Half Year Report
1H2022

Santander
Banco Santander Totta, S. A.

Banco Santander Totta, S. A.
Rua do Ouro, 88 – 1100-063 Lisbon
Share Capital: €1,391,779,674.00
Registered at the Lisbon Commercial Registry under single registration and VAT number 507 096 851
LEI: 549300URJH9VSI58CS32

This report was approved by the Bank's Board of Directors on September 27, 2022

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Santander presented positive results in the first six months of this year, while focused on its mission of contributing to the development of people and companies, promoting inclusive, sustainable growth in Portugal. As, ultimately, we are the choices we make.

The banking sector is going through a period of unparalleled disruption in its history. As technology is one of its main pillars, this evolution is materialized in the growth of digital customers. They already represent about 60% of the customers for which we are the main relationship Bank.

Our balance sheet confirms our growing our support to the Portuguese economy, recording a balanced, sustainable increase, either through resources (up by 4.9%), or through credit granted, with a special note for mortgage loans, which increased by 6.8%.

In a semester strongly marked by the war in Ukraine, and by its social, economic and energy consequences, the Bank remained focused on its innovation programme and on improving the service provided to our customers. We are improving the technological capacity of our Branches and support areas, always with the ultimate goal of improving the service we provide to our customers, and the quality of life of our employees.

Given the context of the humanitarian crisis, we have launched several measures to support the Ukrainian people and refugees who came to Portugal. I would like to highlight an unprecedented initiative by the Santander Portugal Foundation, in partnership with the Parish of Campo Grande, in Lisbon, of bringing from Poland 178 Ukrainians with family ties in our country.

I would also like to mention the role the Bank is playing in the transition to a greener and more sustainable economy. This year, Santander carried out the first Green Confirming operation in Portugal, and granted the largest amount of financing under the IFRRU programme, a Financial Instrument for Urban Rehabilitation and Revitalization.

A final word for the public recognition of our work – recognition of the work carried out by all our employees – which resulted in the distinctions of **Best Bank in Portugal**, by *Global Finance*, **Best Retail Bank** by *World Finance*, **Best Trade Finance Bank** and **Best Private Banking** by *Euromoney*, with emphasis on the **Five Star Award**.

Santander is a great bank, with an extraordinary team, and is more prepared than ever to support Portuguese families and companies, providing an excellent service.

We are the choices we make. And at Santander we are committed to making the choices that provide the best quality of service and a prosperous, sustainable future for all.

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

PROFITABILITY	GROWTH	SOLIDITY	COMMUNITY SUPPORT
Net Income from Banking Activities **€641.3m** (-11.9%)	Mortgage Loans **+6.8%** Customer Deposits **+8.2%**% **(Change YoY)**	NPE Ratio **2.2%**	Support to Ukraine - Reception of 178 refugees - Portuguese courses - Exemption of fees
Net Income **€232.0 m** (-365.6%)	Digital Customers **1,019 million** (+3.8%)	Cost of Credit **0.01%**	Education **2,800 scholarships**
RoE **10.9%** (+8.5 p.p.)	Digital Sales **51.3%** (1S22)	CET1 Ratio **16.4%**	Investment in Society **SuperLine Senior** Support service for non-digital customers aged 70 and over

TABLE OF INDICATORS

BALANCE SHEET AND RESULTS (million euro)	Jun-22	Jun-21	Var.
Total Net Assets	58,271	55,504	+5.0%
Loans and advances to customers (net)	42,566	42,308	+0.6%
Customers' Resources	48,917	46,142	+6.0%
Total shareholders' equity	3,310	4,049	-18.2%
Net Interest Income	368.9	381.8	-3.4%
Net Fees and Other Income	248.0	208.9	+18.7%
Operating Income	641.3	727.5	-11.9%
Net Operating Income	360.7	409.2	-11.8%
Income before taxes and non-controlling interests*	340.2	81.0	+319.9%
Consolidated net income attributable to the shareholders of BST	232.0	49.8	+365.6%

RATIOS	Jun-22	Jun-21	Var.
ROE	10.9%	2.4%	+8.5 p.p.
ROA	0.8%	0.2%	+0.6 p.p.
Efficiency ratio	39.9%	40.7%	-0.8 p.p.
CET I ratio*	16.4%	22.9%	-6.5 p.p.
Tier I* ratio	16.4%	22.9%	-6.5 p.p.
Capital* ratio	18.8%	25.3%	-6.5 p.p.
Non-Performing Exposure Ratio	2.2%	2.5%	-0.3 p.p.
Non-Performing Exposure coverage ratio	82.1%	79.2%	+2.9 p.p.
Cost of credit	0.01%	0.36%	-0.40 p.p.
Loans-to-deposits ratio (transformation ratio)	103.1%	110.8%	-7.7 p.p.

RATING	Jun-22	Jun-21
FitchRatings	BBB+	BBB+
Moody´s	Baa2	Baa3
Standard & Poor´s	BBB	BBB
DBRS	A	A

Other Data	Jun-22	Jun-21	Var.
Employees**	4,671	5,751	-1,080
Employees in Portugal**	4,659	5,721	-1,062
Branches	386	418	-32
Total Branches and Corporate Centers in Portugal	383	410	-27

* Fully implemented with results net of payout

** Headcount criteria

AWARDS, DISTINCTIONS AND OTHER RELEVANT FACTS IN THE 1ST HALF OF 2022

	Best Bank in Portugal	Within the scope of the "*World's Best Banks 2022,*" Santander was distinguished as the "Best Bank in Portugal" by the North American magazine *Global Finance*. These awards distinguish the most outstanding financial institutions around the world, based on objective criteria — such as profitability, asset growth, geographic dimension, strategic relationships, new business development, and product innovation — and subjective criteria, through the opinions of financial analysts, credit analysts, banking consultants and other industry professionals.
	Best Retail Bank in Portugal	Santander was distinguished as the "Best Retail Bank" in Portugal by the *World Finance* magazine, within the scope of the *World Finance Banking Awards 2022*. These awards distinguish the Banks with the best performance around the world, recognizing the most innovative in the sector and, in in particular, those who have accepted the challenge of digital transformation
	Major Banks	Santander was considered by Portuguese consumers as the most relevant brand in the Large Banks category of the Five Stars 2022 Award. The analysis assesses criteria such as customer satisfaction, intention to recommend, trust, and innovation. Santander achieved an overall rating of 75.4%. Nearly 1,300 consumers participated in the evaluation of this category. The Five Stars Award is an evaluation system that measures the degree of satisfaction that products, services and brands provide to their users, including variables that influence consumer purchasing decisions such as Satisfaction with Experimentation, Price-Quality Ratio, Purchasing Intentions, Intention to Recommend, Brand Trust, and Innovation in the evaluation criteria.
	Mortgage Loans	Santander was considered by Portuguese consumers as the most relevant brand in the Mortgage Loans category, in the 2022 edition of the Five Stars Award. In assessing Mortgage Loans, in addition to the criteria mentioned above, price-quality was also taken into account, and almost 2,400 consumers were involved. The overall rating in this category was 75.7%.
	Market Leader	Santander was distinguished, by *Euromoney* magazine, as the "Best Trade Finance Bank" in Portugal, winning in the "Market Leader" category. As "Market Leader," *Euromoney* once again recognizes Santander's solid growth in the trade finance activity in recent years in Portugal, with a sustained growth of its market share.
	Best Service	Santander was distinguished, by *Euromoney* magazine, as the "Best Trade Finance Bank" in Portugal, winning in the "Best Service" category. "Best Service" highlights the work provided by the Bank's teams in carrying out financial operations to support exports, through in-depth knowledge of the sector and a great ability to execute them.

	Best Private Banking Services Overall	Santander *Private Banking* was once again distinguished by *Euromoney* as the "Best in Portugal". This is the 11th consecutive time that this publication has awarded the "*Best Private Banking Services Overall*" award to this segment. In Portugal, the *Private Banking* area recorded a growth of 10.8% in its turnover, at the end of 2021, including 14.6% in total credit and 10.5% in total resources, compared to the end of 2020.
	Most Responsible Bank - ESG	Santander was distinguished as the Most Responsible Bank – ESG in Portugal, taking up the first position in the sector in the Merco ESG 2021 ranking. This study follows an exhaustive evaluation methodology to assess the Most Responsible companies in terms of ESG: with the environment; internally, namely with customers and society; plus, at ethical and governance level.
	Settlement & Custody	For the 3rd consecutive year, and since this category was established in the *Euronext Lisbon Awards*, Santander was the winner in the *Settlement & Custody* category. This category distinguishes the Financial Intermediary that carried out the largest number of share and bond issuances registered with Interbolsa and not admitted to trading, weighted by the respective amounts. Created in 2011, the *Euronext Lisbon Awards* distinguish issuers, financial intermediaries, and other institutions and individuals that stood out in the capital market, in the year prior to the awards.
	Gender Equality Index	Santander obtained the highest score in the financial sector and ranks second in the 2022 Gender Equality Index, promoted by *Bloomberg* (*Bloomberg Gender-Equality Index* (GEI), which recognizes excellence and commitment to equality. The GEI positions the bank as one of the most advanced companies in the world in this area. This Index is the seal of excellence for companies around the world that make public their commitment to equality and the presence of women in the labour market through the promotion of measurement, representation, and transparency.

These awards are the responsibility of the entities that grant them

SOCIAL RESPONSIBILITY

ESG criteria embedded in building a more responsible bank

Environmental: supporting the green transition

Green Confirming
Santander launched the 1st sustainable confirming solution in Portugal, with SONAE and Ecovadis.

€220mn
Debt Refinancing of a wind farm portfolio of Generg (Total Group)

Most Responsible Bank - ESG
1st place in the sector in Merco's ESG ranking 2021

€156mn[1]
Green Mortages

100%
electricity from renewable sources

Social: building a more inclusive society

500 scholarships for refugees
To support Ukrainian refugees in Portugal by offering Portuguese learning courses.

Total of 2,800 scholarships
In tech, entrepreneurship and languages

>474k
financially empowered people 2019-2022

37,3%
women in senior positions

Governance: doing business the right way

Embedding **new Corporate behaviours – T.E.A.M.S.**
Promotion of social & environmental **teambuidings**, to promote teamwork and engagement

#1 NPS
Santander was the Bank with the best index of recommendation of the Banking sector in Portugal, with an NPS of 33.3
(1st wave of the Benchmark study by Marktest)

SuperLinha Sénior
Service line specific for non-digital customers over 70 years old

43%
women on the board

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

The various initiatives in this field have been widely recognized through the various awards that have been received recently.

At a global level, Santander Portugal was distinguished with the **Euromoney** award for ***Financial Inclusion***, as a result of the Bank's initiatives in terms of access to, financing, and increased resilience of the populations in the markets where it operates. In line with the Santander Group's global strategy, since 2019, the Bank has already empowered more than 474 thousand people in Portugal.

Euromoney also distinguished Santander as the "**Best Bank in Corporate Responsibility"** in Central and Eastern Europe in its *Awards for Excellence 2022*, in recognition of the Bank's contribution to the humanitarian response to the war in Ukraine, with special emphasis on the initiatives undertaken in Portugal.

In the current context of the humanitarian crisis, last April, **Santander Portugal joined the Parish of Campo Grande in Lisbon and helped bring, from Poland, 178 Ukrainian refugees with family ties in Portugal.** The initiative had the support of Santander Volunteers who accompanied refugees all the way from Poland, and guided the Ukrainian families to their relatives in Portugal.

Santander employees in Portugal contributed to a **financial support fund for refugees, to be attributed to the Portuguese Red Cross**, which amount was doubled by Santander.

New support measures were implemented, such as the launch of **500 Portuguese scholarships for Ukrainian refugees**, aimed at supporting the integration of people impacted by the war.

In support of Ukrainian customers, the Bank implemented a **hotline in Ukrainian language**; **exempted all international transfers to and from Ukraine from any fees** until the end of 2022; and exempted **Ukrainian customers from the basic account fee (minimum services) for 12 months**.

In order to respond to certain specific customer needs, Santander launched **SuperLine Senior** last June, a special hotline for non-digital customers above the age of 70, which will serve 195,000 customers.

The recently created Santander Portugal Foundation chose Education as the central pillar for promoting social and economic mobility, and for the transition of the Portuguese economy to a low carbon model.

Several programmes were launched, and about 3,000 grants were awarded in Portugal, with the aim of providing both university students and the adult population in general with a set of relevant skills for their professional and personal development. It is worth highlighting the **Santander Erasmus+ Scholarship Programme**, to encourage students to experience an international, multicultural experience, and enrich their academic and professional curriculum, by taking part in mobility programmes.

In line with the established objectives of promoting a more inclusive society and combating the risk of poverty through Education, the Santander Portugal Foundation established several partnerships such as i) with **Academia do Johnson**, to help fight juvenile delinquency, through a pilot project called "Parents' Workshop," aimed at accompanying families who educate their children in risk environments; and ii) **Entrepreneurs for Social Inclusion (EPIS)**, whose programme is intended to combat school failure and promote entrepreneurship among students in need.

The partnership with the **Orquestra sem Fronteiras** was renewed, which aims to promote both the employability of young musicians, and the dissemination of music in the Portuguese and Spanish border regions.

The Bank is committed to building a greener economy, and to that end it is helping its customers make sustainable choices and in their transition to a *NetZero* business model.

In terms of **sustainable financing**, the Bank carried out the first Green Confirming operation in Portugal, together with SONAE.

Additionally, Banco Santander prepared a debt refinancing of Generg's wind farm portfolio, with a total capacity of 461 MW, in the total amount of 220 million euro.

Santander is also **the Bank that granted the most funding under the IFRRU 2020 programme —** a Financial Instrument for Urban Rehabilitation and Revitalization **—, both in terms of number of contracts signed and in amount awarded**, with a total of € 433 million, 47 % of the whole amount contracted by the sector.

Finally, Santander continued to offer its customers advantageous conditions for sustainable products, such as green housing loans, electric and hybrid vehicle leasing, or personal loans for renewable energy. It is also worth highlighting the financing of **green mortgage loans** (for housing with energy efficiency certificates A or A+), which totalled 155 million euro in the 1st half of the year.

