured throughout the year.

Households, in the context of increased savings in 2020, in addition to investments in State savings products, also reinforced their bank deposits, by €11.6 billion, to 161 billion.

Companies also reinforced their deposits by €7.8 billion. Credit also grew, by 7 billion, largely due to the State guaranteed credit facilities, created within the framework of measures to support the economy.

The Portuguese banking sector faces the effects of the pandemic with a more solid situation. As of September 2020, the NPLs ratio stood at 5.3%, and the CET1 capital ratio at 14.9%

Note: Text written with the information available up to February 15, 2021.

Major risks and uncertainties for 2021

The main risks and uncertainties for Banco Santander Totta's activity are still closely associated with the evolution of the pandemic resulting from the COVID-19 disease caused by the SARS-COV-2 virus.

At the end of February 2021, Portugal is still in a State of Emergency, with the general duty of curfew and the closure of many activities, as measures for controlling the pandemic. Despite the vaccination process having already started, it is advancing quite slowly, and the virus is undergoing mutations, which in some cases may be more transmissible or show greater resistance to vaccination.

This means that the reopening process will be very gradual, and will depend on the evolution of the pandemic and on the pressure it places on the health system. Thus, the uncertainty levels are still quite high, with implications for the Bank's activity.

The general lockdown, in effect since January 15, will have implications for economic activity in general, due to the closure of non-essential activities. At the end of February, there is still no schedule for easing the lockdown, so the first quarter of the year should be characterized by a contraction of economic activity, and recovery may take place gradually. Thus, it is expected that families and companies will keep a cautious stance, materialized in moderate credit growth, on the one hand, and by an increase in deposits, due to greater savings.

On the other hand, the Recovery and Resilience Mechanism, the European plan to support the fight against the effects of the pandemic and recovery, should only begin to produce its first effects in the second half of this year.

Thus, economic growth in Portugal, in 2021, may prove to be more moderate than anticipated in December 2020, for example, which was evident in the projections of official entities then released, with the strongest recovery taking place in 2022 and in the following years.

As mentioned, the growth in credit volumes may turn out to be moderate in 2021, even because in 2020 there was a significant impact associated with the moratoria, as well as the credit facilities with State guarantee. In terms of deposits, they may keep growing, associated with the context of uncertainty and savings, for precautionary reasons.

An additional risk factor stems from the end of some support measures adopted in 2020, with emphasis on the moratoria (which will end in the second half of the year), as well as with the end of the grace period for credit facilities guaranteed by the State. With the economy just starting to take off, a more sustained recovery is expected, and thus special vigilance is required, particularly in terms of the sectors most affected by the pandemic, to take the necessary measures to prevent a worsening of credit risk.

The context of uncertainty will keep conditioning the intervention of central banks, which have shown to be available in the event of a deterioration of the economic conditions. However, there are risks that the recovery will be differentiated between countries, as was the impact of the third wave of the pandemic. Thus, in case of idiosyncratic shocks, the answer may have to be given by national governments, which are under different budgetary restrictions.

BUSINESS AREAS

Individuals and Businesses, Companies and Institutional

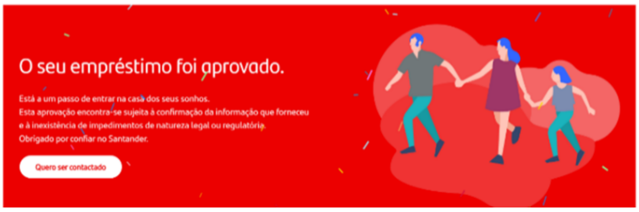
2020 was a year of adaptation and resilience; a very challenging year for everyone, especially for banks' commercial areas, which remained at the forefront of customer relations. This relationship has naturally changed due to the pandemic. Despite all the constraints, branches have always kept their doors open to the public, even during the lockdown periods. At the same time, new ways of working were developed - more digital, more remote.

The activity dedicated to Private and Small Businesses was mainly ensured by a network of more than 400 branches spread across the country. With the increased digitization of customers, remote service through Santander Próximo [Personal], a 100% digital branch with specialized managers, has gained greater relevance.

The Bank still keeps its purpose of supporting the development of families and companies, and the ambition of being the best Bank for employees, customers and society.

The strategy in the **Individuals** area was mainly to reinforce our leadership in mortgage loans, through the **Open House** platform, and to boost commercial activity in the areas of **Protection** (insurance), **Savings** and **Payments**.

Despite the pandemic context, the accumulated production of mortgage loans grew by 31% compared to 2019, a growth higher than that of the market, and thus the Bank increased its market share from 20% to 24%. The production of personal loans, in turn, amounted to €378 million (28% lower than in 2019), with emphasis on "CrediSimples", an online solution, which accounted for 40% of production.



In the **Protection** (insurance) area, Santander Portugal has been developing global solutions in all fields (health, life, car, home, among others), through Aegon Santander and through partnerships with other insurance companies. In a pandemic context, exceptional measures were taken to offer free online medical services to all Bank clients, through the Health SafeCare App, and to put an end to the exclusion of pandemics in health, life and salary protection insurances. Also, in this context, a commercial offer campaign was launched with preferential conditions (offer of 3 monthly fees in the 1st annuity) during the second and third quarters.

There was also a strengthening of the partnership model to increase supply. Thus, the first product of JV Mapfre Santander (Multi-Risk Business Insurance) has been launched, and a partnership was established with Aon for a customised service for large companies.

Finally, the evolution in the digital transformation of protection insurance should be highlighted, with a greater offer to private customers through digital channels, namely through the launch of home protection insurances, and the Health SafeCare Viva Mais, through NetBanco Private.

In terms of **Savings**, in 2020 - due to the special characteristics of the year - the savings of households and companies grew significantly (by more than €3 billion). Despite the instability of the markets at the beginning of the pandemic, the diversification of off-balance sheet investments stands out, mainly in investment funds and retirement savings.

The **Payments** area was focused on positioning Santander as the digital payments Bank, namely by launching solutions that allow customers to pay for their purchases with any mobile device worldwide, in a simple, fast and secure way. The innovations started with the launch of Santander *Wallet* on the Santander *App*, which, in addition to sending and receiving money via a mobile phone number, makes it possible for clients to pay at the store via NFC technology (near field communication) or by capturing a QR Code.

Additionally, Santander customers were offered the possibility of digitizing their cards in their Apple, Garmin, Fitbit, and online trade payment wallets. These innovations are based on tokenization technology and help increase the security level of transactions. The number of Santander cards digitized on these electronic platforms has already reached more than 950,000.

With a view to improving customer experience, and for them not to have to wait for their plastic card to arrive home in order to start using it, the Bank made a digital card available immediately, thus allowing customers to view their card details and make payments by using the Santander App.

The Bank continued its strategy of developing immediate transfers, complementing the simple and flexible package-based offer, namely through the connection to the *Target Instant Payment Settlement* (TIPS), which made it possible to make immediate wire transfers to TIPS - member banks in other SEPA countries.

There was also a concern and focus in terms of Point-of-Sale (POS) terminals, taking into account the challenges of the pandemic and the growth of online business. Therefore, the upgrading of *Gateway Online* to accept cards, payment of services and MBWay was promoted, and a simpler and quicker solution to be installed in merchants called "vTerminal" was also promoted, which, together with marketing through digital channels and a very competitive offer, resulted in an increased market share to 20%.

Lastly, within the scope of PSD2 and the opportunities generated by *Open Banking*, the Bank was focused on ensuring regulatory impositions and, in addition, allowed customers to use Santander channels as aggregators of information from other banks. In other words, it is now possible to view the account statement or initiate payment of accounts from other banks directly from the Santander channels.

The **Daily Banking** area is responsible for managing the offer of all services provided by the Bank to its clients, and whose fundamental priority is to provide a simple, secure and accessible payment experience through any channel, promoting the simplification of the account and card portfolio, in order to make its offer simpler and more competitive.

The development of digital channels was one of the main priorities in 2020, in which the opening of a digital account with a digital mobile key stands out, and, for University students, through video conferencing.

Still within the scope of digital transformation, the concept and area of **Digilosophy** was created, whose mission is to disseminate a strong digital culture in the daily lives of the Bank, People and Companies. All initiatives carried out in the context of digital transformation were critical to reaching more than 930,000 digital customers and a global digital penetration rate (over active customers) of 55%. This percentage reflects a growth rate of digital customers of about 20% compared to the previous year. The number of users of the Santander App reached 604,000 users (20% more than at the end of 2019).

It is also worth highlighting the positive evolution in the number of customers in World 123 Private (i.e., customers with an account, a card, and a protection insurance), which surpassed 300,000 customers. More than 80% of these customers have Santander as their first bank. In 2020, the Bank returned cashback benefits to 77% of these customers, for a total amount of €15 million.

In a context characterized by great uncertainties and strong constraints to the economy, with a strong impact on the activity of entrepreneurs and smaller businesses, the Bank, in addition to remaining loyal to its objective of strengthening its presence in the **Business** segment, has been in the frontline leading the way in the support to Portuguese companies. To this end, in addition to providing a wide range of innovative solutions, it joined the initiatives promoted by the Government (namely moratoria and credit facilities guaranteed by the State) from the first hour, to face the short-term financial difficulties of companies, as a result of the sharp slowdown in the economic activity caused by the COVID-19 pandemic.

At the same time, and in order to give greater autonomy to its customers in the use of certain banking products and services for the management of their day-to-day activities, either through the granting of online credit - CrediSimples Business - or by privileging the use of digital payments, the Bank has been strengthening and deepening its omnichannel approach, complementing the service provided by the physical network with a strong investment in digital channels, thus contributing to increase the degree of customer satisfaction and strengthen their loyalty to Banco Santander.

As a result of this positioning of proximity and customer support by the Bank, the credit portfolio of the Business segment recorded, in 2020, an increase of 18.4%.

In the **Corporate and Institutional** area, Santander Portugal keeps up with its strong commitment to the Portuguese business fabric, making a vast financial and non-financial offer available to its customers, as well as a commercial network composed of experienced professionals, always available to find the solutions that best suit our customers' needs. In addition, the availability of new products and services through digital channels by Santander, besides strengthening the digital customer base, has resulted in an increased number of more satisfied and, consequently, more loyal customers.

In terms of credit, and in response to the profound impact of the pandemic on the economy and on businesses, Santander Portugal, in conjunction with the State and the competent public entities, was at the forefront in supporting Companies and Institutions, optimizing processes and improving internal procedures, with a view to quickly making the agreed credit facilities available to its customers, thus helping release liquidity quickly and in a timely manner for companies to be able to meet their immediate commitments, especially towards their employees and suppliers.

In terms of the offer of credit products to companies, it is worth highlighting the wider range of solutions in the Santander Agro offer, with the launch of Santander Financing with Guarantee - FEI AGRI Facility, an investment financing solution guaranteed by the European Investment Fund (FEI) for the agriculture and agro-industrial sectors, as well as Agrofácil Tesouraria [AgroEasy Cash], a short-term financing solution.

With regard to **Institutional Banking**, Santander Portugal keeps its commitment to customers in this segment, both in terms of public entities - with a strong presence with the Autonomous Regions and Municipalities - as well as with regard to private entities, with a special focus in religious institutions and institutions of the social economy, which entities have played a key role in supporting families with less resources during the pandemic period. Here also, the Bank has played a very active role in publicizing and making available the COVID-19 support facility for the social sector agreed between the Social Security Financial Management Institute (IGFSS), SPGM, the Mutual Guarantee Societies (SGMs, namely Garval, Lisgarante and Norgarante), and Santander, with a global allocation of €165 million. In 2020, the volume of business in the Institutional Banking segment grew by 2.6%, with special emphasis on resources, with a 10.8% increase.

Wealth Management and Insurance

Santander's **Private Banking** activity was particularly affected by the pandemic, with an initial impact of significant devaluations and redemptions of risky assets. On the other hand, the firmness and dimension of the joint policies followed by the main central banks, gave the markets the feeling that the instruments required for recovery would be available. Thus, after sharp initial declines, the markets embarked on a sustained (although volatile) recovery path, which remained until the end of the year. Despite a difficult, atypical year, most business indicators showed a positive performance, namely the volume of assets managed, including under the funds and insurance headings, and growth in the number of clients.

All ongoing initiatives to improve commercial efficiency were maintained, freeing up more time for advising and monitoring *Private Banking* clients, thus improving the outstanding service that characterizes this business segment. In recognition for the excellent service in general and customer service in particular, Santander *Private Banking* Portugal was distinguished as the best Private Bank operating in Portugal for the 10th consecutive year, according to Euromoney magazine, and the same recognition by the Global Finance magazine for the 6th consecutive year.

2020 was a very atypical year as far as the investment component. Throughout the year, **Santander Asset Management (SAM)** sought to manage its mutual fund units (FIMs) actively, with the goal of maximising return for its participants. The year ended with €144 million in net FIMs under management, and €2,558 million in assets under management, representing a 17.5% market share, against 17.9% in the previous year. The Bank continued to foster a service attitude, with an intensive plan of initiatives aimed at improving customer experience.

Real-estate investment funds totalled €329 million in assets under management at the end of 2020.

In financial insurance, the focus remained on the active management of "Open Financial Insurance," which ended the year with €642 million assets under management, plus the high number of maturities that occurred during 2020 and which amounted to €321 million. Retirement solutions also recorded a very important focus on commercial activity, increasing by €96 million in fund format (FPR's), and by €47 million in secure format (PPR's) in 2020.

Corporate and Investment Banking

In the **Corporate & Investment Banking** area, in the face of an adverse scenario caused by the pandemic, we had to reinforce our proximity and commitment to customers. The loans portfolio recorded an increase of 8.7%, compared to the 2019 figure, while revenues showed a reduction of 0.8%, compared to the same period of the year, mainly due to the negative impact of the economic downturn.

The focus that Santander has placed on digital channels, of which we underline the digital exchange contracting platform (via NetBanco Corporate), helps to ensure an adequate response to user needs, in this context of social distance.

It is also worth highlighting the recognition by Euromoney with the award "Best Investment Bank Portugal 2020."

In the **Global Debt Financing** area, 2020 was marked by the following significant operations:

- Participation of Santander Totta as *Bookrunner*, in the issuance of a *Hybrid Green Bond* for EDP, with a maturity of 60 years in the amount of €750 million;
- First green issuance of a *Residential Mortgage Backed Security* in Portugal, in this case for the amount of €270 million for UCI;
- Financing the acquisition, by Morgan Stanley Infrastructure, of the Altice Portugal fibre network, in which Santander took part as *Mandated Lead Arranger*;
- Financing for the acquisition of 6 hydro plants, with a total capacity of 1.7GW, from EDP, by Engie, Mirova and Credit Agricole Assurances;
- Financing for the acquisition, by Finerge, of several solar photovoltaic parks acquired from Glennmont Partners and Martifer, in Portugal and Spain;
- The refinancing of Iberwind, the third largest group of renewables in Portugal, following its acquisition by JP Morgan Infra (Ventient).

During the period under review, 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 shopping centres and property development for student residences.

In the **Corporate Finance** area, we would underscore the completion of the following financial advisory operations:

- Advising Cellnex on the acquisition of Omtel from Morgan Stanley Infrastructure and Altice;
- Advising Sonae Sierra and APG on the sale of 50% of Sierra Prime to Allianz and Elo;
- Advising Glennmont Partners on the sale of a photovoltaic portfolio in Portugal to Finerge;
- Advising NOS on the sale of NOS Towering's portfolio of towers to Cellnex;

- Advising EDP on the sale of 2 CCGTs and on the B2C customer business in Spain to Total;
- Advising Efanor and acting as a financial intermediary in the Takeover Bid launched on Sonae Capital.

As far as **Treasury** is concerned, despite the atypical and unpredictable context in which most of the year of 2020 took place, Santander kept providing constant and effective support in response to all the needs that companies faced, translating into a significant increase in activity.

The activity, both foreign exchange and interest rate, started the year with a year-on-year growth, but the state of emergency decree, in March, required an adjustment of the customer follow-up model in order to ensure the same quality and service excellence, but with greater proximity and swifter response times.

The first lockdown period, and the consequent drop in economic activity, resulted in a decrease in the formalization of new financing, as well as in foreign exchange operations, here amplified by the very sharp contraction in the tourism sector. The subsequent reopening of the main commercial activities (with greater difficulty in some sectors of activity, namely, in the hospitality and tourism sectors) allowed a normalization of Treasury operations with customers, with an increase in the number of foreign exchange operations and credit operations with interest rate risk coverage, with special relevance in the last quarter of 2020, with an increase in the number and volume of operations compared to the same quarter of the previous year.

In the foreign exchange area, 2020 meant a huge transformation in the offer of available contracting channels, with emphasis on the strong increase in the number of spot foreign exchange operations resulting from the increased activity originated in the exchange contracting platform provided through the NetBanco Corporate channel. This platform, complemented by a permanent team in the markets room, offered customers - even from their homes - permanent access to all means of contracting foreign exchange transactions, ensuring an adequate response to their needs.

As far as interest rate transactions, the context of greater uncertainty meant that a significant percentage of credit granted was formalized at a fixed rate.

The **Corporate and Commercial Banking** area ended the year with new maximums in terms of volume and contracted operations, both under the foreign exchange and interest rate operations headings.

In the **Cash Equities** area, despite all the instability resulting from the context of the pandemic, the elections in the United States, and the conclusion of the agreement between the United Kingdom and the European Union regarding Brexit, the volumes traded in the stock markets in 2020 recorded an expressive growth compared to the previous year. After a third quarter that seemed to signal a return to "normality," the fourth quarter of the year returned to record volumes, similar to those of the second quarter. Santander's business continued to show better performance than the market, evidenced by an increased market share. According to the data released by the Securities Markets Commission (CMVM), the volume of orders on shares received by financial institutions in Portugal grew by approximately 70.9% year on year, totalling about €18.612 million. In the same period, Santander grew by 124.9% to €1.313 million, representing a market share of 7.1% (5.4% in 2019).

In the online business (Internet Website), the market grew by 59% to €12.863 million, Santander having contributed with €1.148 million, a 135% increase over the same period in 2019, and a share of 8.9% (6.0% in the same period last year).[1]

Foreign Customers and Residents Abroad

With social and political stability, a particularly attractive climate, and the progressive development of infrastructure in the country, there are more and more foreigners interested in investing in Portugal or in living permanently or with their habitual residence in Portugal. On the other hand, the existence of communities of Portuguese emigrants living abroad is already an old phenomenon.

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.

The Bank has a network of representative offices present in 6 countries (South Africa, Germany, France, the United Kingdom, Switzerland and Venezuela), close to and with a strong connection to the Portuguese communities. In the future, the intention is to innovate by providing all types of banking services remotely to all Portuguese communities and also to foreign customers, with bilingual tools available for any region.

Within the context of the pandemic that we are experiencing, there has been a major concern in supporting our customers living abroad, particularly those who have greater difficulty in the use of digital media. In 2020, the "Here and Now" campaign helped enlighten and support the emigrant

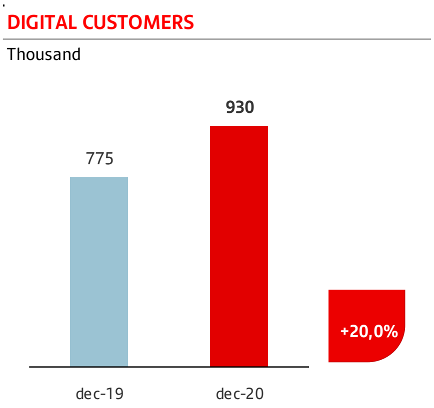
1 - Source: Portuguese Securities Markets Committee (CMVM), Monthly order reception indicators (December 2020)

community in the use of digital media, in particular in the elderly sub-segment.

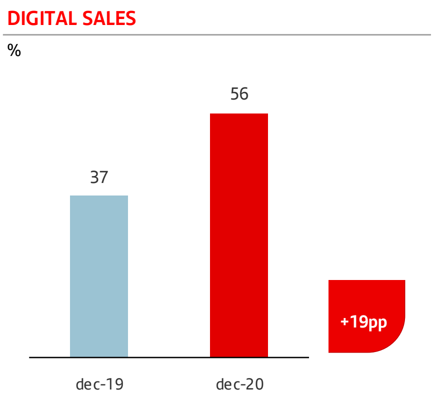
Digital Transformation

In 2020, boosted by the pandemic context, Santander Portugal accelerated its digital transformation process, with the aim of being closer to its customers and simplifying processes through digital solutions. This strategy contributed to accelerating the growth trend of the number of digital customers.

At the end of 2020, the Bank had 930,000 digital customers, an increase of 20% compared to the previous year (150,000 more customers). This growth was particularly boosted by the use of Apps, which saw a 27% increase in the number of logins.



The growth in the number of users also made it possible to end the year with 56% sales on digital channels, an increase of 19 pp. compared to the previous year.



In a context in which customer mobility restrictions were recurrent, digital channels and the Contact Centre were critical complements to the relationships established by branches, which allows managers to have more time to focus on managing their relationships with customers, while at the same time, customers can count on a Bank available for most of their services.

Individuals Channels

The year was marked by a strong investment in the renovation of the NetBanco Private and Santander App channels, with a visible component for customers, which included the modernization of processes and design, and a structural component, essential to ensure a good future evolution of those channels. These changes had the effect of improving both customers' real quality and perceived quality, as well as the effect of aligning them with the new rules for the use of the Santander brand as defined by the Group.

The visual and structural renovation also took place in the Bank's public website (www.santander.pt), which underwent a complete restructuring. It now has a modern image and an information structure better suited to customers' needs. As in the development of channel activities, the renewal of the public website was based on a great amount of work to assess our customers' needs and expectations, which included several customer interviews and focus groups, among other initiatives.

At the same time, the Bank kept investing in features aimed at making the Bank's products and services available through digital channels, improving customer access to such channels, and avoiding their need to personally visit branches, which was quite valued during the lockdown periods country went through due to the pandemic.

As a consequence of the pandemic, banks had to provide moratoria solutions to their clients in a short period of time. The Bank was able to respond effectively and efficiently, by making the inclusion in, and the consultation and cancellation of moratoria available through NetBanco. This functionality was critical to provide a good service to our customers, truly demonstrating the potential of digital channels as a complement to the relationships with customers as established by branches, allowing the latter to focus on higher added value tasks.

Communication with customers was reinforced through the live chat feature. This feature allows customers to request help or information by exchanging messages with a customer support person. A chatbot was also launched. That is, an interface that interacts with customers through natural language, and seeks to interpret and answer the most common questions, directing the customer to information about products and services on the public website. If the customer does not intend to interact with the chatbot, or the latter is not able to clarify the customer's doubts, there is always the option of transitioning to the live chat feature and speak to a customer support person.

The Santander App also has new features related to MBWay, namely the possibility of receiving money and accessing payments through a QR Code without the need of logging into the App. This last feature makes payments in stores or restaurants much easier, faster and more convenient, better meeting customer expectations.

Still on the subject of cards and payments, it is now possible to request a debit card through the Santander App, which immediately makes a digital card available to be used by the customer while he/she does not have the physical card with him/her. It is also possible to activate and deactivate the card's contactless payment option, allowing customers to choose the cards on which they want to have this feature active. The Bank has also started to support payments with Apple Pay, Garmin Pay and Fitbit, both for Mastercard and Visa cards.

As far as contracting products, the insurance offer at NetBanco was increased, and auto credit is now also available through this channel, with a flow similar to that of personal credit (CrediSIMPLES).

In terms of services, the most relevant features added throughout the year were the possibility of making immediate transfers within the SEPA space, of aggregating accounts from other banks on the Santander App, an easy mechanism for customers to settle arrears payments to the Bank (credit instalments, etc.), and the possibility of a non-customer opening an account on the public website by using the "Digital Mobile Key". This last feature was essential for the University students' enrolment campaign, complemented with video conferencing when necessary.

The renewal of the Private App, combined with the new range of features, were reflected in a substantial improvement in Google and Apple stores ratings, with the Santander App ending the year with a rating of 4.5 on Android, and 4.4 on iOS.

The Santander Boutique was also launched in 2020, the first virtual store in Portugal, through which one can purchase products from reputable brands through immediate online credit.

Corporate Channels

Within the scope of business support measures, the request for accessing moratoria through Netbanco Corporate was made available through a simple, fully digital process. Throughout the year, the necessary adaptations were made to the legal changes that were coming up.

The contracting of POS terminals through Netbanco Corporate was also launched, which became the preferred way for contracting this service from the Bank.

The functionalities of consulting digital documents were made available to all corporate customers, even those who do not yet use digital channels, thus reducing costs and contributing to reducing the Bank's environmental footprint.

The recipients of immediate transfers to other countries within the SEPA space have been expanded through Netbanco and through the Corporate App, and the request for service payment references through Netbanco Corporate (Receive Now) has been made easier, making it easier to receive payments from customers.

There was a 20% increase in number of users of the Corporate App, and the Bank ranks in the top 2 of banking Apps for companies in App Stores.

The Corporate App now alerts users regarding failed scheduled transfers by push, introducing an easier way to collect feedback from users and offering receipts of the most common operations.

In 2020, the procedures for changing access contracts to corporate channels were also simplified, increasing the autonomy of branches and users, and thus reducing the dependence on the Contact Centre.

In 2020, the customer support services for companies and for Private individuals (SuperLinha) were awarded the 1st and 2nd prize for Best Banking Contact Center, by the Portuguese Contact Centres Association. The corporate service centre was also distinguished with a Bronze Trophy, in the Contact Centres category with less than 50 agents.

Over 100 thousand contacts were made to customers and about 3 million contacts were received (+ 11% YoY), of which 66% with human assistance, 17% with automatic assistance (IVR), and the remaining 17% via digital contacts (e-mail, chat and the Bank's social networks). In June, a virtual assistant was launched at Netbanco, which had more than 50 thousand sessions.

Several initiatives were also implemented focusing on improving Customer Experience, in terms of processes, training assistants and new services, with emphasis on the following initiatives: Support line for moratoria, new IVR menus, chat available in all pages of the Private Website, and also on the Corporate Website, with extended operating hours, plus new call back options in case of high traffic.

BUSINESS SUPPORT AREAS

Customer Experience

Customer Centre

After one year of activity, the **Customer Centre** has established the concept that the Bank needs, not to walk towards the customer, but to put the customer at the very centre of its attention - *to become customer centric*).

In 2020, this "laboratory" was the critical piece to understand what needs do customers have during pandemic times, what are the difficulties of adapting to this reality, and what are their expectations regarding the new normal (*customer research*).

With 40 projects carried out, in remote and face-to-face format, the voice of customers and employees echoed, setting the path the Bank has to follow.

Altogether, about 500 participants contributed to this reality, in naming products and services, building customized journeys, improving browsing experience in digital channels, creating new communication and contracting platforms, as well as improving tools to facilitate and streamline the day-to-day of the commercial network.

Positioning against the competition

From the annual satisfaction survey of the private customer segment, which measures customer satisfaction with the Bank and benchmarks the Bank against its main competitors, it appears that Santander is the most recommended bank to friends and family by its customers.

To become the first in recommendation is a goal that was set for 2023, but that meanwhile was already reached in 2020.

The relationships that were established with customers at such a complex period, with relationship campaigns seeking to create closer contact and appropriate solutions for the moment, were a decisive factor in the recognition that was given to the Bank.

Customer satisfaction

The Bank focuses on the NPS (*Net Promotor Score*) concept and criteria, and 2020 was the year of internal consecration of this metric.

The NPS model was defined through the use of means to measure more and more experiences lived by customers, in more interactions, through various channels, with preference for the web environment.

At the end of 2019, a process for implementing a new "voice of the customer" programme was started, based on the Qualtrics customer experience tool, recognized as one of the most powerful and effective platforms available.

The NPS measured through this new platform allowed the validation of thousands of surveys, relating to the main experiences and relationships with customers, closing the year with an NPS of 51p.p., a very positive result both in terms of benchmark and also when compared to the whole industry.

In the meantime, the NPS was combined with the business units rating system - the "Star System" - (inspired by the hospitality industry, which assigns a rating to its business units from 2 to 5 stars), and thus the organic impact of the stars was combined with the impact on individual incentives with NPS. In annual terms, 86% of the Bank's branch network was rated 4 and 5 stars.

"I'm the Bank" Programme

2020 was marked by the launch of "I'm the Bank" Programme. A horizontal programme for mobilizing and transforming the organization, with the objective of increasingly improving customer experience and satisfaction with the Bank. Combining extensive analytical work with active, continuous listening to customers. Priority initiatives were identified and designed to integrate the programme, which are being developed around 4 main pillars of transformation: culture; management by NPS; metrics and governance.

Under the direct sponsorship of the Executive Committee, and coordinated by the *Customer Experience* area, the "I'm the Bank" Programme is aimed at each and every of the Bank's areas, which were, therefore, actively involved throughout the entire process. The implementation of this program has resulted in a positive evolution in customers' perception of their experience with the Bank.

Dissatisfaction and complaints

In 2020, the Bank had a 15% reduction in complaints compared to the same period last year, revealing a substantial improvement in service, and a clear perception by customers of the Bank's effort to adapt to the new reality.

The most important issue for banks was related to the moratoria and, at Banco Santander, it was no exception, where in a short period of time the technological developments essential to comply with the new legislation were implemented.

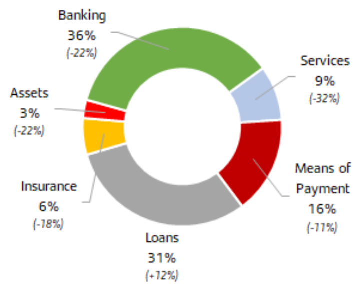
The electronic complaints book, since it is digital and simple to use, in the context experienced, proved to be a critical tool for submission of complaints.

The matters with the highest number of complaints remain in line with those of previous years, namely current accounts (closure and commissions), credit, cards and, this year, in particular, moratoria. However, all of them were lesser in number than in the same period in the previous year.

However, in such an adverse year, it is worth highlighting the result of the three indicators of the Bank of Portugal, published in its half-yearly Behavioural Supervision report, with a reduction in the volume of complaints on each subject matter.

The main indicators of the year are as follows:

TYPOLOGY OF COMPLAINTS



COMPLAINTS	2020	2019
Complaints received	4,036	4,655
Var. vs the homologous period	-13%	+8%
Number of complaints/Customers *	1.10	1.26
Complaints through regulators	70%	64%

* For every 10,000 customers

Technology and Operations

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

From an internal perspective, the implementation of the new personal credit solution for the end-to-end contracting process stands out, supported by new technologies with a strong focus on improving user experience, and on the evolution of Santander cockpit and intranet solutions, now oriented towards the simplification and efficiency of branch activities. As well as VOICE, which provides employees and managers with a 360 view of the relationship between customers and the Bank.

From an external perspective, and as already mentioned, the improvement and modernization of the digital channels has continued, namely of Netbanco and of the App, with more features. The institutional website was reformulated, with a more modern look & feel, and a language more oriented to the needs of customers. The Santander Boutique was implemented, offering a simple and immediate credit solution for a set of product offers in different categories.

Inevitably, 2020 was globally marked by the context of the pandemic and, in the financial sector, by the provision of public and private moratoria as an important support mechanism for families and companies. In this sense, and from a technological perspective, several initiatives were implemented, from being able to adhere to moratoria through digital channels, to operationalizing through the information systems the various modalities, regime and needs of moratoria.

Additionally, and within a relevant regulatory framework, the Technology area has implemented initiatives to ensure compliance with the requirements of a legal or regulatory nature, as well as implementation of the recommendations arising from internal and external audits - critical pillars in the activities of Santander Portugal.

The Cybersecurity area - with the declaration of the state of pandemic and the adoption of telework for many employees had to manage new challenges that determined adaptations in the way of working for the entire organization, as well as in the management of cyber risks, in particular, of phishing attacks on customers.

Teleworking involved a complex adaptation in the Bank's infrastructure to allow the continuation of business activities in a remote, secure manner. Continuing the mission of promoting a culture of cybersecurity in the organization, internal communication was reinforced in order to provide for the adoption of best practices for conducting secure video conferencing and exchanging sensitive information between the Bank and its customers.

Phishing attacks on customers grew both in frequency and intensity with the extension of the state of confinement, leveraged by the needs of digitization not only of the Bank's business management model, but of the entire society in general. This fact required a reassessment of the cyber-risk management model in this area, and fraud prevention controls were reinforced in order to mitigate these threats.

