

Santander in Portugal returns net income of €172.9 million (-37% YoY)

"The results of the first half 2020 already incorporate, as expected, a significant impact associated with Covid-19. However, despite the challenging times we are going through in all sectors, without exception, we were recognized for our financial performance, customer service, ability to adapt to new market conditions and also, at corporate level, for our answer in the fight against the pandemic.

We registered a robust growth of digital customers. Digital transformation is an important part of our strategic development. The current context clearly shows the importance of digital transformation for the day-to-day lives of our customers. We invested and strengthened our position as the Digital Payments Bank. And we shall continue to invest in this way of being, always aiming to better serve all who come into contact with Santander and need us on this journey.

We were at the forefront with the definition of concrete measures to support our employees, customers and suppliers, in order to mitigate the effects of the pandemic. We supported the Portuguese economy strongly in the first half, having increased credit by €2.1 billion in loans, of which €1.1 billion for companies, having a major participation in the protocolled lines.

In terms of our activity as Responsible Bank, and since the crisis began, we tripled the value of our social responsibility budget in terms of donations to institutions that support those most in need. We provided more than €3 million to help fight the disease, in particular for research, purchase of hospital equipment, support for the most vulnerable sectors of society and projects of Higher Education Institutions.

We would hardly have achieved these goals without the support, unequivocal resilience and the mission spirit of the Santander employees.

2020 is a different year that puts us all to the test, but we shall keep firm our ongoing mission to support households and businesses in Portugal. "

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

Lisbon, July 29, 2020 - PRESS RELEASE

Highlights of the first half

- At the end of the first half of 2020 the **net income** of Santander Totta, SGPS, amounted to **€172.9 million**.
- In the current pandemic context, the Bank has redefined its priorities, increasing its support for families, businesses, companies and society in general, providing, among other measures, moratoria on loans to

individuals¹, complementing the State's moratorium (established by Decree-Law 10-J/2020 of March 26), as well as the State's moratorium for companies (defined in the same law), in order to allow a reduction of the charges of these loans for our customers. At the end of the first half, the moratoriums, legal and private, had covered more than 88,000 customers, corresponding to an amount of more than **€8.9 billion of credit (about 22% of the total portfolio)**.

- Within the scope of the **credit lines with State guarantee**, aimed at mitigating the effects of the pandemic, the Bank has approved a set of operations in the amount of about **€1.3 billion**.
- Total **Loans and advances to customers**² amounted to **€42.1 billion**, an increase of 3.8% YoY and 5.3% compared to the end of the preceding year.
- The **market shares of new loans to companies and mortgage loans** amounted to **18.3% and 24.5%** respectively, up to the end of May.
- Customer resources amounted to €43.1 billion, a growth of 2.8% compared to the same period last year, underpinned by the **3.7% YoY increase of deposits**.
- The number of **digital customers saw an annual growth of 14.5%**, to stand at 866,000.
- The **cost-to-income ratio stood at 43.6%** compared to 43.1% the previous year.
- The **CET 1 ratio stood at 19.6%** (fully implemented), a YoY increase of 3.2pp.
- Santander in Portugal was recently distinguished as "**Best Bank in Portugal 2020**" and "**Best Investment Bank in Portugal 2020**", within the scope of the annual edition of the *Euromoney* magazine *Awards for Excellence 2020*. In the same publication, Santander was also recognized for its response to the pandemic caused by the COVID-19, with the "**Excellence in Leadership in Western Europe**" award.
- Also highlighted is the support for SMEs, with "**Best Bank in Western Europe for Small and Medium Enterprises**" corporate distinction.
- As employer, Santander recently obtained renovation of its certification for "Level of Excellence – Grade A", as a **Family Friendly Company**, certification awarded by the MásFamilia Foundation and ACEGE.
- Since the beginning of the COVID-19 crisis, Santander Portugal tripled its **social responsibility budget**, in the part of donations to institutions, **having provided more than €3 million to help in the fight against the disease**, in particular for research, purchase of hospital equipment, support for the most vulnerable sectors of society and Higher Education Institutions projects.
- Santander in Portugal has the **sector's best ratings**. The Bank's current long-term debt rating notations in comparison with the levels of the Portuguese Republic are as follows: Fitch – BBB+ (Portugal – BBB); Moody's – Baa3 (Portugal – Baa3); S&P – BBB (Portugal – BBB); and DBRS – A (Portugal – BBB high).

¹ Under the private initiative moratoria agreed at the level of the Portuguese Banking Association (APB).