GOVERNING BODIES

BOARD OF THE GENERAL MEETING

Chair:	António Maria Pinto Leite
Deputy-Chair:	Ricardo Andrade Amaro
Secretary	Company Secretary

BOARD OF DIRECTORS

Chair:	José Carlos Brito Sítima
Deputy-Chair:	Pedro Aires Coruche Castro e Almeida
Members:	Amílcar da Silva Lourenço
	Ana Isabel Abranches Pereira de Carvalho Morais
	Cristina Alvarez Alvarez
	Daniel Abel Monteiro Palhares Traça
	João Pedro Cabral Tavares
	Isabel Cristina da Silva Guerreiro
	Manuel António Amaral Franco Preto
	Manuel Maria de Olazabal y Albuquerque
	Maria Manuela Machado Farelo Ataíde Marques
	Miguel Belo de Carvalho
	Remedios Ruiz Macia
	Ricardo Lopes da Costa Jorge

AUDIT COMMITTEE

Chair:	Ana Isabel Abranches Pereira de Carvalho Morais
Members:	Daniel Abel Monteiro Palhares Traça
	João Pedro Cabral Tavares
	Manuel Maria de Olazabal y Albuquerque
	Maria Manuela Machado Farelo Ataíde Marques

STATUTORY AUDITOR

PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda., represented by the Statutory Auditor Mr. José Manuel Henriques Bernardo

EXECUTIVE COMMITTEE

Chair:	Pedro Aires Coruche Castro e Almeida
Deputy-Chair:	Manuel António Amaral Franco Preto
Members:	Amílcar da Silva Lourenço
	Isabel Cristina da Silva Guerreiro
	Miguel Belo de Carvalho
	Ricardo Lopes da Costa Jorge

RISK COMMITTEE

Chair:	Manuel Maria de Olazábal Albuquerque
Members:	Daniel Abel Monteiro Palhares Traça
	João Pedro Cabral Tavares
	Maria Manuela Machado Costa Farelo Ataíde Marques
	Remedios Ruiz Macia

REMUNERATION COMMITTEE

Chair:	João Pedro Cabral Tavares
Members:	Daniel Abel Monteiro Palhares Traça
	Manuel Maria de Olazábal Albuquerque
	Maria Manuela Machado Costa Farelo Ataíde Marques
	Remedios Ruiz Macia

APPOINTMENT COMMITTEE

Chair:	Daniel Abel Monteiro Palhares Traça
Members:	Ana Isabel Abranches Pereira de Carvalho Morais
	Cristina Alvarez Alvarez
	João Pedro Cabral Tavares
	Manuel Maria de Olazábal Albuquerque

SALARIES COMMITTEE

Chair:	Jaime Pérez Renovales
Member:	Maria Alexandra Teixeira Peres Brandão Palma Cavaco

COMPANY SECRETARY

Full Secretary:	Bruno Miguel dos Santos de Jesus
Alternate Secretaries:	Marta Maria Appleton de Serpa Pimentel Marques

BUSINESS FRAMEWORK

International Economy

The economic dynamics, in the first half of 2022, was undoubtedly impacted by the invasion of Ukraine by Russia on February 24th, which started a conflict that had serious repercussions on the world economy, leading to a sharp rise in energy and commodities prices, which had already been on an upward trajectory since mid-2021.

Thus, a year that was expected to see a full recovery from the pandemic shock came to be affected by a second supply shock, with the consequent deterioration of economic conditions, and whose main effects will probably be felt more strongly in 2023.

World Economic Growth

	2021	2022P	2023P
World	6.1	3.2	2.9
Advanced Economies	5.2	2.5	1.4
USA	5.7	2.3	1.0
Euro Area	5.4	2.6	1.2
United Kingdom	7.4	3.2	0.5
Japan	1.7	1.7	1.7
Developing Countries	6.8	3.6	3.9
Africa	4.6	3.8	4.0
Asia	7.3	4.6	5.0
China	8.1	3.3	4.6
Central and Eastern Europe	6.7	-1.4	0.9
Middle East	5.8	4.8	3.5
Latin America	6.9	3.0	2.0
Brazil	4.6	1.7	1.1

Source: IMF (July 2022)

This second supply shock, caused by the war, was translated into a significant acceleration of inflation, which, in the summer of 2022, reached peaks of almost four decades, resulting in a double impact: (i) a more muscular intervention by Central Banks, with a faster and more pronounced increase in reference interest rates; and (ii) a deterioration in households' purchasing power, with an impact on their expenses, in addition to increased energy and commodities costs for companies.

As a result, over the course of the second quarter, there was a deterioration in the confidence of economic agents, accompanied by a downward revision of growth projections, both for 2022 and in particular for 2023.

The International Monetary Fund, in the July projections of the "World Economic Outlook," precisely incorporated these risks, anticipating a significant deceleration of activity in 2023, especially in developed economies, with growth below potential.

The risks are skewed to the downside and associated, in Europe, with a complete cut-off of Russian gas supplies to some economies, in particular to Germany.

In the US, the economy has already contracted in both quarters of the year, although impacted by lower stocks and negative contributions from net exports. Private consumption maintained some dynamics, although it was progressively impacted by the higher prices and the consequent reduction in purchasing power. The labour market remained quite dynamic, with net job creation and the unemployment rate stabilising at around 3.5%.

The acceleration of inflation (which reached a maximum of 9.1% in June) required a faster intervention by the Federal Reserve, which started the cycle of rate hikes in March and later accelerated the rate of increase, having increased the rates by 75bp in July, the biggest rise since 1994.

The Euro Area is the region most impacted by the war, especially considering its greater energy dependence on Russia, with the consequent effects of lower supply and rising prices. Short-term indicators began to show a more pronounced deceleration of activity, especially with risks for the second half of the year. However, the labour market also remained quite dynamic, with the unemployment rate reaching historic lows.

Last March, the European Central Bank announced that it would progressively start to normalise its monetary policy, starting with the end of the Pandemic Emergency Purchase Programme (PEPP), at the end of the first quarter, and subsequent ending of the Asset Purchase Programme (APP) in October, after which the rise in reference interest rates would begin.

The faster acceleration of inflation, which reached a maximum of 8.9% in July (with some countries already reaching double-digit inflation), led the ECB to also accelerate the pace of rate hikes, having raised the reference interest rate in July by 50bp, putting the refinancing rate at 0.5% and the deposit rate at 0%, thus ending a long period of negative interest rates. In June, the ECB had signalled a rise of 25bp, but it had to act on the basis of the inflationary dynamics, and as a way to avoid the materialization of second-round effects.

In emerging markets, activity also started to slow down, as a result of the combination of several factors.

On the one hand, the disruptions in value chains, still caused by the pandemic in China, with the enforcement of lockdowns in response to Covid-19 outbreaks. In China, there were still problems in the real estate market, which are impacting investment.

On the other hand, the risks arising from disruptions in the supply of food raw materials, especially cereals, given that the two countries in conflict are among the world's main cereal producers. To which add the effects of rising prices.

Additionally, the effects that rising interest rates — especially those of the US dollar — have on financing costs for emerging economies.

As mentioned, in the first half of 2022, the monetary policy framework underwent a profound change, with the end of the period of negative interest rates, particularly in the Euro Area.

In the US, the Federal Reserve prioritised the price stability goal, to the detriment of economic activity, maintaining its orientation of rising interest rates, despite the negative risks for economic activity.

In the Euro Area, and after anticipating the interest rate hikes in July, the ECB continued to signal the need to raise reference interest rates, but the decision will depend on the information available at the date of each meeting.

As a result, short-term market interest rates reached levels that had not been seen for several years. In the US, the 3-month Libor rate came close to 3%, which had not occurred since before the Great Financial Crisis (GFC) of 2008.

In the Euro Area, the 3-month Euribor rate came close to 0.5% in August, the highest level since 2011, which actually ended the period of negative interest rates that had prevailed since 2015.

The rising inflation rates, and the intervention of Central Banks, also influenced the dynamics of long-term interest rates, in a movement that was characterized by some volatility.

In the US, the 10-year yield exceeded 3%, and the yield curve inverted between 10 years and 2 years, which had not occurred since before the GFC. A yield curve inversion is traditionally identified as a leading indicator of an upcoming recessionary period.

In the Euro Area, yields also rose, as a result of accelerating inflation and the end of the asset acquisition programmes. However, with different dynamics between countries, with a more pronounced increase in peripheral countries, especially in Italy.

In order to ensure the normal transmission of monetary policy, last July, the ECB announced the creation of the "Transmission Protection Instrument," to be used in cases where unwanted, disorderly market movements may jeopardize the transmission of monetary policy in the Euro Area. The decision to use this Instrument is up to the ECB, and the countries targeted for intervention must comply with a set of criteria, related to the absence of an excessive deficit procedure, the absence of macroeconomic imbalances, and the sustainability of public accounts.

The Portuguese Economy

In Portugal, economic activity has showed a greater dynamic in the beginning of the year, partly as a result of base effects related to the pandemic waves (in 2021, in the first quarter, there had been a new general lockdown). However, in the first three months of 2022, there was a general quarter-on-quarter growth, which (i) allowed the economy to almost recover to pre-pandemic levels, and (ii) left favourable growth prospects for 2022 as a whole.

Macroeconomic Data

	2021	2022P	2023P
GDP	4.9	6.9	1.0
Private Consumption	4.5	4.8	-0.6
Public Consumption	4.1	2.7	3.3
Investment	7.9	-1.1	0.7
Exports	13.1	20.5	2.9
Imports	13.1	11.4	1.5
Inflation (average)	1.3	7.5	3.7
Unemployment	6.6	6.4	6.7
Fiscal Balance (% GDP)	-2.8	-1.5	-0.9
Public Debt (% GDP)	127.4	118.2	115.6
Current Account Balance (% GDP)	0.7	0.3	0.5

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

The war scenario, and the rise in energy and raw material prices, have changed the situation, with business activity having already contracted marginally in the second quarter (-0.2%), although with a growth of 6.9% compared to the same period last year.

This year-on-year deceleration was explained by a smaller contribution from private consumption and investment, which may have started suffering from the effects of price rises.

External demand, on the other hand, had a positive contribution to growth, largely as a result of the recovery of tourism activity, which, in some regions, recovered from, or even exceeded, the volume of tourists they had before the pandemic, especially in terms of non-residents.

This recovery should be a significant factor, particularly during the summer months, helping to mitigate the adverse effects of the ongoing war in Ukraine.

In July, inflation accelerated to 9.1%, a maximum since 1992, which puts pressure on family budgets, to which one should add the impact of rising interest rates, especially in mortgage loans.

However, households benefit from full employment, with the unemployment rate standing at 5.7% at the end of Q2. Additionally, they still have the savings accumulated during the pandemic period, with the volume of household deposits at maximum levels. The savings rate dropped from the high values of 2021, but still remained at 8.3% at the end of Q1.

The economic environment, during Q2 2022, was characterized by a decrease in the economic climate indicator, due to a significant drop in confidence in the Construction and Public

Works sector, despite the rise in the Manufacturing Industry and in Trade and Services.

In the Manufacturing Industry, the improved confidence over this period was due to the positive contribution of production perspectives, mitigating the negative impacts related to the evolution of domestic and external demand. In the Construction sector, the sharp drop in confidence was due to the negative contribution of the order book and employment prospects. In Trade, the increased confidence was a result of the improved volume of sales and of companies' activity perspectives, mitigated by the deterioration of the appreciation on the volume of stocks. In Services, the increased confidence was due to the positive appreciation of companies' activity, which more than offset the negative contribution to the evolution of the order book and the prospects for the evolution of demand.

Indebtedness of the non-financial private sector fell to 197% of GDP (-6pp compared to 1Q21) in the first quarter, as a result of the reduction in both corporate debt (by 4pp, to 129% of GDP) and household indebtedness (by 2pp, to 68% of GDP).

Public debt also dropped by 9 pp during this period, to 126.7% of GDP.

Despite the greater complexity of the macroeconomic context, the expansion of business activity, together with higher prices, translated into greater growth of tax revenues. Thus, in June, the Public Administrations balance, from the point of view of public accounting, resulted in a surplus of € 1.1 billion, highlighting, on the one hand, the growth in revenues (+20%), and the lower expenditures by 1.7%.

As mentioned above, the dynamics of the Country's financing interest rates reflected market dynamics and the performance of the European Central Bank. The 10-year yield rose to 2.3%, an increase of 182bp compared to the figure at the end of 2021.

The Country's credit rating by S&P, Fitch, and Moody's is BBB (positive), BBB (stable) and Baa2 (stable), respectively. DBRS still maintains the BBB high rating (stable).

Note: This text was written with the information available until August 19, 2022.

Major Risks and Uncertainties for the 2nd half of 2022

The main risks and uncertainties for Santander's activity in Portugal in the second half of 2022 are still associated with the two major factors already identified in the 2021 Annual Report.

The first is associated with the fast acceleration of inflation, a process that initially resulted from the rise in prices of raw materials, especially energy, as a result of tensions in global value chains caused by the pandemic. In the first half of 2022, inflation accelerated at a faster pace, all across the board, materializing the contagion of energy costs to other classes of goods and services, as well as second-round effects, related to the impact of salary increases.

As a result, Central Banks have accelerated the pace of reference interest rates increases, in a general way, and have communicated that, in the current context, their main goal is price stability. In the US, the Federal Reserve, in its June and July meetings, raised interest rates in steps of 75bp, which had not happened since 1994, and which indicates the concerns about the risks that high inflation could turn into a structural process. Last July, the European Central Bank raised the refinancing rate by 50bp, to 0.5%, at a faster pace than it had previously signalled, also as a result of the greater persistence of inflation. Regarding the September meeting, the ECB left its actions open, in terms of the size of the rise, which remained dependent on the economic activity, and on the inflation perspectives available at the time.

The second risk factor stems from the Russian invasion of Ukraine on the night of February 23-24, 2022, and the subsequent war that is still going on when this Report is being written (August 19). The imposition of sanctions on Russia, in response to the military offensive, will have adverse economic impacts, especially in Europe, which are combined with rising commodities prices, in particular, of energy. Russia is the 3rd world producer of crude oil, and is the biggest supplier of natural gas to Europe. As a result, commodities prices have climbed to more than a decade high, as is the case of oil, while Russian gas supplies to central Europe have been progressively reduced as a retaliatory measure.

Therefore, Europe, and also Portugal, is suffering a double shock, with a more intense acceleration of inflation, which is being accompanied by an increase in interest rates.

Rising inflation reduces households' purchasing power, and may lead to a retraction in consumption, a dynamic that could be amplified by the increased uncertainty related to the military conflict and to growing interest rates. On the companies' side, it may be that companies are not able to fully reflect their higher costs in their sales prices, thus decreasing their margins, in addition to the greater uncertainty that can lead to the postponement of investment decisions.

In terms of interest rate hikes by Central Banks, the uncertainties relate to the rate of rise (which is being faster), and the level at which they will stabilize at the end of the upswing cycle. This increase in financing costs results, for both households and companies, in lower income, which can affect the ability to meet debt service, in particular for customers who have been most affected by the pandemic, and who were already being monitored following the end of credit moratoria at the end of September 2021.

The current combination of risk factors translates into a context of high uncertainty, and the generation of negative risks for growth, but whose full impacts cannot yet be properly estimated.

Therefore, Santander Portugal will carry out its activity in a complex context, with the risk of a further slowdown of its business and with higher interest rates, requiring that it keeps constantly monitoring credit quality.

BUSINESS AREAS AND BUSINESS SUPPORT AREAS

Individuals and Businesses, Companies and Institutional

Commercial activity, in the first half of 2022, was particularly impacted by two relevant facts. On the one hand, the negative impact of the war in Ukraine, with a downturn of the Investment component. On the other hand, the positive impact of the resumption of face-to-face life without restrictions, especially on the dynamics of trade and people coming to our Branches.

Branch Transformation and Process Simplification

The Bank continued the process of technological improvement and empowerment of its Branches, in response to changing customer needs and behaviour.

Throughout the semester, the Bank invested heavily in increasing the number of new VTMs (*Virtual Teller Machines*), with which one can make deposits in banknotes and coins, as well as exchange banknotes and change, 24/7. Fifty-seven VTMs have already been installed and another 30 are in progress, in addition to the 110 MDR (which allow banknote deposits), and the 186 ATM-DV, with the possibility of making deposits. More than 80% of our Branches are now able to accept self-service deposits and withdrawals, 24/7.

As a result of these trends, and the increasing use of digital channels, the Bank also took the decision of decreasing the number of opening hours to the public in some Branches, keeping the self-service area always available, and with adequate machines.

Individuals

In the Individuals segment, despite the progressive rise of interest rates, in reaction to the changes in the ECB's monetary policy, **mortgage loans** kept a very strong dynamic, with production growing again in the 2nd quarter, and exceeding the threshold of 1,000 million euro. Thus, new production ended the semester close to 2 billion euro, with a market share above 22%.

For the first time this year, the month of June reflected a slight drop in the submission of new requests, as a result of the scenario of uncertainty and the higher interest rates.

The Bank, through its Real-Estate area, named as "Comprar Casa," has been increasingly improving customer service through the Open House process, plus a technical support structure comprised by experts to help customers contract this product.