In terms of Infrastructure, it was possible to provide the Bank with the necessary conditions for employees to perform their tasks through telework, providing O365 and Teams collaborative tools for the entire network of branches and central services. In the network of branches, the activities to implement the technological modernization of the communications network and the renewal of jobs also stood out, which provided improved accessibility and enhanced communication, reinforcing the image of the digital transformation of branches before their customers.

In the Operations area, the technological transformation process continued with the implementation of *Business Process Management* (BPM) tools as well as new robotization tools, which include the configuration of a single entry channel for operations, the standardization of procedures and working methodologies, and real-time control of all activities and of compliance with their *Service Level Agreements* (SLAs).

The pandemic and teleworking period was a test to BPM's capacity, having been initially applied to the moratoria processes, which allowed, in record time, to mobilize all resources and guarantee all the necessary controls to deal with the high volume of requests, and above all, to keep all operation activities running smoothly with the fulfilment of service levels and SLAs, for the best quality of service to customers. With this "pilot" in real time, the ability to activate teams for multitasking and multiskilling models and the transformational rotation of the area was proven, operating the development of an agile culture and an operating model mastered by all employees. With more than 1,400 processes in production, covering all operation activities (including outsourcers), it is possible to measure and control the entire activity in real time.

The implementation of the new customer communication strategy was one of the pillars of the activities of the Operations area, which had a significant impact on cost reduction and was also highlighted as a reference initiative, namely the *Paperfree* for the entire Santander Group.

The training initiative dedicated to all employees working in *Agile Efficient* methodology, allowed, on the one hand, the continuation of teleworking projects, and, on the other hand, the continuous and close relationship with all commercial teams.

People Management

Introduction

2020 was definitely marked by the COVID-19 pandemic, and the consequent effects on new ways of working in the acceleration, simplification, and digitalization of end-to-end processes.

Transforming the Bank into an open financial services platform was accelerated, and the job market and the Bank began to value certain skills in its employees such as greater adaptability, as well as skills reflecting the needs of a more digital, more creative future, under constant change.

2020 was also the year in which the Group organized itself in three geographic regions with global reach (Europe, South America and North America) supported by global businesses (SCIB and WM&I and Santander Global Platforms).

In response to the crisis, the Group launched “Santander All. Together. Now." A motto that brings together the Group's efforts around the world to be by the side of those who need it most in the context of the pandemic crisis. This movement mobilized resources and initiatives in society, in collaboration with governments and institutions. In Portugal this motto was used in all internal and external campaigns related to COVID-19.

The Bank adapted its way of working, with more than 4,000 employees working remotely from March to May, following and incorporating all the recommendations of the Government and health authorities under 3 main pillars: i) development and implementation of health and safety protocols; ii) prioritizing and monitoring employees' health; and iii) screening (through the development of the *DeVolta App*).

The Bank communicated with all employees, via informative emails, with appealing messages, illustrated with images from the Santander brand manual. 'Teleworking' and 'Back to the Bank' guides were also prepared with all useful guidelines and information for remote work and for employees return to their workplaces.

For their return to the Bank, the motto “Here we're safer” was developed, the main message in the protection kits made available to employees and on the signs posted on all Bank buildings.

As already mentioned in the chapter on “Corporate Culture,” the 8 behaviours that should be applied by all employees in their day-to-day activities are: Show Respect, Truly Listen, Talk Straight, Keep Promises, Actively Collaborate, Bring Passion, Support People, Embrace Change. These behaviours will help Santander Portugal to become:

- The best Bank for employees – in order to attract, retain and commit the best professionals capable of providing the best service to customers, and guaranteeing the success and sustainability of its business.
- The best Bank for society – in order to perform its banking activities while contributing to the economic and social progress of the communities in which it is present, in a responsible, sustainable manner, with a special commitment to higher education.
- The best Bank for customers – in order to build long-term relationships of trust with customers, offering simple, customized solutions; fair, equal treatment; and excellent service, both through digital channels and in person, aiming to increase their satisfaction and connection to the Bank.
- The best Bank for shareholders – in order to be profitable and obtain an attractive, sustainable return for shareholders, based on an efficient business model, with high recurrence of revenues, prudent risks, and with capital discipline and financial strength.

Leadership

In order to improve the Bank's global performance, leadership was identified as a strategic axis of action, since this factor has an impact on employee engagement, on their degree of happiness in the workplace, and even on their well-being. Thus, leadership commitments that should be used by the Bank's leaders were created, guiding and aligning the path and expectations in order to be responsible by focusing on the following areas of activity:

- Being open and inclusive, accepting differences and promoting diversity, identifying the real needs of employees, customers, shareholders and society. Collaborating and working as a team, always thinking on the Group's ultimate benefit. Taking into account the different points of view, and integrating them into the team. Being open, receptive, and encouraging people to speak clearly and openly.
- Inspiring and implementing transformation, with a clear strategic vision, while delivering sustainable results. Thinking big and listening to the market and to customers. Proposing ideas and actions for improvement. Defining and executing plans and strategies swiftly, with quality, and with sustainable results over time. Responsibly mobilizing and accelerating change. Innovating with an entrepreneurial mindset, without fear of failure, and learning from mistakes.

- Leading by example, being always consistent with Risk Pro behaviours and culture at all times. Conveying confidence, being honest, empathetic and expecting the best from others. Controlling one's emotions and adapting one's reactions to each situation.
- Supporting the team and helping it progress, by recognizing and giving visibility to the achievements of its team and its area. Challenging people and supporting their growth process. Making one's work have an effect and impact on one's team, being consistent and living Risk Pro behaviours at all times

For some years now, Santander has had the corporate objective of being the best company to work for in the various geographies where it is present, and, for this reason, it has been consolidating the work done in previous years, notably by improving processes that simplify employee experience, streamlining and expanding the package of measures that the Bank puts at their disposal.

In 2020, for the fourth consecutive year, the Bank was distinguished with the Best Place to Work award from *Great Place to Work*, and achieved the "efr A" status (level of Excellence) as a Family Responsible Company, awarded by the Más Familia Association.

In the "Pulses" survey, carried out in October 2020, across the entire Santander Group, Portugal achieved an outstanding result in the Products and Services eNPS - whether employees recommend the Bank's products and services to family members and friends. It obtained 44 points (excellent) vs 38 within the Group as a whole. In the job choice eNPS - whether employees recommend the Bank as a good company to work for - it achieved a good result, 30 points (good) vs 41 in the Group as a whole. In these 2 eNPS Portugal achieved better results than the other European countries.

Undoubtedly, the more than 60 measures that are available to employees and that meet the objective of the Bank being the Best Company to Work for have contributed to these awards. In 2020, in addition to the measures that already exist within the context of a family responsible company, others were launched to respond to the needs brought by the pandemic, both to facilitate remote work and to prevent any loss of liquidity on the part of families.

COVID-19 measures

- Salaries - all employees, whether they were in telework, in quarantine, in isolation, or because they belong to risk groups, or were taking advantage of their holidays as a result of their children's academic and non-academic activities being suspended and of the closure of nursing homes, payment of everyone's salary and food allowance was ensured at 100%.
- Christmas allowance - all employees with immediate liquidity needs were given the possibility of advancing up to 50% of their Christmas allowance.
- Training credit - training credit of up to 50 thousand euros was launched, with an interest rate of 0.25%, so that employees could meet the expenses of paying for their children's university tuition fees.
- Net Family Credit - was reformulated to include the acquisition of computer equipment, as well as office furniture at zero-rate, up to a maximum amount of €1,500.
- 6-month grace period for mortgage and consumer loans - an immediate grace period for capital amortization over 6 months was also approved for employees who were in a regular situation, for home loans (including ACT credit) and for consumer loans.
- 1st analysis to COVID-19 for all high-risk employees with direct contact with infected people or with symptoms of the disease.
- COVID-19 medical support lines - 2 telephone lines were set up, i) the COVID-19 Medical line and ii) the COVID-19 Psychologist Line, every day for 2 hours, to provide support to employees or family members for situations resulting from the pandemic.
- For employees in telework who need to establish business contacts and who do not have a mobile phone provided by the Bank, payment of phone calls with a monthly limit of €20 per month was established. For commercials with a Bank's mobile phone, and which for reasons of commercial contacts, their communications ceiling was exceeded, the Bank also took up that payment.
- For those who previously enjoyed the joint payment of their social pass, and which for greater security - i.e., for avoiding public transportation - had to start travelling by car to the Bank, a contribution of 40 € per month was paid for fuel expenses.
- Four more MiniBus routes - 3 in Lisbon and 1 in Porto - so that employees could avoid public transportation.
- In order for employees to have better work spaces at home, protocols were established with Bank suppliers (of Bank chairs and desks, with a 60% reduction compared to the market price), and for the purchase of computer equipment and accessories.
- *DeVolta App* - Development, together with the Group, of an App, the *"DeVolta" App*, to validate the health conditions of employees regarding COVID-19 on their return to the Bank's premises.
- To keep confined employees active and in shape - with physical activity, meditation and nutrition practices, enhancing balance and well-being as they spent more time at home -, the Gympass Wellness was offered, free of charge for 30 days, and Equinow online classes.
- *Take-away* – a protocol was signed with a catering company for take-away food, with delivery at the workstation (in Greater Lisbon and Greater Porto), as long as ordered the day before. Take-away was also available at the restaurant of Santander Centre.

- Back to Work Guide - with practical information on returning to face-to-face work for employees in central buildings (about 2,500 employees, 90% of whom were in telework).

Recruitment, Inclusive Recruitment and *Employer Value Proposition*

As part of the staff rejuvenation process, over the course of 2020/21, new trainees were recruited, whom, for a period of one year, developed skills in areas associated with the Bank's transformation process. In addition to the trainees recruited, summer internships and professional internships were implemented, through which the Bank intends to have an active and high-value offer for university students. In this way, it is possible to get to know university talent better, through its inclusion in the Bank's teams. In 2020, 87 students and recent graduates / masters served as interns at the Bank.

A close relationship was also developed with some Universities that can provide talent to support the digital transformation process. To this end, projects and challenges were carried out jointly involving students and Bank employees.

It is also important to highlight the Bank's active role with the Inclusive Community Forum (ICF), under which an inclusive recruitment process was established, which was taken up by the partner companies of this forum.

Another program to be highlighted in this area, which has the support of Santander, is the Salvador Employability Program for people with motor disabilities, whose aim is to promote the social and professional integration of people with motor disabilities, and improve their quality of life.

We Are Santander 2020 Week

Every year the Santander Group - in all countries where it is present - holds the "Santander Week," where the main recipients are employees and under which numerous activities and events are held in order to increase one's pride of belonging. It is intended to strengthen relationships between teams, hierarchies and employees. In September 2020, this remote event was dedicated to the Bank's Culture - the "*Santander Way*." On each day of the week, focus was given to: 1) Values: Simple, Close and Fair; 2) Behaviours; 3) Risk Pro; 4) the 4 Leadership commitments; and 5) the *Santander Way*.

The two traditionally most important events of this week were held via Zoom with the presence of the CEO: the celebration of the Bank's 30th anniversary, and the Excellence Awards for employees whose children were awarded for having completed secondary education with a final average of 20, 19 and 18 marks (out of 20).

BeHealthy *Programme*

Santander has a corporate program aimed at positioning the Bank as the healthiest company in the world. This program is called *BeHealthy*, and aims to promote and create healthy lifestyle habits for its employees based on 4 pillars of development. The week of April 20 to 24, 2020 was dedicated to promoting this program, remotely, with the sale of organic vegetable baskets from Semear - a solidarity institution -, the online sale of urban vegetable products, and the sharing of links with classes and online exercises, as well as online meditation classes, among other initiatives.

Junior Achievement

The mission of JA – Junior Achievement, is to inspire future generations by promoting entrepreneurship amongst the young ones. Through volunteers who work with schools, they address topics such as financial literacy, the values of entrepreneurs who strengthen the business world, and bet on enhancing the entrepreneurial spirit of young people. The collaboration of Santander with JA Portugal started in 2006, and since then it has already impacted more than 11,500 students, involving a total of more than 8,100 volunteer hours.

In recent years, the Bank has promoted this training program among young students between 1st and 12th grades. A participation that reinforces voluntary spirit, solidarity, and brings employees closer to their local communities.

Excellence Awards

The Excellence Awards is the Bank's recognition of the children of employees who complete secondary education with a final average of 16 or more marks (out of 20).

The "Excellence" awards for employee children who completed secondary education with the highest averages, were materialized in a gift card corresponding to an amount of 3, 2 and 1 year of university tuition fees, whose reference value is the amount announced by the General Directorate of Higher Education for each academic year. For 2020, this amount was €697. The Bank's total investment was € 66,215.

The first seven positions were offered an amount corresponding to the cost of the tuition fees for a 3-year degree (€2,091), the second prizes (22 winners) were awarded the amount corresponding to 2 years of higher education tuition fees (€1,394), and the third prize (20 winners) was awarded the amount corresponding to 1 year of tuition fees (€697).

Training and Development

In 2020, a total of 6,091 employees participated in training initiatives, 83% of which through e-learning. A total of 261,596 hours of training were imparted, representing an investment of €1,380,000 in training, over the year. Corresponding to an average of 43 hours *per capita* distributed in three modalities: e-learning, virtual classes, and in person classes.

Indicators

% employees (female)	46%
% employees (male)	54%
% directors and managers (female) / total	33%
% employees with higher education	57%
Average age (years)	46

ECONOMIC AND FINANCIAL INFORMATION

Consolidated business

At the end of 2020, Santander Totta, SGPS recorded a consolidated net income attributable to the shareholders of ST, SGPS of €295.6 million, compared to the €527.3 million obtained in the previous year, down by 43.9%, due to the influence of the pandemic crisis that led to a strong slowdown of economic activity, and to the preventive constitution of impairments.

Return on Equity (ROE) stood at 6.9%, and the efficiency ratio at 43.8%.

Loans and advances to customers (gross) amounted to €42.7 billion, growing by 6.8% compared to the amount achieved in the same period last year. Loans to individuals increased by 4.5% and loans to corporates rose by 6.7%. The Bank provided moratoria for credit to individuals and corporates, complementing the State's moratorium, with the aim of allowing the reduction of the charges on these loans to customers.

The Non-Performing Exposure ratio stood at 2.6%, decreasing by 0.6 pp, compared to 3.2% recorded a year earlier, with provisions coverage of 66.8% (up by 13.7p.p.

Customers' resources amounted to €43.2 billion, up by 1.9% compared to the same period of 2019, with a 2.3% increase of deposits and a 0.4% decrease of off-balance sheet resources.

The Common Equity Tier 1 ratio (fully implemented) amounted to 20.6%, increasing by 5.6 percentage points compared to the end of June 2019.

The financing obtained from the European Central Bank, in the amount of €6.8 billion, was based entirely on long-term operations, through the targeted longer term refinancing operations (TLTRO III). The net exposure to the Eurosystem stood at €2.9 billion. Long-term financing also includes €2.0 billion of mortgage bonds (with the repayment of a mortgage bond amounting to €0.75 billion, without refinancing through the market), and €0.6 billion of securitizations.

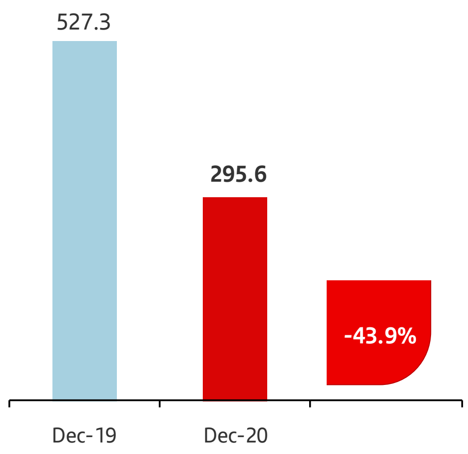
Short-term funding achieved through repos amounted to €1.3 billion.

The LCR (Liquidity Coverage Ratio), calculated in accordance with the CRD IV rules, stood at 121.9%, 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)	Dec-20	Dec-19	Var.
Net interest income	**786.6**	**855.7**	**-8.1%**
Income from equity instruments	1.7	1.8	-3.1%
Results from associates	14.6	10.8	+34.7%
Net fees	373.2	380.5	-1.9%
Other operating results	9.6	11.4	-15.7%
Insurance activity	17.2	21.7	-20.5%
Commercial revenue	**1,203.0**	**1,281.9**	**-6.2%**
Gain/losses on financial assets	114.7	95.2	+20.5%
Net income from banking activities	**1,317.7**	**1,377.1**	**-4.3%**
Operating costs	(577.2)	(604.4)	-4.5%
Staff expenses	(324.4)	(346.0)	-6.2%
Other administrative expenses	(200.4)	(208.8)	-4.0%
Depreciation	(52.4)	(49.6)	+5.6%
Net operating Income	**740.5**	**772.7**	**-4.2%**
Impairment, net provisions and other results	(335.5)	(32.9)	+919.7%
Income before taxes and non-controlling interests	**405.0**	**739.8**	**-45.3%**
Taxes	(109.3)	(212.3)	-48.5%
Income after taxes and before non-controlling interests	**295.7**	**527.5**	**-43.9%**
Non-controlling interests	(0.1)	(0.2)	-49.7%
Consolidated net income attributable to the shareholders of ST, SGPS	**295.6**	**527.3**	**-43.9%**

To comply with FINREP 2.9, contributions to the Resolution Fund and Deposits Guarantee System were reclasssified from "Other operating results" to "Net provisions and other results", and so as to be comparable, all values from 2019 were adjusted accordingly

At the end of 2020, the net interest income stood at €786.6 million, down by 8.1%, compared to the €855.7 million obtained in the same period of 2019, reflecting the decline in credit spreads, in a competitive environment, with negative interest rates, a decrease in the demand for credit by companies outside the scope of the State guaranteed credit facilities, and the management of the public debt portfolio.

Results from associates amounted to €14.6 million, an increase of 34.7%, compared to €10.8 million recorded in the same period last year.

Net fees reached €373.2 million, down by 1.9%, compared to the €380.5 million recorded in 2019, with a reduction in credit, means of payment, and insurance commissions. This evolution mirrored the effects of the pandemic on the reduction of activity and the impact of the temporary suspension of a number of fees within the scope of the measures to support businesses and households, complementing the moratorium and credit facilities provided with State guarantee, in particular the exemption of fees on national transfers through the Bank's digital channels, free of charge replacement of cards without contactless technology by cards with this technology, and lower fees for POS terminals.

Other operating results totalled €9.6 million, 15.7% below the same period last year, with emphasis on lower income from property rents, due to the lower volume of the property portfolio, and the context of the health crisis, with the publication of legislation that offered a grace period for the payment of rents.

The insurance activity of €17.2 million decreased by 20.5%, compared to the €21.7 million in the previous year, reflecting the transfer of a portfolio of the former Eurovida Seguros to Aegon Santander Seguros.

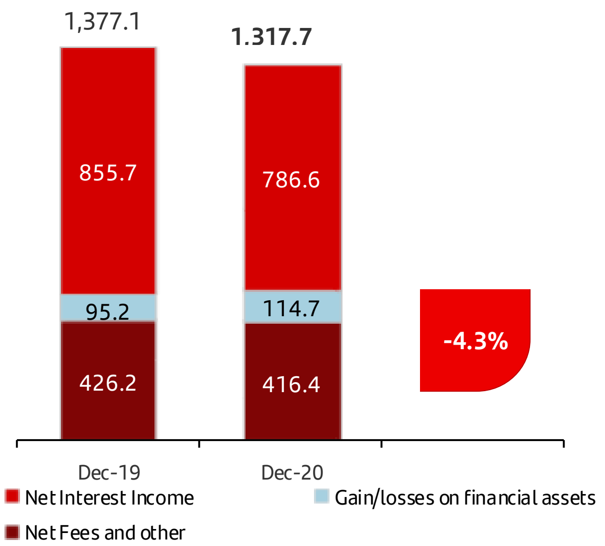
Commercial revenue totalled €1,203.0 million, 6.2% less than the €1,281.9 million in the same period of 2019.

Gain/losses on financial assets totalled €114.7 million, up by 20.5% from the €95.2 million at end of 2019, with the inclusion of income generated by the management of the public debt portfolio.

Net income from banking activities amounted to €1,317.7 million, down by 4.3% compared to the €1,377.1 million at the end of 2019, mainly translating the decrease of net interest income and net fees, and the growth in income from gains/losses on financial assets.

NET INCOME FROM BANKING ACTIVITIES

million euro



Operating costs totalled €577.2 million, a 4.5% decrease compared to the previous year's figure.

In the past year there has been a reduction of 214 employees and 65 service centres, within the context of the digitalization era, with the progressive reduction of branches and the functional redefinition of others, along with increased automation of processes and functions of central services.

Staff expenses reached €324.4 million, decreasing by 6.2% year-on-year.

Other administrative expenses amounted to €200.4 million, down by 4.0%, compared to the same period last year.

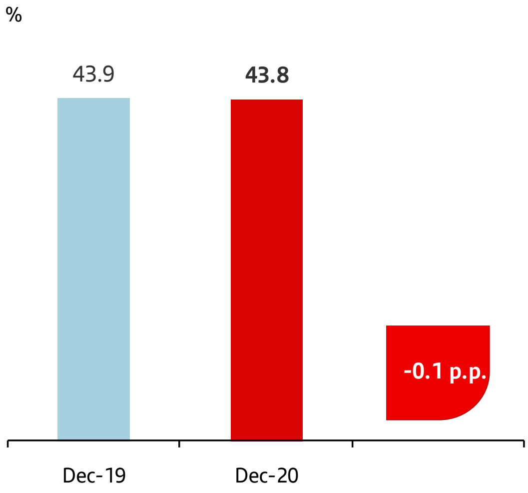
Depreciation amounted to €52.4 million, up by 5.6% compared to the end of 2019, with the investment in the digital transformation.

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

OPERATING COSTS (million euro)	Dec-20	Dec-19	Var.
Staff expenses	(324.4)	(346.0)	-6.2%
Other administrative expenses	(200.4)	(208.8)	-4.0%
Depreciation	(52.4)	(49.6)	+5.6%
Operating costs	**(577.2)**	**(604.4)**	**-4.5%**
Efficiency ratio	**43.8%**	**43.9%**	**-0.1 p.p.**

At the end of 2020, the efficiency ratio decreased by 0.1 percentage points, down from 43.9% to 43.8%, through the 4.3% reduction of net income from banking activities and the 4.5% reduction of operating costs.

EFFICIENCY RATIO



The net operating income of €740.5 million decreased by 4.2% compared to the €772.7 million achieved in the same period last year, given that the downward trend of operating costs did not fully absorb the reduction of operating income.

Impairment, net provisions and other income entailed a cost of €335.5 million, compared to the €32.9 million from last year.

In 2020, a preventive reinforcement of provisions for credit impairment was made, in order to face potential losses from the non-payment of loans with non-productive exposures, as a result of the pandemic situation, reflecting the incorporation of the forward looking component of the most adverse macroeconomic scenario.

There were also regulatory costs, with the Resolution Fund and with the Banking Sector Contribution in the amount of €70.1 million, higher than the €60.9 million of the previous year.

Income before taxes and non-controlling interests amounted to €405.0 million, 45.3% less than the €739.8 million at the end of the 2019.

Taxes totalled €109.3 million, down by 48.5% compared to the €212.3 million recorded a year earlier.

At the end of 2020, Santander Totta, SGPS returned a consolidated net income attributable to the shareholders of ST, SGPS of €295.6 million, down by 43.9% compared to the sum of €527.3 million in the same period in 2019, reflecting the impact associated with the pandemic crisis.

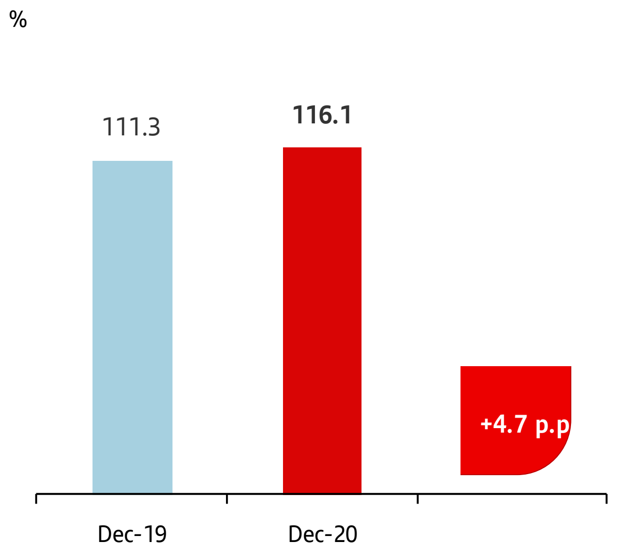
Balance Sheet and Business

At the end of 2020, the business volume amounted to €85,9 billion, up by 4.2% compared to the amount of €82,4 billion in the same period in 2019, resulting from the 6.8% increase of loans and advances to customers, and of the 1.9% increase of customers' resources.

BUSINESS VOLUME (million euro)	Dec-20	Dec-19	Var.
Business Volume	**85,892**	**82,404**	**+4.2%**
Loans and advances to customers (gross)	42,684	39,984	+6.8%
Customers' Resources	43,208	42,420	+1.9%

The transformation ratio, measured as the ratio between loans and deposits, stood at 116.1% in 2020, 4.7 percentage points more than in the same period last year, the result of the growth of loans and advances exceeding that of deposits.

LOAN-TO-DEPOSIT RATIO (transformation ratio)



At the end of 2020, the portfolio of loans and advances to customers (gross) totalled €42.7 billion, up by 6.8% 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.

LOANS (million euro)	Dec-20	Dec-19	Var.
Loans and advances to customers (gross)	**42,684**	**39,984**	**+6.8%**
of which			
Loans to individuals	22,767	21,789	+4.5%
of which			
Mortgage	20,670	19,654	+5.2%
Consumer	1,680	1,707	-1.5%
Loans to corporates	16,371	15,345	+6.7%

Loans to individuals totalled €22.8 billion, corresponding to an increase of 4.5%, in year-on-year terms.

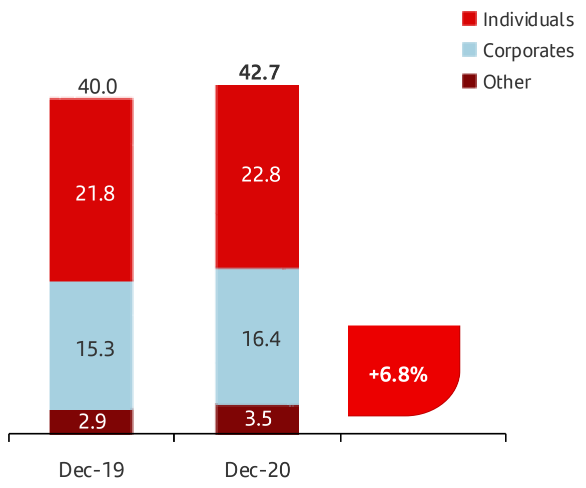
Mortgage loans rose by 5.2% to €20.7 billion. Consumer credit fell by 1.5% to €1.7 billion, in an adverse environment of restrictions on activity and mobility.

Loans to corporates reached €16.4 billion, an increase of 6.7% over the same period last year, reflecting the support given to the Portuguese business fabric.

The Bank offered moratoria on loans to individuals and companies, complementing the State's moratoria, in order to allow the reduction of the charges on these loans for customers whose income decreased as a result of the adverse effects of the pandemic, as well as agreed credit facilities to support the economy, to free up liquidity for companies to be able to meet their commitments.

LOANS AND ADVANCES TO CUSTOMERS (GROSS)

million euro



At the end of 2020, the Non-Performing Exposure (NPE) ratio, calculated in keeping with the EBA definition, stood at 2.6%, a decrease of 0.6pp over the same period last year. The cover of the Non-Performing Exposure by impairments stood at 66.8% (up by 13.7pp compared to the 53.1% recorded in December 2019). The cost of credit, measured by the net impairment of credit previously written off from assets as a percentage of the average balance of the loan portfolio stood at 0.45%, reflecting the preventive reinforcement of the impairment of the credit to anticipate the effects of the pandemic.

CREDIT RISK RATIOS	Dec-20	Dec-19	Var.
Non-Performing Exposure Ratio	2.6%	3.2%	-0.6 p.p.
Non Performing Exposure coverage Ratio	66.8%	53.1%	+13.7 p.p.
Cost of credit	0.45%	(0.02%)	+0.47 p.p.

At the end of 2020, customer resources totalled €43,2 billion, up by 1.9% compared to the same period in 2019, supported by the evolution of deposits (y-o-y growth of 2.3%), which offset the decrease of off-balance sheet resources (0.4% less than at the end of 2019).

RESOURCES (million euro)	Dec-20	Dec-19	Var.
Customers' resources	**43,208**	**42,420**	**+1.9%**
On-balance sheet resources	35,939	35,119	+2.3%
Deposits	35,939	35,119	+2.3%
Off-balance sheet resources	7,269	7,301	-0.4%
Investment funds marketed by the Bank	3,252	3,066	+6.1%
Insurance and other resources	4,017	4,235	-5.2%

Deposits amounted to €35.9 billion, up by 2.3% y-o-y, constituting the main source of funding of the balance sheet and reflecting the activity of household consumption, which favoured higher saving rates, and the financial soundness of the Bank, which reinforces the trust of customers in a context of interest rates at historic lows. Customers' off-balance sheet resources stood at €7.3 billion, down by 0.4% over the figure determined in 2019.

Investment funds marketed by the Bank in the amount of €3.3 billion increased by 6.1% over the past year. Insurance and other resources in the amount of € 4.0 billion, dropped by 5.2% year on year.

Solvency ratios

At the end of 2020, Santander Totta had a high capitalization, with the Common Equity Tier 1 (CET 1) ratio, calculated in accordance with the CRD IV/ CRR IV standards, standing at 20.6% (fully implemented), with an increase of 5.6 percentage points compared to 15.0% a year earlier, thus complying with all the capital ratios required by the European Central Bank under the SREP - Supervisory Review and Evaluation Process).

This evolution reflected the ability for organic generation of capital and management of risk weighted assets. Taking into account 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 in 2020.

CAPITAL (million euro)	Dec-20	Dec-19	Var.
Common Equity Tier I	**3,697**	**2,804**	**+31.9%**
Tier I Capital	4,297	3,404	+26.3%
Total Capital	4,373	3,477	+25.8%
Risk Weighted Assets (RWA)	**17,958**	**18,648**	**-3.7%**
CET I ratio	20.6%	15.0%	+5.6 p.p.
Tier I ratio	23.9%	18.3%	+5.6 p.p.
Total Capital Ratio	24.4%	18.6%	+5.8 p.p.

RELEVANT FACTS AFTER THE CLOSE OF THE PERIOD

There were no relevant facts after the close of the period

OUTLOOK FOR 2021

As mentioned in the chapter “Major Risks and Uncertainties for 2021,” the evolution of Santander's activity in Portugal remains associated with the development of the pandemic situation resulting from the COVID-19 disease.

In this adverse scenario, Santander Portugal maintains its strategic lines as already defined, including support for households and businesses, having also support for people as a priority, including employees, customers and general society, in order to mitigate the effects of the pandemic.

The effects of the pandemic on economic activity have to be analysed considering that, within the period of one year, there were two periods of strong restrictions on specific sectors and activities, which reinforced those effects, even taking into account the existence of support measures, which the Government has successively extended.

Thus, the pressure factors on the bank's business still remain, and, consequently, on profitability. The reduction in business necessarily translates into a reduction in revenues, while the uncertainty associated with the economic scenario requires a significant reinforcement of impairments in order to face the greater likelihood of occurrence of situations of default in families and companies.

At this point, the moratoria decrease the risk of default in the short term, but do not eliminate them, especially if the crisis has lasting effects on employment. Given that the moratoria, in the current legal context, will be extinguished throughout the year of 2021, and unemployment already shows an upward trend, the monitoring of credit quality will have to remain throughout the year, so that action can be taken in a timely manner to avoid the materialization of default risks.

Digital channels, whose use had already increased during the first wave of the pandemic, were more widely used, and the Bank reinforced its investment in the ongoing digital transformation, in order to better serve customers, by allowing access to banking services, permanently and at any time.