² Total loans to customers (gross)

Key Indicators

Balance Sheet and Income Statement (million euros)	Jun-20	Jun-19	Var.
Net assets	60,833	56,747	+7.2%
Total Gross Loans ⁽¹⁾	42,121	40,581	+3.8%
Resources	43,057	41,902	+2.8%
Net interest income (without dividends)	399.3	428.7	-6.9%
Net commissions	183.1	192.8	-5.0%
Operating income	659.4	703.8	-6.3%
Total operating expenses	(287.8)	(303.1)	-5.1%
Net operating income	371.6	400.7	-7.3%
Income before taxes and MI	231.5	382.5	-39.5%
Consolidated net income	172.9	275.9	-37.3%

RATIOS (million euros)	Jun-20	Jun-19	Var.
ROE	8.2%	13.4%	-5.2 p.p.
Efficiency ratio (incl. depreciation)	43.6%	43.1%	+0.5 p.p.
CET 1 ratio fully implemented	19.6%	16.4%	+3.2 p.p.
Non-Performing Exposure ratio ⁽¹⁾	2.8%	3.3%	-0.5 p.p.
Non-Performing Exposure coverage ratio	61.0%	53.3%	+7.7 p.p.
Cost of Credit	0.27%	-0.03%	+0.30 p.p.

OTHER DATA (million euros)	Jun-20	Jun-19	Var.
Number of employees in Portugal	6,163	6,330	-167
Total Branches and Corporate Centers in Portugal	491	516	-25

RATING (long term debt)

FitchRatings	BBB+
Moody's	Baa3
Standard & Poor's	BBB
DBRS	A

⁽¹⁾ Total loans to customers (gross)

⁽²⁾ According to EBA criteria

⁽³⁾ 12 month average

External recognition

During the first half of 2020, Santander in Portugal was recognized for its financial performance, for its customer service, ability to adapt to new market conditions and also at corporate level, for its response in the fight against the COVID-19 pandemic.

We would also highlight the recent distinction as "Best Bank in Portugal 2020", by the London magazine *Euromoney*, reflecting the development in digital transformation and the new work methods that the Bank has been implementing. The Bank was also elected "Best Bank in Portugal 2020" by the North American *Global Finance* magazine, and "Most Reputable Banking Brand in Portugal" within the scope of the 2020 *Global RepScore Pulse* ranking, by consultant *On Strategy*.

In the Company support area, attention is drawn to the distinction as the "Best Investment Bank in Portugal 2020", awarded by the *Euromoney* magazine, pointing out that "business advisory and capital markets activity" meant that, despite the competition of other international banks, "the country's best Investment Bank came to the fore". In the Trade Finance area Santander received the "Best Trade Finance Bank" in Portugal award, coming first in the "Market Leader" and "Best Service" categories.

In Private Banking too, at the beginning of the year the Bank had already been recognized as "Best Private Banking Services Overall in Portugal in 2020", by *Euromoney* and "Best Private Bank in Portugal 2020", by the North American publication *Global Finance*.

As employer, Santander recently obtained renovation of its certification for "Level of Excellence – Grade A", as a Family Friendly Company, certification awarded by the MásFamilia Foundation and ACEGE. The assessment took into account a set of indicators, employment quality, working hours and spatial flexibility, inclusion and reconciliation of family life and work, family support, personal and professional development and equal opportunities.

Santander was also considered the "Best Bank to Work For in Portugal" for the fourth consecutive time and, simultaneously, in the Top 3 of the best large companies" (over 1,000 employees) to work for in the country by the *Great Place to Work Institute*.

Results

At the end of the June 2020, Santander Totta, SGPS (referred to as "Bank" or "Santander in Portugal" in this press release) returned a net income of €172.9 million, a year-on-year decline of 37.3%.

Operating income amounted to €659.4 million, a YoY reduction of 6.3%. Operating costs, in the amount of €287.8 million, decreased by 5.1% YoY, resulting in net income falling by 7.3% YoY and the cost-to-income ratio increased by 0.5pp to 43.6%.

Net interest income stood at €399.3 million, a YoY reduction of 6.9%, which essentially reflects the decline on interest on loans, in a context of still high competition and subdued demand for credit by companies outside the scope of the lines with State guarantee, and the management of the public debt portfolio.

Net commissions, in the amount of €183.1 million euros, were down 5.0% compared to June 2019, fully reflecting the effects of the pandemic on the activity, with emphasis on the reduction of commissions on loans, and the impacts of the suspension of a set of commissions within the scope of the measures to support businesses and households.