Along the same lines, **personal loans** also showed an upward trend, reaching a production of more than 300 million euro in the first half of the year, with emphasis on the contracting of online personal loans, which represented more than 25% of all personal credit granted, as well as the contribution of the Digital Sales area (sales through remote channels), in addition to the traditional credit contracting at our Branches.

With the end of the restrictions imposed by the pandemic, there was a significant increase in the opening of new accounts, with a significant percentage of customers from abroad.

In terms of Autonomous Insurance, the Bank launched the new Car Insurance for Companies, as well as an engagement initiative to promote the association of the Santander brand with the Health topic. At the same time, new commercial tools were developed, namely the 360 view for consultation by the manager, which includes an integrated perspective of all of the customer's insurance. Finally, the new commercial dynamics was extended to all branches (an insurance champion per branch), and several commercial campaigns were carried out with preferential conditions for Individuals and for Companies. With regard to Credit-Associated Insurance, it is worth highlighting the improved credit days with insurance in context, the availability of commercial arguments, and the improved follow-up on new credit operations with insurance.

With regard to Credit-Associated Insurance, several initiatives were launched to stimulate penetration, among which the improvement of credit days with insurance in context, the availability of commercial arguments and improved follow-up on new credit operations with insurance. At the same time, the training and focus of the Retention Line for Life Insurance cancellation requests associated with Mortgage Credit and SafeCare Health Insurance were the focus during the first semester.

Companies and Business

The constant uncertainty and changes in the economic context keep imposing a major effort by the Bank to adapt its monitoring procedures over the business activity of Companies and Businesses, both in the assessment of the impacts resulting from the changes, and in the identification and provision of financial instruments and solutions that support such instruments in minimizing these impacts, that strengthen their economic and financial situation, and that support the transition to a more efficient and environmentally sustainable economy.

Thus, once again, Santander Portugal is at the forefront in the application of public policies for combating economic and social impacts, committed to its role of offering the financial instruments launched by the Portuguese State, while also providing a complete, innovative financial and non-financial offer that supports Companies and Businesses in adapting to new realities during the different stages of their value chain, contributing both to the rapid adaptation to change and to greater efficiency in the management of their treasury cycles (in particular, factoring and confirming), or for financing productive investments and the transition to a more efficient and more sustainable economy.

In this regard, the Bank remains committed to supporting Companies and Businesses in accessing European Funds, whether from the Recovery and Resilience Plan (PRR), or those that will be made available under the new Multiannual Financial Framework – PT 2030, as well as in accessing the best financing conditions, namely by making available a set of facilities along with the European Investment Fund (EIF), the European Investment Bank (EIB), and with the Banco Português de Fomento / National Mutual Guarantee System, whose benefits from the guarantees are transferred to customers, through advantageous market conditions, allowing such financing to reach a much larger number of companies.

Santander Portugal is also committed to the transition to a more efficient, sustainable economy, reinforcing the available value offer with financing solutions under specific conditions that motivate Companies and Businesses to contribute to the climate transition and, thus, indirectly support the fulfilment of Portugal's commitment to achieving carbon neutrality by 2050.

With regard to **International Business**, the Trade Finance teams have strengthened their proximity to companies, pursuing their business origination activity and structuring of more complex operations with national importers and exporters, thus maintaining a solid presence in most Trade Finance operations, an unmistakable sign of customer confidence and of the Bank's image of solidity and credibility in international markets.

SWIFT GPI, which allows real-time validation of the status, execution and receipt of international payments, as well as verification of the status of transfers to be sent/received from abroad, remains as a unique, innovative offer in the market, which already counts with a high number of registered customers, corresponding to the issuers of more than 40% of SWIFT payments.

In March 2022, and for the third consecutive year, Banco Santander Portugal was once again distinguished by Euromoney magazine as the "**Best Trade Finance Bank"** in Portugal, coming first in the "**Market leader**" and "**Best Service**" categories.

In terms of Correspondent Banks, it is important to mention the implementation of the *finCase* platform, which allows for a more automatic and efficient invoicing process with international banks, and the strengthening of the Bank's positioning as a partner for large international projects with a special focus on ESG, supporting large global counterparties.

Foreign Customers and Residents Abroad

Portugal remains as an attractive country for foreigners interested in investing in Portugal or wanting to live in Portugal, either permanently or with habitual residence, this phenomenon was particularly amplified by the demand for labour in sectors such as tourism, catering, and construction, among others. On the other hand, the community of Portuguese emigrants residing abroad is quite significant.

Attentive to these two segments, the Bank has a centralized team whose main objective is to develop strong, close commercial ties with communities of Portuguese and Portuguese descendants residing abroad, as well as to promote and attract foreign customers who choose Portugal to invest and/or establish their residence. Within this team, Santander has a remote management service for customers residing abroad — **Santander Próximo International** —, created in 2021, which has been reinforcing and consolidating its operations and skills. It is a digital branch, dedicated to customers residing abroad, which provides a specialized service in several languages and uses all the necessary technology for remote monitoring, plus a team 100% dedicated to these customers.

In view of the Bank's commitment to digital transformation, there has been a decrease in the need for physical contact, which allowed the Bank to decrease its physical presence in 2021, namely with the closure of representative offices in Germany, France, and Switzerland, countries where customers are already being followed through this digital service model.

It is also worth highlighting the welcoming of new customers and the simplified account opening process, with the support of a specialized hotline for Ukrainian refugees, especially last April and May.

Wealth Management and Insurance

The first half of 2022 was highly conditioned by the above-identified factors, namely the invasion of Ukraine by Russia and its repercussions on the acceleration of inflation and the conduct of monetary policy. The focus placed on fighting inflation led Central Banks, the FED, and the ECB to report more or less aggressive increases to their key interest rates, raising the question of the impact that these may have on economic growth and on a possible recession.

Volatility was a clear feature of the first half, with the main equity indices showing sharp devaluations in the first semester. In the interest rate markets, correction and volatility were constant throughout the semester, with yield on the 10-year German public debt changing from negative rates at the beginning of the year, to values above 1% at the end of the semester. In turn, the US dollar appreciated very strongly against the Euro, not only because it is perceived as a safe haven asset in times of greater uncertainty, but also as a result of the economic expectations for each of these markets. This volatility and synchrony between the various asset classes has proved to be a challenge for the management of customers' financial assets.

Most of Santander Portugal's *Private Banking* business indicators evolved necessarily influenced by this macroeconomic environment, during the first half of 2022, forcing an even greater proximity to customers and more recurrent monitoring of customer portfolios and positions. The segment's assets under management grew by about 2% in the first half, including a 2% growth in funds, insurance, and discretionary mandates (without market effect).

The growth of the *Private Banking* customer base maintained a quite strong dynamic, and significant growth throughout the first half of the year, based on a strong external prospecting activity, and great collaboration and support from the Branch network and corporate centres.

In this context of high market volatility, in terms of Santander Asset Management (SAM) activity, the semester was marked by redemptions of off-balance sheet resources amounting to almost 64 million euro, equal to less than 1% of the total portfolio. During this period, SAM sought to actively manage its securities investment funds (SIF) with the goal of minimizing its participants' losses, having recorded a portfolio value in the market of about 3,781 million euro, which corresponds to a 16.2% market share.

Retirement solutions remained as a very important commercial focus, with the aim of raising awareness among customers on the importance of implementing saving habits. Santander recorded an important share on this type of product, above 20%.

The Financial Insurance area promoted diversified or mixed products, aimed at the various segments of the Bank. This type of product ended the semester with 3,781 million euro in assets under management, with the number of redemptions being relatively low and amounting to € 25 million.

During this period, the Bank remained on its path towards improving Customer quality of service and experience. Thus, a process for contracting financial products at a distance was developed, allowing for an improved service provision by the Bank. Additionally, this period required greater proximity to customers, with numerous face-to-face information sessions being held, with the aim of conveying and sharing information on the evolution of markets and investment products.

Corporate and Investment Banking

The first half of 2022 further stressed the challenge we are currently experiencing. In addition to the social context, caused by the Russia-Ukraine war and by Covid 19, we are witnessing significant macroeconomic changes. Of which it is worth highlighting the rise in the inflation rate, the rise in interest rates, and the parity of the Euro against the US Dollar.

In recent years, customer relationships have also changed, and the Bank has accelerated its digital transition and improved its platforms, allowing for more useful and effective communication. The Bank presented new, innovative solutions, with emphasis on ESG and *Export Finance* projects, and renewed its commitment to customers, and its support to their main operations.

Within the ESG scope, it is important to mention the conclusion of the first green confirming carried out in Portugal, for Sonae, maintaining the focus on converting the portfolio into sustainable financing. In *Export Finance*, we highlight the mandate for *Lead arranger and lender* of 3 operations with Export Credit Agencies (ECAs).

The loan portfolio recorded a -4.2% reduction compared to the same period of the previous year, justified by the programmed reduction of some operations, in a context of customer high liquidity capacity.

In the ***Global Debt Financing*** area, in the first six months of 2022, Santander secured a total of 362 million euro in financing for the acquisition, by Onex Holdings to EDP, of a portfolio of wind farms with 221MW of installed capacity.

Additionally, the Bank also supported Generg, a company of the Total Eren Group, by refinancing the entire debt of its main portfolio of renewable energies. Part of the debt associated with these two operations, which together totalled more than 580 million euro, was subsequently placed with other credit institutions.

With these two credit operations, Santander once again proved its ability to ensure the financing of its customers' strategic projects, as well as the Bank's credibility with other national and international credit institutions.

Additionally, the ***Global Debt Financing*** area played a decisive role in the presentation of innovative, dynamic solutions for the decarbonization objectives of the Portuguese economy, with emphasis on financial advice for the first industrial projects that include green hydrogen in their production chain.

During this period, several relevant financing operations were concluded in a wide range of sectors, with emphasis on several financing operations in the real estate sector and in the industrial sector.

In 2022, the ***Corporate Finance*** area continued to develop an intense activity in Mergers & Acquisitions, of which it is worth highlighting the successful completion of the following financial advisory operations:

- Advising Atlantia on the sale of the 17.2% stake held in Lusoponte to MM Capital Partners, a subsidiary of Marubeni Corporation;
- Advising Penta Flex in the spin-off operation between Cordex and Flex 2000;
- Financial advisory to Altri and Greenvolt, in the Greenvolt spin-off process;
- Acting as *Joint Global Coordinator* in the capital increase / Initial Public Offering of Greenvolt, in the amount of 100 million euro.

In the **Treasury** area, particularly in the **Corporate and Commercial Banking** area, the first half of 2022 was marked by business growth in a particularly challenging market context. The escalation of inflation in the main economies led to a fast readjustment of expectations in the sense of sharper interest rate hikes, which increased the cost of hedging interest rate risk, at a time when Euribor rates had not yet started the upwards movement.

In the **Foreign Exchange** segment, the growth rate of digital channels remained, with a 21% increase in the number of customers using NetBanco's foreign exchange platform since the beginning of the year.

In terms of **interest rate risk management**, the rise in long-term interest rates, regarding the dynamics of Euribor rates, was a challenge for business activity during the second quarter, but the contracting of risk management solutions interest rate maintained the growth trend of recent quarters.

In the area of **Structured Products** for retail, two products were launched in the first half of 2022, the DUO 80-20 "*Ageing Population*," and the DUO 80-20 "*Auto Callable Equity Basket*," which captured a total of over 20 million euro.

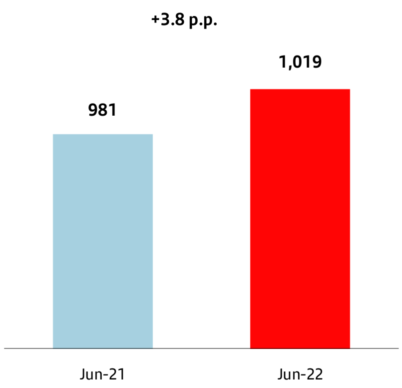
In the **Cash Equities** area, the equity market, after a slightly lower start this year when compared to the first months of 2021, justified by less orders for the North American markets, showed a recovery throughout the semester. In recent months, volumes traded online exceeded the average for 2021. During this period, it is worth highlighting the increased volumes traded in bonds and ETFs.

Digital Transformation

During the first six months of the year, Banco Santander has continued to strengthen its digital transformation process, with the main objective of strengthening proximity to its customers and simplifying processes through digital solutions.

DIGITAL CUSTOMERS

thousand



This strategy has allowed the consolidation of the growth trend in the number of digital customers, one of the main objectives of this area.

At the end of the first half of 2022, the Bank had 1,019,000 digital customers, a 3.8% increase compared to the same period last year (38,000 more customers).

Individuals Channels

At the end of last year, the Bank launched the new Individuals customers App, and, in the first months of 2022, it completed the migration of customers to this new model of mobile banking experience, common to the various geographical areas of the Santander Group in Europe.

Regarding the adoption of digital channels, at the end of this first semester of 2022, the App had 707 thousand digital customers. To date, 475,000 customers exclusively use the App. In terms of intensity of use, the average number of monthly logins per user was 21. These figures represent a slight reduction compared to the previous period, reflecting a growing adoption of this channel by Customers with less intensive use.

In the Web channel, the number of users remained in line with the previous year, having closed the period with 432,000 users with logins in the last 30 days through NetBanco Individuals. As for the average logins of NetBanco Individuals, it was found that this value remained constant at 8 logins.

Regarding satisfaction indicators, the *Net Promoter Score* (NPS) of Individuals Digital Channels maintained a positive trajectory for both NetBanco and the App.

In these first six months, the Bank continued the process of developing the App and modernizing NetBanco. As far as the App, it is worth highlighting the initiatives to improve Consultation, Notifications, Top-up, and Payments. With regard to the NetBanco channel, the new Global Position, which became the entry page, the new Contacts Page, an improvement in the organization of the top-up functionality, and new direct debit management functionalities were identified as key features. These improvements, which have been implemented, not only reflect a more modern interface, but also a new information architecture, optimized for the current customer needs.

Regarding the increased product offer in the various Channels, the new *OneClick sales Accidents* was launched, as well as the Robust sale in the *SafeCare Health Viva Mais* insurance. NetBanco Individuals customers can also consult corporate events, open a securities account with joint accounts, change credit card limits, and consult their insurance associated with credit. In addition, in the Late Payments area, more types of loans and leasing products are now available for payments. Also, in digital channels and in self-service mode, customers can now open a digital account for 2 holders and for non-residents.

Private customers can access a new private banking portal via NetBanco Individuals.

NetBanco customers are able to rate and give their opinion on more features and products.

Corporate Channels

In the first six months of this year, the Bank continued to strengthen the relationship with Corporate customers, with new functionalities available through the various channels.

In June 2022, NetBanco Corporate had 112 thousand users with logins over the last 30 days, a 2.5% increase, that is, 3 thousand users compared to the end of 2021.

The Companies App maintains its growth trend in number of users, reaching a total of 42 thousand users at the end of the semester, and keeps leading the rating of *App Stores* in Banking Apps for Companies.

Regarding intensity of use, the average number of monthly logins per user was 22 logins for NetBanco Companies and for the Companies App. There was a slight reduction in the NetBanco Companies channel, and an increase in the Companies App channel in average monthly logins, reflecting the growing adoption of these channels by Customers with less intensive use.

During this first half of 2022, Netbanco Companies made available to its customers a new stream for POS cancellation, as well as more possibilities for paying one's outstanding debts regarding more types of loans and Leasing products.

In addition, customers enjoy a better experience in the Term Deposits functionality, in ordering Meal Cards, as well as when consulting the novelties.

In the Companies App, customers are now able to top-up their prepaid cards.

The possibility for customers to give their opinion through the web and mobile channels through surveys on these same channels was reinforced, which helps the Bank understand their main needs. By systematically gathering these insights, the Bank reinforces its permanent focus on the customer, which is key to its value creation.