The Bank will continue to develop its strategy and deepen its transformation, based essentially: i) through scanning and optimization of processes, in particular through greater innovation in digital channels and strengthening the multi-channel distribution model in order to provide a more complete and accessible service to customers; ii) on the simplification of the number of products, while maintaining, however, a complete value proposition that meets the needs of customers; iii) on the increase of market shares and of customer loyalty, by strengthening, among other aspects, our position with SMEs; iv) on strict control over the predictable increase of the cost of credit; and v) by keeping a solid capital position, in line with the new regulatory requirements.

Santander Portugal will also keep focusing on being a Responsible Bank, boosting sustainable and inclusive growth of Society, reducing social and economic inequalities of the population, and supporting, at the same time, the development of the Communities where it is present, which results in the promotion of sustainable consumption through products such as the Santander Sustainable Fund and the financing of renewable energies and green technologies, thus supporting the transition to a low carbon economy.

RISK MANAGEMENT

Risk management and monitoring model

The Bank'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.

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 Bank's long-term sustainability;
- All employees are responsible for risk management and must know and understand the risks generated by their daily activities, avoiding to take risks whose impact is unknown or exceeds the Bank'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, assessing its degree of implementation and checking that the risk profile remains within the levels defined in the Bank'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 Bank'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 entire Bank.

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 our 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.

The Bank 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 of defence	2nd line of defence	3rd line of defence
The lines of business and all other functions that give rise to risk are the first line of defence. The first line of defence identifies, measures, controls, follows and reports the risks that originate and apply the models, policies and procedures that regulate risk management, ensuring that the risks they generate are in accordance with the approved risk appetite and the corresponding Limits. Any unit that creates a given risk has a responsibility to manage that risk.	The **Risk, Compliance and Conduct** areas are the second line of defence. Their role is to independently control and challenge the risk management activities carried out by the first line of defence. These areas ensure that risks are managed according to the risk appetite defined by the Board of Directors, and foster a solid risk culture throughout the organization.	The **Internal Audit** function is a permanent function, independent of any other function, whose mission is to provide the Board of Directors and Senior Management with an independent assessment on the quality and effectiveness of internal controls, risk and risk management systems and governance, thus contributing to the protection of the organization's value, its solvency, and its reputation.

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. 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: Chairman of the Executive Committee (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.

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 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, and with a wholesale banking business model that gives priority to customer relations in the main markets of the Group;

- Production of stable and 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 the 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 Bank 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 employees, customers, shareholders, and society in general;
- A remuneration policy that aligns the individual interests of employees and managers with the Bank's risk appetite, and is consistent with the Bank's long-term performance.

General Principles of Risk Appetite

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

- **Responsibility of the Board and Top Management.** The Board of Directors is ultimately 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:

- Income volatility: Maximum loss that the Bank is willing to take in the face of a chronic stress scenario;
- Solvency: Minimum capital position and maximum leverage level that the Bank is prepared to take in a scenario of chronic stress;
- Liquidity: Minimum structural liquidity position, minimum liquidity horizons that the Bank is willing to take in the face of various chronic stress scenarios, and minimum liquidity coverage position;
- Concentration: per individual client; concentration on non-investment grade counterparties; concentration on large exposures;
- Non-Financial Risks: Qualitative indicators on non-financial risks (fraud; technology; security and cyber risk; litigation and others), maximum losses from operational risk and maximum risk profile.

Compliance with risk appetite limits is monitored regularly. The specialized control areas inform the Board of Directors 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 to identify and assess the various types of risks to which the Bank 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 advanced risk management;
- **Prospective analysis,** based on stress metrics or on the identification and assessment of the main threats to 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.

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 2020

Credit Risk - Main vectors of the business

For Banco Santander Portugal quality in risk management is a fundamental axis of action, 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 a particularly challenging year, such as in 2020, not only due to the emergence of the pandemic that affected the world, but also due to the continued demand 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 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.

Credit Risk - Main vectors of the business

In 2020, the activity of the Credit Risk area was quite demanding, so it had to provide a quick and efficient response to support companies and families, notably:

- Santander Portugal was the first bank to offer all customers the possibility of joining moratoria, either for capital and interest or just for capital;
- The credit limits for companies were automatically extended. Those that expired until June 2020 were extended to September 2020, and later they were extended to the end of March 2021;
- The Bank was a leader in providing "New Money" facilities to support economic activity through the contracting of agreed facilities with SGM guarantee. In this context, customers with pre-approved credit were identified in order to speed up the credit analysis and decision process for standardized customers, and the risk teams were further strengthened to streamline credit analysis and the decision-making process;
- The risk teams collaborated with the commercial teams in order to identify eligible customers for the various agreed facilities that have been launched since the beginning of the pandemic;
- Since the beginning of April, and in compliance with the customer follow-up policy established at the Bank, as well as the ECB and EBA guidelines, the Bank has reinforced the monitoring and follow-up activity of customers who adhered to the moratoria, in order to timely identify any signs that debtors may not be able to meet their credit obligations after the moratoria have ended;
- This customer monitoring and follow-up work was carried out, firstly through the first line of defence (Commercial area) and then jointly with the second line of defence (Risk area). After identifying the most critical sectors, studies were prepared for the various customer portfolios, consisting of 4 chapters:
  - Sectoral framework : a brief sectorial framework based on the collection of information available from official information sources;
  - Analysis of the universe of portfolioed clients (clients with a risk manager) : analysis of the main risk metrics and individual analysis (jointly between the Commercial and the Risk area) of the main economic groups, establishing an outlook / degree of concern for them;
  - Analysis of the universe of non-portfolioed clients (clients without a risk manager) : the main risk metrics for this type of clients were analysed (level of classification of operations *Stage* 1 – without increased risk; *Stage* 2 – with significant increase in risk; *Stage* 3 – *Non Performing Exposure*), level of hedging by guarantees; type of contracted products, among others.
  - 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.
- Customers (private individuals and small companies) whose credit decision is made mostly through decision-making models considered as "automatic," have been incorporated in the same factors 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 customers were strengthened in order to detect in advance the possible deterioration in their payment capacity.

The basic operating principles with regard to the analysis and granting of credit risk remained unchanged:

- Maintaining the principle of segmentation in the treatment of credit risks, differentiating the approach to risks in the light of the characteristics of the customers 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 of the customers, allowed non-performing loans to be kept under control and at acceptable levels.
- Development of improvements in admission processes in order to respond to customer requests in a quicker and more effective way. In this context, decision-making processes at branches were streamlined;
- In 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 Private and Corporate segments.
- Also, in the matter of standardised risks, the focus continued to be centred on ensuring portfolio quality, acting on Non-Performing Exposure (NPE) and overdue loans, while always seeking to anticipate the deterioration of the credit quality of the credit portfolio;
- In this sense the defined admission strategies were maintained in the Bank's decision-making systems, as was recourse to behavioural systems for the identification of preventative and roll-over measures to be offered to customers;
- 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-resources 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 customers 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 customers' 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 customer 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 risks analyst assigned to monitor the customer.

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

The ratings assigned are reviewed periodically, incorporating new financial information that comes to be available, as well as, at qualitative level, the experience arising from assessment of the existing loan relationship. This frequency increases in the case of customers 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

Customer and/or transaction evaluation by rating or scoring constitutes an assessment of the creditworthiness, which is quantified by the probability of default (PD). In addition to the evaluation of the customer, the 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 customer 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, and, 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.

At the level of large corporate groups, a pre-classification model is used, a model based on an economic capital measurement and monitoring system.

In terms of the portfolioed risks, the most basic level is that of the customer, and when certain characteristics are involved – usually a relatively important level – it is subjected to an individual limit, usually called pre-classification, through a more simplified system and usually for those customers 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 Risks and Business and Strategic Commercial Plans (SCP) areas, 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 Banco Santander Portugal. This study consists of analysing the customer's ability to fulfil its contractual obligations towards the Bank, entailing the credit quality of the customer, 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 customer/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 Risks area, comprising teams and their heads. This function is also specialised in the light of customer segmentation and is fundamentally based on a continuous process of observation, allowing advance detection of possible occurrences in the evolution of the risk, of the transaction, and of the customer, 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 customers: 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. All this activity is shared with the business areas.

In May 2020, the Bank 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 Santander Portugal 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 the risks of trading activity and structural risks, both affected by the movements of the markets.

The measurement and control of these risks are carried out by an independent management body.

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

The methodology applied in 2020 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 probability 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 at the bank 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 €8,000 euros on Dec. 31, 2020.

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.

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 Liquidity Coverage Ratio (LCR) calculated in accordance with ECB rules stood at 122% on Dec. 31, 2020.

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

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 in all products, activities, processes and systems and is generated in the business and support areas. Thus, all employees are responsible for managing and controlling the operational risks generated within the scope of their activity.

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 the Bank 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.

The organisational model of Santander Portugal 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.

The operational risk function is structured according to 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 effective control of the 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 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 mitigation measures and actions that reduce and mitigate operational risk;
- Make 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 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 probability 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:

- The 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;
- The 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.

The Bank also develops specific supervisory and control models in terms of technological and cyber risk management in order to ensure the adequate follow-up of the Bank'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.

The Bank 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 the Bank's risk culture allow more efficient evaluation and monitoring of the 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 is defined 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 customers, 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.

The purpose of the Compliance and Reputational Risk policies is their management, as defined in the preceding paragraphs, determining the mechanisms and procedures that: i) allow minimisation of the likelihood of materialisation; ii) identification, reporting to the Board and overcoming situations that may have arisen; iii) ensure monitoring and control; and iv) show, if necessary, that these risks are among the Bank's main concerns, and that it has the organisation and means to prevent, detect, and, where appropriate, overcome them.

Without prejudice to all other aspects arising from what has been exposed, the Global Policy on Compliance Risk, as well as the Policy on Reputational Risk, cover, namely, the instruments identified in the list below, which are referred to by their particular impact in risk prevention and management.

Compliance Risk policies and instruments

- Corporate values that translate into concrete "behaviour", which govern the conduct of all employees;
- Compliance Policy;
- Prevention of Money Laundering and the Financing of Terrorism;
- Codes of conduct (with three dimensions: general; the relationship with customers; and relating to and for the stock market);
- Marketing and Product Follow-up Policies and Procedures;
- General Conflicts of Interest Policy;
- Personal Data Protection and Processing Policy;
- Employee training policy, which includes mandatory regulatory, as well as additional, training;
- Corruption Prevention Policies (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);
- Monitoring and follow-up of new regulations;
- Liaison with the supervisory authorities and follow-up of actions undertaken by them.

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);

- Defence Policy (setting the criteria to be followed in financial activity related with this sector and providing an analysis procedure for all operations and customers covered in the sector).

Apart from the Compliance Risk and the Reputation Risk, the Bank also has a separate Sustainability and Responsible Banking area, in which other policies stand out, such as the *General Sustainability Policy, the Human Rights Policy,* the *Corporate Culture Policy* and the *Social Purposes Contributions Policy*.

In this connection 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.

PROPOSAL FOR THE APPROPRIATION OF NET INCOME

The Net Income for the Year, in separate terms, in respect of 2020, was €7,088,554.15 (seven million, eighty-eight thousand, five hundred and fifty-four euros and fifteen cents), and the Consolidated Net Income in 2020 was €295.558.829 (two hundred ninety-five million, five hundred fifty-eight thousand, eight hundred and twenty-nine euros).

Thus, the Board of Directors proposes to the General Meeting the following appropriation of profits:

- Legal Reserve: €708,855.42 (seven hundred and eight thousand, eight hundred and fifty-five euros and forty-two cents);
- Retained Earnings: €6,379,698.73 (six million, three hundred and seventy-nine thousand, six hundred and ninety-eight euros and seventy-three cents).

Taking into account the recommendation of the European Central Bank of December 15, 2020, the Board of Directors proposes not to distribute dividends.

Lisbon, April 20, 2021

THE BOARD OF DIRECTORS

ADDITIONAL INFORMATION

Money laundering prevention

Bank Santander Portugal's compliance function in terms of anti-money laundering and combating the 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 main objective of the AML/CFT area is to manage compliance risks related to money laundering, to the financing of terrorism and sanctions, ensuring that the activity is carried out in accordance with all applicable regulations, in order to prevent and minimize damage, namely due to possible sanctions, as well as reputational damages. For this purpose, in addition to a specialized, exclusively dedicated organic structure, there are internal regulations and specific procedures and controls in place, incorporating the internal control system in the area of AML/CFT, which is subject to an annual audit.

The AML/CFT area has functional autonomy and reports to the Chief Compliance Officer.

The Head of the PBCFT area acts as the “Head of Regulatory Compliance” in this matter, being responsible for:

- Participating in the definition and issuance of a prior opinion on AML/CFT 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 2020, the following reports were made to Supervisors:

i) A AML/CFT 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 AML/CFT.

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 26, 2020, 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, 2019, Santander Totta, SGPS, held 113.595.456 treasury shares corresponding to 0.058% of its share capital. During 2020, Santander Totta SGPS, S. A. did not purchase any own shares.

TRANSACTION WITH OWN SHARES - 2020

	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31/12/2019	113,595,456	0.02	2,447,158	0.058%
Purchases	-	-	-	-
Disposals	-	-	-	-
31/12/2020	113,595,456	0.02	2,447,158	0.058%

Shares and bonds of the members of the management and supervision bodies

Transactions of the members of the Board of Directors and Supervisory Board - article 447 of the Commercial Companies Code

	Entity	Number of shares at 31/Dec/2019	Transactions in 2020	Number of shares at 31/Dec/2020
José Carlos Brito Sítima	Banco Santander, SA	**125,293**	20.02.2020 - shares deposit (corporate allocation): 15,171 - 3,91€ 10.12.2020 - shares received as dividends: 6,107	**146,571**
Pedro Aires Coruche Castro e Almeida	Banco Santander, SA	**62,219**	20.02.2020 - shares deposit (corporate allocation): 43,366 - 3,91€ 10.12.2020 - shares received as dividends: 4,590	**110,175**
Manuel António Amaral Franco Preto	Banco Santander, SA	**151,133**	20.02.2020 - shares deposit (corporate allocation): 40,335 - 3,91€ 10.12.2020 - shares received as dividends: 8,324	**199,792**
José Duarte Assunção Dias	-	**0**	-	**0**
Fernando Jorge Marques Vieira	-	**0**	-	**0**
Ricardo Manuel Duarte Vidal de Castro	-	**0**	-	**0**
José Luís Areal Alves da Cunha	-	**0**	-	**0**

Duties performed by members of the Board of Directors of Santander Totta at other companies

Other Positions of Note

	Within the consolidation perimeter	Outside the consolidation perimeter
José Carlos Brito Sítima	**Banco Santander Totta, SA (**Chairman of the Board of Directors)	Portal Universia Portugal – Prestação de Serviços Informáticos, S.A. (Chairman General Meeting); Câmara Comércio Luso Espanhola (Deputy Chairman)
Pedro Aires Coruche Castro e Almeida	**Banco Santander Totta, SA (**Deputy-Chairman of the Board of Directors; Chairman of the ExCo | CEO)	ACEGE (Strategy Council Memeber); Centro Paroquial São Francisco de Paula (NE Director); ISEG (Advisory Council Member); Fundação Alfredo de Sousa (Board of Trusttees Member)
Manuel António Amaral Franco Preto	**Banco Santander Totta, SA** (Member of the Board of Directors; Deputy-Chairman of the ExCo); **Taxagest** (Chairman)	-
José Duarte Assunção Dias	**Santander Totta Seguros** (Alternate member of Audit Board); **Gamma** (Chairman of Audit Board); **Aegon Santander Portugal Vida** (Chairman of Audit Board); **Aegon Santander Portugal Não Vida** (Chairman of Audit Board); **Popular Seguros** (Alternate member of Audit Board)	Alves da Cunha, A. Dias & Associados SROC (Partner)
Fernando Jorge Marques Vieira	**Gamma** (Member of Audit Board)	Mazars & Associados - Sociedade de Revisores Oficiais de Contas, S.A. (Partner and company Representative in other entities/companies in the provison of audit services and/or ROC)
Ricardo Manuel Duarte Vidal de Castro	**Gamma** (Member of Audit Board)	Clube do Autor (Executive Board Member); CFO&F SA (CFO); Rimaduvica Lda (Manager)

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", as presented in the Statement of Profit or Loss.

Income from equity instruments

"Dividend income", as presented in the Statement of Profit or Loss t.

Results from associates

"Investments in subsidiaries, joint ventures and associates accounted for using other than equity method," as presented in the Statement of Profit or Loss.

Net fees

"Fee and commission income" less "Fee and commission expenses", as presented in the Statement of Profit or Loss.

Other Operating Results

"Other operating income" less "Other operating expenses" as presented in the Statement of Profit or Loss.

Insurance Activity

Sum of "Gross margin of life insurance in which the risk is borne by the policy holder" with "Gross margin in insurance activity," as presented in the Statement of Profit or Loss.

Commercial Revenue

Sum of "Net interest income", "Income from equity instruments", "Results from associates ", "Net fees", "Other Operating Results" and "Insurance activity".

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" plus "Gains or losses on financial assets and liabilities held for trading, net" plus "Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net," plus "Exchange differences, net", plus "Gains or losses on derecognition of non-financial assets, net", as presented in the Statement of Profit or Loss

Net income from banking activities

Commercial revenue plus "Gain/losses on financial assets", as presented in the Statement of Profit or Loss.

Operating costs

Sum of "Staff expenses" plus "Other administrative expenses" plus "Depreciation" as presented in the as presented in the Statement of Profit or Loss.

Net Operating Income

"Net income from banking activities" minus "Operating costs".

Impairment, net provisions and other results

Sum of "Provisions or reversal of provisions" plus "Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss" plus "Impairment or reversal of impairment on non-financial assets," plus "Other profit or loss, net" plus "Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" plus "Cash contributions to resolution funds and deposit guarantee schemes", as presented in the Statement of Profit or Loss.

Income before taxes and non-controlling interests

"Profit for loss before tax from continuing operations", as presented in the Statement of Profit or Loss.

Taxes

"Tax expense or income related to profit or loss from continuing operations", as presented in the Statement of Profit or Loss.

Income after taxes and before non-controlling interests

"Profit or loss for the year", as presented in the Statement of Profit or Loss **Non-controlling interests**

"Profit or loss for the year - attributable to minority interest [non-controlling interests]", as presented in the Statement of Profit or Loss.

Consolidated Net Income Attributable to the shareholders of ST, SGPS

"Profit or loss for the year - attributable to owners of the parent", as presented in the Statement of Profit or Loss. **Efficiency Ratio**

Ratio between "Operating costs" and "Net income from banking activities".

Loans / Deposits Ratio (transformation ratio)

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

Business Volume

Sum of "Loans and advances to customers (gross)" and "customers' resources".

Loans and advances to customers (gross)

Corresponds to the sum of the following balance sheet statement items: "Financial assets at fair value through other comprehensive income - Loans and advances" plus "Financial assets at amortised cost - debt securities" plus "Financial assets at amortised cost - Loans and advances" excluding "Loans and advances – customers - Other balances receivable", "Loans and advances - credit institutions", "Impairment of debt securities" and "Impairment of loan and advances", as set out in note 9 of the chapter "Notes to the Consolidated Financial Statements".

Net loans and advances to customers

Loans and advances to customers (gross) net of impairments. Impairments correspond to the sum of "Impairment of debt securities" plus "Impairment of loans and advances - customers and other balances receivable", as set out in notes 9 and 18 of the chapter "Notes to the Consolidated Financial Statements".

Loans to individuals (mortgage and consumer) and corporates

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 Credit

Ratio between " Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss " (from the Statement of Profit or Loss) and the average of "Loans and advances to customers (gross)" (from the balance sheet statement).

Non-Performing Exposure Coverage Ratio

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

Deposits

Corresponds to the item "Deposits - Customers", as set out in note 17 of the chapter "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, insurance and other resources marketed by the Bank, which information is obtained through Santander Asset Management and/or the Management Information System (MIS).

Customer's Resources

Sum of "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 "Profit or loss for the year - attributable to owners of the parent" and "Total Equity" at the beginning of the period, as presented in the balance sheet statement.

Return on Assets (RoA)

Ratio between net income and net assets.

Table of non-financial indicators

Please be advised that the Bank prepared a Responsible Banking Report separate from the Management Report, which includes non-financial information, as provided for in article 66-B of the Commercial Companies Code, and it was published on the internet site of the Santander Totta Group by the legal deadline.

CORPORATE GOVERNANCE REPORT

I- Introduction

This report has been prepared in accordance with the Commercial Companies Code (CCC).

In 2020, there was a change in the composition of the members of the Board of Directors due to the death, on March 18, 2020, of the Chairman of the Board of Directors, Mr. António José Sacadura Vieira Monteiro.

On completion of the authorization and registration process with the European Central Bank, on May 15, 2020, Mr. José Carlos Sítima took office as the Chairman of the Board of Directors.

II – Shareholder Structure

The purpose of Santander Totta, SGPS is the management of holdings in other companies as an indirect form of exercising economic activities, and its registered office is located in Portugal.

The Company's Share Capital is 99.848% held by Banco Santander, S. A.

The shares representing the Share Capital are all of the same type and category, granting equal rights to the respective holders, including the right to vote and share in profits.

Consequently, there are no privileged shares of any kind. Likewise, there are no restrictions of any kind on the transfer of shares, which is totally free.

There is no established system of employee participation in the Company's share capital.

Notwithstanding the content of the preceding paragraph, under the terms of the bylaws, one vote its allocated to each one hundred shares.

In order for shareholders to have the right to participate in the General Meeting, they must prove the registration or deposit of shares in financial intermediaries by the third business day prior to the AGM date.

The Company is not aware of any shareholder agreement entered into between shareholders.

III. Social Bodies

The Company is organically structured in the manner provided for in Art. 278.1 sub-paragraph a) of the Commercial Companies Code.

The governing bodies are: the General Meeting, the Board of Directors and the Audit Board, and there is also an independent Statutory Auditor of the Audit Board, in compliance with the provisions of Art. 413.1 sub-paragraph b) of the Commercial Companies Code.

The mandates of the governing bodies have an ordinary term of three years.

The Board of Directors meets at least once a quarter, and whenever convened by its Chair or by two Directors.

No powers are conferred on the Board of Directors to decide increases of the Company’s share capital. There are also no special rules regarding the appointment and replacement of Directors, as well as regarding changes in the By-Laws, the General Law being applied to these matters.

The Board of Directors includes an Executive Committee unto which are delegated all powers permitted by Art. 407. 4, of the Commercial Companies Code.

The Executive Committee is responsible for the day-to-day management of the business and for the representation of the Company. It meets whenever called by its Chair or by two of its other members, continuously following the evolution of social businesses, namely through the analysis of projects in progress or to be developed, as well as the results achieved.

During 2020 the composition of the governing bodies of the Bank was as follows:

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

No agreements are established by the Company whose entry into force is dependent on the change in the Company's shareholder composition or which are altered or cease as a result thereof.

On the other hand, there are no agreements that give the holders of the Board of Directors the right to compensation with the termination of the bond that connects them to the Company as a result of their own initiative, due to removal or dismissal for justified reasons, or if it occurs following a public offer for acquisition.

IV. Remuneration Policy of the Members of the Management and Supervisory Bodies

The following statement on the remuneration policy of the members of the Management and Supervisory Board of Santander Totta SGPS, S. A. (the "Company"), effective in 2020, is proposed to the General Meeting of shareholders for approval of the accounts for the financial year of 2019.

1. Framework

The Santander Group adopts consistent remuneration practices that comply with the regulations applicable in the jurisdictions where it operates.

Remuneration is defined to promote a high performance culture, in which people are rewarded and recognized for their performance, competence, and for the impact they have on the success of the Group and / or its subsidiaries.

Santander Group's remuneration practices shall always be aligned with the interests of its shareholders, employees, customers and society, and, in particular, they shall promote good conduct. The Santander Group ensures, through its practices, that the remuneration policies foster and are consistent with solid, effective risk management and with keeping a solid capital base.

2. Remuneration of the Company's corporate bodies

2.1. The corporate bodies of the Company are the General Meeting, the Board of Directors, and the Audit Board:

a) **Annual General Meeting**. Its members are not remunerated for the functions they perform in the Company.

b) **Audit Board.** Its members earn a fixed remuneration, paid in the following terms: annual amount, paid 12 times a year.

c) **Board of Directors.** The members of the Board of Directors do not earn any remuneration, retirement pensions or any other benefits as payment for exercising their functions. They are only remunerated by other companies in a controlling or group relationship with the Company, namely by its main subsidiary, Banco Santander Totta.

The amounts paid as fixed and variable remuneration to the Company Directors and to the members of the supervisory body, by other companies in a controlling or group relationship with the Company, totalled the global amount of €3.7 million.

3. Complementary Aspects

All subsidiaries of the company apply remuneration practices that are consistent with each other, namely those resulting from the remuneration policy in force at all times in the Santander Group.

Lisbon, April 22, 2020

Declaration to which Article 245(1) sub-paragraph c) of the Securities Code refers

Article 245(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 Banco Santander Totta, S. A., here identified by name, each signed the declaration transcribed hereunder:

"I hereby declare under the terms and for the purposes provided for in Article 245(1)sub-paragraph c) of the Securities Code that, as far as I am aware of, the Management Report, the Annual Accounts, the Legal Certification of Accounts and other Santander Totta, SGPS S. A.'s accounting documents, all relating to the year 2020, were prepared in accordance with the applicable accounting standards, conveying a true and appropriate image of the assets and liabilities, the financial situation and results of that company and of the companies included within its consolidation perimeter, and that the Management Report faithfully depicts the evolution of the business, performance and position of that company and of the companies included within its consolidation perimeter, containing a description of the main risks and uncertainties they face."

The Board of Directors

José Carlos Brito Sítima

Chair

Pedro Aires Coruche Castro e Almeida

Deputy-Chair

Manuel António Amaral Franco Preto

Member

CONSOLIDATED FINANCIAL STATEMENTS

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED BALANCE SHEET STATEMENT AS OF DECEMBER 31, 2020 AND 2019

(Amounts expressed in thousands of Euros - tEuros)

	Notes	31-12-2020	31-12-2019
ASSETS			
Cash, cash balances at central banks and other demand deposits	5	**4,543,652**	**3,500,397**
Financial assets held for trading	6	**901,010**	**1,073,429**
Non-trading financial assets mandatorily at fair value through profit or loss	7	**3,195,742**	**3,100,275**
Equity instruments		817,078	789,083
Debt securities		2,378,664	2,311,192
Financial assets at fair value through other comprehensive income	8	**8,457,676**	**6,587,490**
Equity instruments		72,768	74,034
Debt securities		5,244,837	6,513,456
Loans and advances		3,140,071	-
Financial assets at amortised cost	9	**39,833,021**	**40,076,660**
Debt securities		3,965,219	3,784,761
Loans and advances		35,867,802	36,291,899
Derivatives – Hedge accounting	10	**23,719**	**56,245**
Investments in subsidiaries, joint ventures and associates	11	**131,136**	**112,259**
Tangible assets	12	**584,511**	**629,166**
Investment property		250,531	252,513
Property, Plant and Equipment		333,980	376,653
Intangible assets	12	**39,231**	**33,229**
Tax assets	13	**393,876**	**604,868**
Other assets	14	**175,428**	**264,712**
Non-current assets and disposal groups classified as held for sale	15	**51,461**	**44,043**
TOTAL ASSETS		**58,330,463**	**56,082,773**
LIABILITIES			
Financial liabilities held for trading	6	**920,602**	**1,097,214**
Financial liabilities designated at fair value through profit or loss	16	**3,261,337**	**3,432,017**
Financial liabilities measured at amortised cost	17	**47,052,864**	**45,016,592**
Deposits		44,280,137	41,352,469
Debt securities issued		2,560,585	3,431,231
Other financial liabilities		212,142	232,892
Derivatives – Hedge accounting	10	**522,283**	**393,831**
Provisions	18	**950,932**	**964,754**
Commitments and guarantees given		57,466	53,249
Other provisions		893,466	911,505
Tax liabilities	13	**391,264**	**393,964**
Share capital repayable on demand	19	**64,692**	**64,620**
Other liabilities	20	**446,049**	**456,211**
TOTAL LIABILITIES		**53,610,023**	**51,819,203**
EQUITY			
Capital	21	**1,972,962**	**1,972,962**
Equity instruments issued other than capital	21	**600,000**	**600,000**
Accumulated other comprehensive income	21	**4,172**	**(216,407)**
Items that may not be reclassified to profit or loss		(658,627)	(651,661)
Items that may be reclassified to profit or loss		662,799	435,254
Retained earnings	21	**197,228**	**(137,618)**
Other reserves	21	**1,651,171**	**1,518,234**
Treasury shares	21	**(2,447)**	**(2,447)**
Profit or loss attributable to owners of the parent	22	**295,559**	**527,258**
Minority interests [Non-controlling interests]	23	**1,795**	**1,588**
TOTAL EQUITY		**4,720,440**	**4,263,570**
TOTAL LIABILITIES AND EQUITY		**58,330,463**	**56,082,773**

The accompanying notes form an integral of the consolidated balance sheet for the year ended at December 31, 2020

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AS OF DECEMBER 31, 2020 AND 2019

(Amounts expressed in thousands of Euros - tEuros)

	Notes	31-12-2020	31-12-2019
Interest income	25	1,110,848	1,209,110
Interest expenses	25	(324,208)	(353,396)
NET INTEREST INCOME		**786,640**	**855,714**
Dividend income	26	1,734	1,789
Investments in subsidiaries, joint ventures and associates accounted for using other than equity method	27	14,553	10,805
Fee and commission income	28	483,571	489,003
Fee and commission expenses	28	(110,359)	(108,499)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	29	93,832	66,712
Gains or losses on financial assets and liabilities held for trading, net	29	(9,298)	8,825
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	29	3,326	7,692
Exchange differences, net	29	11,192	11,253
Gains or losses on derecognition of non-financial assets, net	30	15,620	718
Gross margin of life insurance in which the risk is borne by the policy holder	31	73,208	26,818
Gross margin in insurance activity	31	(55,972)	(5,131)
Other operating income	32	21,353	25,747
Other operating expenses	32	(11,718)	(14,312)
TOTAL OPERATING INCOME, NET		**1,317,682**	**1,377,134**
Administrative expenses	33	**(524,808)**	**(554,806)**
Staff expenses		(324,383)	(345,988)
Other administrative expenses		(200,425)	(208,818)
Cash contributions to resolution funds and deposit guarantee schemes	34	**(35,624)**	**(32,647)**
Financial liabilities designated at fair value through profit or loss	12	**(52,405)**	**(49,639)**
Provisions or reversal of provisions	18	**(66,707)**	**(995)**
Commitments and guarantees given		(4,217)	(89)
Other provisions		(62,490)	(906)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	18	**(187,632)**	**6,963**
Financial assets at fair value through other comprehensive income		75	(86)
Financial assets at amortised cost		(187,707)	7,049
Impairment or reversal of impairment on non-financial assets	18	**(16,013)**	**(6,696)**
Other profit or loss, net	1.3 l)	**(34,495)**	**(28,259)**
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	35	**5,014**	**28,736**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		405,012	739,791
Tax expense or income related to profit or loss from continuing operations	13	**(109,344)**	**(212,315)**
PROFIT OR (-) LOSS AFTER TAX FROM CONTINUING OPERATIONS		**295,668**	**527,476**
PROFIT OR LOSS FOR THE YEAR		**295,668**	**527,476**
Attributable to minority interest [non-controlling interests]	23	**109**	**218**
Attributable to owners of the parent		**295,559**	**527,258**

The accompanying notes form an integral part of the consolidated statement of profit and loss for the year ended December 31, 2020

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS OF DECEMBER 31, 2020 AND 2019

(Amounts expressed in thousands of Euros - tEuros)