The other results of the banking business amounted to €-29.6 million, largely reflecting the contributions to the Single and National Resolution Funds, charges that increased year-on-year. The results of the insurance

business, in the sum of €7.8 million, were down 35.0% due to the assignment of a portfolio of the former Eurovida to Aegon Santander Seguros. The results of financial operations amounted to €91.9 million, including also the results of the management of the public debt portfolios.

Operating costs, in the amount of €287.8 million, decreased by 5.1% compared to June 2019, the result of a 7.4% reduction of personnel costs and 3.8% of overheads. Depreciation, in turn, grew by a YoY 6.2%.

The macroeconomic surroundings, characterized by a profound contraction of activity, requires a proactive and preventive action in terms of credit quality, and the net impairment of financial assets therefore amount to €-100.9 million, reflecting the incorporation of forward-looking component of the more adverse macroeconomic scenario, as is clear to see in the various projections made by national and international institutions. However, credit quality remains solid, reflected in the decline of the NPE ratio to 2.8%.

The cost-to-income ratio reversed the trend, due to the further reduction of operating income, amounting to 43.6%, an increase of 0.5pp YoY.

Profit before taxes and minority interests amounted to €231.5 million, a YoY reduction of 39.5%.

Balance Sheet and Business

At the end of June 2020, the loan portfolio totalled €42.1 billion, with growths of 3.8% YoY and 5.3% in relation to December 2019, reflecting not only the application of moratoria on loans to households and businesses and also the high production of credit lines to support the economy in the context of the health crisis we are experiencing.

Mortgage loans amounted to €20.1 billion, an increase of 2.7% over the same period last year, and consumer credit amounted to €1.7 billion, a growth of 3.3% compared to June 2019. In comparison with the end of 2019, these headings increased 2.1% and fell 1.6%, respectively.

Corporate loans stood at €16.5 billion at the end of June 2020, an increase of 3.1% YoY and 7.4% compared to December of the preceding year.

Credit ⁽¹⁾ (million euros)	Jun-20	Jun-19	Var.
Credit to Individuals	22,168	21,604	+2.6%
Mortgage	20,070	19,536	+2.7%
Consumer credit	1,679	1,626	+3.3%
Credit to Companies	16,488	15,986	+3.1%

⁽¹⁾ Credit at amortised cost

The Non-Performing Exposure (NPE) ratio, calculated in accordance with the EBA criterion, stood at 2.8% in June 2020, a YoY decrease of 0.5pp, the respective coverage standing at 61.0%.

Customer funds amounted to €43.1 billion, a YoY growth of 2.8%, reflecting the positive contribution of deposits (up 3.7% to €36.2 billion). In the same period, investment funds marketed rose 2.7%, while insurance and other resources decreased by 4.7% compared to June 2019.

Resources (million euros)	Jun-20	Jun-19	Var.
Customers' Resources	43,057	41,902	+2.8%
On-balance sheet resources	36,164	34,889	+3.7%
Deposits	36,164	34,889	+3.7%
Off-balance sheet resources	6,893	7,014	-1.7%
Investment funds managed or marketed by the Bank	2,884	2,809	+2.7%
Insurance and other resources	4,009	4,204	-4.7%

Liquidity and Solvency

In the first half of 2020, the liquidity reserve increased by around €3.5 billion. In addition to the active measures to generate eligible assets, the revision of the criteria relating to their mobilization for financing operations promoted by the ECB, increased the liquidity reserve to €15 billion, available to cope with any unexpected events impacting on the Bank's liquidity situation.

The funding obtained from the European Central Bank was maintained exclusively in long-term operations, and fully through the new funding programme promoted by the ECB (TLTRO III), in the amount of €6.8 billion. The strengthening of the customer deposit base during this period contributed to the reduction of the net exposure to the Eurosystem to zero at the end of the first half of 2020.

The policy of diversification of sources and maturities was maintained in respect of short-term funding, as was the diversification of collateral allocated in transactions with repurchase agreement with financial institutions.

In terms of long-term funding, besides the €6.8 billion by the ECB, Santander in Portugal closed the first half of 2020 with about €0.65 billion of securitisations, €0.9 billion of loans provided by the European Investment Bank with a view financing structural projects of the Portuguese economy, and also €2.75 billion of covered bonds.

The LCR (Liquidity Coverage Ratio), calculated in accordance with the CRD IV rules, stood at 172%, thus meeting the regulatory requirements on a fully-implemented basis.