Technology and Operations

The **Technology** Divisions, in alignment with the business and digital transformation areas, kept implementing digital solutions geared towards their employees and their customers, namely by promoting the adoption of new technologies, modern architectures, and agile development approaches. In terms of the regulatory context, they ensured the implementation of initiatives to ensure compliance with legal or regulatory requirements, as well as the implementation of recommendations arising from internal and external audits, fundamental pillars for the operation of Banco Santander Portugal.

In the 1st half of 2022, boosted by enablers implemented last year, the IT strategic programme was continued, namely with Cloud devoted journeys and the transformation of information systems.

Customers have new functionalities in digital channels and in the Call Centre service, with optimized streams and user experience, adapted to individual needs. In customer service through the Commercial Network, capabilities were also made available through platforms such as customer onboarding and Insurance

In terms of Infrastructure (*Service Management*), the monitoring component of the Bank's systems was strengthened, anticipating corrective actions in order to avoid impact on the service, and, following the technological modernization of the communications network, the *SD-WAN* project was initiated, with the aim of improving communications resilience and service level for Branches and HQ.

Driven by the motto "Helping people and businesses to prosper," the Cybersecurity area continued to focus its activities on topics that it had been managing since the beginning of the pandemic situation, and that have been impacting the country, and, in particular, the financial sector, as well as to monitor and respond to the new challenges posed by the outbreak of a conflict in Europe. Having completed the Cyber Transformation Plan, it continued its journey by analysing the threats that are expected to impact the business and the technology on which it is based. In a financial ecosystem that is progressively more interconnected and interdependent, focus on resilience has led to the adoption of innovative solutions in the pillar of Detection and Response to risks and threats emerging therefrom, namely in key areas such as fraud management, cyber risks on the perimeter of the supply chain, and in solutions based on Security by Design.

Since data have become the new perimeter, cyber resilience proves to be a commercial advantage that must be competitive, and worthy of the trust and loyalty of our customers, partners and society in general. These pillars, which guide us, translate into initiatives as diverse as frictionless security in accessing the Bank, and active collaboration in public-private initiatives that enable a better response to society in general through the sharing of information and cyber excellence.

The **Operations** area concluded the Transformation Project called SOL – Santander Operations Linked –, which led to the implementation of the SOL Front (Network view) and SOL PEX (Operations view), achieving the defined strategic objectives, including technological evolution, automation of processes and digitization of Operations, guided by the quality of service provided to customers and the improvement of execution times *SLAs* (Service Level Agreements) with the commitment to improving our Customers' NPS.

As a result, the first half of the year was marked by the consolidation of the Sol Front platform in the Commercial Networks, helping to simplify the way in which orders are placed in the Operations area, which resulted in a service level more suited to current market requirements and better user experience.

Additionally, and along with these activities, the Bank continued to evolve in the set of automation and process reengineering initiatives, enabling the integration of transactions, easier execution, and operational simplification, both in Operations and in the Commercial Network. While also reinforcing the sustainability and digitization criteria, the digital strategy aimed at Operations increased its implementation pace with the objective of simplifying processes and reducing the consumption of physical documents in the workflow of tasks (leveraging the adoption of digital tools), thus helping to speed up process execution and reduce costs, by reducing paper consumption and the amount of space used for physical archives.

Some of these measures are also in line with the "*One Europe*" spirit, which advocates, among other things, the creation of a team with common objectives and initiatives for all Employees in the various geographies where the Group operates, through sharing and exchanging mutual knowledge.

The Operations area remains focused on improving processes, with a view to continuous improvement, taking into account the feedback received from the commercial area, through the visits that have been made to Branches and the assessment of the NPS.

ECONOMIC AND FINANCIAL INFORMATION

Consolidated business

At the end of June 2022, Banco Santander Totta recorded a net profit of € 232.0 million, 365.6% more than the € 49.8 million achieved in the same period of the previous year, which incorporated an extraordinary expenditure, in the amount of € 164.5 million (net of taxes), to meet the transformation plan, with the optimization of the branch network, and investments in processes and technology.

This evolution led to an increase in return on equity (ROE), from 2.4% in June 2021, to 10.9% in June 2022. The efficiency ratio stood at 39.9% (0.8 pp below the figure for the same period in 2021).

Gross credit totalled € 43.6 billion, up by 0.5% year-on-year. Loans to Individuals increased by 6.6%, and loans to Companies declined by 2.8%.

The Non-Performing Exposure ratio stood at 2.2%, decreasing by 0.3 pp, compared to the 2.5% recorded in June 2021, with provisions coverage standing at 82.1% (2.9 percentage points more than in the same period last year).

Customer resources reached € 48.9 billion, increasing by 6.0% over the same period last year, with an increase of 8.2% in deposits, and a 4.4% decrease in off-balance sheet resources.

The Liquidity Coverage Ratio (LCR), calculated in accordance with the CRD IV rules, stood at 145.97%, thus meeting the regulatory requirement on the fully-implemented basis. The Common Equity Tier 1 ratio (fully implemented) reached 16.4%, 6.5 pp less than in the same period last year. The MREL ratio stood at 25.4%.

The liquidity reserve reached €17.6 billion.

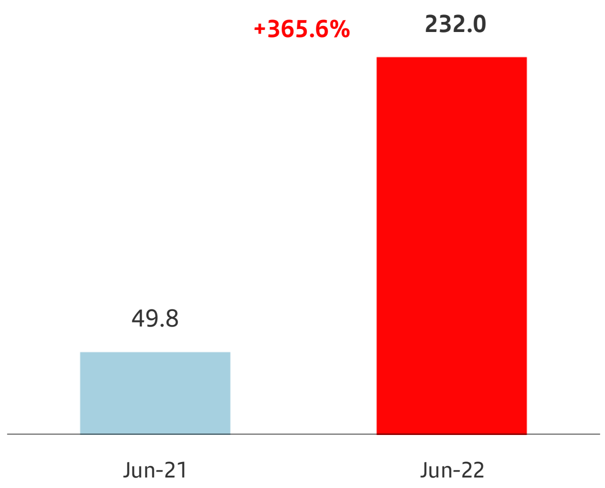
Financing obtained from the European Central Bank, in the amount of € 7.5 billion, refers entirely to long-term operations, through the TLTRO III Programme, which, together with the growth in deposits, resulted in a net surplus exposure to the Eurosystem of € -2.6 billion.

In long-term financing, there are also € 2.0 billion of mortgage bonds, € 0.7 billion of Senior Non-Preferred, € 0.5 billion of securitizations, and € 0.3 billion of subordinated issuances.,

Santander Portugal has the best financial ratings in the sector. The Bank's current long-term debt rating notations, compared to those of Portugal, are as follows: Fitch – BBB+ (Portugal – BBB); Moody's – Baa2 (Portugal – Baa2); Standard & Poor's – BBB (Portugal – BBB); and DBRS – A (Portugal – BBB high).

CONSOLIDATED NET INCOME ATTRIBUTABLE TO THE SHAREHOLDERS OF BST

million euro



CONSOLIDATED INCOME STATEMENTS* (million euro)	Jun-22	Jun-21	Var.
Net interest income	**368.9**	**381.8**	**-3.4%**
Income from equity instruments	3.7	1.5	+138.5%
Results from associated companies	1.4	1.1	+26.0%
Net fees	242.4	205.8	+17.8%
Other operating results	5.6	3.1	+83.8%
Commercial revenue	**622.0**	**593.4**	**+4.8%**
Gain/losses on financial assets	19.3	134.1	-85.6%
Operating income	**641.3**	**727.5**	**-11.9%**
Operating costs	(216.2)	(255.4)	-15.4%
Staff Costs	(129.3)	(157.3)	-17.8%
General Administrative Costs	(86.9)	(98.1)	-11.5%
Cash contributions to resolution funds and deposit guarantee schemes	(41.4)	(37.7)	+10.0%
Depreciation in the year	(22.9)	(25.2)	-9.2%
Net operating Income	**360.7**	**409.2**	**-11.8%**
Impairment, net provisions and other results	(20.5)	(328.2)	-93.7%
Income before taxes and non-controlling interests*	**340.2**	**81.0**	**+319.9%**
Taxes	(108.2)	(31.2)	+247.0%
Income after taxes and before non-controlling interests*	**232.0**	**49.8**	**+365.6%**
Non-controlling interests	(0.0)	(0.0)	-53.7%
Consolidated net income attributable to the shareholders of BST	**232.0**	**49.8**	**+365.6%**

* Non-audited results

At the end of June 2022, net interest income stood at € 368.9 million, 3.4% less, compared to € 381.8 million recorded in the same period of 2021, revealing the competitive environment, which put a downward pressure on credit spreads, and led to changes in the relative composition of the credit portfolio, resulting from the dynamics of mortgage credit.

Income generated by associated companies reached € 1.4 million, 26.0% more than the € 1.1 million recorded in the same period last year.

Net commissions totalled € 242.4 million, up by 17.8%, compared to € 205.8 million recorded a year earlier, mainly supported by the fees on means of payment, with a higher volume of transactions, given the progressive normalization of economic activity, of credit — due to the commercial dynamics of the new concession, in particular mortgage —, of funds, and of insurance, reflecting the diversification of customer resources and the strategic focus on the distribution of autonomous risk insurance, with emphasis on the offer of car insurance for individuals and companies, of financial advisory, and of accounts, with the offer of packaged accounts with a set of associated services.

Other operating income stood at € 5.6 million, 83.8% above the € 3.1 million in the same period last year.

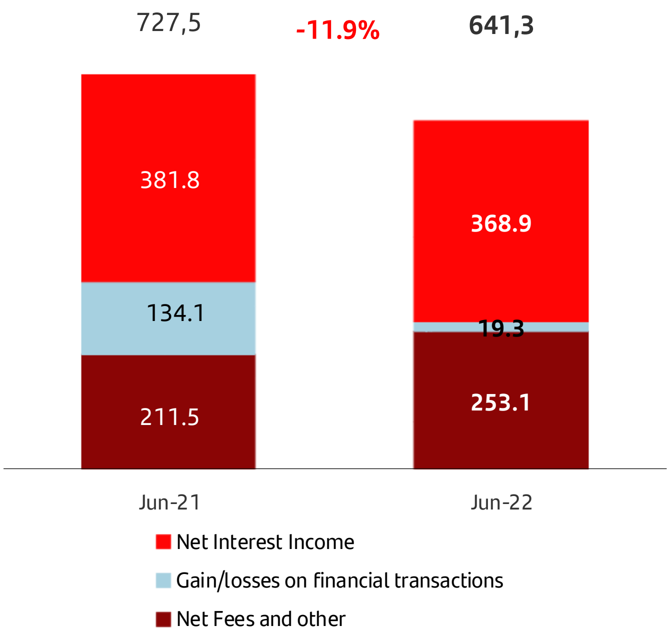
Commercial margin reached € 622.0 million, up by 4.8% from the € 593.4 million recorded in the same period of 2021, driven by the favourable evolution of net commissions.

Income from financial operations stood at € 19.3 million, down by 85.6% compared to € 134.1 million achieved a year earlier, which were influenced by the results generated in the management of the public debt securities portfolio.

Net income from banking activities totalled € 641.3 million, down by 11.9% from € 727.5 million recorded at the end of June 2021.

OPERATING INCOME

million euro



Operating costs stood at € 239.1 million, down by 14.8%, compared to the € 280.7 million recorded in the same period last year.

In 2021, the Bank carried out an operational and commercial transformation plan, adapted to a more competitive and digital context, with investments in organizational simplification, in the development of new IT platforms, and in the digitalization of processes, aimed at improving the quality of service provision, and customer satisfaction and loyalty, responding to changing behaviours in the use of banking services.

Staff expenses stood at € 129.3 million, down by 17.8% from the € 157.3 million in the same period last year, with the reduction of 1,080 employees.

Other administrative expenses amounted to € 86.9 million, 11.5% less, compared to € 98.1 million in the same period last year, reflecting cost control, namely by resizing the commercial network, which reduced 32 service stations over the last year.

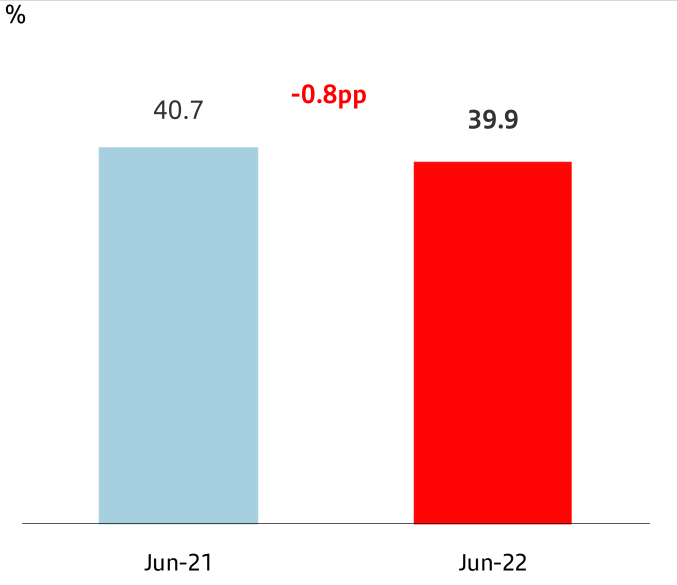
Depreciations stood at € 22.9 million, down by 9.2% compared to the € 25.2 million in the end of June 2021.

In the operating costs structure, staff costs account for 54% of the total, followed by overheads at 36%, and depreciations at 10%.

OPERATING COSTS (million euro)	Jun-22	Jun-21	Var.
Staff costs	(129.3)	(157.3)	-17.8%
General Administrative Costs	(86.9)	(98.1)	-11.5%
Depreciation in the year	(22.9)	(25.2)	-9.2%
Operating costs	**(239.1)**	**(280.7)**	**-14.8%**
Efficiency ratio	**39.9%**	**40.7%**	**-0.8 p.p.**

At the end of June 2022, the efficiency ratio reached 39.9%, 0.8 pp less, when compared to the 40.7% in the same period of the previous year, given the 11.9% reduction in net income from banking activities and less 14.8% in operating costs.

EFFICIENCY RATIO



The cost of contributions to the Resolution Fund and to the Deposit Guarantee Fund exceeded € 41 million, quite above the cost of € 37.7 million recorded in the same period last year.

Operating income stood at € 360.7 million, down by 11.8% from the € 409.2 million recorded in the same period last year.

Impairments, net provisions and other results entailed a cost of € 20.5 million, lower than the € 328.2 million from last year.

The net impairment of financial assets at amortized cost totalled € 1.2 million, compared to € -68.8 million from the cost recorded a year earlier, reflecting the improved economic environment.

Net provisions and other results included an extraordinary provision of € 235.0 million, in Q1 2021, for the Bank's transformation plan, through the optimization of the branch network and investments in processes, digitalisation, and technology.

The regulatory cost with the Banking Sector Contribution and the Solidarity Contribution, in the amount of € 35.9 million, was fully recorded in the first half of 2022.

Income before taxes and non-controlling interests totalled € 340,2 million, up by 319.9% compared to the € 81,0 million in the same period last year.

Taxes amounted to € 108,2 million, compared to the € 31,2 million recorded a year earlier.

At the end of the first half of 2022, Banco Santander Totta recorded a net profit of € 232,0 million, 365.6% more than the € 49,8 million recorded in the same period of 2021.