	2020		2019	
	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	295,559	109	527,258	218
Other comprehensive income	**222,302**	**93**	**15,603**	**8**
Items that will not be reclassified to profit or loss				
Actuarial gains or losses on defined benefit pension plans				
. Gross amount	(5,585)	(2)	(149,850)	(59)
. Tax effect	-	-	22,589	10
Share of other recognised income and expense of entities accounted for using the equity method				
. Gross amount	(1,088)	-	905	-
. Tax effect	277	-	(490)	-
Investment property				
Property, Plant and Equipment	(238)	-	520	-
. Tax effect	-	-	-	-
Items that may be reclassified to profit or loss				
Cash flow hedges				
. Fair value	8,383	4	(84,917)	(37)
. Tax effect	(2,599)	(1)	26,325	11
Financial liabilities designated at fair value through profit or loss				
Valuation gains or (-) losses taken to equity				
. Fair value	(162,735)	(71)	309,416	120
. Tax effect	50,167	22	(93,099)	(37)
Change in business model (Nota 1.3 c)				
. Initial impact				
. Gross amount	373,023	152	-	-
. Tax effect	(115,637)	(46)	-	-
. Fair value changes				
. Gross amount	121,217	51	-	-
. Tax effect	(37,578)	(15)	-	-
. Shadow reserve changes				
. Gross amount	(9,063)	-	(19,113)	-
. Tax effect	3,543	-	3,041	-
Share of other recognised income and expense of Investments in subsidaries, joint ventures and associates				
. Gross amount	294	-	371	-
. Tax effect	(80)	-	(95)	-
Total comprehensive income for the year	**517,861**	**202**	**542,861**	**226**

The accompanying notes form an integral part of the consolidated statements of other comprehensive income for the years ended December 31, 2020

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS ENDED DECEMBER 31, 2020 AND 2019

(Amounts expressed in thousands of Euros)

		Equity instruments	Accumulated Other comprehensive income							Minority interests		
	Capital	instruments issued other than capital	Fair value	Taxes	Retained earnings	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Interim dividends	Other comprehensive income (acum.)	Other items	Total
Balances as at December 31, 2018	**1,972,962**	**600,000**	**(284,237)**	**52,227**	**(145,411)**	**1,576,640**	**(2,284)**	**499,964**	**(100,000)**	**(116)**	**1,993**	**4,171,738**
Appropriation of net income												
. Transfer to reserves	-	-	-	-	68,781	(63,817)	-	(4,964)	-	12	(12)	-
. Distribution of dividends	-	-	-	-	212	3	-	(495,000)	100,000	-	(188)	(394,973)
Investment property	-	-	-	-	(61,200)	-	-	-	-	-	-	(61,200)
income	-	-	-	-	-	5,797	-	-	-	-	-	5,797
Share-based compensation	-	-	-	-	-	(332)	-	-	-	-	-	(332)
Purchase of own shares by Santander Totta, SGPS	-	-	-	-	-	-	(163)	-	-	-	-	(163)
Other	-	-	-	-	-	(57)	-	-	-	-	(327)	(384)
Consolidated comprehensive income in 2019	-	-	57,332	(41,729)	-	-	-	527,258	-	226	-	543,087
Financial liabilities designated at fair value through profit or loss	**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**

The accompanying notes form an integral part of the consolidated statements of changes in shareholders' equity for the years ended December 31, 2020

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Amounts expressed in thousands of Euros)

	Notes	31-12-2020	31-12-2019
CASH FLOW FROM OPERATING ACTIVITIES:			
Interest and commissions received		1,516,925	1,583,976
Payment of interest and commissions		(384,873)	(440,091)
Payment to staff and suppliers		(540,245)	(612,250)
Pension Fund contributions	36	(19,400)	(176,573)
Foreign exchange and other operating results		2,309	11,728
Recovery of uncollectable loans	18	7,317	3,673
Insurance premiums receipts / (Payments)		34,047	41,594
Operating results before changes in operating assets and liabilities		616,080	412,057
(Increase) decrease in operating assets:			
Financial assets at amortized cosst - credit institutions		707,153	(38,139)
Investment property		172,419	141,095
Property, Plant and Equipment		(3,016,579)	508,747
Assets and liabilities at fair value through profit or loss		(187,837)	276,596
Non-current assets held for sale		(30,449)	13,302
Investment properties		1,981	45,113
Other assets		53,242	78,525
		(2,300,070)	1,025,239
Increase / (decrease) in operating liabilities			
Financial liabilities at fair value - Financial institutions		2,084,040	(344,242)
Financial liabilities designated at fair value through profit or loss		810,477	1,727,021
Financial liabilities hedl for trading		(176,612)	(142,499)
Other liabilities		(1,345)	7,649
		2,716,560	1,247,929
Net cash flow from operating activities before income taxes		1,032,570	2,685,225
Income tax paid		(194,950)	(40,125)
Net cash flow from operating activities		837,620	2,645,100
CASH FLOW FROM INVESTING ACTIVITIES:			
Dividends received	26	1,734	1,789
Purchase of financial assets at fair value through other comprehensive income		(177,030)	(1,060,903)
Sale of financial assets at fair value through other comprehensive income		1,397,059	827,552
Other financial assets mandatorily at fair value through profit or loss		(95,467)	(46,465)
Income from financial assets at fair value through other comprehensive income		75,891	128,141
Purchase of tangible and intangible assets		(51,473)	(99,595)
Sale of tangible assets		12,092	(6,588)
Disposal of subsidiary and associated companies	4	14,400	-
Net cash flow from investing activities		1,177,206	(256,069)
CASH FLOW FROM FINANCING ACTIVITIES:			
Issuance/(redemption) of debt securities	17	-	-
Interest paid on bonds issued and other	17	(878,797)	(894,794)
Dividends paid		(31,574)	(44,536)
Remuneration paid on subordinated liabilities	21	-	(394,734)
Income distribution - "Aditional Tier 1 Instruments"		(61,200)	(61,200)
Net cash flow from financing activities		(971,571)	(1,395,264)
Net Increase / (Decrease) (a) in cash and cash equivalents			
Net Increase / (Decrease) (a) in cash and cash equivalents		1,043,255	993,767
Cash and cash equivalents at the beginning of the period		3,500,397	2,506,630
Cash and cash equivalents at the end of the period		4,543,652	3,500,397

The accompanying notes form an integral part of the consolidated statements of cash flows for the years ended December 31, 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), and in 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 2020 and 2019 are detailed in Note 38.

The Group has a nationwide network of 434 branches (497 branches as at December 31, 2019). It also has several branches and representation offices abroad, and holdings in subsidiaries and associated companies.

The Bank's consolidated financial statements and the Management Report for the year ended on December 31, 2020, were approved at the Board of Directors meeting on April 20, 2021. These financial statements are also subject to approval by the Shareholders' General Meeting, but the Board of Directors is convinced that they will be approved with no significant changes.

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of Presentation of the Accounts

Santander Totta's consolidated financial statements 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, transposed into Portuguese law by Decree-Law 35/2005, of February 17, and by Bank of Portugal Notice No. 5/2005 of December 30. As regards Group companies that use different accounting standards, adjustments are made for conversion to the IAS/IFRS.

The accounting policies used by the Group in preparing its consolidated financial statements as at December 31, 2020, are consistent with those used in preparing the consolidated financial statements with reference to December 31, 2019.

During the financial year 2020, the Group renamed its financial statements to comply with the guidelines of the Regulation (EU 2017/1443 of June 29 2017).

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 the measurement at fair value of; - 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; - 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 application of the IFRS, as approved by the European Union, the Group adopted the following standards, amendments and interpretations with reference to January 1, 2020:

- **IFRS 3** (Amendment), 'Definition of business.' This amendment is a revision to the definition of business for the purpose of accounting for business combinations. The new definition requires that an acquisition include an input and a substantial process that jointly manage outputs. The outputs are now defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of reductions of costs and other economic benefits for shareholders. Concentration teste are now allowed to determine whether a transaction relates to the acquisition of an asset or a business.

- **IFRS 9, IAS 39 and IFRS 7** (Amendment), 'Reform of the reference interest rates - phase 1.' These amendments are part of the first phase of the IBOR reform of the IASB and allow exemptions related to the reform of the benchmark for the reference interest rates. The exemptions relate to hedge accounting in terms of: i) risk components; ii) "highly likely" requirement; iii) prospective valuation; iv) retrospective effectiveness test (for those adopting IAS 39); and v) recycling the cash-flow hedge reserve, and its objective is that the reform in of the reference interest rates will not determine the termination of hedge accounting. However, any hedge ineffectiveness determined must continue to be recognized in the income statement.

- **IAS 1 and IAS 8** (Amendment), 'Definition of material.' This amendment introduces a change to the concept of "material", and clarifies that the mention of unclear information refers to situations whose effect is similar to omitting or distorting such information, the entity to assess the materiality considering the financial statements as a whole. Clarifications are also provided as to the meaning of "primary users of the financial statements", which are defined as 'current and future investors, lenders and creditors' who rely on the financial statements to obtain a significant part of the information they need.

- **Conceptual structure**, 'Changes in the reference to other IFRS.' As a result of the publication of new Conceptual Structure, the IASB has introduced changes to the wording of various standards and interpretations, such as: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32, in order to clarify the application of the new definitions of asset/ liability and expense/income, besides some of the characteristics of the financial information. These amendments are applied retrospectively, unless it is not practical.

Within the scope of the "Reform of the reference interest rates - phase 1," 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 in 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:

- **IFRS 4** (Amendment), 'Insurance contracts - deferral of the application of IFRS 9' (to be applied in periods beginning on or after January 1, 2021). 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 16** (amendment), "Leases - COVID-19 related rent concessions" (to be applied in periods beginning on or after June 1, 2020). 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 other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee applies the amendment for the first time.

- **IAS 1** (amendment), 'Presentation of financial statements - classification of liabilities' (to be applied in periods beginning on or after January 1, 2023). This amendment is still subject to endorsement by the European Union. 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. The amendment also includes a new definition of "settlement" of a liability. This amendment is applied retrospectively.

- **IAS 16** (amendment) 'Proceeds before intended use' (to be applied in periods beginning on or after January 1, 2022). 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 is still subject to endorsement by the European Union. 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.

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

- **IFRS 3** (amendment) 'References to the conceptual framework' (to be applied in periods beginning on or after June 1, 2022). This amendment is still subject to endorsement by the European Union. 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. The amendment also clarifies the accounting treatment to be adopted in respect of liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately *versus* those included in a business combination. This amendment is applied retrospectively.

- **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** (amendments), 'Reform of the reference interest rates - phase 2'. (to be applied in periods beginning on or after January 1, 2021). This amendment is still subject to endorsement by the European Union. 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.

- **IFRS 17** (new), 'Insurance contracts' (to be applied in periods beginning on or after January 1, 2023). This standard is still subject to endorsement by the European Union. 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 application of the complete model (building block approach), or the simplified model (premium allocation approach). The complete model is based on discounted cash flow scenarios weighted by the likelihood of occurrence and adjusted for the risk, and 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 is still subject to endorsement by the European Union. This amendment includes specific changes in eight areas of IFRS 17, 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 an entity when it has the power to direct the relevant activities of the entity, and when it is exposed to, or is entitled to, the variability in returns arising from its involvement with that entity and can take over them through the power it has over relevant activities of that entity. The financial statements of subsidiary companies are consolidated using the global integration method from the moment the Group takes control over its activities until the moment when control ceases. Transactions and balances between the companies subject to consolidation have been eliminated. In addition, when applicable, consolidation adjustments are made in order to ensure consistency in the application of accounting principles. The amount corresponding to the participation of third parties in the subsidiary companies that were consolidated using the global integration method is presented in the item “Minority interests without control” (Note 23). Additionally, as a result of the application of IFRS 10 - "Consolidated Financial Statements", the Group includes in its consolidation perimeter entities with special purposes, namely vehicles and funds created in the scope of securitization operations, when exercising effective financial and operating control over them and when it is exposed to the majority of 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 units are held by third parties. The financial statements of investment funds are not included in the Group's consolidation perimeter, except when the latter holds control of these investment funds, namely when it has more than 50% of its investment 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 have been consolidated by the global integration method is presented as a liability in the item “Share capital redeemable at sight” ”. Non-controlling interests in the results of the Novimovest Fund are recognized as a deduction from the item “Other operating income / expenses”, taking into account 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 December 31, 2020, the exchange rates of the main currencies other than the functional currency were:

USD – 1.22710
GBP – 0.89903

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 carried 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 expenses, 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.

The 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 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 proportionality under the respective items 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 when all those requirements are met. Likewise, if at any time the hedge effectiveness ceases to be in the range 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 those assets, the Bank classifies them on Stage 3 at the net amount of the expected loss. The associated interest is calculated by applying the effective interest rate to the net amount.

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.

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 (life time 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

<u>Credit risk parameters</u>

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

IFRS 16 defines a set of new requirements for the application of this standard, namely regarding the classification and measurement of lease operations from the lessee's perspective. As a lessee, the Group registers an asset with a right of use that is recognized in the item Tangible assets and intangible assets (Note 12) and a lease liability that is recognized in the item Financial liabilities recorded at amortized cost - other financial liabilities - commitments with future rents (Note 17), on the date of entry into force of the respective operation:

i. The lease liability is measured at the present value of future rents to be incurred during the term of the contract, using a discount rate differentiated by maturity. Fixed payments, variables that depend on a rate or index, values relating to the exercise of the call option, are considered when estimating the liability, when the group is reasonably certain that it will exercise its right.

   The lease liability is remeasured whenever a contractual change occurs, and the moment the lease liability is revalued, the effects of the revaluation are recognized against the right to use (asset). If there is a change in the term of the contract or a change in the assessment of the exercise of the option, a new discount rate must be estimated, and the liability is consequently remeasured.

ii. The right of use is initially measured at cost by the value of the lease liability, adjusted for subsequent contractual changes, being depreciated using the straight-line method until the end of the contract, and 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 the reclassification and subsequently subject to periodic evaluations 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 operations."

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, and are 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, "Provisions" includes provisions set aside to cover, *inter alia*, the post-employment benefits specific to certain members of the Bank’s Board of Directors, restructuring plans approved by the Executive Committee, tax risks, 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 (CBA) 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 CBA for personnel in service. For these

employees, the Bank is liable for the full amount of the pensions provided for in the CBA. 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 CBA. 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 Bank Employees Union 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 CBA. 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 representation 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 CBA 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 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 accumulated 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 (CBA) 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 CBA 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 this 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 promulgation of Law No. 2/2014, of January 16 (CIT Reform) and the wording given by the State Budget Law for 2020 (Law No. 2/2020, of March 31), the taxation of corporate profits for the years 2020 and 2019, is as follows:

- CIT rate of 21% on taxable income;
- Municipal surcharge at a rate between 0% and 1.5% on taxable income;
- State surcharge at a variable rate on taxable income according to levels below:
  - Up to 1,500 thousand euros 0%
  - between 1,500 thousand euros and 7,500 thousand euros 3%
  - between 7,500 thousand euros and 35,000 thousand euros 5%
  - more than 35,000 thousand euros 9%.

Therefore, the aforementioned changes implied that the tax rate used by the Group in calculating 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 recorded in the tax periods of 2020 and 2021 may be used in the subsequent twelve tax periods. Additionally, the counting of the period for reporting tax losses is suspended for two tax periods.

Thus, tax losses generated between 2014 and 2016, inclusive, can be used in the fourteen subsequent tax periods, while those generated between 2017 and 2019, inclusive, can be used in the seven subsequent tax periods.

The deduction of losses to be made in each year cannot exceed 70% of the respective taxable profit (80%, in the case of tax losses generated in 2020 and 2021), the remainder being able to be used until 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.

The Board of Directors periodically reviews the position assumed in the preparation of the tax statements in relation to situations in which the application of the tax regime is subject to interpretation, and assesses whether it is likely that the Tax Administration will accept the adopted tax treatment. The Bank measures the assets / liabilities arising from uncertain income tax positions, considering the most likely value or the expected value, whichever is more appropriate in each circumstance.

l) <u>Banking sector contribution, and Solidarity Tax on the banking sector</u>

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) <u>Technical provisions</u>

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:

- <u>Provision for unearned premiums and deferred acquisition costs</u>

  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 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 the purposes of the preparation of the cash-flow statement, the Group considers as "Cash and cash equivalents" the total of "Cash, cash balances with central banks and other demand 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 determination of the impairments. Whenever the value resulting from those appraisals (net of sale costs) is lower than the book value then losses for impairment 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 December 31, 2020, 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.

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.

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

The breakdown of the income statement by operating segment as at December 31, 2020 and 2019, is as follows:

	31-12-2020					
	Global Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Net interest income	74,074	469,195	85,280	485	157,606	786,640
Dividend income	-	-	-	-	1,734	1,734
Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates	-	-	-	9,200	5,353	14,553
Fee and commission income	45,927	340,836	23,389	(4,448)	(32,493)	373,212
Gains/Losses on financial operations	9,757	5,569	499	18,190	80,656	114,672
Other operating income	-	2,564	-	1,277	5,794	9,635
Insurance activity	-	-	-	17,236	-	17,236
Total operating income, net	**129,758**	**818,164**	**109,169**	**41,942**	**218,650**	**1,317,682**
Administrative expenses	(23,387)	(448,740)	(37,384)	(11,408)	(3,890)	(524,808)
Cash contributions to resolution funds and deposit guarantee systems	-	-	-	-	(35,624)	(35,624)
Depreciation	(3,265)	(46,742)	(1,854)	(544)	-	(52,405)
Profit before impairment and provisions	**103,106**	**322,682**	**69,931**	**29,990**	**179,136**	**704,845**
Impairment and provisions, net of reversals	(2,024)	(4,373)	5,760	(612)	(269,104)	(270,352)
Profit or loss from non-current assets held for sale	-	-	-	30	4,984	5,014
Other results	-	-	-	-	(34,495)	(34,495)
Profit or loss before tax from continuing operations	101,083	318,309	75,691	29,408	(119,479)	405,012
Taxes	(31,335)	(98,676)	(23,464)	274	43,857	(109,344)
Non-controlling interests	-	-	-	-	(109)	(109)
Profit or loss for the year	**69,748**	**219,633**	**52,227**	**29,682**	**(75,731)**	**295,559**

	31-12-2019					
	Global Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Net interest income	78,535	517,472	94,740	338	164,629	855,714
Dividend income	-	-	-	-	1,789	1,789
Share of the profit or (-) loss of investments in subsidaries, joint ventures and associates	-	-	-	8,259	2,546	10,805
Fee and commission income	48,673	334,871	25,010	(4,357)	(23,693)	380,504
Gains/Losses on financial operations	21,926	6,545	1,842	23,503	41,384	95,200
Other operating income	-	2,292	-	1,014	8,129	11,435
Insurance activity	-	-	-	21,687	-	21,687
Total operating income, net	**149,134**	**861,180**	**121,592**	**50,445**	**194,784**	**1,377,134**
Administrative expenses	(25,933)	(464,169)	(48,794)	(12,746)	(3,164)	(554,806)
Cash contributions to resolution funds and deposit guarantee systems	-	-	-	-	(32,647)	(32,647)
Depreciation	(2,727)	(45,066)	(1,331)	(515)	-	(49,639)
Profit before impairment and provisions	**120,474**	**351,945**	**71,467**	**37,183**	**158,973**	**740,042**
Impairment and provisions, net of reversals	5,688	19,278	(10,595)	(76)	(15,023)	(728)
Profit or loss from non-current assets held for sale	-	-	-	30	28,706	28,736
Other results	-	-	-	-	(28,259)	(28,259)
Profit or loss before tax from continuing operations	**126,162**	**371,223**	**60,872**	**37,137**	**144,397**	**739,791**
Taxes	(39,110)	(115,079)	(18,870)	(5,197)	(34,058)	(212,315)
Non-controlling interests	-	-	-	-	(218)	(218)
Profit or loss for the year	**87,051**	**256,144**	**42,002**	**31,940**	**110,121**	**527,258**

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

As at December 31, 2020 and 2019, 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:

	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
Credit for consumption	-	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**
Total 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 given	**180,278**	**520,765**	**911,700**	**-**	**-**	**1,612,743**

	31-12-2019					
	Corporate Investment Banking	Banca de Retalho	Banca de Empresas	Gestão de Seguros	Atividades Corporativas	Total
Loans and advances to customers						
Mortgage loans	-	19,653,605	-	-	-	19,653,605
Consumer loans	-	1,706,797	-	-	-	1,706,797
Other loans	3,664,872	5,774,745	8,268,391	-	-	17,708,008
Other loans	-	60,591	-	-	947,659	1,008,250
Total allocated assets	**3,664,872**	**27,195,738**	**8,268,391**	**-**	**947,659**	**40,076,660**
Non-allocated assets						16,006,113
Total Assets						**56,082,773**
Liabilities						
Resources of customers and other debts	2,433,896	27,053,435	5,631,619	-	-	35,118,949
Debt securities	-	-	-	-	3,431,231	3,431,231
	2,433,896	**27,053,435**	**5,631,619**	**-**	**3,431,231**	**38,550,180**
Non-allocated liabilities						13,269,023
Total Liabilities						**51,819,203**
Guarantees and sureties (Note 27)	**285,882**	**576,451**	**713,870**	**-**	**-**	**1,576,203**

As at December 31, 2020 and 2019, the Bank did not have relevant business in any 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 December 31, 2020 and 2019, 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:

	Direct Participation (%)		Effective Participation (%)		Total Assets (net)		Shareholder's Equity		Profit or loss for the year	
Company	31-12-2020	31-12-2019	31-12-2020	31-12-2019	31-12-2020	31-12-2019	31-12-2020	31-12-2019	31-12-2020	31-12-2019
SANTANDER TOTTA, SGPS,S.A.	Headquarters	Headquarters	100.00	100.00	3,848,195	3,960,314	3,812,090	3,867,119	7,089	435,860
BANCO SANTANDER TOTTA, S.A.	99.96	99.96	99.96	99.96	57,448,833	55,639,804	3,990,610	3,497,526	275,210	499,715
TOTTA (IRELAND), PLC (2)	-	-	99.96	99.96	536,675	579,674	461,336	458,974	1,455	1,457
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. (1)	-	-	99.96	99.96	134,313	148,280	127,726	131,505	583	6,083
TAXAGEST,SGPS,SA	1.00	1.00	99.96	99.96	55,745	55,751	55,744	55,747	(3)	8
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	-	-	78.71	78.71	311,513	312,552	304,335	303,994	341	5,750
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	-	-	99.96	99.96	7,249	7,166	6,810	6,747	63	228
HIPOTOTTA NO. 4 PLC	-	-	-	-	562,050	622,446	(3,564)	(4,697)	1,088	(958)
HIPOTOTTA NO. 5 PLC	-	-	-	-	572,173	616,581	(10,508)	(11,309)	923	(4,005)
HIPOTOTTA NO. 4 FTC	-	-	-	-	505,515	561,424	499,365	560,487	168	(740)
HIPOTOTTA NO. 5 FTC	-	-	-	-	504,601	550,361	503,853	549,042	398	(1,171)
Operações de Securitização geridas pela GAMMA, STC	-	-	-	-	2,804,742	3,157,980	-	-	-	-
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	-	-	21.85	21.85	368,375	374,480	110,136	96,688	23,919	16,194
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	-	-	25.76	25.75	107,131	106,281	101,807	100,597	1,210	292
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	100.00	100.00	100.00	100.00	4,224,577	4,391,845	170,534	140,872	26,907	25,545
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	132,548	115,184	36,552	32,262	14,776	11,904
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	52,919	43,971	21,018	21,805	4,001	4,950
MAPFRE SANTANDER PORTUGAL Co. SEGUROS	-	-	49.99	100.00	13,655	16,232	8,215	10,611	(1,149)	1,247

The financial statements of some subsidiaries, associated companies and jointly-controlled entities are subject to approval by the respective governing bodies. However, the Group's Board of Directors is convinced that there will be no changes with significant impact on the Group’s equity and consolidated profit.

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

As at December 31, 2020 and 2019, 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) Due to this subsidiary having closed 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, 2019, and December 31, 2020 (December 1, 2018 and December 31, 2019).

In October 2020, the Group sold to Mafre 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.

During 2019, the Group sold the holding in Benim-Sociedade Imobiliária, S. A., and wound up Atlantes Mortgage No. 1 FTC, Banif International Bank, LTD and Primestar Servicing, S.A.. Supplementary capital instalments were also granted to TottaUrbe for 99,759 thousand euros.

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 December 31, 2020 and 2019, the composition of the balance sheets of the Aegon Santander Portugal Life and Non-life companies was as follows:

	31-12-2020			31-12-2019		
	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	16,342	6,689	23,031	4,703	3,768	8,471
Financial assets at fair value through other comprehensive income	73,833	40,146	113,979	67,298	33,678	100,976
Tangible assets	298	-	298	50	-	50
Intangible assets	9,721	5,063	14,784	11,711	5,732	17,443
Technical reserves for reinsurance ceded	29,106	501	29,607	28,465	257	28,722
Other debtors for insurance operations and other operations	3,163	406	3,569	2,887	445	3,332
Accruals and deferrals	60	114	174	52	91	143
Other assets	25	-	25	18	-	18
	132,548	52,919	185,467	115,184	43,971	159,155
Technical reserves	66,257	17,840	84,097	67,168	13,479	80,647
Other financial liabilities	4,181	-	4,181	6,045	-	6,045
Other creditors for insurance operations and other operations	20,925	11,351	32,276	6,818	5,978	12,796
Liabilities - taxes and levies	1,817	769	2,586	1,121	1,667	2,788
Accruals and deferrals	2,816	1,941	4,757	1,770	1,042	2,812
Share Capital	7,500	7,500	15,000	7,500	7,500	15,000
Revaluation reserves	1,535	745	2,280	1,228	451	1,679
Deferred tax reserves	(399)	(194)	(593)	(319)	(112)	(431)
Other reserves	13,140	5,836	18,976	11,949	5,341	17,290
Retained earnings	-	3,130	3,130	-	3,675	3,675
Net income for the year	14,776	4,001	18,777	11,904	4,950	16,854
	132,548	52,919	185,467	115,184	43,971	159,155

As at December 31, 2020 and 2019, the Novimovest Fund balance sheet was as follows:

	31-12-2020	31-12-2019
Real estate portfolio	250,531	252,513
Accounts receivable	8,070	6,672
Cash and banks	52,874	53,312
Accruals and deferrals	38	55
	311,513	312,552
Fund capital	304,335	303,994
Adjustments and provisions	3,867	3,802
Accounts payable	1,461	2,973
Accruals and deferrals	1,850	1,783
	311,513	312,552

As at December 31, 2020 and 2019, the consolidated net income includes a profit of €268k and €4.526k, respectively, attributable to the Novimovest Fund.

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

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

The composition of this heading is as follows:

	31-12-2020	31-12-2019
Cash	336,121	354,664
Demand deposits in central banks		
European Central Bank	3,932,058	2,798,892
Other demand deposits at credit institutions		
Demand deposits	275,473	346,841
	4,543,652	3,500,397

According to the regulations in force, credit institutions established in participating Member States are subject to the establishment of minimum reserves in accounts held with participating National Central Banks. The reserve base comprises all deposits with central banks and financial and monetary institutions located outside the Eurozone and all deposits with customers with maturities of less than two years. A coefficient of 1% is applied to this base and an amount of 100,000 euros is deducted. The fulfilment of the minimum mandatory cash equivalents, for a given observation period, is carried out taking into account the average value of the deposit balances with Banco de Portugal during the referred period. The required minimum reserves are remunerated to RFI (on this date 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 items of financial assets and liabilities held for trading have the following composition:

	31-12-2020	31-12-2019
Financial assets held for trading		
Derivatives with positive fair value	901,010	1,073,429
Financial liabilities held for trading		
Derivatives with negative fair value	920,602	1,097,214

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

As at December 31, 2020 and 2019, the following derivatives are recorded:

	31-12-2020				31-12-2019			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
Forwards								
Purchases	401,114	6,820	6,736	84	348,012	3,363	3,215	148
Sales	401,024				347,891			
Swaps								
Currency swaps								
Purchases	1,084,783	512	3,335	(2,823)	1,769,065	93	8,255	(8,162)
Sales	1,086,821				1,776,582			
Interest rate swaps	26,478,426	831,103	863,703	(32,600)	25,585,244	995,330	1,026,187	(30,857)
Equity swaps	352,863	21,154	4,828	16,326	365,873	18,339	3,183	15,156
Options								
Currency swaps								
Purchases	7,961	309	311	(2)	72,416	540	540	-
Sales	7,961				72,416			
Equity options								
Purchases	46,765	1,439	2,113	(674)	146,926	2,585	2,871	(286)
Sales	46,765				146,926			
Caps & Floors	961,240	39,673	39,576	97	1,073,415	53,179	52,963	216
	30,875,723	901,010	920,602	(19,592)	31,704,766	1,073,429	1,097,214	(23,785)

As at December 31, 2020, the assets and liabilities headings relating to “Derivative financial instruments” are reduced by the amounts of approximately €5.300k and €5.053k of “Credit Value Adjustments” and “Debit Value Adjustments”, respectively (€7.120k and €7.141k as at December 31, 2019, respectively), in accordance with the method described in Note 39.

As at December 31, 2020 and 2019, almost all the trading derivative financial instruments were hedged back-to-back with Banco Santander, S. A.

7. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of this heading is as follows:

	31-12-2020	31-12-2019
Equity instruments		
Issued by residents	194,012	190,944
Issued by non-residents	623,066	598,139
	817,078	789,083
Debt instruments		
Issued by residents		
National public issuers	1,030,010	1,050,907
Other national issuers	104,975	117,324
Issued by non-residents		
Foreign public issuers	397,020	415,160
Other non-resident issuers	846,659	727,801
	2,378,664	2,311,192
	3,195,742	3,100,275

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

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).