The Common Equity Tier 1 (CET 1), calculated in accordance with the CRR/CDR IV rules, stood at 19.6% (fully implemented) and 20.1% (phased-in) in June 2020, reflecting the capacity for organic generation of capital, as well as the 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 in Portugal decided not to distribute dividends in 2020.

The Bank maintains fairly high capitalization levels, which represents a very comfortable margin over and above the minimum requirements imposed by the ECB under the SREP (in 2020, CET1 of 9.0%, Tier 1 of 10.5% and Total of 12.5%, in full implementation).

Capital (fully implemented) (million euros)	Jun-20	Jun-19
Common Equity Tier 1	3,456	3,073
Tier 1	4,056	3,673
Total Capital	4,126	3,735
Risk Weighted Assets (RWA)	17,665	18,765
CET 1 ratio	19.6%	16.4%
Tier 1 ratio	23.0%	19.6%
Total Capital Ratio	23.4%	19.9%

Commercial Banking

Individuals and Businesses

During the first half of 2020 and in the current context of a pandemic, the Bank quickly redefined its priorities, in an agile manner, increasing its support to households, businesses and companies and society in general.

The Bank provided a moratorium on mortgage loans and personal loans (as part of the private moratoria agreed at the level of the APB Portuguese Banks Association), complementing the State's moratorium (in accordance with Decree-Law 10-J/2020 of March 26), in order to allow the reduction of the charges on these loans for customers that, as a result of the adverse effects of the pandemic, experienced a decrease in their income. Adherence to this solution could be carried out in a fully digital manner up until June 30.

Additionally, the Bank has put in place a set of measures to support households:

- Simplifying the use of digital channels and access to banking without leaving home, with complete confidentiality, simplicity and security. Examples of this measure are the exemption from national transfers commissions via the Bank's digital channels, including sending money by MB Way, free replacement of cards without contactless technology by cards having this technology, and exemption from the commission on the provision of new credit or debit cards up until September 30;
- Ensuring access to the banking services, keeping open the vast majority of bank branches, albeit with shorter opening hours and complying with safety rules to ensure protection of the Bank's employees and customers;
- Supporting customers over the age of 65, who are not digital, with the creation of the AQUI E AGORA programme. The purpose of this programme is to be even closer to customers who have greater difficulty in the use of the digital channels, identifying their needs, supporting adherence to channels and streamlining day-to-day banking operations without a need to visit the branches.

Digital transformation is a fundamental axis of the Bank's strategic development. The current context clearly shows the importance of digital transformation for the day-to-day lives of our customers. Because of its importance, during the second quarter of 2020 the Bank launched DIGILOSOFIA, the digital philosophy of Santander, accompanied by an advertising campaign directed at the importance of the digital channels and the role they play in the comfort of the customer's relationship with the Bank.

The number of digital customers, users of Santander App and/or NetBanco to 91,000 during the first half, to 866,000, an increase of 14%. As a result of the context and of the solutions and measures that the Bank has developed, there continues to be a trend of greater transactions via the digital channels (529,000 digital transactional customers), with emphasis on payment via the Santander App.

Also to be highlighted is the positive evolution of the Mundo 123 customers (customers having an account, a card and insurance protection), in which there are now more than 285,700 customers, reflecting a growth of 12,000 customers during the first half. **Mundo 123** is a multiproduct solution directed at individual customers that, in addition to the advantages of the 123 account, can provide an additional set of benefits, via cash-back, in the Mundo 123 card account.

Also with regard to the activity in the Business area, Banco Santander in Portugal continues to be strongly committed to strengthening the relationship with this segment of activity, providing its customers with a differentiated offer of high added value, focusing on closeness in our relationship with and knowledge of our customers and their needs. Since the beginning of the pandemic, the Bank has taken a number of measures to mitigate its effects on customers, in addition to the moratorium and credit lines with State guarantee, overhauling the service and contact with the customer and simplifying processes. This set of extraordinary and temporary measures for businesses involves suspension of collection of the monthly POS charge, exemption from application of the minimum charge on transactions, exemption from collection of the fixed charge per operation on the POS packages (where applicable) and exemption from the collection of the trader's service charge on MB WAY transactions carried out via the POS.

2020 has also been a year of great focus on the omni-channel vision as a service of excellence. The provision of a broad range of products and services via the digital channels has had excellent acceptance by customers of this segment, naturally complementing contact with the physical branch network and thus contributing to greater customer loyalty to Santander.

At the end of June, the turnover of the Business segment increased by more than €1,275 million compared to last time, an increase of 15%.