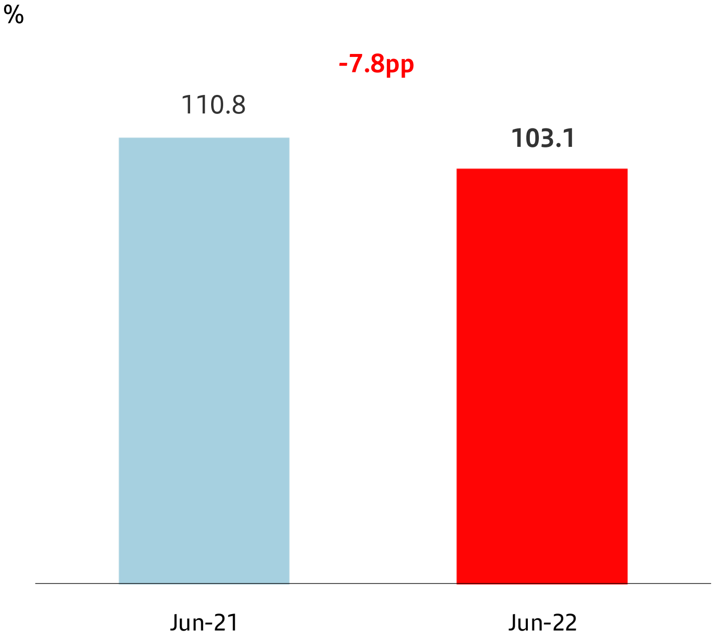
Balance Sheet and Business

At the end of June 2022, the business volume amounted to € 92.5 billion, up by 3.3%, compared to the amount of € 89.5 billion in the same period in 2021, resulting from the 0.5% increase in credit, and the 6.0% increase in customer resources.

BUSINESS VOLUME (million euro)	Jun-22	Jun-21	Var.
Business Volume	**92,496**	**89,520**	**+3.3%**
Loans and advances to customers (gross)	43,579	43,379	+0.5%
Customers' Resources	48,917	46,142	+6.0%

The loan-to-deposit ratio, measured by the ratio of credit to deposits, stood at 103.1% in December 2022, 7.7 pp less than in the same period last year, given the lower growth in credit than in deposits.

LOAN-TO-DEPOSIT RATIO (Transformation ratio)



At the end of the first half of 2022, the (gross) loan portfolio stood at € 43.6 billion, 0.5% more than in the same period of the previous year, reflecting the favourable evolution of the production of credit mortgage, materialized in a market share above 20%.

LOANS (million euro)	Jun-22	Jun-21	Var.
Loans and advances to customers (gross)	**43,579**	**43,379**	**+0.5%**
of which			
Loans to individuals	24,877	23,332	+6.6%
of which			
Mortgage	22,703	21,253	+6.8%
Consumer	1,793	1,668	+7.5%
Loans to corporates	15,950	16,408	-2.8%

Loans to Private individuals amounted to € 24.9 billion, up by 6.6% from the € 23.3 billion in the same period last year.

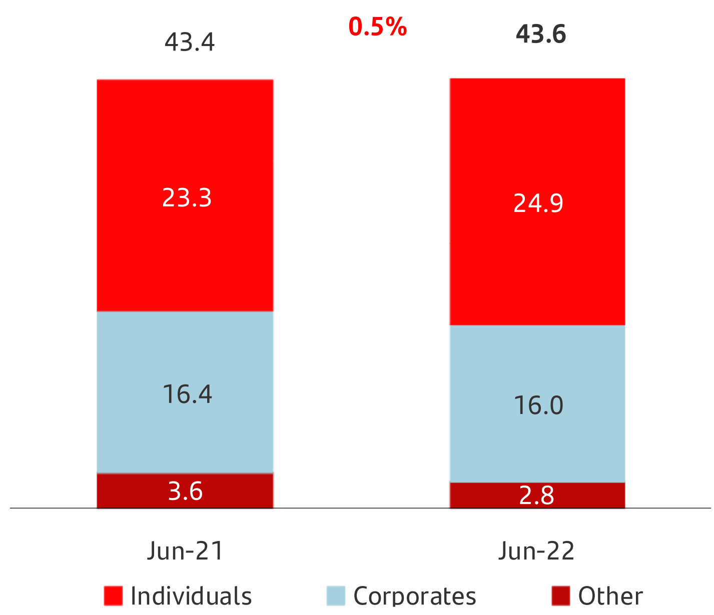
Housing loans, amounting to € 22.7 billion, grew by 6.8%, year-on-year. Notwithstanding the progressive rise in interest rates, as a result of the changes in the European Central Bank's monetary policy, mortgage loans maintained their production with very strong dynamics, with a market share of over 20%.

Consumer credit, in the amount of € 1.8 billion, showed a year-on-year growth of 7.5%, reflecting the higher expenditures, in the context of the reopening of economic activity.

Loans to companies stood at € 16.0 billion, down by 2.8% compared to the same period last year, in a context of high liquidity accumulated by companies in 2021. It is worth highlighting the support given by the Bank to companies in accessing European funds from the Recovery and Resilience Plan, and from the new Community Support Framework – PT 2030, as well as in accessing the best financing conditions, by providing a set of facilities with the European Investment Fund, the European Investment Bank, and with the Banco Português de Fomento / National Mutual Guarantee System.

GROSS LOANS

billion euro



The Non-Performing Exposure (NPE) ratio, calculated in accordance with the EBA definition (in relation to balance sheet exposures), stood at 2.2% in June 2022, recording a reduction of 0.3 pp compared to 2.5% year-on-year, with impairment coverage of 82.1% (79.2% in June 2021).

The cost of credit stood at 0.01%, 0.36 pp less than the 0.36% recorded in the same period last year.

CREDIT RISK RATIOS	Jun-22	Jun-21	Var.
Non-performing exposure Ratio	2.2%	2.5%	-0.3 p.p.
Non Performing Exposure coverage ratio	82.1%	79.2%	+2.9 p.p.
Cost of credit	0.01%	0.36%	-0.35 p.p.

At the end of June 2022, customer funds amounted to € 48.9 billion, a growth of 6.0% compared to the same period in 2021, with an 8.2% growth in deposits and a 4.4% drop in off-balance sheet resources.

RESOURCES (million euro)	Jun-22	Jun-21	Var.
Customers' resources	**48,917**	**46,142**	**+6.0%**
On-balance sheet resources	41,298	38,174	+8.2%
Deposits	41,298	38,174	+8.2%
Off-balance sheet resources	7,619	7,967	-4.4%
Investment funds marketed by the Bank	3,781	3,940	-4.0%
Insurance and other resources marketed by the Bank	3,838	4,027	-4.7%

Deposits amounted to € 41.3 billion, up by 8.2%, compared to the € 38.4 billion in the same period last year, constituting the main source of funding of the balance sheet, and reflecting the increase in the savings rate of households, as well as the trust and connection of customers with the Bank, in a context of interest rates at historic lows.

Customers' off-balance sheet resources stood at €7.6 billion, up by 4.4%, when compared with the €8.0 billion in June 2021.

Investment funds managed or marketed by the Bank, amounting to € 3.8 billion, dropped by 4.0%, compared to the € 3.9 billion in the same period last year. Insurance and other resources, in the amount of € 3.8 billion, decreased by 4.7%, compared to € 4.0 billion in the same period last year, in an environment characterized by inflationary pressure, changes in Central Banks' monetary policy, with higher interest rates, and high volatility of financial markets, impacting investor confidence and the performance of asset portfolios, and leading to a slowdown in the commercialization of financial products.

Solvency Ratios

At the end of June 2022, the Common Equity Tier 1 (CET 1) ratio — calculated according to CRR / CDR IV standards — stood at 16.4% (fully implemented), a decrease of 6.5 p.p. compared to the 22.9% in the same period last year, reflecting the Bank's ability to generate organic capital and the management of risk-weighted assets.

The Bank has a very high capitalization, above the minimum requirements set by the European Central Bank within the scope of the Supervisory Review and Evaluation Process (SREP), which, for 2022, are 8.3% for CET1, 10.1% for Tier 1, and 12.5% for Total (fully implemented).

The 25.4% MREL ratio (Minimum Requirement for Own Funds and Eligible Liabilities) was above the fully implemented requirement of 20.05%.

CAPITAL (million euro)	Jun-22	Jun-21	Var.
Common Equity Tier 1	**2,613**	**3,879**	**-32.6%**
Tier 1 Capital	2,613	3,879	-32.6%
Total Capital	3,000	4,292	-30.1%
Risk Weighted Assets (RWA)	**15,971**	**16,955**	**-5.8%**
CET 1 ratio	16.4%	22.9%	-6.5 p.p.
Tier 1 ratio	16.4%	22.9%	-6.5 p.p.
Total Capital Ratio	18.8%	25.3%	-6.5 p.p.

RELEVANT FACTS AFTER THE END OF THE PERIOD

There were no relevant facts between July 1, 2022, and the publication of this Report.

RISK MANAGEMENT

Risk Management and Monitoring Model

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

A. Risk Principles and Culture

Risk management and control principles are mandatory and applicable 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 taking risks whose impact is unknown or exceeds the Bank's risk appetite limits.
- Involvement of Senior Management ensuring consistent risk management and control through its conduct, actions, and communications. In addition, it shall promote a risk culture within the Bank, assessing its degree of implementation and checking that the risk profile remains within the levels defined within the Bank's risk appetite.
- Independence of risk management and control functions, according to our model with three lines of defence, defined in more detail in the Risk Governance 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 its risk appetite statement, risk profile assessment, scenario analysis, and the structure of risk reports, plus budgetary processes, form a holistic control structure for the entire Bank.

B. Risk Identification and Management

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

- Credit risk: is the risk of financial loss resulting from non-compliance or deterioration of the credit quality of a given customer or counterpart, to whom the Bank has granted credit directly or for whom it took on a contractual obligation;
- Market Risk: 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: is the risk the Bank incurs if it does not have enough liquid financial resources to meet its obligations on the due date, or if it can only obtain them at a high cost;
- Structural Risk: 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 Bank not having sufficient capital, either in quantity or quality, to fulfil its internal business goals, regulatory requirements or market expectations;
- Operational Risk: is defined as the risk of loss due to the inadequacy or failure of internal processes, personnel and systems or due to external events, including legal risk, compliance risk and risk of conduct defined in the Corporate Compliance and Conduct Framework.
- Financial Crime Risk: is the risk resulting from actions or the use of the Group's means, products and services in activities of a criminal or illegal nature. These activities include, but are not limited to, money laundering, financing of terrorism, violation of international sanctions programmes, corruption, bribery, and tax evasion;
- Model Risk: 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: is the 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: is the risk of loss or damage resulting from strategic decisions or from their poor implementation, which have an impact on the medium and long term positioning of the main stakeholders, or that result from an inability to adapt to external developments.

Additionally, the risk elements related to the environment and climate change — physical and transactional — are considered factors that may influence existing risks in the medium and long term.

These elements include, on the one hand, those derived from the physical effects of climate change, generated by occasional events, as well as chronic changes in the environment, and, on the other hand, those derived from the process of transition to a development model with lower emissions, including legislative, technological or behavioural changes of economic agents.

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.

C. Risk Governance

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 the risk culture implemented throughout the Bank — Risk Pro.

Defence lines

The Bank follows a three-pronged model to ensure effective risk management and control:

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

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

1st line of defence: Risk Management

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

The first line of defence is responsible for:

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

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

Second Line of Defence: Risk Control and Supervision

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

The second line of defence is responsible for:

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

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

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

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

Third Line of Defence: Risk Assurance

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

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

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: Chief Executive Officer (CEO).

- *Risk Control Committee (RCC)*

  This Committee is responsible for risk control, determining whether the risks arising from business lines are managed according to our risk appetite limits, 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 fora and / or Committees to manage and control the relevant risks.

D. Management Processes and Tools

The Bank has several key processes and tools to effectively control and manage risk, as described below.

Risk Appetite and Limit Structure

At the Bank, Risk Appetite (often referred to with the acronym RAS — Risk Appetite Statement), is defined as the amount and type of risks considered prudent to accept in the execution of our business strategy, so that the Bank can carry on with its normal business in case 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, which is then translated into management limits and policies by type of risk, portfolio and business segment, within the defined rules.

Business Model and Fundamentals of Risk Appetite

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

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

General Principles of Risk Appetite

Risk appetite, in all entities belonging to the Santander Group, including Banco Santander Totta, is governed by the following principles:

- **Is the responsibility of the Board and Top Management.** The Board of Directors is the ultimate responsible for defining the Bank's risk appetite, as well as for monitoring compliance therewith.
- **Enterprise wide risk, comparing and questioning the risk profile.** 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: Concentration per individual customer, concentration on non-investment grade counterparts, and 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 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 by the Bank to identify and assess the various types of risks to which it is exposed, involving all lines of defence, establishing management standards that comply with regulatory requirements, reflecting the best market practices, and reinforcing the Bank's risk culture.

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

- **Risk performance**, in order to know the residual risk for each type of risk, through a set of metrics and indicators calibrated according to international standards.
- **Evaluation of the monitoring environment,** which assesses the degree of implementation of the target operational model as part of our advanced risk management.
- **Prospective analysis,** based on stress metrics or on the identification and assessment of the main threats to the 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 impact the Bank's risk profile.

This "scenario analysis" is a very useful tool for risk management at all levels, and it helps to assess the Bank's resistance to stress scenarios, as well as to identify possible mitigation actions to be implemented, should the forecasted scenarios start to materialize. The objective is to reinforce income stability, as well as that of the capital and liquidity levels.

Risk Management in the 1st half of 2022

Introduction

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

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

Credit Risk — Main vectors of the business

The first half of 2022 is marked by the emergence of the war in Ukraine, as a consequence of the Russian invasion, and by the resulting first economic and social impacts.

The intensity of customer monitoring and follow-up was maintained, carried out firstly through the first line of defence (Commercial Area), which was then complemented by the second line of defence (Risk Area).

Periodic analyses continued to be carried out on the sectors of activity that require the most attention, especially those most impacted by the consequences of the war in Ukraine, based on:

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

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

For customers (private individuals and small companies), whose credit decision is mostly made through decision models considered "automatic," the inclusion of factors that help mitigate and anticipate potential impacts arising from the scenario of rising inflation and interest rates is being analysed.

The analyses and monitoring of behavioural metrics in these customers were strengthened in order to detect in advance the possible deterioration of their real 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 processing of credit risk, 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.
- In terms of Portfolioed Risks, the policy of proximity to customers was reinforced, in order to anticipate their credit needs, to review their credit facilities, and foretell possible problems in their repayment ability.
- The timely action and the loan quality level of the Bank's customers allowed non-performing loans and credit at risk to be kept under control, at acceptable levels.
- Continuous development of improvements in admission processes in order to respond to customer requests in a swifter, more effective way.
- Customer monitoring and review meetings were intensified, which is the Bank's usual practice, and which is included in its internal policies, for the early detection of loan-portfolio alerts. However, due to the current macroeconomic context, there was a need to increase their frequency, in order to assess the potential long-term or short-term difficulties of our customers.
- In Standardized (or Non-Portfolioed) Risks, aiming at the continuous improvement and efficiency of the admission process, and bearing in mind the objective of portfolio quality, the Bank updated its automatic decision models, namely the implementation of new models of admission scoring in the Private and Corporate segments, and of a new decision engine, plus the adjustment of behavioural scoring in the Business segment.
- 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.
- To this end, 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 its customers.
- In terms of Corporate Risk Management, the permanent focus on knowledge and monitoring of the loan portfolio was maintained, with a view to strictly control its risk, seeking to provide adequate and timely management information, in order to allow measures to be taken with a view to proper management of the Bank's Risks.
- Attention was also maintained in respect of 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 equity requirement, as well as their increasing inclusion in the 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 customer typology, throughout the entire risk-management process, between portfolioed customers (made-to-measure or personalised treatment), and non-portfolioed customers (standardised or under mass-treatment).

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 risk analyst, supplemented with decision-support tools based on in-house risk-assessment models.