As at December 31, 2020 and 2019, the breakdown of this heading is as follows:

	31-12-2020					31-12-2019				
	"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										
Issued by residents										
Treasury Bonds	1,017,486	12,524	-	-	1,030,010	1,038,082	12,825	-	-	1,050,907
Non-subordinated debt	103,052	1,923	-	-	104,975	115,227	2,097	-	-	117,324
Issued by non-residents										
Foreign public issuers	394,026	2,994	-	-	397,020	412,165	2,995	-	-	415,160
Non-subordinated debt	834,850	11,809	-	-	846,659	715,887	11,914	-	-	727,801
Equity instruments										
Issued by residents	60,220	-	133,792		194,012	45,654	-	145,290	-	190,944
Issued by non-residents	623,008	-	58		623,066	597,458	-	681	-	598,139
	3,032,642	29,250	133,850	-	3,195,742	2,924,473	29,831	145,971	-	3,100,275

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The composition of this heading is as follows:

	31-12-2020								
				Fair Value Reserve					
	Acquisition cost	Interest receivable	Hedge adjustment	Positive	Negative	Total	Other	Impairment (Note 18)	Book Value
Debt Instruments									
Issued by residents									
Treasury bonds	3,756,533	65,263	58,098	487,393	(45)	487,348	36,676	-	4,403,918
Other residents									
Non-subordinated debt	13,943	90	-	201	(96)	105	-	(14)	14,124
Issued by non-residents									
Foreign public issuers	687,337	5,022	-	65,375	-	65,375	-	-	757,734
Other non-residents	67,632	485	-	980	(36)	944	-	-	69,061
	4,525,445	70,860	58,098	553,949	(177)	553,772	36,676	(14)	5,244,837
Equity instruments									
Issued by residents	70,727	-	-	480	-	480	-	-	71,207
Issued by non-residents	1,561	-	-	-	-	-	-		1,561
	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

	31-12-2019								
				Fair Value Reserve					
	Acquisition cost	Interest receivable	Hedge adjustment	Positive	Negative	Total	Other	Impairment (Note 18)	Book Value
Debt Instruments									
Issued by residents									
Treasury bonds	4,890,166	78,886	48,352	670,829	(56)	670,773	(2,860)	-	5,685,317
Other residents									
	18,549	117	-	319	(9)	310	-	(89)	18,887
Issued by non-residents									
Foreign public issuers	691,449	5,206	-	54,756	(14)	54,742	-	-	751,397
Other non-residents	55,957	461	-	1,437	-	1,437	-	-	57,855
	5,656,121	84,670	48,352	727,341	(79)	727,262	(2,860)	(89)	6,513,456
Equity instruments									
Issued by residents	73,183	-	-	718	-	718	-	-	73,901
Issued by non-residents	133	-	-	-	-	-	-		133
	73,316	-	-	718	-	718	-	-	74,034
	5,729,437	84,670	48,352	728,059	(79)	727,980	(2,860)	(89)	6,587,490

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 its 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:

	31-12-2020				31-12-2019			
Description	Acquisition cost	Interest receivable	Gain/loss	Book value	Acquisition cost	Interest receivable	Gain/loss	Book value
Treasury bonds - Portugal								
Maturing in 1 year	14,844	165	109	15,118	4,447	114	36	4,597
Maturing between one and three years	61,745	444	3,171	65,360	30,627	218	899	31,744
Maturing between three and five years	2,433,745	53,880	391,300	2,878,925	65,772	1,118	4,241	71,131
Maturing between five and ten years	1,239,224	10,652	186,058	1,435,934	4,716,956	75,326	698,125	5,490,407
Maturing over ten years	6,975	122	1,484	8,581	72,364	2,110	12,964	87,438
	3,756,533	65,263	582,122	4,403,918	4,890,166	78,886	716,265	5,685,317
Treasury bonds - Spain								
Maturing in 1 year	21,239	452	117	21,808	14,163	295	245	14,703
Maturing between one and three years	72,104	1,385	1,697	75,186	62,165	1,431	1,156	64,752
Maturing between three and five years	77,504	410	5,761	83,675	63,799	644	3,057	67,500
Maturing between five and ten years	395,818	2,107	40,208	438,133	420,483	2,231	33,709	456,423
Maturing over ten years	8,411	123	677	9,211	11,717	131	881	12,729
	575,076	4,477	48,460	628,013	572,327	4,732	39,048	616,107
Treasury bonds - Other countries								
Maturing in 1 year	12,711	60	68	12,839	5,860	7	167	6,034
Maturing between one and three years	42,985	291	2,768	46,044	28,822	183	447	29,452
Maturing between three and five years	27,600	131	1,823	29,554	46,647	204	3,384	50,235
Maturing between five and ten years	16,285	56	3,643	19,984	24,928	70	3,971	28,969
Maturing over ten years	12,680	7	8,613	21,300	12,865	10	7,725	20,600
	112,261	545	16,915	129,721	119,122	474	15,694	135,290
	4,443,870	70,285	647,497	5,161,652	5,581,615	84,092	771,007	6,436,714

As at December 31, 2020 and 2019, the Group's portfolio contained Portuguese Treasury Bonds in the amounts of €535,499k and €445,207k, respectively, used as collateral in funding operations (Note 17)

9. FINANCIAL ASSETS AT AMORTIZED COST

The Debt securities sub-heading has the following composition:

	31-12-2020	31-12-2019
Secured credit	3,925,660	3,765,429
Interest receivable	15,704	15,452
Value adjustments of hedged assets	36,021	11,532
Commissions associated with amortized cost (net)	(1,021)	(3,595)
	3,976,364	3,788,818
Impairment of debt securities (Note 18)	(11,145)	(4,057)
	3,965,219	3,784,761

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

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

	31-12-2020	31-12-2019
Loans and advances - customers		
To corporate clients		
Discount and other credit securities	412,444	195,390
Loans	8,085,223	9,555,392
Current account loans	826,486	1,033,064
Overdrafts	88,995	121,134
Factoring	1,675,690	1,541,033
Finance leasing	1,086,732	1,124,395
Other credits	47,989	52,241
To individuals		
Mortgage loans	20,603,727	19,541,151
Consumer credit and others	2,236,961	2,291,544
	35,064,247	35,455,344
Overdue loans and interest	451,255	504,040
Interest receivable	56,694	72,618
Values adjustments of hedged assets	21,142	207,607
Deferred expenses	108,086	94,968
Commissions associated with amortized cost (net)	(134,483)	(139,822)
Supply contracts	644	770
	503,338	740,181
	35,567,585	36,195,525
Other balances receivable		
Margin accounts	865,734	-
Checks payable	52,845	60,591
Sundry debtors and other cash equivalents	355,794	226,450
	1,274,373	287,041
Loans and advances - credit instituitions		
Deposits	13,173	17,610
Loans	7,127	55
Other applications	-	709,836
Interest receivable	3	14
Commissions associated at amortized cost	(7)	-
	20,296	727,515
Loans and advances	36,862,254	37,210,081
Impairment of loans and advances - customers and other balances receivable (Note 18)	(994,326)	(918,153)
Impairment of loans and advances - credit instituitions (Note 18)	(126)	(29)
Impairment of loans and advances	(994,452)	(918,182)
	35,867,802	36,291,899

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

As at December 31, 2019, the heading "Loans and advances - Credit institutions - Other investments" included margin accounts of €507,569k. In 2020, the margin accounts were reclassified to Other balances receivable, in the amount of €865,734k.

In the periods ended on December 31, 2020 and 2019, portfolios of loans granted to individuals and companies were sold, with a carrying amount of €114.639k and €167.241k, respectively. As a result of these transactions, in 2020 and 2019 net gains were recorded in the amount of €2.620k, and of €4.028k, respectively (Note 18).

As at December 31, 2020 and 2019, "Domestic loans – To individuals - Residential" included loans assigned to the autonomous property of the mortgage loans issued by the Bank in the amounts of €10,278,006k and €9,345,054k, respectively (Note 17).

The movement under impairments of loans to customers during 2020 and 2019 is presented in Note 18.

As at December 31, 2020 and 2019, the breakdown of overdue loans and interest by period of default was as follows:

	31-12-2020	31-12-2019
Up to three months	13,471	23,106
Between three and six months	9,835	24,530
Between six months and one year	32,064	88,965
Between one year and three years	194,677	207,774
More than three years	201,208	159,665
	451,255	504,040

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

	31-12-2020			31-12-2019		
	Gross value	Impairment	Coverage	Gross value	Impairment	Coverage
Stage 1	35,195,266	(93,158)	0.26%	37,353,568	(65,257)	0.17%
Stage 2	4,252,383	(163,132)	3.84%	2,022,651	(72,855)	3.60%
Stage 3	1,390,969	(749,307)	53.87%	1,622,680	(784,127)	48.32%
	40,838,618	(1,005,597)		40,998,899	(922,239)	

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

The evolution that occurred in the exposure and in impairments for credit granted and other receivables at amortized cost in 2020 and 2019 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 01-01-2019	37,431,289	1,962,197	2,035,403	41,428,889	79,592	96,651	933,243	1,109,486
Transfers								
Stage 1 to 2	(925,665)	925,665	-	-	(4,544)	27,068	-	22,524
Stage 1 to 3	(81,163)	-	81,163	-	(13,261)	-	43,723	30,462
Stage 2 to 3	-	(107,057)	107,057	-	-	(7,736)	30,262	22,526
Stage 2 to 1	772,355	(772,355)	-	-	3,291	(37,561)	-	(34,270)
Stage 3 to 2	-	100,926	(100,926)	-	-	6,467	(33,142)	(26,675)
Stage 3 to 1	87,493	-	(87,493)	-	471	-	(9,420)	(8,949)
Write offs and sales	-	-	(233,531)	(233,531)	-	-	(173,210)	(173,210)
Origination net of amortization	69,259	(86,725)	(178,993)	(196,459)	(292)	(12,034)	(7,329)	(19,655)
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)
Business model changes	(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

10. DERIVATIVES - HEDGE ACCOUNTING

The composition of this heading is as follows:

	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
Other 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

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

	31-12-2019					
	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	2,187	244,164	4,004	111,244	4,340,124	4,455,372
Financial assets at fair value through other comprehensive income	-	49,904	-	-	2,080,000	2,080,000
Equity swaps	135	765	10,781	25,326	42,339	78,446
Cash flow hedge						
Interest rate swaps						
Cash flows	52,794	-	-	6,000,000	3,000,000	9,000,000
Forwards sale	1,129	98,998	1,061,803	1,404,835	326,558	2,793,196
	56,245	393,831	1,076,588	7,541,405	9,789,021	18,407,014

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-professionals 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).

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.

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

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 ASSOCIATES

The composition of this heading is as follows:

	31-12-2020		31-12-2019	
	Effective Participation (%)	Book Value	Effective Participation (%)	Book Value
AEGON Santander Portugal Não Vida	49.00	18,442	49.00	18,828
AEGON Santander Portugal Vida	49.00	36,292	49.00	34,190
Fundo de Investimento Imobiliário Lusimovest	25.77	26,235	25.75	25,923
Unicre - Instituição Financeira de Crédito, S.A.	21.85	36,347	21.85	33,318
Mapfre Santander Portugal Co. Seguros	49.99	13,820	-	-
		131,136		112,259

As at December 31, 2019 and 2018, the financial investments held in 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.

12. TANGIBLE ASSETS 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.

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

As at December 31, 2020 and 2019, the properties held by the Novimovest Real Estate Fund had the following characteristics:

	31-12-2020	31-12-2019
Land		
Urbanized	13,485	13,972
Non-urbanized	1,141	1,128
Finished constructions		
Rented	172,173	190,611
Not rented	39,824	29,060
Other construction projects	23,908	17,742
	250,531	252,513

On the other hand, during the 2020 and 2019 exercises, the properties held by the Novimovest Real Estate Fund generated, among other, the following annual incomes and expenses:

	31-12-2020	31-12-2019
Rents (Note 32)	9,991	13,437
Taxes	(485)	(137)
Condominium	(938)	(1,108)
Maintenance and repair	(841)	(1,077)
Insurance	(132)	(156)
	7,595	10,959

The movement under "Investment Properties" in 2020 and 2019 was as follows:

	2020				
	Balances at 31-12-2019	Increases	Fair value valuation	Sales	Balances at 31-12-2020
Properties held by Novimovest Real Estate Fund	252,513	6,854	(2,564)	(6,272)	250,531

	2019				
	Balances at 31-12-2018	Increases	Fair value valuation	Sales	Balances at 31-12-2019
Properties held by Novimovest Real Estate Fund	297,625	2,929	(2,916)	(45,125)	252,513

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).

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

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	
	31-12-2020	31-12-2019
Investment properties	250,531	252,513

In accordance with the requirements established by IFRS 13, a summary of its main characteristics, the valuation techniques adopted and the inputs is presented below for the investment properties with the highest value in the Group's portfolio on December 31, 2020 and 2019. Relevant information used to determine its fair value:

Description of the property	Use	Value on 31-12-2020	Value on 31-12-2019	Valuation technique	Relevant inputs
Stª Cruz do Bispo - Lotes 1, 2 e 3					
Retail park Matosinhos	Leased out	47,905	34,586	Comparative market method / Residual value method	Lease value per m2
					Capitalization rate
Galerias Saldanha Residence					
Centro Comercial em Lisboa	Leased out	26,439	26,975	Income method / Comparative market method	Lease value per m2
					Capitalization rate
Armazém em Perafita					
Armazém em Matosinhos	Leased out	15,820	15,820	Income method / Comparative market method	Lease value per m2
					Capitalization rate
Av. Antero de Quental, 9					
Escritórios e loja em Ponta Delgada	Leased out	11,464	11,431	Income method / Comparative market method	Lease value per m2
					Capitalization rate
Estrada da Outurela, 119, Carnaxide					
Escritórios em Oeiras	Leased out	11,072	11,636	Income method / Comparative market method	Lease value per m2
				Income method / Cost method	Capitalization rate
Campos de Golf Vila Sol - G1 e G2	Leased out	13,537	12,067	Income method / Cost method	Lease value per m2
Campos de Golf em Loulé				Income method / Cost method	Capitalization rate
Terrenos em Valongo	Construction in course	10,426	10,500	Comparative market method / Cost method	Land value and cost of
				Residual value method	and marketing per m2
		136,663	**123,015**		

In the event of an increase in the value of rent per m2 or an increase in the occupancy rate or a decrease in the capitalization rate, the fair value of investment properties will be increased. On the other hand, if there is an increase in construction or marketing costs, an increase in the capitalization rate, a decrease in the value of rent per square meter or a decrease in the occupancy rate, the fair value of investment properties will be reduced.

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

OTHER TANGIBLE ASSETS AND INTANGIBLE ASSETS:

The movement under these headings during the periods ended in December 31, 2020 and 2019, can be presented as follows.

	31-12-2020															
							Transfers									
							From/to other assets		Between Others							
	31-12-2019				Write-offs and sales								31-12-2020			
	Gross amount	Accumulated depreciation	Impairment (Note 18)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount (Note 14)	Accumulated depreciation (Note 14)	Gross amount	Accumulated depreciation	Imparidade	Depreciation	Gross amount	Accumulated depreciation	Impairment (Note 18)	Net amount
Tangible assets																
Property																
Property for own use	413,714	(137,398)	(6,147)	4,110	(15)		(14,983)	4,340	-	-	(17,477)	(8,521)	402,826	(141,579)	(23,624)	237,623
Leasehold expenditure	28,213	(22,336)	-	403	(1,846)	1,860	-	-	-	-	-	(1,395)	26,770	(21,871)	-	4,899
Other property	166	(79)	-	-	-	-	-	-	-	-	-	(1)	166	(80)	-	86
Rights of use (IFRS 16 - Note 17)	41,288	(6,190)	-	2,037	(6,170)	-	-	-	-	-	0.00	(6,145)	37,155	(12,335)	-	24,820
	483,381	(166,003)	(6,147)	6,550	(8,031)	1,860	(14,983)	4,340	-	-	(17,477)	(16,062)	466,917	(175,865)	(23,624)	267,428
Equipment	162,718	(99,414)	-	16,817	(6,038)	4,704	(194)	79	1	1	-	(14,235)	173,304	(108,865)	-	64,439
Other tangible assets	2,188	(70)	-	-	-	-	-	-	-	-	-	(5)	2,188	(75)	-	2,113
	164,906	(99,484)	-	16,817	(6,038)	4,704	(194)	79	1	1	-	(14,240)	175,492	(108,940)	-	66,552
	648,287	(265,487)	(6,147)	23,367	(14,069)	6,564	(15,177)	4,419	1	1	(17,477)	(30,302)	642,409	(284,805)	(23,624)	333,980
Intangible assets																
Software	95,096	(65,142)	-	24,143	-	-	-	-	3,058	900	-	(22,103)	122,297	(86,345)	-	35,952
Other intangible assets	5,009	(4,385)	-	3,962	-	-	-	-	(3,958)	-	-	-	5,013	(4,385)	-	628
Consolidation differences	2,651	-	-	-	-	-	-	-	-	-	-	-	2,651	-	-	2,651
	102,756	(69,527)	-	28,105	-	-	-	-	(900)	900	-	(22,103)	129,961	(90,730)	-	39,231

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

	2019															
	31-12-2018					Write-offs and sales		Transfers from/to other		Transfers between tangible and intangible assets			31-12-2019			
	Gross Value	Accumulated depreciation	Impairment (Note 18)	IFRS 16	Acquisitions	Gross Value	Accumulated depreciation	Gross Value (Note 14)	Accumulated depreciation (Note 14)	Gross Value	Accumulated depreciation	Depreciation	Gross Value	Accumulated depreciation	Impairment (Notea 18)	Net value
Tangible assets																
Property																
Property for own use	432,145	(141,814)	(6,147)	-	11,430	(21,454)	10,508	(8,583)	3,079	176	-	(9,171)	413,714	(137,398)	(6,147)	270,169
Leasehold expenditure	28,310	(21,144)	-	-	532	(308)	252	(140)	135	(181)	(1)	(1,578)	28,213	(22,336)	-	5,877
Other property	166	(78)	-	-		-	-	-	-	-	-	(1)	166	(79)	-	87
Rights of use	-	-	-	37,997	5,182	(1,891)	-	-	-	-	-	(6,190)	41,288	(6,190)	-	35,098
	460,621	(163,036)	(6,147)	37,997	17,144	(23,653)	10,760	(8,723)	3,214	(5)	(1)	(16,940)	483,381	(166,003)	(6,147)	311,231
Equipment	144,811	(91,512)	-	-	23,944	(5,849)	4,919	(113)	49	(75)	49	(12,919)	162,718	(99,414)	-	63,304
Other tangible assets	2,114	(38)	-	-	48	-	-	-	-	26	(26)	(6)	2,188	(70)	-	2,118
	146,925	(91,550)	-	-	23,992	(5,849)	4,919	(113)	49	(49)	23	(12,925)	164,906	(99,484)	-	65,422
	607,546	(254,586)	(6,147)	37,997	41,136	(29,502)	15,679	(8,836)	3,263	(54)	22	(29,865)	648,287	(265,487)	(6,147)	376,653
Intangible assets																
Software	72,820	(45,839)	-	-	18,013	-	-	-	-	4,263	(22)	(19,281)	95,096	(65,142)	-	29,954
Other intangible assets	4,877	(3,892)	-	-	4,341	-	-	-	-	(4,209)	-	(493)	5,009	(4,385)	-	624
Consolidation differences	2,651	-	-	-	-	-	-	-	-	-	-	-	2,651	-	-	2,651
	80,348	(49,731)	-	-	22,354	-	-	-	-	54	(22)	(19,774)	102,756	(69,527)	-	33,229

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

13. TAX ASSETS AND LIABILITIES

The breakdown of these headings is as follows:

	31-12-2020	31-12-2019
Current tax assets	55,981	37,711
Deferred tax assets	337,895	567,157
	393,876	604,868
Current tax liabilities	3,759	93,864
Deferred tax liabilities	387,505	300,100
	391,264	393,964
Deferred taxes	(49,610)	267,057

Taxes in the income statement have the following composition:

	31-12-2020	31-12-2019
Current taxes	(52,078)	(137,804)
Deferred taxes	(57,266)	(74,511)
	(109,344)	(212,315)

The movement under deferred tax assets and liabilities during the periods ended in December 31, 2020 and 2019, can be presented as follows:

	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)

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

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 9, 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 Sub-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" (Note 9).

	Balances at 31-12-2018	Other Comprehensive Income	Income statement	Other	Balances at 31-12-2019
Provisions/Impairment temporarily not accepted for tax purposes:					
Deferred tax assets	230,637	-	(40,565)	-	190,072
Deferred tax liabilities	(5,397)	-	176	-	(5,221)
Revaluation of tangible assets:					
Deferred tax assets	2,288	-	(572)	-	1,716
Deferred tax liabilities	(2,981)	-	860	-	(2,121)
Tax losses carried forward	219,136	-	(33,574)	-	185,562
Pensions:					
Actuarial deviations	55,111	-	(16,954)	-	38,157
Early retirement pensions	37,464	-	2,338	-	39,802
Transfer of pension liabilities to the Social Security	4,201	-	(323)	-	3,878
Insurance activity:					
Fair value of insurance liabilities - Shadow reserve	4,210	3,041	-	-	7,251
Fair value of insurance liabilities - Other	(121)	-	13	-	(108)
Other financial assets at fair value through other comprehensive income	(139,178)	(93,136)	4,248	(4,910)	(232,976)
Cash flow hedging derivatives	(9,900)	26,336	-	-	16,436
Other financial assets at fair value through profit or loss	21,240	-	16,277	-	37,517
Securitization operations	(24,992)	-	611	-	(24,381)
Integration costs	17,737	-	(7,205)	-	10,532
Other	(4,590)	-	159	5,372	941
	404,865	(63,759)	(74,511)	462	267,057

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:

	31-12-2020	31-12-2019
Technical provisions for reinsurance ceded		
For unearned premiums	2,811	3,241
Life insurance Mathematics	1	13
For profit sharing	72	71
For claims	14,626	19,048
	17,510	**22,373**
Debtors and other applications		
Debtors for loan interest subsidies receivable	3,716	5,129
Promises of lieu and auctions and other assets received as lieu of payment	233,480	255,543
Gold, other precious metals, coins and medals	3,145	3,145
Other available funds		-
Other income receivable	11,088	13,465
Deferred costs	1,487	1,359
Other	8,317	52,116
	261,233	**330,757**
Impairment losses (Note 18):		
Debtors and other applications	(30)	(226)
Promises of lieu and auctions and other assets received as lieu of payment	(103,285)	(88,192)
	(103,315)	**(88,418)**
	175,428	**264,712**

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 "Other" heading includes loan/borrowing operations pending settlement as detailed below:

	31-12-2020		31-12-2019	
	Other assets	Other liabilities (Note 20)	Other assets	Other liabilities (Note 20)
Cheques, values in transit and other transactions to be settled	1,885	(22,457)	34,280	(25,858)
Balances to be settled in ATM's	30	(110,761)	2,504	6
Tranfers within SEPA	1,991	-	130	(126,562)
Other	4,411	(79,769)	15,202	(43,720)
	8,317	(212,987)	52,116	(196,134)

The movement under payment in kind promises, auctions and other assets received as payment in kind during 2020 and 2019 was as follows:

	31-12-2019					Transfers from/to ANCDV		Tranfers/ tangible assets	Other		Impairment (Note 17)			31-12-2020		
	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	64,026	(28,141)	35,885	-	-	(12,670)	(1,349)	-	-	-	-	-	-	51,356	(29,490)	21,866
Lieu of payment	1,976	(86)	1,890	193	-	(313)	-	-	-	-	(8)	30	-	1,856	(64)	1,792
Auctions	16,474	(5,203)	11,271	6,322	-	(7,013)	-	-	-	-	(1,181)	68	-	15,783	(6,316)	9,467
Other	33,454	(26,911)	6,543	4,453	(5,156)	(206)	-	-	-	-	(1,123)	1,014	1,079	32,545	(25,941)	6,604
Own real estate properties for sale	42,407	(27,467)	14,940	145	(6,237)	-	-	10,758	-	(4,061)	(1,842)	686	2,704	47,073	(29,980)	17,093
Other property for sale	97,206	(384)	96,822	-	(19,404)	-	-	-	7,065	-	(11,961)	395	456	84,867	(11,494)	73,373
	255,543	(88,192)	167,351	11,113	(30,797)	(20,202)	(1,349)	10,758	7,065	(4,061)	(16,115)	2,193	4,239	233,480	(103,285)	130,195

A) Under the promissory sale agreement concluded in November 2018 with Cerberus Capital Management (Tagus Project), in March 2020, the last ales deed was signed although it was not possible to record143 properties that were returned to the portfolio of TottaUrbe as other assets, with an acquisition value of 7,065 thousand euros.

As of December 31, 2020, the typology of properties in the portfolio of assets received by means of payment in kind - real estate, is as follows:

Type	Nº of premises	Gross amount	Impairment	Net value
Premises				
Urban land	16	2,014	(877)	1,137
Rustic land	21	1,220	(862)	358
Constructed buildings				
. Residential	339	30,922	(18,072)	12,850
. Commercials	128	17,200	(9,679)	7,521
	504	51,356	(29,490)	21,866
Other properties for sale				
Urban land	757	39,220	(2,661)	36,559
Rustic land	103	23,684	(7,065)	16,619
Constructed buildings				
. Residential	121	5,075	(16)	5,059
. Commercials	165	16,888	(1,752)	15,136
	1,146	84,867	(11,494)	73,373
	1,650	136,223	(40,984)	95,239

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

	31-12-2018					Transfers/ ANCDV	Tranfers/ tangible assets	Impairment			31-12-2019		
	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	109,320	(52,155)	57,165	-	-	(45,294)	-	-	24,014	-	64,026	(28,141)	35,885
Lieu of payment	11,435	(43)	11,392	40	-	(9,499)	-	(45)	2	-	1,976	(86)	1,890
Auctions	22,574	(5,952)	16,622	13,279	-	(19,379)	-	(76)	825	-	16,474	(5,203)	11,271
Other	39,966	(27,560)	12,406	3,542	(5,107)	(4,947)	-	(623)	1,272	-	33,454	(26,911)	6,543
Own real estate properties for sale	44,773	(23,624)	21,149	192	(8,131)	-	5,573	(7,326)	678	2,805	42,407	(27,467)	14,940
Other property for sale	128,591	-	128,591	-	(31,385)	-	-	(470)	86	-	97,206	(384)	96,822
	356,659	(109,334)	247,325	17,053	(44,623)	(79,119)	5,573	(8,540)	26,877	2,805	255,543	(88,192)	167,351

The determination of impairment losses is performed according to the methodology described in Note 15.

As at December 31, 2020 and 2019, 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 AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

The movement under this heading in the period ended in December 31, 2020 and 2019 was as follows:

	31-12-2019				Transfers/ANCDV		Impairment (Note 18)				31-12-2020		
	Gross amount	Accummulated impairment (Note 18)	Increases	Sales	Capital (Note 14)	Impairment	Allocation	Reversal	Utilization	Other impairment transfers	Gross amount	Accummulated impairment (Note 18)	Net amount
Real estate	74,822	(31,223)	35,321 a)	(38,000)	20,202	1,349	(9,893)	7,750	12,514	(21,788) a)	92,345	(41,291)	51,054
Equipment	2,047	(1,603)	697	(738)	-	-	(269)	126	147	-	2,006	(1,599)	407
	76,869	(32,826)	36,018	(38,738)	20,202	1,349	(10,162)	7,876	12,661	(21,788)	94,351	(42,890)	51,461

a) Under the promissory sale agreement concluded in November 2018 with Cerberus Capital Management (Tagus Project), in March 2020, the last sales deed was signed, although it was not possible to record 269 properties that returned to the Bank's portfolio as non-current assets held for sale, with an acquisition value of €32,426k and €21,788k worth of provisions.

As of December 31, 2020, the typology of properties in the portfolio of assets received by means of payment in kind - real estate, is as follows:

Type	Nº of premises	Gross amount	Impairment	Net value
Urban land	197	17,374	(6,711)	10,663
Rustic land	89	20,584	(11,867)	8,717
Constructed buildings				
. Residential	202	34,981	(11,379)	23,602
. Commercials	147	19,406	(11,334)	8,072
	635	92,345	(41,291)	51,054

	31-12-2018				Transfers/ ANCDV	Impairment (Note 18)			31-12-2019		
	Gross amount	Accumulated impairment (Note 18)	Increases	Sales	Capital (Note 14)	Allocation	Reversal	Utilization	Gross amount	Accumulated impairment (Note 18)	Net value
Real estate	46,277	(16,599)	994	(51,568)	79,119	(38,433)	13,724	10,085	74,822	(31,223)	43,599
Equipment	1,913	(1,569)	1,269	(1,135)	-	(953)	706	213	2,047	(1,603)	444
	48,190	(18,168)	2,263	(52,703)	79,119	(39,386)	14,430	10,298	76,869	(32,826)	44,043

(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 December 31, 2020 and 2019, 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 DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Liabilities for life insurance where the risk lies with the policyholder are carried under this 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.

	31-12-2020	31-12-2019
Liabilities for life insurrance where the risk rests with the policyholder	3,261,337	3,432,017

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

17. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

The Deposits sub-heading has the following composition:

	31-12-2020	31-12-2019
Deposits - Central banks		
European Central Bank	6,781,961	3,033,002
Other Centran Banks	9,859	4,522
	6,791,820	**3,037,524**
Deposits - Credit institutions		
Sale operations with repurchase agreement	1,255,805	1,654,668
Deposits	228,651	478,979
Other resources	11,571	909,571
Very short-term resources	52,970	152,216
Interests payable	294	562
	1,549,291	**3,195,996**
Deposits - Customers		
Term deposits	14,502,014	16,624,260
Demand deposits	20,655,034	17,424,124
Structured deposits	38,643	217,162
Savings deposits	686,479	800,057
Others	27,421	19,629
Interests payable	6,318	11,490
Financial insurance products without profit sharing	22,880	22,650
Value adjustments for hedging operations	237	(423)
	35,939,026	35,118,949
Deposits	**44,280,137**	**41,352,469**

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

As at December 31, 2020 and 2019, "Amounts Owed to Credit Institutions Abroad – Repo operations," is broken down by type of asset underlying the repo operations:

	31-12-2020			
Type of underlying asset	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	535,640	(145)	(116)	535,379
Non-subordinated debt	669,696	(120)	(22)	669,554
Bond issued by non-residents	50,872	-	-	50,872
	1,256,208	(265)	(138)	1,255,805

	31-12-2019			
Type of underlying asset	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	445,207	(1,342)	(6)	443,859
Non-subordinated debt	797,112	(137)	(44)	796,931
Bond issued by non-residents	413,878	-	-	413,878
	1,656,197	(1,479)	(50)	1,654,668

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

The Debt securities sub-heading has the following composition:

	31-12-2020			31-12-2019		
	Issued	Reacquired	Balance	Issued	Reacquired	Balance
Mortgage bonds						
Opening balance	8,050,000	(5,300,000)	2,750,000	7,700,000	(4,200,000)	3,500,000
Issued	1,500,000	-	1,500,000	1,100,000	-	1,100,000
Reacquired	-	(1,500,000)	(1,500,000)	-	(1,100,000)	(1,100,000)
Redeemed	(750,000)	-	(750,000)	(750,000)	-	(750,000)
Final balance	8,800,000	(6,800,000)	2,000,000	8,050,000	(5,300,000)	2,750,000
Interest payable	-	-	9,314	-	-	10,526
Cost-related commissions	-	-	(23,161)	-	-	(25,372)
	8,800,000	(6,800,000)	1,986,153	8,050,000	(5,300,000)	2,735,154
Bonds issued in the scope of securitization operations						
Opening balance	4,269,014	(3,525,535)	743,479	4,898,562	(4,010,289)	888,273
Redeemed	(462,097)	333,300	(128,797)	(629,548)	484,754	(144,794)
Final balance	3,806,917	(3,192,235)	614,682	4,269,014	(3,525,535)	743,479
Interest payable	-	-	676	-	-	(97)
Cost-related commissions	-	-	(48,659)	-	-	(55,040)
	3,806,917	(3,192,235)	566,699	4,269,014	(3,525,535)	688,342
Subordinated liabilities						
Opening balance	296,139	(288,540)	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	296,139	(288,540)	7,599
Interest payable	-	-	134	-	-	136
	345,692	(338,093)	7,733	296,139	(288,540)	7,735
	12,952,609	(10,330,328)	2,560,585	12,615,153	(9,114,075)	3,431,231

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 December 2020, BST undertook twenty-six covered-bond issuances under the €12.5 billion Covered Bonds Programme. As at December 31, 2020 and 2019, the covered bonds had an autonomous set of assets consisting of:

	31-12-2020	31-12-2019
Loans and advances to customers (Note 9)	10,278,006	9,345,054
Interests on loans	6,682	7,038
Derivatives	(184,234)	(187,820)
	10,100,454	9,164,272

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

The Other financial liabilities sub-heading comprises the following:

	31-12-2020	31-12-2019
Cheques and orders payable	62,261	63,307
Creditors and other resources		
Creditors for other futures transactions	8,350	5,416
Public sector	32,175	33,556
Creditors by factoring contract	47,418	44,257
Creditors for supplies of goods	2,348	5,416
Others	34,358	45,584
Commitments to future income (IFRS16 application)	25,232	35,356
	212,142	232,892

Commitments with future rents corresponds to the adoption of IFRS 16 and their movement was as follows:

	Liabilitie to rent	Right to use (Note 12)
Balances as at January 1, 2019	**37,997**	**37,997**
Depreciation 2019	(6,603)	(6,190)
Outs	(1,220)	(1,891)
Ins	3,238	3,238
Rent extentions and modification	1,944	1,944
Balances as at December, 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**

As of December 31, 2020, the contractual cash flows are as follows:

Contractual cash flows	
. Up to 1 year	3,801
. Up to 2 years	3,584
. Up to 3 years	3,372
. Up to 4 years	2,810
. Up to 5 years	2,621
. Over 5 year	9,044
	25,232

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

18. MOVEMENT IN PROVISIONS AND IN IMPAIRMENTS

The composition of this heading is as follows:

	31-12-2020	31-12-2019
Impairment for guarantees and commitments assumed	**57.466**	**53.249**
Pensions and other post-employment defined benefit obligations	14.201	15.838
Reestructuring	69.308	62.278
Pending legal issues and disputes	17.310	17.257
Other provisions	81.688	85.706
Other acquisitions	**182.507**	**181.079**
	239.973	**234.328**
Technical provisions	**710.959**	**730.426**
Provisions	**950.932**	**964.754**

The movement under provisions and under impairments regarding the banking activity in 2020 and 2019 was as follows:

	2020					
	Balance at 31-12-2019	Increase	Reversals	Utilization	Transfers/Other	Balance at 31-12-2020
Impairment for guarantees and assigned commitments (Note 24)	53,249	6,288	(2,071)	-	-	57,466
Other provisions	181,079	70,008	(7,518)	(42,280)	(18,782)	182,507
	234,328	76,296	(9,589)	(42,280)	(18,782)	239,973

	2019					
	Balance at 31-12-2018	Increase	Reversals	Utilization	Transfers/Other	Balance at 31-12-2019
Impairment for guarantees and assigned commitments (Note 24)	53,160	89	-	-	-	53,249
Other provisions	244,832	21,978	(21,072)	(55,359)	(9,300)	181,079
	297,992	22,067	(21,072)	(55,359)	(9,300)	234,328

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

	2020						
	Balance at 31-12-2019	Increase	Reversals of impairment losses	Utilization and other	Balance at 31-12-2020	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	7,088	-	-	11,145	-	-
Impairment for loans and advances	918,182	492,116	(301,560)	(114,286)	994,452	(7,317)	(2,620)
Impairment losses on financial assets at fair value through other comprehensive income	89	56	(131)	-	14	-	-
	922,328	499,260	(301,691)	(114,286)	1,005,611	(7,317)	(2,620)
Impairments or reversal of impairments of non financial assets				-			
Non-current assets held for sale	32,826	10,162	(7,876)	7,778	42,890	-	-
Tangible assets	6,147	-	-	17,477	23,624	-	-
Other assets	88,418	16,115	(2,388)	1,170	103,315	-	-
	127,391	26,277	(10,264)	26,425	169,829	-	-

	2019						
	Balance at 31-12-2018	Increase	Reversals of impairment losses	Utilization and other	Balance at 31-12-2019	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	3,872	185		-	4,057	-	-
Impairment for loans and advances	1,105,698	244,639	(244,172)	(187,983)	918,182	(3,673)	(4,028)
Impairment losses on financial assets at fair value through other comprehensive income	3	86	-	-	89	-	-
	1,109,573	244,910	(244,172)	(187,983)	922,328	(3,673)	(4,028)
Impairments or reversal of impairments of non financial assets							
Impairment of investments in associates	1,918	-	-	(1,918)	-	-	-
Non-current assets held for sale	18,168	39,386	(14,430)	(10,298)	32,826	-	-
Tangible assets	6,147	-	-	-	6,147	-	-
Other assets	109,483	8,617	(26,877)	(2,805)	88,418	-	-
	135,716	48,003	(41,307)	(15,021)	127,391	-	-

19. SHARE CAPITAL REPAYABLE ON DEMAND

As at December 31, 2020 and 2019, this item represented the 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:

	31-12-2020	31-12-2019
Personnel expenses		
Vacation and vacation subsidies	41,524	39,549
Other variable remuneration	22,348	29,795
End career prize	1,377	-
Other personnel expenses	2,607	1,170
Other expenses	95,617	146,533
Liabilities with pensions and other benefits (Note 36)		
Santander liabilities	1,123,784	1,131,980
Santander pension fund book value	(1,143,046)	(1,160,573)
London branch liabilities	56,628	51,848
London branch pension fund book value	(48,718)	(44,654)
Former Banif liabilities	160,544	161,803
Former Banif pension fund book value	(93,369)	(101,126)
Former BAPOP liabilities	181,921	181,503
Former BAPOP pension fund book value	(186,718)	(185,459)
Other liabilities for direct insurance and reinsurance	4,193	4,959
Deferred income	14,370	2,749
Liability operations to be settled (Note 14)	212,987	196,134
	446,049	456,211

21. EQUITY

As at December 31, 2020 and 2019, the Share Capital of Santander Totta, SGPS, S. A., was represented by 197,296,207,958 shares, each of a par value of 1 cent, fully subscribed and paid up by the following shareholders:

	31-12-2020		
	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

During 2019, the Company acquired 5,760,940 Treasury shares for the amount of €163k.