Companies and Institutionals

Santander in Portugal maintains the focus on supporting the Companies sector, providing its customers a comprehensive financial and non-financial offer that aims to strengthen the qualifications of companies, rendering the relationship with customers increasingly close and global.

The constant concern to know in detail the particularities of each sector of activity allows the Bank to adapt the offer to customer needs and provide integrated solutions, centred on the specifics of each business and adapted to the natural cycles of each customer.

Besides providing its customers with a commercial network of experienced professional highly motivated to provide excellent service to its customers, Santander in Portugal has invested heavily in digital channels in order to streamline the relationship with the Bank in all matters related with daily banking. The increasing use of the digital channels by companies demonstrates the importance that customers give the simplification of procedures and to the fact that they gain autonomy in the use of certain banking products and services for the day-to-day management of their companies.

In Protocolled Lines, and in conjunction with public entities involved, Santander made available to its customers the COVID-19 lines created to support cash requirements. The injection of liquidity into companies through these lines, amounting to about €1.3 billion, combined with the application of the capital moratorium sponsored by the State (in accordance with Decree-Law 10-J/2020 of March 26), has allowed companies to relieve the pressure on their cash-flows and comply with the most immediate commitments to their employees and suppliers, in a difficult context of sharp reduction or even absence of billing.

The dedication of Santander to Companies, based on the relationship and proximity, has been recognized and appreciated by customers, and this has resulted in increased awareness of Santander as a First Reference Bank and First Bank for Companies (in accordance with the BFin2020-Data E study of July 2020).

With regard to Institutional Banking, Santander in Portugal maintains its commitment to the customers of this segment, both with regard to Public Entities, with a strong presence in the Azores and Madeira Regions and with the Municipalities, as well to Private Entities, with a special focus Religious Institutions and on the Social Economy institutions.

At the end of the first half, turnover in the institutional customer segment showed a very positive trend (up 12%), with special emphasis on resources, with a growth of 22% since the beginning of the year.

Investment Funds and Insurance marketed

The first half of 2020 was marked by two distinct periods. A first pre-COVID-19 pandemic moment when, both in terms of investment funds and in terms of financial insurance, there was very strong demand for this type of solutions, which naturally led to net subscriptions of around €172 million, mainly related to mixed products. After the start of the pandemic there was a widespread decline in the financial markets, which conditioned commercial activity, involving outflows of around €335 million during the second quarter.

Given all these impacts and taking into account the improvement of the quality and customer experience, the Bank fostered an attitude of service, proactively intensifying contacts with customers regarding this subject, making privileged use of digital media for this purpose. In fact, there was an acceleration of the adoption of the main transactional platforms, and NetBanco accounted for over 65% of transactions in the second quarter of the year.

In this connection, Santander Asset Management (SAM) sought to manage its mutual funds actively, with the goal of minimising losses for its participants following the impacts arising from the COVID-19. The first half closed with €2.3 billion of assets under management.

With regard to the real-estate investment funds, they totalled about €423 million at the end of June.

In the financial insurance area the focus was maintained on active management of open financial insurance and of the maturities that occurred mainly in the second quarter of the year, amounting to €170 million.

In a half year that, with the pandemic, clearly showed the importance of Savings/Pension within the range of customer needs, the pension solutions played a very important role in the commercial activity, with net subscriptions of €26 million in the form of funds (FPR's) and €17 million in the form of insurance (PPR), benefitting from the Freemium campaign which took place mainly in June.

Corporate and Investment Banking

The beginning of the year followed the 2019 trend, in an adverse scenario of maintenance of negative interest rates and a high pressure on the spreads. In March, with the start of the pandemic, it was essential to strengthen the proximity with and the commitment to customers.

The following months were months of adaptation to a new reality, in which the needs of customers required an even faster answer. Therefore, processes and teams were adjusted, fulfilling Santander's strategy of being a Simple, Personal and Fair Bank.

As from the beginning of the year, the loan portfolio increased by 7.6%, underlining the support to the economy and to our customers. Revenues fell by 5% over the same period, primarily due to the negative impact on net interest income. Commissions, on the contrary, increased by 3% during the same period, supported by non-recurring transactions.

In this framework of lockdown, the focus on the development of the digital channels, namely the digital currency contracting platform (via NetBanco Empresas), provides an appropriate response to customers' needs.

In the Global Debt Financing area, the first half of 2020 was marked by the following significant operations:

- Participation of Santander Totta, as Bookrunner, in the issue of a Hybrid Green Bond for EDP, with a maturity of 60 years in the amount of €750 million;
- First green issue 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.