Standardised Customers are those that do not have a risk analyst specifically assigned to monitor them. This group includes Individual 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 whenever required.

Risk measurement metrics and tools

1. Rating / Scoring Tools

Banco Santander uses its own in-house solvency classification or ratings for the various customer segments, in order 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 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, following a quantitative or automatic module, based on data/balance sheet ratios or macroeconomic variables, complemented by the analysis performed by the risk analyst assigned to monitor the given 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 both 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 meanwhile becomes available, as well as, at qualitative level, the experience arising from assessment of the existing credit relationship. This frequency increases in the case of customers regarding whom the internal risk alert and classification systems so require.

For the standardised-risk portfolios, both of Individual customers 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 can be complemented with a behavioural scoring model — an instrument that allows greater predictability of the risks assumed, and that are used for commercial initiatives.

2. Credit risk parameters

Evaluation of the customer and/or transaction by rating or scoring constitutes an assessment of its creditworthiness, which is quantified by the probability of default (PD).

In addition to the valuation performed on the customer, the quantitative risk analysis considers other aspects such as the term of the operation, the type of product, and the existing guarantees. What is thus taken into account is not just the probability 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 major credit-risk parameters, and which, taken together, enable the calculation of the expected and unexpected loss.

Their combination allows the calculation of the expected loss (or probable loss), which is considered as an additional business cost (reflecting the risk premium), and this cost is duly reflected in the price of transactions.

It also allows the calculation of the unexpected loss, which is the basis for the calculation of regulatory capital in keeping with the rules of the Basel capital accord (BIS II), which, given its nature, is not considered recurrent and must therefore be duly covered by own funds.

PD is defined as the likelihood that a counterpart may not be able to meet its obligations within one year, through statistical observation.

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 comparing the use of compromised credit facilities at the time of default, and in a normal condition, in order to identify the real consumption of the credit facilities at the time of default.

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.

1. Planning and establishing limits

Establishing risk limits is conceived as a dynamic process, which identifies the risk profiles that the Bank is willing to take through the assessment of the business proposals and the opinion of the Risks Area, through the definition of Strategic Business Plans

(PEC).

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

In terms of portfolioed risks, management is carried out at the level of the Economic Group, where the risk appetite for such risk is defined, and credit limits are established.

At the level of standardised risks, the planning and limit setting process is undertaken by means of joint preparation, involving the Risk, the Business, and the Strategic Commercial Planning (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.

2. *Studying the risk, deciding on the transaction, and monitoring and control*

Studying the risk involved is a prerequisite for authorising any credit operation at Santander Portugal. This study consists of analysing the 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 over the rating 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 Risk Area. This function is also specialised according to customer segmentation, and is fundamentally based on a continuous process of observation, allowing advance detection of possible occurrences in the evolution of risk, of transactions, and of the customer, for the purpose of implementing measures, in advance, to mitigate them.

3. *Irregularities and Recoveries Management*

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

- To ensure the collection or settlement of amounts in an irregular situation, favouring negotiated solutions for the customer's credit situation to return to normal. If a negotiated solution is not possible, recoveries will make an effort to recover the loans through the courts.
- To 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, Corporate 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.

There is also a "*Collections and Recoveries*" area, which allows the Bank to have a massive, pre-emptive management capacity of non-listed customers, through strategies, processes, and a commercial offer through an omnichannel environment (different communication channels, depending on the type of customer), which make up a quite sophisticated approach, helping anticipate and improve the speed of response to treasury difficulties of those customers who show such difficulties.

Counterparty risk

Counterparty risk, latent in contracts entered into in financial markets — organised or over-the counter (OTC) markets — consists on the possibility of default by counterparts over 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 over 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 over the concentration of risks by certain groups of customers/counterparts.

The risk in derivative positions, called Credit Risk Equivalent (CRE), is calculated as the combination 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 until its maturity, depending on the volatilities of the underlying market factors and on the contracted flow structure.

During the 1st half of 2022, the current exposure of operations over interest rate (Euribor) and exchange rate indexes recorded a slight increase, reflecting the volume of operations and the evolution of medium and long-term market rates. Regarding exposure to Financial Groups, the number of operations to hedge structural interest rate risk increased, with LCH Clearnet as the clearing house. The value of exposure of derivatives with Financial Groups increased due to new Spread Lock operations.

Trading, structural and liquidity market risk

This chapter focuses on risk management and control activities related to market risk, distinguishing between 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 a body independent from management.

Trading Market Risk Control

Activities subject to market risk

Trading activity risks 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.

Methodologies

The methodology applied in 2022, within the scope of Bank Santander Portugal, for trading activity is the Value at Risk (VaR). Based on the historic simulation methodology, with a 99% confidence level and a one-day time horizon, statistical adjustments were applied to allow the swift, effective inclusion of more recent events that condition the risk levels assumed.

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

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

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

Calibration and contrast measures (Backtesting)

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 reviewed.

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

Limits

Quantitative limits are used for the trading portfolios, which are classified into two groups, which are 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.

Quantitative analysis of the VaR during the year

The VaR remained at very low levels, standing at 5,900 euros on June 30, 2022.

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.

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

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

Methodologies

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).

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 calculated on the balance sheet positions, which act as indicators of structural and short-term liquidity requirements, as well as intraday liquidity indicators in normal and stress situations, and early warning indicators.

The Liquidity Coverage Ratio (LCR), calculated in accordance with

ECB rules, stood at 145.97% on June 30, 2022.

Limits

Control over balance-sheet risks is ensured by applying a structure of quantitative limits aimed at keeping the various exposures within authorised levels. The limits focus on the following indicators:

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

Operational Risk

Definition and objectives

Banco Santander Portugal defines Operational Risk as the risk of loss resulting from deficiencies or failures in internal processes, human resources or internal systems, or resulting from external events. Operational Risk is inherent to all products, activities, processes and systems, and is generated in all business and support areas. Thus, all employees are responsible for managing the Operational Risk inherent to their activities, processes and systems in their regular positions.

The main objective in the matter of operational risk control and management is the identification, evaluation, measurement, control, mitigation, and reporting of that risk, while the identification and mitigation of the sources of risk constitute a priority for 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 operational risk, the Group opted for the Standard Method laid down in the BIS II rules.

Management model

The organisational model of Banco Santander Totta, in terms of management and control of Operational Risk, follows 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 review of relevant aspects in the management and mitigation of Operational Risk.

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

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

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

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

The various stages of the management and control model help with the following:

- Identification of the operational risk involved 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.
- Preparing and monitoring the operational risk budget.
- Promoting the involvement and integration of all employees in the operational risk culture by conducting training in the matter of operational risk.
- Measuring and assessing operational risk in an objective, continuous, and consistent manner, based on regulatory and other requirements (Basel, Bank of Portugal, among others).
- Continuously and systematically monitoring the sources of exposure to risk, and implementing the respective control mechanisms to minimize possible losses.
- Establishing mitigation measures and actions that reduce and mitigate operational risk.
- Preparing periodic operational risk presentations and reports, and disclosing 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 on 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 this database.
- Database of external events that provides quantitative and qualitative information and simplifies a more detailed and structured analysis of relevant events that may occur in the sector.
- Scenario analysis, in which various business areas, plus 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 required, additional controls and/or mitigation measures are identified to minimise their impact.

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

- Risk Control Self-Assessment (RCSA), the main objective of which is to identify and assess operational risks in relation to existing controls, and identify possible mitigation measures.
- Operational Risk Indicators (ORIs) are parameters of a different nature (metrics, indices, and measurements), which provide useful information on risk exposure. These indicators, and the 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 the 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 Santander Portugal's risk culture enable a more efficient evaluation and monitoring of operational risk, and simplify decision-making by the various 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 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 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.

The purpose of Compliance Policies is risk management, namely by 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 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;
- Global Compliance Policy;
- Prevention of Money Laundering and the Financing of Terrorism;
- Codes of conduct (with three dimensions: general; in the relationship with customers; and relating to the stock

market);

- Conduct Policy in purchase management;
- Marketing and Product Follow-up Policies and Procedures;
- Policy for the Prevention, Communication, and Remediation of Conflicts of Interest;
- General Policy on the Protection and Processing of Personal Data;
- Employee training policy, which includes mandatory regulatory, as well as additional, training;
- Corruption Protection and Corporate Defence Policies (Santander has a Corporate Corruption Prevention Policy, including, among others: i) A whistleblowing channel (Open Channel), through which any employee can confidentially and anonymously report possible breaches of the Codes of Conduct and/or of the Corruption Prevention Policy, 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

Reputational Risk is understood as 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.

In this context, the identification, management, and control of Reputational Risk is one of the Bank's main concerns.

Notwithstanding its own features, which allow it to be viewed autonomously, Reputational Risk maintains a very strong connection with several other risks, especially with Compliance Risk, which is why the contingencies in which it materializes depend, to a large extent, on occurrences in the management of those other risks.

Ultimately, Reputational Risk is situated at the end of the chain of all the risks involved in the various stages and aspects of the activity carried out by the Bank, translating the general public's perception of the institution, in equally significant but differentiated factors such as solidity, rigor, transparency, truth, protection of interests and entrusted assets, efficiency, loyalty, and acting correctly.

Reputational risk policies

- Reputational Risk Policy;
- Sensitive Sectors Policy (regulates the financing of certain sectors considered as sensitive because of their possible social, political or cultural repercussions, establishing the guidelines to assess and decide on the degree of involvement with these sectors, in order to be able to identify and prevent the associated reputation risk);
- Defence Policy (sets 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).
- Contributions for Social Purposes Policy (defines the criteria to be followed in the allocation of donations for social purposes).

ADDITIONAL INFORMATION

Prevention of Money Laundering

Bank Santander Portugal's compliance function in terms of money laundering and financing of terrorism (AML/CFT) is embodied in the AML/CFT area, integrated in the Compliance and Conduct area, which materializes the compliance function and that works in an independent, permanent way, and in the Analysis and Resolution Committee, which is an internal control body for the Prevention of Money Laundering and the Financing of Terrorism.

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

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

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

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

- Participating in the definition and issuance of a prior opinion on 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.

The Analysis and Resolution Committee is responsible, namely for:

- The approval of policies and general objectives of the system for the prevention of Money Laundering and Financing of Terrorism, and of the regulations applicable to the various areas and bodies;
- The follow-up of the activities of the Anti-Money Laundering Department;
- The determination of any specific procedures that must be adopted on the matter by any area;
- The approval of the general guidelines of the training programmes, and following-up on their execution;
- The evaluation of operations submitted to it and the determination of measures that it deems appropriate, including communicating to the judicial authorities any operations that have not been submitted by the RCN;
- Within the field of its responsibilities, to follow-up on internal and external audit recommendations, as well as, where appropriate, on specific determinations and recommendations from supervisory authorities;
- Assessing any other matters submitted to it by the Anti-Money Laundering Department;

In 2022, the following reports were made to Supervisors:

i) An 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	Nº of shares	%
Santander Totta, SGPS, S.A.	1,376,219,267	98.88%
Taxagest - SGPS, S.A.	14,593,315	1.05%

Treasury shares

In keeping with the resolution passed by the Annual General Meeting held on May 4, 2022, Banco Santander Totta, 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.

On December 31, 2021, Banco Santander Totta, S. A., held 423,060 treasury shares corresponding to 0.034% of its Share Capital. During the first half of 2022, Banco Santander Totta S. A. purchased 2,683 treasury shares, corresponding to 0.0002% of its Share Capital, closing the first half of 2022 with a total of 425,743 treasury shares.

On May 25, 2022, the Bank carried out a capital increase, through the issuance of 135,056,390 new shares.

TRANSACTION WITH OWN SHARES - 1S2022

Banco Santander Totta, S.A.	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31/12/2021	423,060	5.22	2,208,122	0.034%
Purchases	2,683	4.66	12,491	0.0002%
Disposals	0	0.00	0	0.000%
30/06/2022	425,743	5.22	2,220,613	0.031%

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.

Results from Associates

"Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the 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.

Commercial Revenue

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

Gain/losses on financial assets

Sum of "Gains or losses on derecognition of financial assets and liabilities not accounted 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 accounted at fair value through profit or loss, net," plus "Gains or losses on hedge accounting, net," plus "Exchange rate gains or losses, net," plus "Gains or losses on derecognition of non-financial assets in subsidiaries, joint ventures and associates, net," plus "Gains or losses on derecognition of investments in subsidiaries, joint ventures and associates", 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".

Operating Costs

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

Net Operating Income

"Net income from banking activities" minus "Operating costs" minus "Cash contributions to resolution funds and deposit guarantee schemes", as shown in the Statement of Profit or Loss.

Impairment, net provisions and other results

Sum of "Provisions or reversal of provisions" plus "Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss" plus "Impairment or reversal of impairment of 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", as presented in the Statement of Profit or Loss.

Income Before Taxes and Non-controlling Interests

"Net operating income" minus "Impairment, net provisions and other results".

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

"Income before taxes and non-controlling interests" less "Taxes", 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 BST Shareholders

“Income after taxes and before non-controlling interests” less "Non-controlling interests", 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 "Customer’s resources".

Loans & advances to customers (gross)

Corresponds to the sum of the following statement of financial position items: “Financial assets at fair value through other comprehensive income – Loans and advances" plus "Financial assets at amortized cost – debt securities" plus "Financial assets at amortized cost – Loans and advances" excluding “Loans and advances – Customers – Other balances receivable”, “Loans and advances – Credit institutions”, as set out in note 9 of the chapter “Notes to the Consolidated Financial Statements”. Amounts before impairments.

Net loans and advances to customers

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

Loans to individuals (mortgage and consumer) and companies

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

Non-Performing Exposure Ratio

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

Cost of Credit

Ratio between “Impairment or reversal of impairment of 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 statement of financial position).

Non-performing Exposure Coverage Ratio

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

Deposits

Corresponds to the item “Deposits- Customers”, as set out in note 16 of the chapter “Notes to the Consolidated Financial Statements”.

Off-balance sheet resources

Sum of “Investment funds managed or sold by the Bank” and “Insurance and other resources”, whose 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 “Consolidated Net Income Attributable to BST Shareholders” and “Total equity” at the beginning of the period, as presented in the statement of financial position.

Return on Assets (RoA)

Ratio between “Consolidated Net Income Attributable to BST Shareholders” and ”Total Assets”.

Declaration to which Article 29(1)(c) of the Securities Code refers

Article 29(1)(c) of the Securities Code determines that each Company officer should issue a declaration, the content of which is defined therein.

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

"I hereby declare, under the terms of and for the purposes set out in Article 29(1)(c) of the Securities Code that, to the best of my knowledge, the condensed financial statements for the 1st six months of year 2022 were prepared in accordance with the applicable accounting standards, providing a true and fair view of all assets and liabilities, financial position, and results of Banco Santander Totta, S. A., and of the companies included in the consolidation perimeter, and that the interim management report faithfully sets out the information required under Article 29(2) of the Securities Code."