During 2018 the Company distributed dividends in the amount of €394,734k (amount net of the dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.00200 per share.

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

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.

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.

Other accumulated comprehensive income

As at December, 2020 and 2019, the breakdown of reserves for accumulated comprehensive income was as follows:

	31-12-2020	31-12-2019
Other comprehensive income - Gross amount		
Financial assets at fair value through other comprehensive income	1,048,630	719,676
Financial assets at fair value through other comprehensive income from companies in equity method	3,529	4,396
Hedging instruments within the scope of cash flow hedges	(44,612)	(52,995)
The valuation of insurance liabilities ("shadow reserve")	(45,920)	(36,857)
Remeasurements of pension liabilities		
Pension Fund of BST	(795,390)	(798,853)
Pension Fund of the Lond branch of BST	(16,573)	(13,447)
Pension fund of Former Banif	(43,248)	(36,753)
Pension fund of Former BAPOP	(7,464)	(8,037)
Remeasurements of companies in equity method	(3,961)	(4,035)
	94,991	(226,905)
Other comprehensive income - Tax impact		
Financial assets at fair value trough other comprehensive income	(319,652)	(217,196)
Financial assets at fair value through other comprehensive income from companies in equity method	(905)	(1,123)
Hedging instruments within the scope of cash flow hedges	13,829	16,429
The valuation of insurance liabilities ("shadow reserve")	10,791	7,251
Tax impact of remeasurements	204,199	204,199
Tax impact of equity remeasurements of companies in equity method	919	938
	(90,819)	10,498
	4,172	(216,407)

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 December 31, 2020 and 2019, the breakdown of "Retained earnings and Other reserves" was as follows:

	31-12-2020	31-12-2019
Retained earnings	197,228	(137,618)
Other reserves		
Legal reserve	363,640	320,054
Merger reserves	640,575	640,575
Consolidated reserves		
Companies consolidated under the full method	624,920	539,666
Companies consolidated under the equity method	22,036	17,939
	1,651,171	1,518,234

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

In the years 2020 and 2019, the determination of consolidated profit can be summarized as follows:

	2020		2019	
	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)	7,089	7,089	435,860	435,860
Profit or loss of other Group companies:				
Banco Santander Totta, S.A.	275,210	275,092	499,715	499,500
Totta (Ireland), Plc.	9,214	9,210	10,086	10,081
Unicre, Instituição Financeira de Crédito, S.A.	23,919	5,226	16,194	3,539
Santander Totta Seguros, S.A.	26,907	26,907	25,545	25,545
Totta Urbe, Empresa de Administração e Construções, S.A.	583	583	6,083	6,080
Aegon Santander Portugal Vida - Companhia de Seguros, S.A.	14,776	7,240	11,904	5,833
Novimovest - Fundo de Investimento Imobiliário Aberto	341	268	5,750	4,526
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	4,001	1,960	4,950	2,426
Taxagest, S.A.	(3)	(3)	8	8
Lusimovest Fundo de Investimento Imobiliário	1,210	312	292	75
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	63	63	228	228
Mafre Santander Portugal Co. Seguros	(1,149)	(574)	1,247	1,247
		326,284		559,088
Elimination of dividends received:				
Banco Santander Totta, S.A.		-		(422,688)
Totta (Ireland), PLC		(6,850)		(12,485)
Unicre - Instituição Financeira de Crédito, S.A.		(3,191)		(5,201)
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.		(7,700)		(5,412)
Mapfre Santander Portugal		(1,247)		-
		(18,988)		(445,786)
Adjustments related with securitization operations		(7,641)		(14,684)
Other		(11,185)		(7,220)
		(18,826)		(21,904)
		295,559		527,258

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.

	31-12-2020	31-12-2019
Consolidated net income attributable to the shareholders of ST, SGPS	295,559	527,258
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	197,189,972,153
Basic earnings per share attributable to the shareholders of ST, SGPS (In Euro)	0.0015	0.0027

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 2020 and 2019 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:

	31-12-2020	31-12-2019
Guarantees given and other contingent liabilities		
Guarantees and sureties	648,253	563,159
Commitments for credit granted		
Revocable	6,063,686	5,089,308
Irrevocable	949,459	1,000,630
	7,013,145	6,089,938
Other commitments granted		
Non-financial guarantees and sureties	964,490	1,013,044
Other irrevocable commitments	363,131	374,410
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	7,507	6,817
Other commitments granted	200,215	215
	1,604,312	1,463,455
	9,265,710	8,116,552
Assets pledged as guarantee		
Bank of Portugal	148,206	165,818
Deposit Guarantee Fund	87,998	85,447
Investor Indemnity System	8,516	9,114
Assets pledged as guarantee in monetary policy operations	15,995,107	11,621,096
	16,239,827	11,881,475
Liabilities for services provided		
Deposit and custodial services	36,048,845	31,429,713
Amounts received for collection	444,411	161,128
Other values	113,603	76,780
	36,606,859	31,667,621

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.

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

Guarantees and other contingent commitments have the following exposure per stage:

	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

	31-12-2019							
	Exposure				Impairment (Note 18)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commitments for credit granted	5,314,923	768,621	6,394	6,089,938	3,041	1,403	9	4,453
Financial guarantees	394,581	127,140	41,438	563,159	482	329	21,562	22,373
Other commitments granted	1,186,119	114,059	163,277	1,463,455	1,262	183	24,978	26,423
	6,895,623	1,009,820	211,109	8,116,552	4,785	1,915	46,549	53,249

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 unpaid amount accumulated as at December 31, 2020, and 2019, 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 2020 and 2019, the Bank paid 100% of the annual contribution in the amounts of €48k and €50k, 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 December 31, 2020 and 2019, these liabilities amounted to €7,507k and €6,817k, respectively.

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

25. NET INTEREST INCOME

The composition of this heading is as follows:

	2020	2019
Interest income		
Interest on cash and deposits at central banks and credit institutions	134	709
Interest on non-trading financial assets mandatorily at fair value through profit or loss	346	549
Interest on financial assets at fair value through other comprehensive income	148,246	121,527
Interest on financial assets at amortized cost		
Loans and advances - Credit instituitions	1,440	9,463
Debt securities	59,458	66,711
Loans and advances - customers	599,498	699,044
Interest on resources at Central Banks and other Credit institutions	24,984	14,510
Interests on hedging derivatives	274,477	293,584
Others	2,265	3,013
	1,110,848	1,209,110
Interest expenses		
Interest on financial liabilities measured at amortized cost		
Deposits - Credit instituitions	(5,522)	(5,983)
Deposits- customers	(19,697)	(46,949)
Debt securities issued	(30,500)	(37,751)
Interest on other financial liabilities	(5,972)	(2,413)
Interest on assets from central banks and credit institutions	(8,299)	(6,249)
Interest on customers' assets	(925)	(585)
Interests on hedging derivatives	(244,512)	(242,647)
Interest on lease liabilities	(565)	(649)
Others	(8,216)	(10,170)
	(324,208)	(353,396)
	786,640	855,714

26. DIVIDEND INCOME

This item refers to dividends and income received, and is broken down as follows:

	2020	2019
SIBS – Sociedade Interbancária de Serviços, S.A.	1,733	1,634
Other	1	155
	1,734	1,789

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

27. PERCENTAGE OF PROFIT OR LOSS FROM INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES ACCOUNTED FOR USING OTHER THAN EQUITY EQUITY METHOD

The composition of this heading is as follows:

	2020	2019
AEGON Santander Portugal Não Vida	1,960	2,426
AEGON Santander Portugal Vida	7,240	5,833
Lusimovest - Fundo de Investimento Imobiliário	312	75
Unicre - Instituição Financeira de Crédito	5,305	2,471
Mapfre Santander Portugal Co. Seguros	(264)	-
	14,553	10,805

(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:

	2020	2019
Fee and commission income		
On guarantees given	17,189	18,076
On commitments to third parties	4,849	967
By services provided		
Deposit and custodial services	5,286	5,354
Collection and administration of values	15,137	11,954
Real estate and mutual fund management	24,159	27,879
Transfers	1,542	1,829
Card management	83,748	92,592
Annuities	35,284	29,694
Credit operations	54,400	65,294
Other services rendered	5,997	2,765
On operations carried out on behalf of third parties		
On securities	15,471	14,451
Other	82	195
Other commission received		
Insurance companies	100,783	101,661
Demand deposits	93,870	83,598
Checks	5,565	9,082
Other	20,209	23,612
	483,571	489,003
Fee and commission expenses		
On guarantees received	(4,313)	(5,032)
On banking services rendered by third parties		
Collection and administration of values	(4,860)	(4,595)
Cards	(69,672)	(71,285)
Credit operations	(2,739)	(7,402)
Other services rendered	(515)	(2,606)
On operations carried out by third parties		
Securities	(3,390)	(2,348)
Others	(7,015)	(6,181)
Other commissions paid	(17,855)	(9,050)
	(110,359)	(108,499)
	373,212	380,504

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

29. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

The composition of this heading is as follows:

	2020	2019
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**93,832**	**66,712**
Financial assets at fair value through other comprehensive income	89,081	59,173
Debt instruments	89,081	59,306
Others	-	(133)
Others	4,751	7,539
Gains or losses on financial assets and liabilities held for trading, net	**(9,298)**	**8,825**
Equity instruments	-	9,851
Derivative instruments	(9,298)	(1,026)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**3,326**	**7,692**
Equity instruments	2,779	6,246
Debt securities	547	1,446
Gains or losses from hedge accounting, net	**-**	**-**
Hedging derivatives	(202,144)	(217,714)
Hedged element	202,144	217,714
Exchange differences, net	**11,192**	**11,253**

In the year ended December 31, 2020 and 2019, the gains recorded under "Financial assets accounted at fair value through other comprehensive income" were justified, essentially, by the sale of public debt obligations.

30. GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

The composition of this heading is as follows:

	2020	2019
Gains on property investments	383	1,114
Gains in subsidiaries excluded from consolidation	15,488	-
Losses on property investments	(251)	(396)
	15,620	718

(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:

	2020	2019
Gross margin of life insurance in which the riskis borne by the policyholder	73,208	26,818
Gross margin in insurance activity		
Commissions and profit sharing on reinsurance ceded	25,011	28,062
Gross written premiums net of reinsurance	9,129	17,261
Costs with claims net of reinsurance	(112,278)	(65,749)
Change in technical reserves net of reinsurance	12,146	5,649
Interests and net income of assets allocated to technical reserves	10,212	11,411
Net gains of assets allocated to technical reserves	1,111	838
Charges for services and commissions associated with technical reserves	(1,303)	(2,556)
	(55,972)	(5,131)

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:

	2020	2019
Other operating income		
Rents earned	10,198	14,018
Income from rendering of services	2,303	2,292
Change in fair value of investment properties	3,997	3,461
Others	4,855	5,976
	21,353	25,747
Other operating expense		
Change in fair value of investment properties	(6,561)	(6,376)
Expenses with customers	(3,346)	(4,119)
Others	(1,811)	(3,817)
	(11,718)	(14,312)

During 2020 and 2019, "Rents earned" includes the amounts of €9,991k and €13,437k, respectively, in respect of the rents received by the Novimovest Real Estate Fund (Note 12).

In the item "Expenses with customers", expenses with internal and external fraud are recorded.

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

33. ADMINSTRATIVE EXPENSES

The composition of this heading is as follows:

Staff expenses

	2020	2019
Remuneration		
Management and supervisory boards	4,684	5,953
Employees	223,707	227,043
Other variable remuneration	15,185	34,128
	243,576	267,124
Mandatory social charges		
Charges on remuneration	61,593	61,238
Pension funds (Note 36)	8,178	6,698
Other mandatory social charges	1,226	1,145
	70,997	69,081
Other staff expenses		
Staff assignments	1,247	1,356
Supplementary pension plan (Note 36)	537	559
Other	8,026	7,868
	9,810	9,783
	324,383	345,988

Other administrative expenses

	2020	2019
External supplies:	10,015	12,152
External services:		
Specialized services	73,385	69,832
Maintenance of software and hardware	60,828	58,795
Communications	7,940	12,898
Maintenance and repairs	4,765	5,408
Advertising and publishing	12,424	13,516
Other lease operations (short-term and low-value leases)	4,360	6,218
Travel, lodging and entertainment expenses	2,899	5,344
Transportation	4,599	5,132
Insurance	2,398	1,366
Other services	5,740	6,308
Contributions and donations	6,770	7,191
Other taxes	4,302	4,658
	200,425	208,818

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

Firm of Chartered Accountants

The fees billed or to be billed by the audit firm and respective firms in the same network in 2020 and 2019, excluding the Value Added Tax, were as follows:

	2020			2019		
	Company	Group	Total	Company	Group	Total
Audit and statutory audit	87	1,534	1,621	86	1,503	1,589
Other services and reliability guarantee	44	1,060	1,104	22	858	880
Tax consulting services	-	-	-	-	-	-
Other services	-	190	190	-	187	187
	131	2,784	2,915	108	2,548	2,656

Corresponds to the amounts contracted for the year, irrespective of their billing date.

"Other reliability assurance services" include fees for the following services:

i) Assessment of the impairment of the loan portfolio, as required by Bank of Portugal Instruction No. 5/2013;
ii) Review of the internal control system, as required by Bank of Portugal Notice No. 5/2008;
iii) Limited review of the quarterly financial information (1st and 3rd quarters of 2019) prepared for the purpose of consolidation of Banco Santander, S. A.;
iv) Review of procedures for the safeguard of customer assets, as required under article 304-C of the Securities Code;
v) Verification of the information on covered bonds, as required by article 34 of Decree-Law 59/2006 of March 20;
vi) Verification of the information on Monetary Policy Operations, as required by Bank of Portugal Instruction 3/2015;
vii) Review of the Internal Control System for the prevention of money laundering and financing of terrorism, as required by Bank of Portugal Notice 2/2018.
viii) Procedures for validating the Annual Financial Flow Report for the purposes of IFRRU 2020 certification; and
ix) Support to the Bank's Audit Committee in the context of its first self-assessment report required by Notice no. 3/2020 of Banco de Portugal under the terms provided for in no. 3 of article 56 of the aforementioned Notice.

"Other services" includes fees related to the following services:

i) Issuance of comfort letter for updating the prospects regarding the covered bonds and EMTN programme;
ii) Review of the information presented in the 2020 Sustainability Report;
iii) Access to the Inforfisco database containing information on tax law, doctrines and court decisions.
iv) Agreed procedures for the validation of credit information included in a synthetic securitization operation.

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

34. CASH CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

	2020	2019
Contributions to the Resolution Fund		
National Resolution Fund	(12,875)	(12,261)
Single Resolution Fund	(22,701)	(20,336)
Contributions to the Deposit Guarantee Fund	(48)	(50)
	(35,624)	(32,647)

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 2020 and 2019 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 €26,707k and €23,924k, respectively.

35. PROFIT OR LOSS WITH NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE NOT QUALIFYING AS DISCONTINUED OPERATIONS

The composition of this heading is as follows:

	2020			2019		
	Gain	Loss	Net	Gain	Loss	Net
Assets received in lieu of payment	6,840	(6,807)	33	5,381	(932)	4,449
Other non-financial assets	17,055	(12,074)	4,981	54,727	(30,440)	24,287
	23,895	(18,881)	5,014	60,108	(31,372)	28,736

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

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.

The Bank's liabilities for retirement pensions, health care and death benefits as at December 31, 2020 and 2019, as well as the respective coverage, are detailed as follows:

	Santander		BAPOP	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Estimate of responsibilities for past services:				
- Pensions				
.Current employees	303,442	314,702	64,619	63,195
.Pensioners	52,496	46,489	7,806	7,970
.Retired staff and early retired staff	583,248	584,284	95,972	97,164
	939,186	945,475	168,397	168,329
- Healthcare systems (SAMS)	169,721	171,834	12,782	12,456
- Death subsidy	6,399	6,349	742	718
- Retirement bonus	8,478	8,322	-	-
	1,123,784	1,131,980	181,921	181,503
Coverage of responsibilities:				
- Net assets of the Fund	1,143,046	1,160,573	186,718	185,459
Excess / insufficient funding (Note 20)	19,262	28,593	4,797	3,956
Actuarial and financial deviations generated in the period				
- Change in assumptions	-	150,685	-	26,378
- Experience adjustments:				
.Other actuarial (gains) / losses	4,984	12,609	(80)	(11,924)
.Financial (gains) / losses	(8,445)	(50,241)	(493)	(7,170)
	(3,461)	(37,632)	(573)	(19,094)
	(3,461)	113,053	(573)	7,284

As at December 31, 2020 and 2019, the main assumptions used by the Bank to determine its liabilities for retirement pensions 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%

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

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 movement under liabilities for past services in the years of 2020 and 2019 can be detailed as follows:

	Santander		BAPOP	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Responsibilities at beginning of year	1,131,980	972,776	181,503	163,111
Cost of current services	5,580	3,712	1,348	891
Cost of interests	12,023	19,609	1,634	3,382
(Actuarial Gains)/Losses	4,984	163,294	(80)	14,454
Early retirements	21,682	23,891	785	2,673
Amounts paid	(54,946)	(53,794)	(3,889)	(3,665)
Employee Contributions	2,481	2,492	620	657
Responsabilities at end of period	1,123,784	1,131,980	181,921	181,503

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 periods ended on December 31, 2020 and 2019, the expenses with pensions have the following composition (Note 33):

	31-12-2020	31-12-2019
Cost of current services	6,928	4,603
Cost of interests	13,657	22,991
Assets return using discount rate	(13,657)	(22,991)
Defined benefit plan	6,928	4,603
Defined contribution plan	1,131	1,487
London branch plan	119	608
	8,178	6,698

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 CBA. 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.

In 2021, the Bank expects to make a contribution of €11,129k to the defined benefit plan of Santander and BAPOP.

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.

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

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 movement under actuarial deviations during 2020 and 2019 was as follows:

	Santander		BAPOP	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Deviations at beginning of year	799,225	686,172	8,037	753
Actuarial (Gains) / Losses	4,984	163,294	(80)	14,454
Financial (Gains) / Losses	(8,445)	(50,241)	(493)	(7,170)
Deviations at end of period	795,764	799,225	7,464	8,037

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 December 31, 2020 and 2019, the number of participants of the Funds was the following:

	Santander		BAPOP	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Current employees				
Defined benefit plan	3,885	4,055	722	737
Defined contribution plan	460	389	119	125
Pensioners	1,282	1,242	34	32
Retired staff and early retired staff	5,773	5,731	157	147
	11,400	11,417	1,032	1,041

The main demographic changes during 2020 and 2019 were as follows:

	Assets							
	Defined contribution plan		Defined benefit plan		Retired staff and early retired staff		Pensioners	
	Santander	Bapop	Santander	Bapop	Santander	Bapop	Santander	Bapop
Total number as at December 31, 2018	340	142	4,242	788	5,689	133	1,175	31
Leavers:								
. Current employees	(18)	(16)	(45)	(40)	-	-	(2)	(1)
. Due to mortality	(1)	-	(2)	-	(128)	(1)	(33)	-
Transfers	-	(1)	(142)	(11)	142	11	-	-
Joiners	68		2	-	28	4	102	2
Total number as at December 31, 2019	389	125	4,055	737	5,731	147	1,242	32
Leavers:								
. Current employees	(9)	(6)	(30)	(10)	-	-	(4)	-
. Due to mortality	-	-	(4)	(1)	(118)	-	(42)	-
Transfers	-	-	(137)	(4)	137	5	-	(1)
Joiners	80	-	1	-	23	5	86	3
Total number as at december 31, 2020	460	119	3,885	722	5,773	157	1,282	34

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

The movement occurred in the Bank's Pension Fund during 2020 and 2019 was as follows.

	Santander		BAPOP	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Fund Value at the beginning of the year	1,160,573	979,892	185,459	163,475
Bank contribution (monetary)	14,470	162,133	2,401	14,440
Employee contribution	2,481	2,492	620	657
Net income of the fund:				
Income from assets using discount rate	12,023	19,609	1,634	3,382
Income of the fund above the discount rate	8,445	50,241	493	7,170
Amounts paid	(54,946)	(53,794)	(3,889)	(3,665)
Fund Value at the end of the year	1,143,046	1,160,573	186,718	185,459

The yields of the Pension Fund amounted to Santander (1.92%) and BAPOP (2.06%) in 2020, and Santander 7.25% and BAPOP 7.66% in 2019.

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:

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%

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

As at December 31, 2020 and 2019, the composition of the Pension Fund was the following:

	Santander		BAPOP	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Debt instruments:				
. Rating A	88,135	69,147	19,894	17,620
. Rating BBB	370,511	522,599	68,026	83,538
. Rating BB	13,764	3,999	3,476	808
. Without rating to the issuance and issuer	67,857	62,640	10,937	7,965
Real estate funds	125,008	123,925	913	1,246
Mutual funds	352,167	245,157	72,747	62,478
Deposits	53,779	67,828	7,382	9,592
Real estate funds				
. Commercial spaces	19,515	19,238	-	-
. Land	1,149	1,142	-	-
Equity instruments:				
. Portuguese shares – listed	136	187	-	-
. Foreign shares – listed	29,893	36,955	-	157
Derivative financial instruments				
. Options listed	632	(149)	110	36
Others	20,500	7,905	3,233	2,019
	1,143,046	1,160,573	186,718	185,459

As at December 31, 2020 and 2019, the method for the determination of the fair value of the assets and liabilities mentioned above, adopted by the Management Companies as recommended in IFRS 13 (Note 39), was as follows:

	31-12-2020				31-12-2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	563,806	-	78,794	642,600	697,711	-	70,605	768,316
Investment Funds	424,914	-	125,921	550,835	279,349	-	153,457	432,806
Equity instruments	30,029	-	-	30,029	37,299	-	-	37,299
Derivative financial instruments	742		-	742	(113)	-	-	(113)
Real estate	-	-	20,664	20,664	-	-	20,380	20,380
	1,019,491	-	225,379	1,244,870	1,014,246	-	244,442	1,258,688

As at December 31, 2020 and 2019, the Pension Fund's portfolio included the following assets related with companies of the Santander Group in Portugal:

	31-12-2020	31-12-2019
		a)
Rented real estate properties	13,028	13,192
Securities (including units in funds managed)	221,208	184,964
	234,236	198,156

a) The amount shown corresponds only to the Santander Pension Fund.

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 years ended in December 31, 2020 and 2019 the premium paid by the Bank amounted to €537k and €559k, respectively. 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 December 31, 2020 and 2019, the main assumptions used in the calculation of retirement pension liabilities related with the pension plan covering the employees of the former Bank's London Branch were as follows:

	31-12-2020	31-12-2019
Mortality table	100% S3NMA_Light/ 100% S3NFA_Light	92% of S3NMA/ 98% of S3NFA
Technical actuarial rate (discount rate)	1.2%	1.9%
Wage growth rate	2.7%	2.2%
Pension growth rate	2.1%	1.8%
Inflation rate	2.7%	2.2%

As at December 31, 2020 and 2019, the liabilities for the defined-benefit pension plan and their coverage were as follows:

	31-12-2020	31-12-2019
Estimated liabilities for past-services	56,628	51,848
Coverage – Pension Fund asset value	48,718	44,654
Amount not funded – London Branch (Note 20)	(7,910)	(7,194)

The movement under liabilities for past services in the years of 2020 and 2019 can be detailed as follows:

	31-12-2020	31-12-2019
Liabilities at the beginning of the year	51,848	44,509
Cost of current services	17	432
Interest cost	921	1,252
Actuarial (gains)/ losses	5,036	7,384
Amounts paid	(1,194)	(1,729)
Liabilities at the end of the period	56,628	51,848

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

The movement under the Fund during 2020 and 2019 was as follows:

	31-12-2020	31-12-2019
Book value at the beginning of the year	44,654	38,891
Net income of the fund:		
. Income from assets using discount rate	819	1,076
. Income of the fund above/(bellow) the discount rate	1,910	6,046
Contribution of the Branch	2,529	370
Amounts paid	(1,194)	(1,729)
Book value at the end of the year	48,718	44,654

The movement under actuarial deviations during 2020 and 2019 was as follows:

	31-12-2020	31-12-2019
Deviations at the beginning of the year	13,447	12,109
Actuarial (gains)/ losses	5,036	7,384
Financial (gains)/ losses	(1,910)	(6,046)
Deviations at the end of the year	16,573	13,447

As at December 31, 2020 and 2019, the portfolio of the Pension Fund of the London Branch included the following assets:

	31-12-2020	31-12-2019
Debt instruments	25,299	27,486
Equity instruments	20,771	17,446
Others	2,648	(278)
Fund value	48,718	44,654

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.

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

On December 31, 2020 and 2019, a sensitivity analysis performed on a variation of the main financial assumptions referred to those dates led to the following impacts on the current value of the Bank's and BAPOP's past-service liabilities:

	2020		2019	
	(Reduction)/ Addition		(Reduction)/ Addition	
	%	value	%	value
Change of discount rate				
. Increase of 0.5%	(7.0%)	(91,485)	(7.1%)	(93,876)
. Reduction of 0.5%	7.9%	103,384	8.0%	106,327
Change in the wage growth rate				
. Increase of 0.5%	5.3%	60,240	5.5%	71,731
. Reduction of 0.5%	(5.3%)	(69,728)	(4.6%)	(60,419)
Change in the pension growth rate				
. Increase of 0.5%	8.2%	106,602	8.4%	110,311
. Reduction of 0.5%	(7.4%)	(96,595)	(7.6%)	(99,788)
Change in the mortality table				
. More two years	(6.7%)	(88,061)	(6.7%)	(88,072)
. Less two years	6.9%	89,421	6.8%	89,438

The sensitivity analyses presented above may not be representative of the changes that may occur in the future in the defined-benefit plan as a result of being considered in isolation and some of them are correlated.

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.

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 Social-Medical 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 CBA rules.

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

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 CBA 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 CBA.

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 December 31, 2020 and 2019, using the Bank's assumptions, is as follows for the defined-benefit pension plan (considering both the Banif and the former BBCA sub-populations):

	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 and pensioners	98,519	7,416	278	-	106,213
Early retired staff	14,398	3,264	204	-	17,866
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)

	31-12-2019				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	22,837	8,436	133	1,086	32,492
Retired staff and pensioners	111,439	11,189	475	-	123,103
Former participants with vested rigths	3,714	2,494	-	-	6,208
Total liabilities for past services	137,990	22,119	608	1,086	161,803
Book value of the pension fund					101,126
Insufficient fund					(60,677)

As at December 31, 2020 and 2019, the breakdown of the portfolio of the Banif Pension Fund associated with the defined-benefit pension plan by asset type is as follows:

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

	31-12-2020		31-12-2019	
Type of Asset	Total	Relative weight	Total	Relative weight
Debt Instruments	40,269	41.97%	47,884	46.14%
Mutual funds	3,294	3.43%	4,381	4.22%
Real estate fund	387	0.40%	1,160	1.12%
Real estate properties	13,734	14.31%	13,722	13.22%
Equity instruments	32,607	33.98%	31,733	30.58%
Other	5,663	5.90%	4,894	4.72%
	95,954		103,774	
Assets to be transfered	(2,585)		(2,648)	
	93,369		101,126	

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.

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. 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.

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

As at December 31, 2020, bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC

Issued Debt	Amount		Rating			Remuneration	
	Initial	Current	Fitch	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A	2,616,040	436,257	A	September, 2048	December, 2014	Euribor 3 months + 0.12%	Euribor 3 months + 0.24%
Class B	44,240	15,871	A	September, 2048	December, 2014	Euribor 3 months + 0.19%	Euribor 3 months + 0.40%
Class C	139,720	50,125	BB-	September, 2048	December, 2014	Euribor 3 months + 0.29%	Euribor 3 months + 0.58%
	2,800,000	502,253					
Class D	14,000	7,000	NR	September, 2048	December, 2014	Residual income of the securitized portfolio	
	2,814,000	509,253					

Hipototta nº 5 PLC

Issued Debt	Amount		Rating				Remuneration	
	Initial	Current	S&P	Moody´s	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A1	200,000	-			February, 2060	February, 2014	Euribor 3 months + 0,05%	Euribor 3 meses + 0,10%
Class A2	1,693,000	399,269	A	Aa3	February, 2060	February, 2014	Euribor 3 months + 0,13%	Euribor 3 meses + 0,26%
Class B	26,000	26,000	A	Aa3	February, 2060	February, 2014	Euribor 3 months + 0,17%	Euribor 3 meses + 0,34%
Class C	24,000	24,000	A	A1	February, 2060	February, 2014	Euribor 3 months + 0,24%	Euribor 3 meses + 0,48%
Class D	26,000	26,000	A	Baa2	February, 2060	February, 2014	Euribor 3 months + 0,50%	Euribor 3 meses + 1,00%
Class E	31,000	31,000	BBB	Ba2	February, 2060	February, 2014	Euribor 3 months + 1,75%	Euribor 3 meses + 3,50%
	2,000,000	506,269						
Class F	10,000	6,000	CCC-	Ca	February, 2060	February, 2014	Residual income of the securitized portfolio	
	2,010,000	512,269						

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.