During the first half, 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: (1) Advising Cellnex in the acquisition of Omtel from Morgan Stanley Infrastructure and Altice; (2) Advising Sonae Sierra and APG in the sale of 50% of Sierra Prime to Allianz and Elo; (3) Advising Glennmont Partners in the sale of the photovoltaic portfolio in Portugal to Finerge; (4) Advising NOS in the sale of portfolio of the NOS Towering towers to Cellnex; and (5) Advising EDP in the sale of two CCGTs and of the B2C customer business in Spain to Total.

In Treasury, the activity of the Corporate and Commercial Banking area was impacted by the pandemic, with the immediate challenge of quickly defining new ways to support customers in meeting their needs and dealing with the adverse situation.

Up until the moment when the a state of emergency was decreed, there was a trend of growth in the finalization of interest-rate and foreign exchange operations, a trend that has been seen since 2018 with a successive increase of the number of operations, volume and number of customers.

In the matter of interest-rate risk management there was strong growth of the volume of credit formalised at a fixed-rate or contracting of autonomous hedging operations (interest-rate swaps).

In a macroeconomic context of enormous uncertainty, there was an increase of demand for fixed-rate credit solutions in response to the evolution of interest rates in the Eurozone, which continue to be in negative territory. Indeed, it was confirmed that, due to a potential scenario of greater uncertainty and volatility in the markets, most companies choose to mitigate some or all of that risk.

In the foreign exchange area, despite 2020 being a year of transformation of available offer of contracting channels, there has been, particularly in the months of May and June, a slight contraction of activity resulting from the temporary closure of some companies. In the period of greater confinement, the number of foreign-exchange contracting operations as well as the amount formalized suffered a slight YoY drop, reversing the positive trend of growth seen in the first months of the year. However, it should be pointed out that despite the widespread isolation that caused many customers of the Bank to work from home, all the means of contracting foreign-exchange transactions were available at all times, with a team permanently in the Trading Room and

the electronic platform available via NetBanco Empresas to ensure adequate response to the needs of all customers.

In the Cash Equity area, after a start to the year with moderate gains, the worsening of the pandemic generated high levels of uncertainty and volatility, with the sudden and sharp declines of the indices leading investors to seek new opportunities on a case-by-case basis. In the second quarter, the volumes traded on the stock markets continued high, benefitting Cash Equities activity. According to the data released by the CMVM, the volume of orders on shares received by financial institutions in Portugal grew by approximately 74% year on year, totalling about €8,172 million (up until May 31). In the same period, Santander grew 138.6% to €639 million, representing a market share of 7.8%.

In the online, the market grew by 68.5% to €5,769 million, Santander having contributed with €497 million, a 126.3% increase over the same period 2019 and a share of 8.6% in first five months of the year (6.4% in the same period last year)¹.

Responsible Banking

Since the beginning of the COVID-19 crisis, Santander Portugal tripled its social responsibility budget, in the matter of donations to institutions, having provided more than €3 million to help in the fight against the disease, in particular for research, purchase of hospital equipment, support for the most vulnerable sectors of society and Higher Education Institutions projects.

Through the Santander Solidarity Fund, an internal initiative through which employees have made their donations to ensure access to food by vulnerable individuals and households, more than €84,000 have been allocated for meals, to support more than 5,370 people. In total, the Fund helped more than 30 IPSS (social solidarity institutions) throughout the country.

The Santander 2020 Participative Donation prizes were awarded, an initiative in which Santander employees choose which social and environmental projects the Bank will support financially. The Associations Ajuda de Berço, Academia do Johnson, Salvador and Crescer Ser were the winners of the 3rd edition of this initiative, each of these institutions having received support in the amount of €7,500. In addition to the four winners, honourable mentions were awarded to 11 other finalist institutions. These 15 projects were selected from 133 applications which were presented and sponsored by Santander employees.

Also underscored is the fact that Santander and the University of Coimbra signed an agreement to devote more than €400,000 to fight COVID-19. The funds will be entirely dedicated to measures to fight the current pandemic crisis and its social consequences.

With the aim of promoting university initiatives to mitigate the effects of the pandemic on society, the Santander prize COVID UNI-19 was created. 335 student groups competed for this programme, and the Bank gave prizes award to 14 projects across the country. The "ZELAR@CB - Zelar pelos idosos isolados em espaços rurais (looking after the elderly in rural areas)" was the winner of this prize. The authors of the winning project are four volunteers of the Castelo Branco Polytechnic Institute, who are developing an application to monitor indicators related to the daily activities of the elderly living in isolation.