Board of Directors

José Carlos Brito Sítima Chair	Pedro Aires Coruche Castro e Almeida Deputy-Chair
Amílcar da Silva Lourenço Member	Ana Isabel Abranches Pereira de Carvalho Morais Member
Cristina Alvarez Alvarez Member	Daniel Abel Monteiro Palhares Traça Member
João Pedro Cabral Tavares Member	Isabel Cristina da Silva Guerreiro Member
Manuel António Amaral Franco Preto Member	Manuel Maria de Olazabal y Albuquerque Member
Maria Manuela Machado Costa Farelo Ataíde Marques Member	Miguel Belo de Carvalho Member
Remedios Ruiz Macia Member	Ricardo Lopes da Costa Jorge Member

CONSOLIDATED FINANCIAL STATEMENTS

The accounts for the first half of 2022 were not subject to limited review neither to opinion by the Bank's auditors.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF JUNE 30, 2022 AND DECEMBER 31, 2021

(Amounts expressed in thousands of Euros - tEuros)

	Notes	30-06-2022	31-12-2021
ASSETS			
Cash, cash balances at central banks and other demand deposits	5	**10,793,737**	**8,711,389**
Financial assets held for trading	6	**496,910**	**587,772**
Non-trading financial assets mandatorily at fair value through profit or loss	7	**82,742**	**99,167**
Equity instruments		82,742	99,167
Financial assets at fair value through other comprehensive income	8	**4,767,743**	**5,339,913**
Equity instruments		148,830	72,520
Debt securities		2,090,229	2,288,091
Loans and advances		2,528,684	2,979,302
Financial assets at amortised cost	9	**40,795,053**	**40,373,867**
Debt securities		3,415,786	3,458,792
Loans and advances		37,379,267	36,915,075
Derivatives – Hedge accounting	10	**303,896**	**7,447**
Investments in subsidiaries, joint ventures and associates	11	**35,783**	**38,161**
Tangible assets	12	**487,154**	**497,500**
Investment property		210,020	213,731
Property, plant and equipment		277,134	283,769
Intangible assets	12	**32,779**	**33,648**
Tax assets	13	**287,149**	**254,508**
Other assets	14	**166,568**	**148,336**
Non-current assets and disposal groups classified as held for sale	15	**21,658**	**74,911**
TOTAL ASSETS		**58,271,172**	**56,166,619**
LIABILITIES			
Financial liabilities held for trading	6	**494,698**	**605,331**
Financial liabilities measured at amortised cost	16	**53,176,030**	**49,988,573**
Deposits		49,196,923	46,762,551
Debt securities issued		3,708,474	3,006,747
Other financial liabilities		270,633	219,275
Derivatives – Hedge accounting	10	**136,515**	**294,108**
Provisions	17	**180,955**	**201,810**
Commitments and guarantees given		48,264	51,178
Other provisions		132,691	150,632
Tax liabilities	13	**382,586**	**344,847**
Share capital repayable on demand	18	**46,593**	**54,805**
Other liabilities	19	**543,385**	**426,256**
TOTAL LIABILITIES		**54,960,762**	**51,915,730**
EQUITY			
Capital	20	**1,391,780**	**1,256,723**
Share premium	20	**193,390**	**193,390**
Equity instruments issued other than capital	20	**400,000**	**135,000**
Accumulated other comprehensive income	20	**(205,550)**	**(139,544)**
Items that will not be reclassified to profit or loss		(442,553)	(609,005)
Items that may be reclassified to profit or loss		237,003	469,461
Retained earnings	20	**402,736**	**1,608,681**
Other reserves	20	**939,527**	**969,610**
Treasury shares	20	**(44,103)**	**(44,091)**
Profit or loss attributable to owners of the parent	21	**232,004**	**270,494**
Minority interests [Non-controlling interests]	22	**626**	**626**
TOTAL EQUITY		**3,310,410**	**4,250,889**
TOTAL LIABILITIES AND EQUITY		**58,271,172**	**56,166,619**

The accompanying notes form an integral part of the statement of financial position for the six-month period ended June 30, 2022.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2022 AND 2021

(Amounts expressed in thousands of Euros - tEuros)

	Notes	30-06-2022	30-06-2021
Interest income	24	544,856	551,461
Interest expenses	24	(175,979)	(169,616)
NET INTEREST INCOME		**368,877**	**381,845**
Dividend income	25	3,656	1,533
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for under the equity method	26	1,382	1,097
Fee and commission income	27	292,881	256,476
Fee and commission expenses	27	(50,474)	(50,633)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	28	753	129,180
Gains or losses on financial assets and liabilities held for trading, net	28	6,269	(2,623)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	28	3,834	1,313
Gains or losses on hedge accounting, net	28	-	-
Exchange differences, net	28	8,873	6,296
Gains or losses on derecognition of non-financial assets, net	29	(410)	(25)
Other operating income	30	9,280	9,239
Other operating expenses	30	(3,648)	(6,175)
TOTAL OPERATING INCOME, NET		**641,273**	**727,523**
Administrative expenses	31	**(216,206)**	**(255,447)**
Staff expenses		(129,297)	(157,299)
Other administrative expenses		(86,909)	(98,148)
Cash contributions to resolution funds and deposit guarantee schemes	32	**(41,438)**	**(37,679)**
Depreciation	12	**(22,893)**	**(25,205)**
Provisions or reversal of provisions	17	**(749)**	**(238,749)**
Commitments and guarantees given		2,915	(431)
Other provisions		(3,664)	(238,318)
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss	17	**1,159**	**(68,775)**
Financial assets at fair value through other comprehensive income		24	1
Financial assets at amortised cost		1,135	(68,776)
Impairment or reversal of impairment of non-financial assets	17	**(1,665)**	**(1,384)**
Other profit or loss, net	1.3 l)	**(35,884)**	**(29,565)**
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	33	**16,624**	**10,303**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		340,221	81,022
Tax expense or income related to profit or loss from continuing operations	13	**(108,217)**	**(31,190)**
PROFIT OR LOSS FOR THE PERIOD		**232,004**	**49,832**
Attributable to minority interests [non-controlling interests]		**-**	**-**
Attributable to owners of the parent	22	**232,004**	**49,832**

The accompanying notes form an integral part of the consolidated statement of profit and loss for the six-month period ended June 30, 2022.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2022 AND 2021

(Amounts expressed in thousands of Euros - tEuros)

	Notes	30-06-2022 Attributable to the Bank's shareholders	30-06-2022 Attributable to non-controlling interests	30-06-2021 Attributable to the Bank's shareholders	30-06-2021 Attributable to non-controlling interests
Profit or loss for the period		**232,004**	-	**49,832**	-
Other comprehensive income	20	**(66,006)**	**-**	**(112,383)**	**-**
Items that will not be reclassified to profit or loss					
Actuarial gains or losses on defined benefit pension plans	20				
. Gross amount		112,768	-	30,459	-
. Tax effect		-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income					
. Gross amount	8	76,191	-	(133)	-
. Tax effect		(22,223)	-	-	-
Items that may be reclassified to profit or loss					
Cash flow hedges	20				
. Gross amount		(119,934)	-	52,288	-
. Tax effect		37,180	-	(16,210)	-
Debt instruments at fair value though other comprehensive income					
Valuation gains or (-) losses taken to equity					
. Gross amount	8	(69,607)	-	(214,165)	-
. Tax effect		21,527	-	66,340	-
Loans and advances at fair value through other comprehensive income					
Valuation gains or (-) losses taken to equity					
. Gross amount	8	(147,798)	-	(45,616)	-
. Tax effect		45,817	-	14,141	-
Share of other recognised income and expense of Investments in subsidiaries, joint ventures and associates					
. Gross amount		100	-	253	-
. Tax effect		(27)	-	260	-
Total comprehensive income for the period		**165,998**	**-**	**(62,551)**	**-**

The accompanying notes form an integral part of the consolidated statement of other comprehensive income for the six-month period ended June 30, 2022.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2022 AND FINANCIAL YEAR 2021

(Amounts expressed in thousands of Euros - tEuros)

	Capital	Share premium	Equity instruments issued other than capital	Accumulated other comprehensive income		Retained earnings	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Minority interests	Total shareholders' equity
				Fair value	Taxes						
Balances as at December 31, 2020	**1,256,723**	**193,390**	**135,000**	**79,919**	**(87,279)**	**951,973**	**1,367,315**	**(44,061)**	**257,749**	**627**	**4,111,356**
Appropriation of net income											
. Transfer to reserves (Note 20)	-	-	-	-	-	656,708	(398,959)	-	(257,749)	-	-
Acquisition of treasury shares (Note 20)	-	-	-	-	-	-	-	(30)	-	-	(30)
Sale of equity instruments at fair value											
through other comprehensive income	-	-	-	(1,499)	235		1,264	-	-	-	-
Other	-	-	-	-	-	-	(10)	-	-	(1)	(11)
Consolidated comprehensive income for 2021	-	-	-	(212,751)	81,831	-	-	-	270,494	-	139,574
Balances as at December 31, 2021	**1,256,723**	**193,390**	**135,000**	**(134,331)**	**(5,213)**	**1,608,681**	**969,610**	**(44,091)**	**270,494**	**626**	**4,250,889**
Appropriation of net income											
. Transfer to reserves (Note 20)	-	-	-	-	-	300,574	(30,080)	-	(270,494)	-	-
. Distribution of dividends	-	-	-	-	-	(1,506,519)	-	-	-	-	(1,506,519)
Capital increase with re-use of ancillary capital contributions	135,057	-	(135,000)	-	-	-	-	-	-	-	57
Issue of "Additional Tier 1 Instruments" (Note 20)	-		400,000	-	-	-	-	-	-	-	400,000
Acquisition of treasury shares (Note 20)	-	-	-	-	-	-	-	(12)	-	-	(12)
Other	-	-	-	-	-	-	(3)	-	-		(3)
Consolidated comprehensive income for the first half of 2022	-	-	-	(148,280)	82,274	-	-	-	232,004	-	165,998
Balances as at June 30, 2022	**1,391,780**	**193,390**	**400,000**	**(282,611)**	**77,061**	**402,736**	**939,527**	**(44,103)**	**232,004**	**626**	**3,310,410**

The accompanying notes form an integral part of the consolidated statement of changes in shareholders' equity for the six-month period ended June 30, 2022.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2022 AND 2021

(Amounts expressed in thousands of Euros - tEuros)

	Notes	30-06-2022	30-06-2021
CASH FLOW FROM OPERATING ACTIVITIES:			
Interest and commissions received		812,661	781,166
Payments of interest and commissions		(257,695)	(252,356)
Payments to staff and suppliers		(240,904)	(302,781)
Pension Fund contributions	35	-	-
Foreign exchange and other operating results		(26,933)	(28,318)
Recovery of uncollectable loans	17	3,403	2,768
Operating results before changes in operating assets and liabilities		290,532	200,479
(Increase)/Decrease in operating assets:			
Loans and advances to credit institutions		5,546	5,932
Financial assets held for trading		90,862	167,290
Credit granted to customers and other balances receivable at amortised cost		(424,220)	(535,869)
Assets and liabilities at fair value through profit or loss		(81,239)	27,285
Non-current assets and disposal groups held for sale		132,653	(9,667)
Investment property		3,711	1,011
Other assets		(87,832)	9,023
		(360,519)	(334,995)
Increase/(Decrease) in operating liabilities:			
Resources from financial institutions		152,005	(580,110)
Resources from customers and other debts		2,340,236	1,911,981
Financial liabilities held for trading		(110,633)	(170,416)
Other liabilities		229,589	115,837
		2,611,197	1,277,292
Net cash flow from operating activities before income taxes		2,541,210	1,142,776
Income tax paid		(56,703)	(31,598)
Net cash flow from operating activities		2,484,507	1,111,178
CASH FLOW FROM INVESTING ACTIVITIES:			
Dividends received	25	3,656	1,533
Purchase of financial assets at fair value through other comprehensive income		(229)	7,255
Sale of financial assets at fair value through other comprehensive income		1,874	2,010,767
Non-trading financial assets mandatorily at fair value through profit or loss	7	16,425	2,837
Income from financial assets at fair value through other comprehensive income		23,240	27,800
Purchase of tangible and intangible assets	12	(15,934)	(17,085)
Sale of tangible assets		134	284
Net cash flow from investing activities		29,166	2,033,391
CASH FLOW FROM FINANCING ACTIVITIES:			
Capital increase	20	135,057	-
Dividends paid	20	(1,506,519)	-
Issuance of "Additional Tier 1 Instruments"	20	400,000	-
Reimbursement of ancillary capital contributions	20	(135,000)	-
Issuance of securities and subordinated debt	16	695,654	-
Redemption of securities and subordinated debt		(17,724)	(40,008)
Interest paid on bonds issued and other		(2,793)	(10,957)
Net cash flow from financing activities		(431,325)	(50,965)
Net Increase/(Decrease) in cash and cash equivalents		2,082,348	3,093,604
Cash and cash equivalents at the beginning of the period	5	8,711,389	4,535,815
Cash and cash equivalents at the end of the period	5	10,793,737	7,631,016

The accompanying notes form an integral part of the consolidated statement of cash flows for the six-month period ended June 30, 2022.

INTRODUCTION

Banco Santander Totta, S.A. (hereinafter also "Bank" or "Group") was incorporated in 1864 and was formerly known as Companhia Geral de Crédito Predial Português, S.A. (CPP), and it has its registered office in Portugal at Rua do Ouro, 88, Lisbon. The Bank was nationalised in 1975 and transformed into a state-owned public limited company in 1990. On December 2, 1992, the Bank's capital was privatized by means of a public share offering at a special session of the Lisbon Stock Exchange.

As from December 2000, the Bank joined the Santander Group, following the acquisition of Banco Totta & Açores, S.A. (totta) by the latter. The main balances and transactions maintained with companies of the Santander Group during the six-month period ended June 30, 2022 and financial year 2021 are detailed in Note 37. The Bank is included in the Banco Santander, S.A. (ultimate parent) consolidation.

On December 16, 2004, the Totta demerger/merger operation was registered, under which its financial holdings in Foggia, SGPS, S.A. and in Totta Seguros – Companhia de Seguros de Vida, S.A., were spun off, the remainder of its business, together with Banco Santander Portugal, S.A. (BSP), having been incorporated by merger into CPP, which changed its name to the present one.

On May 3, 2010, the Bank carried out the merger by incorporation of Banco Santander de Negócios Portugal, S.A. (BSN). The transaction was recorded for accounting purposes with reference to January 1, 2010.

On April 1, 2011, the Bank carried out the merger by incorporation of Totta Crédito Especializado – Instituição Financeira de Crédito, S.A. (Totta IFIC).

On December 20, 2015, following the resolution 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 of this entity.

Following the decision of the Single Resolution Board with regard to the application of a resolution 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 entirety 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 entire 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.

The Bank is engaged in obtaining third-party financial resources, in the form of deposits and otherwise, which it invests, together with its own funds, in every sector of the economy, mainly in the form of extending credit or in securities, while also providing other banking services in the country and abroad.

The Bank has a nationwide network of 351 branches (358 branches as at December 31, 2021). It also has several branches and representation offices abroad, and holdings in subsidiaries and associated companies.

The Bank's financial statements for the first half of 2022 were approved at the Board of Directors meeting on September 27, 2022.

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Bases of Presentation of the Accounts

The Group'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, and effective as from January 1, 2020, 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 Bank in preparing the consolidated financial statements as at June 30, 2022, are consistent with those used in preparing the consolidated financial statements with reference to December 31, 2021, with the specific application of IAS 34 (interim financial reporting).

As from financial year 2020, the Bank presents its financial statements according to the Regulation guidelines (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 Bank follows the historical cost convention, modified, when applicable, by measuring the 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; and - Investment property.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, also implying 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.

The Bank's financial statements have been prepared on a going concern basis, as the Board of Directors considers that the Bank 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.

Within the scope of the application of the IFRS as approved by the European Union, the Bank adopted the following standards, amendments and interpretations with reference to January 1, 2022:

- **IFRS 16** (amendment), 'Leases - COVID-19-related rent concessions after June 30, 2021'. This amendment prolongs the application date of the amendment to IFRS 16 – 'Leases - COVID-19-related rent concessions' from June 30, 2021 to June 30, 2022, allowing the recording of rent concessions in the scope of COVID-19 as variable lease payments and not as lease modifications. The conditions for the application of the practical expedient are maintained, with the practical expedient extension only being available for application by lessees that applied the practical expedient previously.