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.

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

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.

Azor Mortgage No. 1

An operation carried out in November 2004, in which mortgage loans originated at the former BBCA (Banco Banif e Comercial dos Açores, S. A.) were assigned. The assigned loans were acquired by Sagres – Sociedade de Titularização de Créditos (Sagres STC), which issued the Azor Notes bonds, fully subscribed by Azor Mortgages PLC, having its registered office Ireland. To finance itself, Azor Mortgage PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. In December 2006, the Azor Notes and respective rights to receive the credits and payment obligations to Azor Mortgages PLC were transferred from Sagres to Gamma STC.

Azor Mortgage nº 1

Issued Debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	253,000	-	AA	A1	September, 2047	Euribor 3 months + 0.3%
Class B	19,000	12,377	AA	Aa3	September, 2047	Euribor 3 months + 0.76%
Class C	9,000	9,000	A	Aa3	September, 2047	Euribor 3 months + 1.75%
	281,000	21,377				
Class D	10,000	10,000	NR	NR	September, 2047	Residual income of the securitized portfolio
	291,000	31,377				

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.

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

Atlantes Mortgage nº 2

Issued Debt	Amount: Initial	Amount: Current	Rating: S&P	Rating: Fitch	Redemption date	Remuneration: Up to early redemption date
Class A	349,100	99,053	AA(sf)	AA	September, 2060	Euribor 3 months + 0.33%
Class B	18,400	12,332	AA(sf)	A+	September, 2060	Euribor 3 months + 0.95%
Class C	7,500	5,027	BBB(sf)	BBB+	September, 2060	Euribor 3 months + 1.65%
	375,000	116,412				
Class D	16,125	10,295	NR	NR	September, 2060	Residual income of the securitized portfolio
	391,125	126,707				

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

Issued Debt	Amount: Initial	Amount: Current	Rating: S&P	Rating: Fitch	Redemption date	Remuneration: Up to early redemption date
Class A	253,500	74,685	AA (sf)	A (sf)	December, 2065	Euribor 3 months + 0.3%
Class B	46,500	43,080	NR	NR	December, 2065	Euribor 3 months + 0.8%
	300,000	117,765				
Class C	6,750	6,750	NR	NR	December, 2065	Residual income of the securitized portfolio
	306,750	124,515				

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

Issued Debt	Amount: Initial	Amount: Current	Rating: S&P	Rating: Fitch	Redemption date	Remuneration: Up to early redemption date
Class A	558,600	172,742	AA	AA (sf)	August, 2061	Euribor 3 months + 0.2%
Class B	41,400	24,773	NR	NR	August, 2061	Euribor 3 months + 0.5%
	600,000	197,515				
Class C	57,668	43,923	NR	NR	August, 2061	Residual income of the securitized portfolio
	657,668	241,438				

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

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

Issued Debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	514,250	193,401	A+	A+	December, 2064	Euribor 3 months + 0.15%
Classe B	35,750	21,298	NR	NR	December, 2064	Euribor 3 months + 0.3%
	550,000	214,699				
Class C	74,250	58,974	NR	NR	December, 2064	Residual income of the securitized portfolio
	624,250	273,673				

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

Issued Debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	455,000	156,332	AAA	AA-	November, 2068	Euribor 3 months + 0.15%
Class B	45,000	28,863	NR	NR	November, 2068	Euribor 3 months + 0.3%
	500,000	185,195				
Class C	66,250	49,926	NR	NR	November, 2068	Residual income of the securitized portfolio
	566,250	235,121				

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.

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

Atlantes Mortgage nº 7

Issued Debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	357,300	122,749	A+	AA-	August, 2066	Euribor 3 months + 0.15%
Class B	39,700	22,810	NR	NR	August, 2066	Euribor 3 months + 0.3%
	397,000	145,559				
Class C	63,550	47,535	NR	NR	August, 2066	Residual income of the securitized portfolio
	460,550	193,094				

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 were acquired by the Bank.

Hipototta 13

Dívida emitida	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	1,716,000	1,028,903	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	1,512,903				
Class C	66,000	46,566	NR	NR	october, 2072	Residual income of the securitized portfolio
	2,266,000	1,559,469				
VFN	0.001	0.001	NR	NR	october, 2072	No remuneration

During 2019 the Atlantes Mortgage No. 1 operation was wound up.

38. RELATED ENTITIES

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 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
Entities that directly or indirectly control 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 Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank,National Association	USA
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Gestao de Ativos SGFIM, 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 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 2019 were as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
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
Benim - Sociedade Imobiliária, SA	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Entities that directly or indirectly control the Group	
Abbey National Treasury Services plc	United Kingdom
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
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
Open Bank Santander Consumer S.A.	Spain
Popular Gestao de Ativos	Portugal
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Santander Consumer Services, S.A.	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	USA
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Gestao de Ativos SGFIM, 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 December 31, 2020 and 2019, the balances and transactions maintained during these years with related parties were as follows:

	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

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

	31-12-2019		
	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	54,959	-	1,115
Financial assets held for trading	250,471	-	-
Financial assets not mandatorily held for trading at fair value through profit or loss	503	-	6,443
Financial assets at fair value through other comprehensive income	520	-	10,689
Financial assets at fair value Loans and advances	584,160	55,715	98,869
Derivatives – Hedge accounting	2,322	-	-
Investments in subsidiaries, joint ventures and associates	-	112,259	-
Other assets	8	5,162	2,276
Liabilities:			
Financial liabilities held for trading	(1,064,339)	-	-
Financial liabilities at amortised cost			
Deposits - Credit Instituitions	(717,174)	-	(4,422)
Deposits - Customers	-	(27,451)	(18,926)
Debt securities issued	(46,576)	-	-
Derivatives – Hedge accounting	(55,620)	-	-
Other liabilities	(7,343)	-	(11,089)
Income Statement			
Interest income	(262,762)	(390)	(225)
Interest expenses	280,379	-	13
Fee and commission income	(358)	(54,446)	(21,766)
Fee and commission expenses	3,570	-	6,067
Results of financial assets and liabilities at fair value through profit or loss	73,469	-	-
Exchange differences, net	2,649	-	(15)
Gross margin of life insurance where the risk is of the policyholder	4	-	(382)
Gross margin of insurance activity	-	-	(76)
Administrative expenses	7,157	-	34,354
Proportion of profit or loss from investments in subsidiaries, joint ventures and associates accounted for joint ventures and associates accounted for equity method	(21)	(10,805)	-
Other operating income/expenses	-	(116)	(123)
Off balance sheet items:			
Guarantees provided and other contingent liabilities	48,037	22	188,591
Guarantees received	1	-	162
Commitments to third parties	114,170	518	26,148
Currency operations and derivatives	26,522,471	-	-
Responsibilities for services rendered	2,022,426	99,693	2,171,370

Transactions with related entities arise from normal business and are carried out under market conditions.

GOVERNING BODIES

Board of Directors

As at December 31, 2020 and 2019, advances or loans granted to members of the governing bodies, considered key management personnel of the Bank, amounted to €942k and €735k respectively. Deposits from members of the governing bodies were provided at market conditions. As at December 31, 2020 and 2019, fixed and variable remuneration totalled €4,684 k and €5,953k, 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 (CBA) 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.

As at December 31, 2020 and 2019, liabilities with this plan amounted to €14,201k and €14,124k, respectively, and were covered by a provision of the same amount carried under "Provisions - Pensions 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.

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

39. DISCLOSURES WITHIN THE SCOPE OF APPLICATION OF IFRS 7 AND IFRS 13 STANDARDS

Fair value

The following table summarizes, for each group of financial assets and liabilities, their fair values with reference to December 31, 2020 and 2019:

	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 fair value through 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

	31-12-2019			
	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	-	3,500,397	3,500,397	3,515,829
Financial assets held for trading	1,073,429	-	1,073,429	1,073,429
Non-trading financial assets mandatorily at fair value through profit or loss	3,100,275	-	3,100,275	3,100,275
Financial assets at fair value through other comprehensive income	6,587,490	-	6,587,490	6,587,490
Financial assets at amortised cost	4,652,197	35,424,463	40,076,660	40,612,220
Derivatives – Hedge accounting	56,245	-	56,245	56,245
	15,469,636	38,924,860	54,394,496	54,945,488
Liabilities				
Financial liabilities held for trading	1,097,214	-	1,097,214	1,097,214
Financial liabilities at amortised cost trough profit or loss	3,432,017	-	3,432,017	3,432,017
Financial liabilities at amortised cost				
Deposits	76,285	41,276,184	41,352,469	41,362,300
Debt securities issued	-	3,431,231	3,431,231	3,560,277
Other financial liabilities	-	232,892	232,892	232,892
Derivatives – Hedge accounting	393,831	-	393,831	393,831
Technical provisions	-	730,426	730,426	723,045
	4,999,347	45,670,733	50,670,080	50,801,576

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

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 December 31, 2020 and 2019:

	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

	31-12-2019			
	Level 1	Level 2	Level 3	Total
Assets				
Cash, cash balances at central banks and other demand deposits	-	3,515,829	-	3,515,829
Financial assets held for trading	-	1,073,429	-	1,073,429
Non-trading financial assets mandatorily at fair value through profit or loss	2,954,837	-	145,438	3,100,275
Financial assets at fair value through other comprehensive income	4,352,962	2,228,001	6,527	6,587,490
Financial assets at amortised cost	-	6,987,538	33,624,682	40,612,220
Derivatives – Hedge accounting	-	56,245	-	56,245
	7,307,799	13,861,042	33,776,647	54,945,488
Liabilities				
Financial liabilities held for trading	-	1,097,214	-	1,097,214
Financial liabilities at fair value through profit or loss	-	3,432,017	-	3,432,017
Financial liabilities at amortised cost				
Deposits	-	5,411,633	35,950,667	41,362,300
Debt securities issued	-	2,809,198	751,079	3,560,277
Other financial liabilities	-	-	232,892	232,892
Derivatives – Hedge accounting	-	393,831	-	393,831
Technical provisions	-	-	723,045	723,045
	-	13,143,893	37,657,683	50,801,576

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 the financial derivative instruments for hedging and trading. 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

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

- 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 the derivatives contracted within the 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 customer 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 period ended December 31, 2020 and 2019, the movement in financial instruments classified in Level 3 was as follows:

	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, 2018	3,379	168,067	10,694	182,140
Acquisitions	-	127	4,309	4,436
Alienations	(3,379)	-	(10,852)	(14,231)
Reimbursement	-	(18,134)	(772)	(18,905)
Reclassifications	-	-	3,100	3,100
Changes in fair value	-	(4,622)	137	(4,485)
Impairment recognized in the year	-	-	(89)	(89)
December 31, 2019	-	145,438	6,527	151,965
Acquisitions	-	3,727	9,987	13,714
Alienations	-	(3,160)	(4,713)	(7,873)
Reimbursement	-	(7,318)	(725)	(8,043)
Changes in fair value	23	(2,263)	(315)	(2,555)
Impairment recognized in the year	-	-	75	75
December 31, 2020	23	136,425	10,836	147,284

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

The interest rate curves for the most representative terms and currencies used in the valuation of financial instruments were as follows:

	31-12-2020		31-12-2019	
	EUR	USD	EUR	USD
Overnight	-0.53%	0.27%	-0.34%	2.09%
1 month	-0.53%	0.27%	-0.34%	2.09%
3 months	-0.52%	0.24%	-0.33%	1.91%
6 months	-0.52%	0.20%	-0.33%	1.82%
9 months	-0.52%	0.19%	-0.32%	1.78%
1 year	-0.52%	0.19%	-0.32%	1.75%
3 years	-0.51%	0.24%	-0.24%	1.67%
5 years	-0.46%	0.44%	-0.11%	1.71%
7 years	-0.39%	0.66%	0.02%	1.78%
10 years	-0.26%	0.94%	0.21%	1.88%

Hedge accounting

As at December 31, 2020 and 2019, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	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						
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)

	31-12-2019					
	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	4,423,905	4,433,058	219,139	4,652,197	4,423,419	(243,098)
Financial assets at fair value						
through other comprehensive income	2,080,000	2,129,252	48,352	2,177,604	2,080,000	(49,904)
Financial liabilities at amortised cost						
Deposits- Customers	(76,248)	(76,708)	423	(76,285)	110,399	491
Cash flow hedge:						
Financial assets at fair value						
through other comprehensive income	2,466,500	2,466,500	-	2,466,500	2,793,196	(97,869)
Financial assets at amortised cost	9,000,000	9,000,000	-	9,000,000	9,000,000	52,794
	17,894,157	17,952,102	267,914	18,220,016	18,407,014	(337,586)

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

Cash flow coverage

The expected periods for the occurrence of cash flows that will affect the results for the period present the following detail:

	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

	31-12-2019					
	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	5,957	13,049	17,604	16,184	-	52,794

The gains and losses recognised in the 2020 and 2019 income statements with fair-value hedge transactions had the following detail:

	31-12-2020			31-12-2019		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Financial assets at amortised cost	(161,976)	161,976	-	171,977	(171,977)	-
Financial assets at fair value through other comprehensive income	364,084	(364,084)	-	43,859	(43,859)	-
Financial liabilities at amortised cost						
Deposits - Customers	133	(133)	-	2,030	(2,030)	-
Debt securities issued	(97)	97	-	(152)	152	-
	202,144	(202,144)	-	217,714	(217,714)	-

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.

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.

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

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: Customer of high-default probability;
Rating 4.0 – 6.0: Customer of moderate-default probability;
Rating 6.1 – 9.3: Customer of low-default probability

As at December 31, 2020 and 2019, the maximum exposure to the credit risk and the respective carrying amount of the financial instruments was as follows:

	31-12-2020		31-12-2019	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash, cash balances at central banks and other demand deposits	4,543,652	4,543,652	3,500,397	3,500,397
Financial assets held for trading	901,010	901,010	1,073,429	1,073,429
Non-trading financial assets mandatorily				
at fair value through profit or loss	3,195,742	3,195,742	3,100,275	3,100,275
Financial assets at fair value				
through other comprehensive income	8,457,676	8,457,676	6,587,490	6,587,490
Financial assets at amortised cost	39,833,021	46,846,166	40,076,660	46,166,598
Derivatives – Hedge accounting	23,719	23,719	56,245	56,245
	56,954,820	63,967,965	54,394,496	60,484,434
Guarantees provided (Note 24)				
Financial guarantees and sureties	648,253	648,253	563,159	563,159
Non financial guarantees and sureties	964,490	964,490	1,013,044	1,013,044
Documentary credits	363,131	363,131	374,410	374,410
	1,975,874	1,975,874	1,950,613	1,950,613

The maximum exposure in “Financial assets at amortized cost” as of December 31, 2020 and 2019 is as follows:

	31-12-2020	31-12-2019
Balance sheet value	39,833,021	40,076,660
Other committments (Note 24)		
Revocable	6,063,686	5,089,308
Irrevocable	949,459	1,000,630
Maximun exposure	46,846,166	46,166,598

The maximum exposure in “Financial assets at amortised cost" as at December 31, 2020, included €949,459k and €6,063,686k relating to irrevocable credit facilities and revocable credit facilities, respectively, (€1,000,630k and €5,089,308 k as at December 31, 2019, respectively) (Note 24).

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)

Thus, as at December 31, 2020 and 2019, the breakdown of performing and non-performing exposures was as follows:

	31-12-2020			31-12-2019		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	39,447,649	(256,336)	0.6%	39,376,219	(138,112)	0.4%
Non-performing exposures						
Households	408,592	(210,498)	51.5%	477,921	(195,016)	40.8%
Corporates	982,377	(538,763)	54.8%	1,144,759	(589,111)	51.5%
	1,390,969	(749,261)		1,622,680	(784,127)	
	40,838,618	(1,005,597)		40,998,899	(922,239)	

As at December 31, 2020 and 2019, the degree of coverage of non-performing exposures by real guarantees was as follows:

	31-12-2020			31-12-2019		
	Book value	Collateral	Coverage	Book value	Collateral	Coverage
Non-performing exposures						
Loans represented by securities	-	-	-	-	-	-
Households	198,094	180,684	91.2%	282,905	243,917	86.2%
Corporates	443,614	314,480	70.9%	555,648	363,235	65.4%
	641,708	495,164		838,553	607,152	

<u>Forborne exposures</u>

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 December 31, 2020 and 2019, the breakdown of deferred exposures was as follows:

	31-12-2020			31-12-2019		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	446,717	(19,038)	4.3%	568,508	(25,098)	4.4%
Non-performing exposures						
Households	255,007	(101,886)	40.0%	304,344	(123,671)	40.6%
Corporates	738,656	(378,467)	51.2%	830,634	(439,479)	52.9%
	993,663	(480,353)		1,134,978	(563,150)	
	1,440,380	(499,391)		1,703,486	(588,248)	

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

Encumbered assets

An encumbered asset is considered to be an asset explicitly or implicitly constituted as collateral or subject to an agreement to guarantee, collateralise or improve credit quality in any transaction that cannot be freely withdrawn.

In accordance with the requirements set out in Bank of Portugal Instruction No. 28/2014, the Bank now provides information on the encumbered assets.

As at December 31, 2020 and 2019, the breakdown of encumbered and unencumbered assets is as follows:

	2020			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of the unencumbered assets	Fair value of unencumbered assets
Assets				
Balances due at central banks and other credit institutions	-	-	4,207,531	-
Equity instruments	-	-	889,846	889,846
Debt securities	2,695,331	2,662,814	8,893,389	5,950,394
Loans and advances to customers	11,550,890	-	27,456,983	-
Other assets	-	-	2,636,493	-
	14,246,221	2,662,814	44,084,242	6,840,240

	2019			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of the unencumbered assets	Fair value of unencumbered assets
Assets				
Balances due at central banks and other credit institutions	-	-	3,145,733	-
Equity instruments	-	-	863,117	219,032
Debt securities	2,313,060	2,313,060	10,296,349	7,248,617
Loans and advances to customers	9,916,619	-	26,375,280	-
Other assets	-	-	3,172,615	-
	12,229,679	2,313,060	43,853,094	7,467,649

As at December 31, 2019 and 2018, liabilities associated with encumbered assets and collaterals received are as follows:

	2020	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, received collateral and own debt securites issued excluding own covered bonds or ABS
Carrying amount of financial liabilities	8,037,903	10,230,399
Other	212,476	287,687
	8,250,379	10,518,086

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

	2019	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, received collateral and own debt securites issued excluding own covered bonds or ABS
Carrying amount of financial liabilities	5,630,717	7,240,455
Other	603,000	693,445
	6,233,717	7,933,900

As at December 31, 2020 and 2019, the main headings of assets had the following breakdown by external rating (internal rating for credit granted), in keeping with the rating assigned by Standard & Poor's:

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

	31-12-2020	31-12-2019
Cash, cash balances at central banks and other demand deposits		
Cash and deposits at central banks		
Rating S&P		
AAA+ /AAA /AAA-	3,932,058	2,798,892
Not subject	336,121	354,664
	4,268,179	3,153,556
Other demand deposits		
Rating S&P		
AA+ /AA /AA-	21,199	89,754
A+ /A /A-	83,442	159,092
BBB+ / BBB / BBB-	11,598	49,642
BB+ / BB / BB-	1,039	3,613
No external rating	158,195	44,740
	275,473	346,841
	4,543,652	3,500,397
Non-trading financial assets mandatorily at fair value through profit or loss		
Rating S&P		
AAA+ / AAA / AAA-	550	3,418
AA+ / AA / AA-	14,252	9,359
A+ / A / A-	200,634	160,436
BBB+ / BBB / BBB-	1,989,636	1,950,937
BB+ / BB / BB-	117,573	119,331
B+ / B / B-	440	8,582
CCC+ / CCC / CCC-	113	17
C+ / C / C-	10	-
No external rating	55,456	59,112
	2,378,664	2,311,192
Other assets at fair vlue through other comprehensive income		
Rating S&P		
A+ /A /A-	39,357	362,672
AA+ / AA / AA-	17,636	21,975
AAA+ / AAA / AAA-	3,998	5,779
BBB+ / BBB / BBB-	8,309,827	6,108,162
BB+ / BB / BB-	637	652
No external rating	13,467	14,305
	8,384,922	6,513,545

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

	31-12-2020	31-12-2019
Financial assets at amortised cost		
Debt securities		
Rating S&P		
BBB+ / BBB / BBB-	658,175	425,318
No external rating	3,318,189	3,363,500
	3,976,364	3,788,818
Loans and advances - Credit institutions		
Rating S&P		
AA+ /AA /AA-	-	42,897
A+ /A /A-	-	652,523
B+ / B / B-	190	-
BB+ / BB / BB-	343	-
BBB+ / BBB / BBB-	3,031	32,042
No external rating	16,732	53
	20,296	727,515
Loans and advances - Credit granted and other balances receivable		
Internal Rating		
Low credit risk	27,697,277	27,233,727
Medium credit risk	6,021,564	5,965,966
High credit risk	1,782,456	2,202,813
No rating	1,340,661	1,080,060
	36,841,958	36,482,566
	36,862,254	37,210,081

For cases in which the Standard & Poor's rating was not available, the ratings issued by Moody's or Fitch were presented.

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.

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

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 December 31, 2020 and 2019, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their contractual maturities, was as follows:

	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	Derivatives	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 subsidiaries, 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

	31-12-2019								
	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	701,505	-	-	-	2,798,892	-	-	-	3,500,397
Financial assets held for trading	-	-	-	-	-	-	-	1,073,429	1,073,429
Non-trading financial assets mandatorily									
at fair value through profit or loss	-	495	71,856	631,350	358,843	1,218,818	789,083	-	3,070,445
Financial assets at fair value									
through other comprehensive income	427,295	614,673	1,326,991	609,436	314,621	2,827,413	73,316	-	6,193,746
Financial assets at amortised cost	675,669	2,257,891	4,607,703	9,413,255	5,786,556	22,726,332	-	-	45,467,406
Derivatives – Hedge accounting	-	-	-	-	-	-	-	56,245	56,245
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	112,259	-	112,259
	1,804,469	2,873,059	6,006,550	10,654,042	9,258,912	26,772,563	974,658	1,129,674	59,473,927
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	1,097,214	1,097,214
Financial liabilities at fair value through profit or loss	3,432,017	-	-	-	-	-	-	-	3,432,017
Financial liabilities at amortized cost									
Deposits - central banks	4,522	-	2,406,429	618,686	-	-	-	-	3,029,637
Deposits - credit institutions	1,110,449	818,069	116,443	552,801	299,892	300,000	-	-	3,197,655
Deposits - customers	17,660,585	6,779,619	6,874,096	2,491,663	1,431,812	15,318	-	-	35,253,092
Debt securities issued	-	28,516	863,582	268,033	1,291,187	1,204,827	-	-	3,656,145
Derivatives – Hedge accounting	-	-	-	-	-	-	-	393,831	393,831
Technical provisions	96,675	403,423	16,281	30,361	23,969	107,410	-	-	678,119
	22,304,248	8,029,627	10,276,831	3,961,544	3,046,860	1,627,555	-	1,491,045	50,737,710

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 December 31, 2020 and 2019 the breakdown of financial instruments by exposure to interest-rate risk was as follows:

	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					
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	22,751,483	139,281	1,442,885	48,495,749

	31-12-2019				
	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	-	2,798,892	701,505	-	3,500,397
Financial assets held for trading	-	-	-	1,073,429	1,073,429
Non-trading financial assets mandatorily at fair value through profit or loss	2,177,817	133,375	789,083	-	3,100,275
Financial assets at fair value through other comprehensive income	5,640,140	15,981	931,369	-	6,587,490
Financial assets at amortised cost	8,319,686	31,628,533	128,441	-	40,076,660
Derivatives – Hedge accounting	-	-	-	56,245	56,245
	16,137,643	34,576,781	2,550,398	1,129,674	54,394,496
Liabilities					
Financial liabilities held for trading	-	-	-	1,097,214	1,097,214
Financial liabilities at fair value through profit or loss	3,432,017	-	-	-	3,432,017
Financial liabilities at amortised cost					
Deposits - central banks	3,079,382	-	(41,858)	-	3,037,524
Deposits - credit institutions	227,251	2,968,233	512	-	3,195,996
Deposits - customers	17,479,083	17,628,799	11,067	-	35,118,949
Debt securities issued	2,757,600	743,478	(69,847)	-	3,431,231
Other financial liabilities	-	-	232,892	-	232,892
Derivatives – Hedge accounting	-	-	-	393,831	393,831
Technical provisions	723,045	-	-	-	723,045
	27,698,378	21,340,510	132,766	1,491,045	50,662,699

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

As at December 31, 2020 and 2019 the breakdown of financial instruments by exposure to interest-rate risk was as follows:

	31-12-2020							
	Rate intervals					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	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	-	-	-	-	-	132,905	-	132,905
Financial assets at fair value through other comprehensive income	249,321	1,753,332	4,136,155	25	-	1,565,357	-	7,704,190
Financial assets at amortised cost	18,920,401	17,296,808	2,004,074	1,329,119	325,539	(42,920)	-	39,833,021
Derivatives – Hedge accounting	-	-	-	-	-	-	23,719	23,719
	23,101,780	19,050,140	6,140,229	1,329,144	325,539	2,266,936	924,729	53,138,497
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	920,602	920,602
Financial liabilities at amortised cost								
Deposits - central banks	6,809,859	-	-	-	-	(18,039)	-	6,791,820
Deposits - credit institutions	1,548,997	-	-	-	-	294	-	1,549,291
Deposits - customers	35,799,399	128,836	3,148	1,064	-	6,579	-	35,939,026
Debt securities issued	1,607,553	1,014,727	-	-	-	(61,695)	-	2,560,585
Other financial liabilities	-	-	-	-	-	212,142	-	212,142
Derivatives – Hedge accounting	-	-	-	-	-	-	522,283	522,283
	45,765,808	1,143,563	3,148	1,064	-	139,281	1,442,885	48,495,749

	31-12-2019							
	Rate intervals					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
Assets								
Cash, cash balances at central banks and other demand deposits	2,798,892	-	-	-	-	701,505	-	3,500,397
Financial assets held for trading	-	-	-	-	-	-	1,073,429	1,073,429
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	145,971	-	145,971
Financial assets at fair value through other comprehensive income	3,832	2,719,148	2,179,123	28,877	-	931,369	-	5,862,349
Financial assets at amortised cost	15,458,581	17,930,244	4,848,988	1,265,294	445,112	128,441	-	40,076,660
Derivatives – Hedge accounting	-	-	-	-	-	-	56,245	56,245
	18,261,305	20,649,392	7,028,111	1,294,171	445,112	1,907,286	1,129,674	50,715,051
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	1,097,214	1,097,214
Financial liabilities at amortised cost								
Deposits - central banks	3,079,382	-	-	-	-	(41,858)	-	3,037,524
Deposits - credit institutions	3,019,234	176,250	-	-	-	512	-	3,195,996
Deposits - customers	34,076,622	958,238	67,902	5,120	-	11,067	-	35,118,949
Debt securities issued	2,487,322	1,006,157	-	7,599	-	(69,847)	-	3,431,231
Other financial liabilities	-	-	-	-	-	232,892	-	232,892
Derivatives – Hedge accounting	-	-	-	-	-	-	393,831	393,831
	42,662,560	2,140,645	67,902	12,719	-	132,766	1,491,045	46,507,637

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.

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

As at December 31, 2020 and 2019, the sensitivity of the asset value of the Group's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	31-12-2020		31-12-2019	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash, cash balances at central banks	(2,135)	59,081	(207)	91,492
Financial assets at fair value through other comprehensive income	(114,692)	36,461	(190,829)	150,794
Financial assets at amortized cost	(1,020,001)	553,086	(948,285)	953,796
	(1,136,828)	648,628	(1,139,321)	1,196,082
Derivatives – Hedge accounting	315,516	(182,302)	276,455	(363,068)
Liabilities				
Financial liabilities at amortised cost				
Deposits - central banks	1,260	32,731	(19,139)	8,281
Deposits - credit institutions	(1,230)	285	(4,861)	16,808
Deposits - customers	(1,140,415)	378,920	(984,376)	712,489
Debt securities issued	(107,130)	38,826	(130,016)	106,182
Other financial assets	(25,028)	13,289	(39,113)	34,309
	(1,272,543)	464,051	(1,177,505)	878,069

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.

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

The calculation of the VaR Percentile gives equal weighting to the set of 520 observations considered. The Weighted Percentile VaR 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 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 December 31, 2020 and 2019, the VaR associated with the interest-rate risk corresponded to:

	31-12-2020	31-12-2019
VaR Percentile 99%	(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.

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

As at December 31, 2020 and 2019, the detail of the financial instruments by currency was as follows:

	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	3,432,017	-	-	3,432,017
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
	50,037,489	1,531,885	358,392	51,927,766

	31-12-2019			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash, cash balances at central banks and other demand deposits	3,275,162	79,727	145,508	3,500,397
Financial assets held for trading	1,070,859	2,570	-	1,073,429
Non-trading financial assets mandatorily at fair value through profit or loss	3,085,842	14,293	140	3,100,275
Financial assets at fair value through other comprehensive income	6,587,490	-	-	6,587,490
Financial assets at amortised cost	39,601,930	436,817	37,913	40,076,660
Derivatives – Hedge accounting	55,170	1,075	-	56,245
	53,676,453	534,482	183,561	54,394,496
Liabilities				
Financial liabilities held for trading	1,094,644	2,570	-	1,097,214
Financial liabilities at fair value through profit or loss	3,432,017	-	-	3,432,017
Financial liabilities at amortized cost				
Deposits - central banks	3,037,524	-	-	3,037,524
Deposits - credit institutions	3,008,714	186,486	796	3,195,996
Deposits - customers	33,400,786	1,468,749	249,414	35,118,949
Debt securities issued	3,431,231	-	-	3,431,231
Other financial liabilities	232,892	-	-	232,892
Derivatives – Hedge accounting	390,861	2,749	221	393,831
	48,028,669	1,660,554	250,431	49,939,654

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

As at December 31, 2020 and 2019, the VaR associated with the exchange-rate risk corresponded to:

	31-12-2020	31-12-2019
VaR Percentile 99%	(8)	(3)
VaR Weighted Percentile 99%	(6)	(2)

Asset price risk

Financial Instruments – trading

As at December 31, 2020 and 2019, 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.

Offsetting financial assets and liabilities

As at December 31, 2020 and 2019, the value of derivative financial instruments traded over the counter, offset by related financial derivatives, by type of counterparty, is as follows:

	31-12-2020			
	Financial assets/Liabilities	Related values not compensated in financial statements		
Counterpart	in financial statements	Financial Instruments	Cash collateral set as guarantee	Net Value
Financial Institutions	(400,601)	-	52,986	(347,615)
Group Companies	(688,516)	-	583,014	(105,502)
	(1,089,117)	-	636,000	(453,117)

	31-12-2019			
	Financial assets/Liabilities	Related values not compensated in financial statements		
Counterpart	in financial statements	Financial Instruments	Cash collateral set as guarantee	Net Value
Financial Institutions	(292,042)	-	371,927	79,885
Group Companies	(908,865)	-	301,500	(607,365)
	(1,200,907)	-	673,427	(527,480)

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

As at December 31, 2020 and 2019, the value of the sale transactions with repo agreement, by type of counterparty, is as follows:

	31-12-2020			
	Financial assets/Liabilities	Related values not compensated in financial statements		
Counterpart	in financial statements	Financial Instruments	Cash collateral set as guarantee	Net Value
Financial Institutions	(1,255,805)	1,256,208	23,093	23,496
	(1,255,805)	1,256,208	23,093	23,496

	31-12-2019			
	Financial assets/Liabilities	Related values not compensated in financial statements		
Counterpart	in financial statements	Financial Instruments	Cash collateral set as guarantee	Net Value
Financial Institutions	(1,654,668)	1,656,197	32,461	33,990
	(1,654,668)	1,656,197	32,461	33,990

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 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 to foreign institutional investors, in the form of a CLN with a premium of 8.7%.