During the first half of 2020, the Bank signed: (1) the "Seize the crisis to launch a new paradigm of sustainable development" Manifesto, promoted by BCSD Portugal, through which the largest Portuguese companies

¹ Source: CMVM, Monthly order reception indicators (May 2020)

undertake to promote a more sustainable development model; and (2) Lisbon Green Capital 2020 Commitment – Lisbon Climate Action 2030, an initiative of the Lisbon City Council the aim of which is to challenge companies, citizens and all organizations to contribute to sustainability in the city of Lisbon, promoting concrete measures such as the reduction and separation of waste, sustainable mobility and energy saving.

Business Framework

The pandemic outbreak associated with the COVID-19 disease was concentrated in the second quarter of 2020, particularly during the months of April and May, requiring the lock-down of economic activity globally, and particularly at the level of developed economies. For about 8 to 10 weeks, the European economies operated at baseline levels of production or "survival mode".

On the supply side, most companies recorded colossal production downturns, especially in sectors of activity related to retail, catering and accommodation, which are also the most exposed to the effects of the mandatory social distancing. However, the sectors related to the production and distribution of essential goods performed less negatively than the others, especially those relating to food products, health and energy.

On the demand side, the need to "stay at home" for most households radically altered the usual patterns of consumption, both in terms of immediate consumption preferences (i.e., reactive demand) and of consumption prospects (i.e., future demand). Some of these changes in consumer preferences caused by the outbreak may be temporary (i.e., as long as the need for social distancing rules lasts) and others are likely to be affected permanently.

Currently, most European economies continue to adjust the pace of opening of the economy in the light of the ability to contain the number of new cases of infection and the response capacity of the health system. Thus, since mid-June 2020, the borders between member states of the euro area were being reopened, people were physically returning to their jobs (albeit on a rotating basis), the most penalized sectors of activity came into operation once again (though with defined rules and schedules), among other measures in an attempt to "return to normal".

However, the post-confinement in Portugal is different, with the movement of people remaining at minimum levels, associated with an almost total absence of tourists, almost nullifying the external demand that fed many service activities, besides retail, catering and accommodation. These sectors of activity are characterized by absorbing a vast range of unskilled labour, of which the vast majority now will be subject to the layoff regime. In May, the provisional estimate of the unemployment rate fell to 5.5%, which contrasts with the increase of the labour underutilization rate to 14.2%. Between March and May 2020, the number of discouraged persons grew 13%, that is, about 86,000 people were no longer considered active population (i.e., employed or unemployed). The simplified layoff mechanism made it possible to avoid a sharp rise of unemployment, with companies keeping on their staff; however, the slow recovery of economic activity is starting to bring pressure to bear on the labour market.

In the second quarter of 2020, activity indicator fell sharply, and in April is stood at the minimum level of the historic series. Similarly, the economic climate also fell to its lowest value ever. Turnover in services and industry decreased by around 25% in May, the largest ever YoY fall. In the construction industry, there were progressively more intense YoY contractions between April and May. Non-resident nights spent in the hospitality industry fell 98% in May, year on year.

The peak of the economic impact of the pandemic will have occurred in the second quarter and, in Portugal, a GDP contraction of between 12% and 16% QoQ can be expected. A contribution to this will have been made by

a sharp drop in domestic demand, private consumption being heavily penalized, especially the consumption of durable goods, resulting in YoY falls of over 70% in sales of light passenger vehicles. The sharp contraction of investment will have been the result of falls in excess of 50% of the investment in transport equipment, machinery and equipment. In terms of foreign demand, exports fell by more than 30%, both at intra- and at extra-Community level, and the value of the order book continues to deteriorate. The sharp drop of imports is also set to have partially annulled the decline of exports, though there continues to be a decrease of in the export coverage rate compared to imports, which should result in a more negative contribution to growth.

The recovery is expected to benefit from an important set of measures. At European level, July saw the approval of the agreement for the economic recovery plan, with a budget of €750 billion, but its component of grants to the States fell to €390 billion, compared to the initial proposal of €500 billion. Additionally, the Multi-year Financial Framework for the 2021-27 period amounts to €1,074 billion.

Under the economic recovery plan, Portugal is set to receive an amount greater than €15 billion euros in grants and more than €10 billion in loans. Together with the new multi-annual budget framework, Portugal is set to earn almost €58 billion euros of Community funds for use over the coming decade.