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

The following table summarises the composition of the regulatory capital and prudential ratios of the Group as of December 31, 2020 and 2019 (both in BIS III - Phasing in):

Amounts in thousand Euros

	31-12-2020	31-12-2019
A - LEVEL 1 OWN FUNDS (TIER I)	4,328	3,441
Share Capital (includes addicional instruments eligible as Tier I)	2,571	2,571
Reserves and Retained earnings (excluding Non-controlling interests)	1,853	1,162
Eligible minority interests	-	-
Deduction to base own funds	(95)	(291)
B - LEVEL 2 OWN FUNDS (TIER II)	76	73
Perpetual subordinated liabilities	12	12
Eligible minority interests	-	-
Other elements/deductions to complementary own funds	64	61
C - DEDUCTIONS TO TOTAL OWN FUNDS	-	-
D - TOTAL OWN FUNDS (A+B+C)	4,404	3,514
E - ASSETS WEIGHTED BY RISK	17,986	18,681
RATIOS		
TIER I (A/E)	24.1%	18.4%
CORE CAPITAL (CET1)	20.7%	15.2%
TIER II (B/E)	0.4%	0.4%
CAPITAL ADEQUACY RATIO (D/E)	24.5%	18.8%
LEVERAGE	7.8%	6.3%

Note: Non audited information

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 €12,875k, 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 €2,987 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.

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 the likelihood of the Bank not being ordered to pay a fine by the end of the proceedings are greater than those of being so ordered, and therefore no provision for this case has been recorded in the financial statements as at June 31, 2020.

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 Research 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.

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

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.

Operations subject to legislative and non-legislative moratoria, and new loans granted under new public guarantee schemes in response to the current economic crisis caused by the Covid-19 pandemic

The following tables show the characterization of the transactions that, as at December 31, 2020, were subject to legislative and non-legislative moratoria, as well as the new loans granted under new public guarantee schemes.

The gross amount of loans and advances covered by the moratoria is as follows:

	Gross Value						
	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:

	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

The breakdown of loans and advances subject to legislative and non-legislative moratoria and by residual term of the moratoria is as follows:

		Gross Amount						
		Performing			Non Performing			
	Number of debtors		Of which: legislative	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

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

The loans and advances granted under new public guarantee schemes in response to the current economic crisis caused by the Covid-19 pandemic, are as follows:

	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 December 31, 2020 - the reference date of these financial statements - which would require adjustments or modifications to 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 April 20, 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.

SANTANDER TOTTA , SGPS

DEBT SECURITIES AS AT 31 DECEMBER 2020

(Amounts expressed in thousand euros)

Securities issued	Currency	Amount issued Total	Amount issued Subscribed by the Group	Amount issued Consolidated Balance sheet	Accrual	Total Consolidated Balance sheet	Interest rate	Issue date	Maturity date	Index
Covered Bonds										
Hipotecária XIV	EUR	750,000	750,000	-	(301)	(301)	0.75%	04/03/2015	04/03/2022	Fixed rate
Hipotecária XVI	EUR	200,000	200,000	-	(40)	(40)	0.84%	24/02/2016	24/02/2022	Fixed rate
Hipotecária XVII	EUR	750,000	750,000	-	(347)	(347)	0.90%	15/04/2016	15/04/2023	Fixed rate
Hipotecária XVIII	EUR	750,000	750,000	-	(454)	(454)	0.65%	26/07/2016	26/07/2023	Fixed rate
Hipotecárias XX -1ª	EUR	750,000	750,000	-	(1,070)	(1,070)	1.20%	07/12/2017	07/12/2027	Fixed rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	(1,423)	(1,423)	1.48%	10/04/2017	10/04/2027	Fixed rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	157	1,000,157	0.88%	25/04/2017	25/04/2024	Fixed rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(6,055)	993,945	1.25%	26/09/2017	26/09/2027	Fixed rate
Hipotecária XXIV	EUR	1,100,000	1,100,000	-	(2,021)	(2,021)	0.412%	05/07/2019	05/07/2029	Fixed rate
Hipotecária XXV	EUR	750,000	750,000	-	(759)	(759)	0.505%	27/03/2020	27/03/2025	Fixed rate
Hipotecária XXVI	EUR	750,000	750,000	-	(1,534)	(1,534)	0.00%	28/10/2020	28/10/2030	Fixed rate
		8,800,000	**6,800,000**	**2,000,000**	**(13,847)**	**1,986,153**				
Bonds issued on securitization operations from mortgage credit										
Hipototta 4 - Class A - Notes	EUR	436,257	319,250	117,007	(387)	116,620	Variável	9-dez-2005	30-dez-2048	Euribor 3m+0.12% (up to early redemption date in December 2014); Euribor 3m+0.24% (After early redemption date)
Hipototta 4 - Class B - Notes	EUR	15,871	15,871	-	-	-	Variável	9-dez-2005	30-dez-2048	Euribor 3m+0.19% (up to early redemption date in December 2014); Euribor 3m+0.40% (After early redemption date)
Hipototta 4 - Class C - Notes	EUR	50,125	50,125	-	-	-	Variável	9-dez-2005	30-dez-2048	Euribor 3m+0.29% (up to early redemption date in December 2014); Euribor 3m+0.58% (After early redemption date)
Hipototta 4 - Class D - Notes	EUR	7,000	7,000	-	-	-	Variável	9-dez-2005	30-dez-2048	Residual return generated by securitized portfolio
Hipototta 5 - Class A2 - Notes	EUR	399,270	322,776	76,494	(128)	76,366	Variável	22-mar-2007	28-fev-2060	Euribor 3m+0.13% (up to early redemption date in February 2014); Euribor 3m+0.26% (After early redemption date)
Hipototta 5 - Class B - Notes	EUR	26,000	26,000	-	-	-	Variável	22-mar-2007	28-fev-2060	Euribor 3m+0.17% (up to early redemption date in February 2014); Euribor 3m+0.34% (After early redemption date)
Hipototta 5 - Class C - Notes	EUR	24,000	24,000	-	-	-	Variável	16-mar-2007	28-fev-2060	Euribor 3m+0.24% (up to early redemption date in February 2014); Euribor 3m+0.48% (After early redemption date)
Hipototta 5 - Class D - Notes	EUR	26,000	26,000	-	-	-	Variável	22-mar-2007	28-fev-2060	Euribor 3m+0.50% (up to early redemption date in February 2014); Euribor 3m+1.00% (After early redemption date)

SANTANDER TOTTA , SGPS

DEBT SECURITIES AS AT 31 DECEMBER 2020

(Amounts expressed in thousand euros)

		Amount issued				Total				
Securities issued	Currency	Total	Subscribed by the Group	Consolidated Balance sheet	Accrual	Consolidated Balance sheet	Interest rate	Issue date	Maturity date	Index
Hipototta 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	Variável	22-mar-2007	28-fev-2060	Euribor 3m+1.75% (up to early redemption date in February 2014); Euribor 3m+3.50% (After early redemption date)
Hipototta 5 - Class F - Notes	EUR	6,000	6,000	-	-	-	Variável	22-mar-2007	28-fev-2060	Residual return generated by securitized portfolio
Azor Mortgage PLC class B	EUR	12,377	9,055	3,322	285	3,607	Variável	25-nov-2004	20-set-2047	Euribor 3m + 0,76%
Azor Mortgage PLC class C	EUR	9,000	2,500	6,500	391	6,891	Variável	25-nov-2004	20-set-2047	Euribor 3m + 1,75%
Azor Mortgage PLC class D	EUR	10,000	10,000	-	-	-	Variável	25-nov-2004	20-set-2047	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 2 - A	EUR	99,053	-	99,053	(12,727)	86,326	Variável	5-mar-2008	18-set-2060	Euribor 3m + 0,33%
Atlantes Mortgage PLC serie 2 - B	EUR	12,332	12,332	-	-	-	Variável	5-mar-2008	18-set-2060	Euribor 3m + 0,95%
Atlantes Mortgage PLC serie 2 - C	EUR	5,027	5,027	-	-	-	Variável	5-mar-2008	18-set-2060	Euribor 3m + 1,65%
Atlantes Mortgage PLC serie 2 - D	EUR	10,295	10,295	-	-	-	Variável	5-mar-2008	18-set-2060	Residual return generated by securitized portfolio
Azor Mortgage PLC serie 2 - A	EUR	74,685	74,685	-	-	-	Variável	24-jul-2008	14-dez-2065	Euribor 3m + 0,30%
Azor Mortgage PLC serie 2 - B	EUR	43,080	43,080	-	-	-	Variável	24-jul-2008	14-dez-2065	Euribor 3m + 0,8%
Azor Mortgage PLC serie 2 - C	EUR	6,750	6,750	-	-	-	Variável	24-jul-2008	14-dez-2065	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 3 - A	EUR	172,742	53,837	118,905	(9,232)	109,673	Variável	30-out-2008	20-ago-2061	Euribor 3m + 0,20%
Atlantes Mortgage PLC serie 3 - B	EUR	24,773	24,773	-	-	-	Variável	30-out-2008	20-ago-2061	Euribor 3m + 0,50%
Atlantes Mortgage PLC serie 3 - C	EUR	43,923	43,923	-	-	-	Variável	30-out-2008	20-ago-2061	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 4 - A	EUR	193,401	-	193,401	(26,185)	167,216	Variável	16-fev-2009	30-dez-2064	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 4 - B	EUR	21,298	21,298	-	-	-	Variável	16-fev-2009	30-dez-2064	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 4 - C	EUR	58,974	58,974	-	-	-	Variável	16-fev-2009	30-dez-2064	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 5 - A	EUR	156,332	156,332	-	-	-	Variável	21-dez-2009	23-nov-2068	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 5 - B	EUR	28,863	28,863	-	-	-	Variável	21-dez-2009	23-nov-2068	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 5 - C	EUR	49,926	49,926	-	-	-	Variável	21-dez-2009	23-nov-2068	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 7 - A	EUR	122,749	122,749	-	-	-	Variável	19-nov-2010	23-ago-2066	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 7 - B	EUR	22,810	22,810	-	-	-	Variável	19-nov-2010	23-ago-2066	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 7 - C	EUR	47,535	47,535	-	-	-	Variável	19-nov-2010	23-ago-2066	Residual return generated by securitized portfolio

SANTANDER TOTTA , SGPS

DEBT SECURITIES AS AT 31 DECEMBER 2020

(Amounts expressed in thousand euros)

		Amount issued				Total				
Securities issued	Currency	Total	Subscribed by the Group	Consolidated Balance sheet	Accrual	Consolidated Balance sheet	Interest rate	Issue date	Maturity date	Index
Hipototta nº13 Class A	EUR	1,028,903	1,028,903	-	-	-	Variável	9-jan-2018	23-out-2072	Euribor 3m + 0,6%
Hipototta nº13 Class B	EUR	484,000	484,000	-	-	-	Variável	9-jan-2018	23-out-2072	Euribor 3m + 1%
Hipototta nº13 Class C	EUR	46,566	46,566	-	-	-	Variável	9-jan-2018	23-out-2072	Residual return generated by securitized portfolio
Hipototta nº13 Class D	EUR	-	-	-	-	-	Variável	9-jan-2018	23-out-2072	
		3,806,917	**3,192,235**	**614,682**	**(47,983)**	**566,699**				
		12,606,917	**9,992,235**	**2,614,682**	**(61,830)**	**2,552,852**				

Statutory Audit Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Santander Totta, SGPS, S.A. (the "Group"), which comprise the consolidated balance sheet as at 31 December 2020 (which shows total assets of Euros 58.330.463 thousand and total shareholders' equity of Euros 4.720.440 thousand including a net profit of Euros 295.559 thousand), the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in shareholder's equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Santander Totta, SGPS, S.A. as at 31 December 2020, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	Summary of the Audit Approach
Impairment losses on loans and advances to customers and other balances receivable at amortized cost *<u>Measurement and disclosures related to impairment losses on loans and advances to customers and other balances receivable at amortized cost presented in notes 1.3 c), 2, 9, 18 and 39 attached to the Group's consolidated financial statements</u>*	
The significant expression of loans and advances to customers and other balances receivable at amortized cost and associated impairment losses, which require a set of complex assumptions and judgments from the Group's management in relation to the identification of clients with a significant increase in credit risk or in default, as well as the corresponding amount of impairment losses, justify that these constitute key matters for the purposes of our audit. As at 31 December 2020, the gross amount of loans and advances to customers and other balances receivable at amortized cost amounted to Euros 36.841.958 thousand and the corresponding impairment losses recognized at that date amounted to Euros 994.326 thousand. Impairment losses on loans and advances to customers and other balances receivable at amortized cost are determined by Group's management on an individual basis, through a case-by-case analysis of a significant component of the total loan portfolio, and for the remaining portfolio impairment is determined through a collective analysis. For the most significant exposures classified in Stage 3, evaluated in terms of the total amount of responsibilities, the Group performs an individual impairment measurement analysis, in which the amount of impairment is determined through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimated cash flows that may be generated in the future for the fulfilment of their responsibilities – going approach; or (ii) the evaluation attributed to the collateral received in the scope of the credit granted, whenever the recovery is anticipated by means of the assignment, execution and/or sale of the collateral, less the costs inherent to its recovery and sale – gone approach. For exposures not covered by the individual analysis, the Group developed collective analysis models to calculate expected impairment losses, in light of the IFRS 9 requirements, namely the classification of	The audit procedures developed included the identification, understanding and assessment of the policies and procedures established by the Group for the purpose of measuring impairment losses for loans granted and other balances receivable at amortized cost as well as its key controls with respect to refers to the approval, recording and monitoring of credit risk, moratorium process granting and Public State aids in the context of Covid-19 pandemic and the timely identification, recording and correct measurement of impairment losses. On a sample basis, we analysed a group of clients within the Group's individual analysis perimeter, based on the criteria defined in internal regulations, with the objective of: (i) reviewing the conclusions and results obtained by the Group in the individual analysis of impairment measurement; (ii) obtain our own judgment on the existence of situations of significant increase in credit risk and default; and (iii) assess how the impairment losses were timely identified, measured and recognized by management. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that met the criteria defined by the Group in its methodology. For a sample of exposures classified in stage 3, representative of the credit population subject to individual analysis by the Group as at 31 December 2020, the procedures we have developed consisted of: (i) reviewing the available documentation on credit processes; (ii) verify the adequacy of the financial plans used to determine impairment with those reflected in the contractual support; (iii) analyse the contractual support and the most relevant collaterals and confirm the registration of them in favour of the Group; (iv) analyse the most recent evaluations of these collaterals; (v) to examine the criteria for classification under impairment (stage 3) on an individual basis; (vi) review the incorporation of forward looking information; (vii) a critical analysis of the discounted cash flows underlying the calculation of impairment; (viii) to assess the evolution of exposures; and (ix) understand the views of the

Key Audit Matter	*Summary of the Audit Approach*
exposures by different stages according to the evolution of their credit risk since the date of its concession, and not according to the credit risk at the reporting date (stages 1, 2 or 3). These internal models are based on the internal historical information of defaults and recoveries and, in order to be representative of the current economic context but also to incorporate a perspective of future economic evolution, these models use forward looking prospective information such as (i) the GDP growth rate; (ii) the unemployment rate; (iii) the evolution of the interest rate; and/or (iv) the prospects for the real estate market. On the basis of these macroeconomic data, potential scenarios are developed that allow estimating the expected loss in each segment based on a probability of occurrence. The specific context motivated by the Covid-19 pandemic which includes various support measures granted to families and companies, namely the introduction of credit facilities to the economy and the possibility of benefit from temporary payment holidays of loan instalments (moratoriums) led to an increase in complexity in identifying significant increase in credit risk and default indicators. In these circumstances, the internal models developed by the Group for impairment assessment were adapted in order to incorporate new criteria and other judgments such as (i) the consideration of temporary flexibility measures to avoid stage deterioration and/or flagging as restructured operations with approved moratoriums in line with the supervisors' guidelines in this matter, (ii) the development of individual analyses for significant exposures of debtors included in the economic sectors most affected by the pandemic in order to identify situations of significant deterioration in credit risk; and (iii) updating the macroeconomic scenarios for the purpose of determining the expected credit loss taking into account the potential economic effects of the Covid-19 pandemic. Considering all the above, changes in the methodologies or assumptions used by the Group in the analysis and quantification of impairment losses of the loans and advances to customers to clients and other balances receivable, as well as different recovery strategies, condition the estimation of recovery flows and timing of their receipt may have a material impact on the determination of the amount of impairment losses recognized in each period.	Group's management regarding the economic and financial situation of the clients, as to the predictability of expected cash flows of the respective businesses, as well as the prospects of collectability of credits. Whenever we concluded for the need to review some assumption used by management, we recalculated the estimated amount of impairment and compared the results obtained with those calculated by the Group, in order to assess the existence of possible divergences. For the portfolio whose impairment is assessed through the collective analysis model, a set of specific procedures were developed with the objective of evaluating how the assumptions considered by management include the risk variables by comparison to the historic performance and recoveries of the Group's loan portfolio, namely: (i) review of the methodological documentation for the development and validation of the models; (ii) analysis of the documentation of the backtesting exercise of the risk parameters and its results; (iii) review and testing of portfolio segmentation; (iv) analysis of the Group's definition of default and the criteria applied in the classification of staging, on a sample basis, including the additional criteria established and the sectoral analyses developed by the Group for the economic sectors most affected by the current pandemic; (v) review and testing of the main risk parameters, as well as the available prospective information and its update through the estimated economic effects of the pandemic; (vi) critical analysis of the main assumptions and sources of information used in the future recoveries incorporated in the LGD (Loss Given Default), including the test of historical recoveries incorporated in this calculation, on a sampling basis; and (vii) recalculation of Expected Credit Loss ("ECL") for the loan portfolio, with reference to 31 December 2020. Our auditing procedures also included a review of the disclosures for loans and advances to customers and other balances receivable at amortized cost, as well as the related impairment losses, in the accompanying notes to the consolidated financial statements, considering applicable and current accounting standards.
Provisions and contingent liabilities *Measurement and disclosures related to provisions and contingent liabilities presented in notes 1.3.i), 2,*	

Key Audit Matter	Summary of the Audit Approach
<u>18, 41 and 42 attached to the Group's consolidated financial statements</u> As at 31 December 2020, the balance of the liability caption "Provisions" amounted to Euros 239.973 thousand and is intended to cover various liabilities, including those related with post-employment benefits specific to certain Group directors, restructuring plans, tax risks, legal proceedings in progress and other specific risks arising from the Group's activity, as well as other specific situations associated with the acquisition of a significant part of the activity of Banif – Banco Internacional do Funchal, S.A. ("Banif") and the totality of Banco Popular Portugal, S.A.. Among the contingent liabilities disclosed in notes 41 and 42 attached to the Group's consolidated financial statements at 31 December 2020, the following stand out: • <u>Resolution Fund</u> The resolution measures applied in 2014 to Banco Espírito Santo, SA - a process that led to the creation of Novo Banco, S.A. ("Novo Banco") - and in 2015 to Banif - Banco Internacional do Funchal, S.A. ("Banif") created uncertainties related to the possible insufficiency of resources of the Resolution Fund to ensure the fulfilment of its responsibilities, in particular the short-term repayment of the financing it has contracted for this purpose. These uncertainties have become more relevant due to the liabilities and contingent liabilities assumed, namely those resulting from: (i) effects of the application of the principle that no creditor of the credit institution under resolution may incur greater loss than it would if it had entered into liquidation; (ii) legal proceedings against the Resolution Fund; (iii) negative effects arising from the resolution process resulting in additional responsibilities or contingencies for Novo Banco that must be neutralized by the Resolution Fund; and (iv) the contingent capitalization mechanism associated with Novo Banco's sale process to Lone Star, under which the Resolution Fund, as shareholder of Novo Banco, may be called upon to make capital injections in the event of certain conditions related to the performance of a restricted set of assets of Novo Banco and the evolution of its capitalization levels. • <u>Portuguese Competition Authority</u> In 2012 the Portuguese Competition Authority (Autoridade da Concorrência) launched an offense	The audit procedures we have developed in this area included the identification and understanding of the key processes and controls established by the Group with respect to the approval, registration and monitoring of these matters, as well as the analysis of the methodologies, data and assumptions adopted by the management in the assessment and quantification of contingencies and in the eventual recognition of provisions. In this context, due to the relevance and complexity of the judgments required by the management, in the scope of our audit, we carried out, among others, the following procedures in relation to the Resolution Fund: (i) monitoring of major changes to the simplified model of cash flow projections of the Resolution Fund presented by the Group when renegotiating loans granted , based on the contractual conditions agreed between the banks and the Resolution Fund; (ii) appreciation of the relevant public communications on responsibilities and the contingent liabilities assumed by the Resolution Fund and / or the Portuguese State; (iii) analysis of the evolution of the Group's exposures with the Resolution Fund; and (iv) understanding of the views of the Group's management regarding the Resolution Fund's economic and financial situation, and the predictability of expected cash flows from its regular revenues. With regard to the process initiated by the Portuguese Competition Authority, our work included (i) analysing the Group's assessment of the nature and situation of said process, which underlies the non-constitution of provisions, and (ii) assessing the information obtained from the Group external lawyers who follow the process. We also analysed the information available on developments after 31 December 2020 on the most relevant litigations. Our audit procedures also included the review of the disclosures on provisions and contingent liabilities, included in the accompanying notes to the consolidated financial statements, considering applicable and current accounting standards.

Key Audit Matter	*Summary of the Audit Approach*
claim against several banks, including Banco Santander Totta, S.A., for alleged restrictive competition practices. On 9 September 2019, the Competition Authority notified the banks of its decision, which points to their condemnation, with a penalty of Euros 36 million being applied to the Group. The Group understands that it did not commit the imputed infraction, so it filed on 21 October 2019 an appeal against that decision to the Competition, Regulation and Supervision Court. In May 2020, by decision of the aforementioned Court, the Group provided a deposit of part of the penalty imposed, which is provisional in nature, providing that it is pending a decision on the judicial impugnation presented by the Group. The consolidated financial statements as of 31 December 2020 reflect the Group's management expectation that the Group, as an entity participating in the Resolution Fund, will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to the BES and Banif or any other liability or contingent liability assumed by the Resolution Fund. In addition, the Group's management is also convinced that the probabilities that the process initiated by the Portuguese Competition Authority will end without the Group having to pay a fine are higher than those of the opposite. Contingent liabilities may evolve differently than originally expected, so they are subject to continuous review to determine whether this eventuality of outflow of resources has become probable. In these circumstances, the assessment of these contingent liabilities implies that the Group's management employs complex estimates and judgments regarding the probability of materializing and quantifying the amounts of liabilities that may result from litigation and contingencies to which the Group is a party and, to that extent , this was a matter considered relevant for the purposes of our audit.	
Employees post-employment benefits *Measurement and disclosures related to employees' post-employment benefits presented in notes 1.3 i), 2, 20 and 36 attached to the Group's consolidated financial statements* At 31 December 2020, the liabilities for past services of the Group in relation to its pensioners, employees and directors amounted to Euros 1.522.877 thousand, mainly covering retirement and survivors' pensions,	The audit procedures developed included the identification and understanding of the key controls instituted by the Group to ensure that the information collected and provided to the independent actuary is

Key Audit Matter	*Summary of the Audit Approach*
disability, health care and death benefit , in particular those provided for in the *Acordo Coletivo de Trabalho* ("ACT") for the banking sector. These liabilities are estimated based on actuarial valuations performed by an actuary certified by the Insurance and Pension Funds Supervisory Authority ("ASF"). These assessments incorporate a set of financial and actuarial assumptions, such as the discount rate, inflation rate, mortality and disability tables, pension and wages growth rates, among others, defined by management and adjusted to the characteristics of the benefits and the population of managers, employees and pensioners, and the current and future behaviour of these variables. In the specific case of the discount rate used in the actuarial studies, it is determined based on the market rates for high-quality entities in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with a similar maturity the duration of the payment of the benefits of the plan. In this context, future changes in the assumed financial and actuarial assumptions may give rise to material impacts on net liabilities as well as assets held to meet these liabilities, and this issue was considered a key matter for the purposes of our audit.	correct and complete to calculate the plan's liabilities and funding needs, as well as the suitability of the process of the fair value of the assets of the fund. The audit work included meetings with the Group's management and the independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. Given the relevance of the judgments required of management, we proceeded to evaluate the reasonableness of the main assumptions, comparing them with the data that, independently, we were able to obtain. A conformity review was performed to: (i) the employee information history used for the purposes of calculating responsibilities; (ii) the accounting recognition of plan cuts or liquidations, costs related to past services and other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the assets of the fund, calculating it, whenever possible, independently for a sample of assets. Finally, we have developed the detailed analysis of the actuarial study prepared with reference to 31 December 2020, based on the results of the procedures referred to above. The audit procedures included the review of the disclosures on the post-employment benefits of directors, employees and pensioners in the notes to the Group's consolidated financial statements, considering applicable and current accounting standards.
Fair value of financial instruments not quoted in an active market – level 3 of the fair value hierarchy *Measurement and disclosures related to the fair value of financial instruments not listed on an active market classified at level 3 of the fair value hierarchy and presented in notes 1.3 c), 2, 6, 7, 8, 9 and 39 attached to the Group's consolidated financial statements* Due to its relevance in the context of the Group's consolidated financial statements and the associated judgment, the fair value measurement of financial instruments not quoted in an active market classified at level 3 of the fair value was a relevant matter for the purposes of our audit. At 31 December 2020, the balance sheet balances of these financial instruments amount to Euros 174.433 thousand of assets and Euros 29.977 thousand of liabilities.	The audit procedures we have developed included the identification and understanding of key controls established by the Group underlying the fair value methodologies adopted and the determination of the main assumptions and inputs used in the determination of fair value for the financial instruments not quoted in an active market and classified as level 3 of the fair value hierarchy.

Key Audit Matter	*Summary of the Audit Approach*
The financial instruments thus classified are composed of (i) debt instruments whose business model is "hold to collect and sale" or trading; (ii) trading or hedging derivatives; (iii) equity instruments; and (iv) assets and liabilities subject to fair value hedge adjustments, namely loans to customers, debt securities and deposits from customers at amortized cost. For these financial instruments classified at level 3 of the fair value hierarchy, and when observable market data is not available, the Group determines fair value using estimates, namely through the use of valuation models based on discount cash flows techniques, which usually involve a high degree of judgment by the management in defining the assumptions and inputs to be used. In this context, changes in the assumptions used in the measurement techniques used by the Group's management may give rise to material impacts in the determination of the fair value of the instruments recognized in the Group's consolidated financial statements.	For a sample of instruments whose measurement consisted substantially of unobservable data, our procedures also included the assessment of whether the models developed by the Group and the data and assumptions used are reasonable in the circumstances, having compared the data subject to observation with market information collected from external and independent sources, whenever available. Our audit procedures also included the review of disclosures about financial instruments not quoted in an active market and classified as level 3 of the fair value hierarchy, included in the accompanying notes to the Group's consolidated financial statements, considering applicable and current accounting standards.
Other receivable related with the resolution measure applied to Banif *Measurement of the receivable related with the resolution measure applied to Banif and related disclosures presented in notes 1.3 c), 9 and 13 attached to the Group's consolidated financial statements* Within the scope of the resolution measure applied to Banif - Banco Internacional do Funchal, S.A. ("Banif") arising from the decision of the Board of Directors of Banco de Portugal of December 20, 2015 ("transaction"), and bearing in mind the understandings and subsequent clarifications communicated to Banco Santander Totta, S.A. ("BST") by the Bank of Portugal, and the approval by the Ministry of Finance of the request for the transfer of Banif's tax losses, BST submitted, on May 29, 2018, a replacement corporate income tax declaration (Declaração Modelo 22 - IRC) for the 2015 financial year. Subsequently, by order of the Deputy Director of the Major Taxpayers Unit (Unidade dos Grandes Contribuintes), BST was only granted the right to use Banif's tax losses for the years 2009 to 2014. Following the decision of the Ministry of Finance of 30 June 2020 regarding the rejection of the hierarchical appeal presented by BST in relation to the aforementioned order, BST demanded a compensation in the amount of Euros 157.699 thousand, in cash or in treasury bills, within the	The audit procedures we developed for this matter included the identification and understanding of the key processes and controls implemented by the Group with regard to the approval, registration and monitoring of these matters, as well as the assessment of the assumptions adopted by the management body regarding their form of recovery and respective amount. In view of the relevance of the judgments required by the management body, within the scope of our audit, we carried out, among others, the following procedures: (i) meetings with the management body to analyse the evaluation carried out by the Group regarding the situation and evolution of the referred process; (ii) analysis of the contractual documentation associated with the transaction; (iii) appreciation of the communications made with the Tax Authority and the Ministry of Finance; (iv) appreciation of correspondence exchanged with Banco de Portugal; and (v) meetings with the Group's external lawyers and legal advisors and analysis of its opinions.

Key Audit Matter	*Summary of the Audit Approach*
scope of the transaction and the agreement entered into with the Portuguese authorities involved in the resolution measure applied to Banif. In the context of the decision now known, and as mentioned in Note 13 of the consolidated financial statements, the Group proceeded to reclassify this amount to "Other balances receivable" financial statement line item. Due to its relevance in the context of the Group's consolidated financial statements, and for the significant change in the form and strategy of recovering the balance in question, this was a relevant matter for the purposes of our audit.	Our audit procedures also included the revision of the disclosures regarding the status of the process and the reclassification of the referred balance, contained in the notes attached to the Group's consolidated financial statements, considering the applicable and current accounting standards.
Risk of insufficiency of assets to cover assumed liabilities *Measurement and disclosures related to the risk of insufficient assets to cover the liabilities assumed in notes 1.3. m), 2, 8, 14 and 18 attached to the Group's consolidated financial statements* As at 31 December 2020 the mathematical provision for life insurance presented in the balance sheet amounted to Euros 710.959 thousand and the financial liability of the deposit component of insurance contracts considered for accounting purposes as investment contracts are recorded for the amount of Euros 3.284.217 thousand and have a significant expression on the Group's financial statements. The assessment of the adequacy of insurance liabilities is essentially made based on the projection of the future cash flows associated with each contract. These cash flows include premiums, deaths, maturities, redemptions, cancellations, expenses, fees and commissions and other financial instruments expenses related with insurance contracts. This evaluation involves judgment in relation to the selection of the assumptions underlying the calculation, such as discount rates, redemption rates and reinvestment rates. The existing risk arises from the possibility of non-satisfaction of the guarantees assumed by the Group for the commercialized contracts, due to the fact there is no direct correspondence between assets and liabilities at the level of interest rate and maturity of the same. To that extent, this was a material matter for the purposes of our audit.	The audit procedures we have developed considered the potential impacts of the Covid-19 pandemic in measuring the risk of insufficient assets to cover the assumed responsibilities, including the: • Identification, understanding and evaluation of the existing key controls for assessing the adequacy of insurance liabilities; • Verification of the effectiveness of controls associated with the recognition of mathematical provisions, provision for rate commitments and financial liabilities of the deposit component of insurance contracts and insurance contracts and transactions considered for accounting purposes as investment contracts; • Identification and evaluation of the assumptions used by the Group's management in assessing the adequacy of insurance responsibilities; • Conducting independent tests for the responsibilities arising from insurance contracts and investment contracts and comparing the respective results with those obtained by the Group. Our audit procedures also included the review of disclosures about mathematical provision, the provision for rate commitments and the referred financial liabilities, contained in the notes attached to

Key Audit Matter	*Summary of the Audit Approach*
	the Group's consolidated financial statements, considering the requirements of the current accounting standards.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the consolidated financial position, the consolidated financial performance and cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the consolidated Directors' Report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Our responsibility also includes verifying that the information included in the consolidated Directors' report is consistent with the consolidated financial statements.

Report on other legal and regulatory requirements

Consolidated Directors' report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the consolidated Directors' report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the consolidated Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Consolidated non-financial statement

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the Group will prepare a separate report of the Directors' report that includes the consolidated non-financial statement set forth in article No. 508-G of the Portuguese Company Law, which should be published on its website until the legal deadline.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Santander Totta, SGPS, S.A. in the Shareholders' General Meeting of 31 May 2016 for the period from 2016 to 2018 having remained in functions until the current period. Our last appointment was in the Shareholders' General Meeting of 13 December 2018 for the period from 2019 to 2021.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of 22 April 2021.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

22 April 2021

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

[Original in Portuguese signed by]
Aurélio Adriano Rangel Amado, R.O.C.

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