In parallel, the ECB reinforced its intention to pursue a monetary policy of support to economic recovery, based on the maintenance of negative interest rates and asset acquisition programmes and assignment of liquidity, in order to promote basic conditions conducive to recovery and economic growth. For this, 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, for a total of €1,350 billion, which contributed to a stabilization of the risk in the euro area.

This is clear to see in the reduction of the sovereign spreads compared to the maximum recorded in April. The 10-year sovereign debt was priced at 0.40%, a spread of 80bp against Germany (as of July 21, 2020). The risk notation of the Republic assigned by the S&P, Fitch and Moody's agencies is BBB (stable), BBB (stable) and Baa3 (positive) . The DBRS agency maintains the BBB-high (stable) rating.

Santander Totta, SGPS

Balance Sheet (million euros)	Jun-20	Jun-19	Var.
Cash, cash balances at central banks and other demand deposits	7,556	2,937	+157.3%
Financial assets held for trading, at fair value through profit or loss, and at fair value through other comprehensive income	12,407	11,014	+12.6%
Financial assets at amortised cost	39,184	40,586	-3.5%
Investments in subsidiaries, joint ventures and associates	106	107	-0.2%
Tangible assets	626	667	-6.1%
Intangible assets	40	33	+21.0%
Tax assets	579	685	-15.4%
Non-current assets held for sale	55	66	-17.0%
Other assets	279	652	-57.3%
Total Assets	60,833	56,747	+7.2%
Financial liabilities held for trading	1,008	1,136	-11.3%
Other financial liabilities mandatory at fair value through profit or loss	3,230	3,442	-6.2%
Financial liabilities at amortised cost	49,504	45,419	+9.0%
Resources from Central Banks and Credit Institutions	9,753	6,733	+44.9%
Customer deposits	36,164	34,889	+3.7%
Debt securities issued	3,347	3,479	-3.8%
Of which: subordinated debt	8	8	+0.1%
Other financial liabilities	240	319	-24.7%
Provisions	219	280	-21.7%
Technical provisions	724	762	-5.0%
Tax liabilities	510	443	+15.2%
Other liabilities	1,158	1,016	+14.0%
Total Liabilities	56,353	52,499	+7.3%
Share capital attributable to ST SGPS shareholders	4,479	4,247	+5.5%
Non controlling interests	2	2	-8.9%
Total Shareholders' Equity	4,480	4,249	+5.4%
Total Shareholders' Equity and Total Liabilities	60,833	56,747	+7.2%

Santander Totta, SGPS

Proforma Income Statement* (million euros)	Jun-20	Jun-19	Var.
Net interest income (without dividends)	399.3	428.7	-6.9%
Dividends from equity instruments	1.7	1.6	+5.9%
Net interest income	401.1	430.4	-6.8%
Results from Associates	5.1	4.5	+11.4%
Net commissions	183.1	192.8	-5.0%
Other banking income	-29.6	-26.9	+10.1%
Insurance activity	7.8	12.0	-35.0%
Gain/loss on financial transactions	91.9	91.0	+1.0%
Operating income	659.4	703.8	-6.3%
Total operating expenses	(287.8)	(303.1)	-5.1%
Personnel expenses	(161.3)	(174.2)	-7.4%
General expenses	(100.6)	(104.5)	-3.8%
Depreciation	(25.9)	(24.4)	+6.2%
Net operating income	371.6	400.7	-7.3%
Impairment	(100.9)	16.5	-
Net provisions and other	(39.2)	(34.8)	+12.9%
Income before taxes and MI	231.5	382.5	-39.5%
Taxes	(58.5)	(106.5)	-45.0%
Minority interests	(0.1)	(0.1)	-36.0%
Consolidated net income	172.9	275.9	-37.3%

(*) Not audited

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In accordance with the definition contained in instructions 16/2004 of the Bank of Portugal with the changes in instruction 6/2018

Ratios	Jun-20	Jun-19	Var.
Profitability			
Income before taxes and MI/Average net assets	0.8%	1.4%	-0.6 p.p.
Operating income/Average net assets	2.3%	2.5%	-0.2 p.p.
Income before taxes and MI/Average equity	10.6%	18.4%	-7.8 p.p.
Efficiency			
Total operating expenses/Operating income	43.6%	43.1%	+0.5 p.p.
Personnel expenses/Operating income	24.5%	24.8%	-0.3 p.p.
Transformation			
Credit (net)/Deposits	114.0%	114.0%	+0.0 p.p.