- **IAS 16** (amendment) 'Proceeds before intended use'. Change in the accounting treatment given to consideration obtained on the sale of products that result from production in testing phase of property, plant and equipment, prohibiting their deduction from the purchase cost of the assets. This change is applied retrospectively, without restatement of the comparatives.

- **IAS 37** (amendment) 'Onerous contracts – costs of fulfilling a contract'. This amendment specifies that in the assessment of whether a contract is onerous, only expenses directly related to the performance of the contract can be considered, such as incremental costs related to direct labour and materials and the allocation of other directly related expenses such as the allocation of depreciation expenses of property, plant and equipment used to perform the contract. This amendment shall be applied to contracts that, at the beginning of the first annual reporting period to which the change is applied, also include unfulfilled contractual obligations, with no restatement of the comparative.

- **IFRS 3** (amendment) 'References to the conceptual framework'. 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 and prohibits the recognition of contingent assets of the acquired in a business combination. This amendment is applied prospectively.

- Improvements to the 2018-2020 standards. This improvement cycle amends the following standards: **IFRS 1, IFRS 9, IFRS 16 and IAS 41.**

Standards (new and amendments) published, which application is mandatory for annual periods starting on or after January 1, 2023, and which the European Union has already endorsed:

- **IAS 1 (amendment**), 'Disclosure of accounting policies'. Amendment to the disclosure requirements of accounting policies based on the definition of "material" to the detriment of "significant". Information relating to an accounting policy is considered material if, in the absence of it, users of the financial statements do not have the ability to understand other financial information included in those financial statements. Immaterial information relating to accounting policies does not need to be disclosed. IFRS Practice Statement 2 has also been amended to clarify how the concept of "material" applies to the disclosure of accounting policies.

- **IAS 8 (amendment)**, 'Disclosure of accounting estimates'. Introduction of accounting estimation and how it differs from accounting policy changes. The accounting estimates are now defined as monetary values subject to uncertainty in their measurement, used to achieve the objective(s) of an accounting policy.

- **IFRS 17** (new), 'Insurance contracts'. 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 at the transition date.

- **IFRS 17** (amendment), 'Insurance'. 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 balance sheet; vii) recognition and measurement of the statement of profit or loss; and viii) disclosures. This amendment also includes clarifications, which aim to simplify some of the requirements of this standard and speed up its implementation.

Standards (new and amendments) published, which application is mandatory for annual periods starting on or after January 1, 2023, and which the European Union has not yet endorsed:

- **IAS 1** (amendment), 'Presentation of financial statements - classification of liabilities'. This amendment seeks to clarify the classification of liabilities as current or non-current balances in the light of the rights that an entity must 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 12 (amendment)**, 'Deferred tax related to assets and liabilities associated with a single transaction'. IAS 12 now requires entities to recognise deferred tax on certain specific transactions, when their initial recognition gives rise to equal amounts of taxable timing differences and deductible timing differences. The transactions subject to this treatment refer to the recording of: i) right-of-use assets and lease liabilities; and (ii) provisions for dismantling, restoration or similar liabilities, and the corresponding amounts recognised as part of the cost of the related asset, when on the date of initial recognition these are not considered for tax purposes. These taxable differences are no longer subject to the exemption from initial recognition of deferred taxes. The cumulative effect of the initial application of this change shall be recognised as an adjustment to the opening balance of the retained earnings (or another component of equity, as appropriate) of the oldest comparative period presented.

- **IFRS 17 (amendment)**, 'Initial application of IFRS 17 and IFRS 9 - Comparative Information'. This amendment applies only to insurers in the transition to IFRS 17 and allows the adoption of an overlay in the classification of a financial asset for which the entity does not apply the amendment retrospectively under IFRS 9. This amendment aims to avoid temporary accounting mismatching between financial assets and insurance contract liabilities in the comparative information presented on the initial application of IFRS 17, providing for: (i) the application of financial asset by financial asset basis; (ii) the presentation of comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but without requiring an entity to apply the IFRS 9 impairment requirements; and (iii) the obligation to use reasonable and supported information available on the transition date to determine how the entity expects this financial asset to be classified in accordance with IFRS 9.

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

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

The consolidated financial statements now presented reflect the assets, liabilities, income, expenses, 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 those over through the power it has over relevant activities of that entity. The financial statements of subsidiaries are consolidated using the full consolidation method from the moment the Group takes control over their activities until the moment when the control ceases. Transactions and balances between the companies subject to consolidation have been eliminated. In addition, when applicable, consolidation adjustments are made to ensure consistency in the application of accounting principles. The amount corresponding to third-party shareholdings in the subsidiaries consolidated using the full consolidation method is presented in the caption “Minority interests without control” (Note 22). Additionally, as a result of the application of IFRS 10 – “Consolidated Financial Statements”, the Group includes in its consolidation perimeter special purpose entities, namely vehicles and funds created in the scope of securitisation operations, when exercising effective financial and operating control over them and when it is exposed to the majority of the risks and benefits associated with the respective activity.

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

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

On the other hand, the Group manages assets held by investment funds, which 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 full consolidation method. In accordance with IAS 32 and IFRS 10, the amount corresponding to third-party participation in investment funds consolidated by the full consolidation method is presented as a liability in the caption “Share capital redeemable at sight”. Non-controlling interests in the profit or loss of the Novimovest Fund are recognised as a deduction from the caption “Other operating income/expense”, considering the nature of the main income earned by that fund.

Financial investments in associated companies are measured 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 over 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 of the total equity and of the profits and losses recognised by the associated companies. Dividends attributed 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 years 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 associates 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 than the group of assets comprising each of the Group’s operational segments, with the determination of the respective recoverable amount being based on estimates of future cash flows, updated using discount rates considered appropriate by the Group, and relying on appropriate and 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, which 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 applied. 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 fair value 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 to 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 purchase cost (gain on the purchase at a discount), the difference is recognised in the statement of profit or loss. 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 the 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 through step acquisition of subsidiaries. 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 purchase cost and the proportion of the fair value of the assets and liabilities of the subsidiary. Similarly, on the application of the amendments to the standards referred to above, the Group revalued through profit or loss the holdings in which it had lost control.

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

1.3. Summary of the Main Accounting Policies

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

a) Accrual accounting

The Bank uses the accrual-accounting principle for most captions 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 Bank's accounts are prepared in the currency of the economic environment in which it operates ("functional currency") and are stated 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 stated in a currency other than the functional currency are translated at the closing exchange rate (Bank of Portugal fixing).

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

As of June 30, 2022 and December 31, 2021, the exchange rates of the main currencies other than the functional currency were:

	30-06-2022	31-12-2021
Currency		
USD	1.03870	1.13260
GBP	0.85820	0.84028

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 only payments of principal and interest).

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

- A financial debt instrument that (i) is managed under a business model which 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 which 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 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 (“FVTPL”).

The Bank assessed its business models based on 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, 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 Bank.

The other financial instruments, specifically equity instruments and derivatives, the latter by definition, are 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 manage a portfolio of financial assets. According to said standard, these changes must be infrequent and must comply with the following requirements, namely:

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

Sale of loans

Gains and losses obtained on the sale of loans on a definitive basis are recorded in the statement of profit or loss caption "Impairment of financial assets at amortised 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 loans not derecognised

The Bank does not derecognise from assets loans sold in securitisation operations when:

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

Loans sold and not derecognised are carried under "Financial assets at amortised cost" and are subject to accounting criteria identical to other credit operations. Interest and commissions associated with the securitised loan 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 Bank (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 Bank's contractual right to receive their cash flows expires, (ii) the Bank 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 Bank has transferred control over the assets.

Guarantees provided and irrevocable commitments

Liabilities for guarantees provided and irrevocable commitments are recorded in off-balance sheet captions 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 the contractual breach, the Bank has the right to reverse the guarantee, with the amounts being recognised under Financial assets at amortised cost after the transfer of the loss compensation 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 year 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 measured using the same criteria adopted for income.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity and debt instruments that are recorded at the time of their initial recognition at fair value, plus transaction expenses, and subsequently measured at fair value. Gains and losses related to subsequent changes in fair value are reflected under a specific equity caption named “Accumulated other comprehensive income” until their sale, when they are reclassified to profit or loss for the year, except for equity instruments that remain in equity.

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 statement of profit or loss under Dividend income on the date when they are attributed. In accordance with this criterion, interim dividends are recorded as income in the year in which their distribution is decided.

Financial assets and liabilities held for trading and non-trading financial assets and liabilities mandatorily 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 options bought are included under Financial assets held for trading. Trading derivatives with net amount payable (negative fair value), as well as options sold are included under Financial liabilities held for trading.

Financial assets and liabilities held for trading and non-trading financial assets and liabilities mandatorily at fair value through profit or loss are initially recognised at fair value, with 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 statement of profit or loss, under the captions "Gains or losses on financial assets and liabilities held for trading, net value" and "Gains or losses on non-trading financial assets mandatorily 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 based on valuation techniques, including price valuation 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 at amortised cost

Financial liabilities are initially recognised at their fair value, which normally corresponds to the consideration received, net of transaction costs, and are measured at amortised cost, in accordance with the effective interest rate method.
Financial liabilities correspond mainly to resources of central banks and of other credit institutions, customers' deposits and debt securities issued.
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 Bank repurchases bonds issued in the secondary market. Purchases and sales of own bonds are included proportionally under the respective debt issued captions (principal, interest and commissions) and the differences between the amount settled and the write-off, or the increase in liabilities, are recognised in the statement of profit or loss immediately.

Hedge accounting

The 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, extend the eligibility of a greater number of hedged and hedging instruments, but also types of risk.

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

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

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

- Existence of formal documentation of the hedging relationship and of the Bank's risk-management strategy;
- Initial expectation that the hedging 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 hedging of a planned transaction, the latter is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

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 recognised in profit or loss. Should the hedge be effective, the gains or losses resulting from the fair value changes 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 on 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 on the valuation of the hedged risk are recognised in profit or loss for the year 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 statement of profit or loss, as are foreign-exchange variations of the monetary items.

Cash-flow hedges

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 Bank contracted financial derivatives to hedge the future interest flows of part of its mortgage loan portfolio remunerated at a floating rate.

The 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 the part considered effective is recognised directly in a specific caption 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 change in the fair value of the hedging instrument from the start of the hedge; and
- The accumulated change in the fair value of the hedged item, related to the risk hedged, 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 Bank hedge a transaction that is not expected to be realised, the amount of the derivative still recognised in equity is immediately transferred to profit or loss, with the derivative being transferred to the Bank'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 Bank 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 measured at fair value.

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

- or expected credit-risk loss 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 credit-risk loss 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 credit-risk loss 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 Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the effective interest rate of the financial instruments.

The Bank measures the expected loss individually or on a collective basis for portfolios of financial instruments that share similar risk characteristics. The measurement of the provision for losses is based on the present value of the expected cash flows of the asset determined 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 the loans are referred to as Stage 3 assets. The Bank adopted in 2021 the new definition of default as the criterion for the identification of Stage 3 loans, following the recommendation of EBA GL 2017/06. The internal definition of non-performing loans is governed by objective and subjective criteria and is used 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 the assets, the expected loss to maturity is applied. The associated interest is calculated by applying the effective interest rate to the net amount.

Significant increase of the credit risk

The Bank monitors all financial assets 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 provision for expected credit-risk loss to maturity (PDLT (lifetime)) and not over 12 months.

The Bank uses scoring and rating systems for internal credit-risk management. These ratings allow an assessment of the risk level of the transactions or of the customer at all times and 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 and which apply judgements, that is, the credit-risk ratings are defined using qualitative and quantitative factors that are indicative of the risk of default. The ratings consider current characteristics and past events, and their significance for the level of risk is studied.

The Bank uses different criteria to determine if 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 rating can have a significant deterioration (accumulated PD variation above the defined limit) due to the evolution of the residual term (sensitivity of the transactions differentiated over time) or due to changes in future expectations regarding the economy.

- Regardless of the outcome of the aforesaid assessment, the Bank assumes that the credit risk of a financial asset has increased significantly since initial recognition when there are contractual payments overdue by more than 30 days, as well as other indicators that point to the deterioration of the credit quality of the customers (e.g., loans identified as restructured due to financial difficulties, customers with exposures in arrears in the Bank of Portugal's Central Credit Register).

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

Credit risk parameters

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

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

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

PD is an estimate of the likelihood of default over a given time horizon. The models that have been developed estimate this probability over sufficiently broad horizons for application to 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 different counterparties. The classification models (rating and scoring) are used in the management and are based on internal data comprising both quantitative and qualitative factors. The estimate is based on current conditions, adjusted to consider the estimates of future conditions that will affect the PD.

LGD is an estimate of the total loss, should the asset enter default. It is based on the difference between the contractual cash flows due and those that the Bank expects to receive, considering the cash flows of existing guarantees. The LGD models for secured assets consider the valuation of the guarantees, considering 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 consider the estimates of future conditions that will affect the LGD.

EAD is an estimate of exposure on a date of future default, considering the expected changes in the exposure after the reporting date. The Bank'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 Bank assesses the expected credit-risk loss for impairment-loss purposes, 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 Bank’s contractual ability to demand repayment and to cancel the unused commitment does not limit the Bank’s exposure to loan losses during the contractual notice period. For such financial instruments, the Bank measures the expected credit-risk loss for the year historically observed to be the average life of these instruments.

Collective analysis

When the expected credit-risk loss is measured collectively, the financial instruments are grouped based on common risk characteristics, such as instrument type, customer type, credit-risk level as measured by the rating 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.

In relation to the calculation of the expected loss through collective analysis, same results from the product of the financial asset’s PD, LGD and EAD, discounted at the original effective interest rate of the asset.

Individual analysis

The process of impairment loss quantification through individual analysis is applied to customers with individually significant (exposure greater than Euros 1 million) Stage 3 exposure (assets impaired and in default).

The process involves the calculation of an estimated loss, considering foreseeable future cash flows under several different scenarios, each using specific factors and circumstances of the customers, namely execution of guarantees in situations in which customers do not generate sufficient cash flows for the payment of the debt, or projection and discounting of the cash flows of the deal for the remaining customers. The net present value of the cash flows is calculated considering the original effective interest rate of the contracts.

This assessment process is updated at least every quarter but occurs more frequently if there are changes of circumstances that may affect the cash-flow scenarios.

Incorporation of forward-looking information

The Bank's Office of Economic Studies models economic-forecast scenarios for the Bank's various planning exercises, namely budgeting, strategic planning and ICAAP. In this connection, different macroeconomic scenarios are generated, including two pessimistic scenarios, one base scenario and two optimistic scenarios.
For impairment-loss purposes, a pessimistic scenario (18.5%), the base scenario (63.1%) and an optimistic scenario (18.4%) are used. The Bank applies probabilities to the forecast scenarios identified. The base scenario is the most likely outcome and consists of information used by the Bank for strategic planning and budgeting. The estimates are updated at least once a year and are subject to annual monitoring exercises.

d) Leases

Right of use and lease liability measurement method

IFRS 16 defines a set of requirements, namely regarding the classification and measurement of lease transactions from the lessee's perspective. As a lessee, the Bank records a right-of-use asset that is recognised in the caption "Property, plant and equipment and Intangible assets" (Note 12) and a lease liability that is recognised in the caption "Financial liabilities recorded at amortised cost - other financial liabilities - commitments with future rents" (Note 16), on the date of entry into force of the respective transaction:

i. The lease liability is measured at the present value of the future rents to be incurred during the term of the contract, using a discount rate differentiated by maturity. Fixed payments, variable payments that depend on a rate or index, values relating to the exercise of the call option, are considered when estimating the liability, when the Bank 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 recognised against the right-of-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) Property, plant and equipment

Property, plant and equipment used by the Bank to carry on its business are measured at purchase cost (including directly attributable expenses), less accumulated depreciation and impairment losses, when applicable.

Depreciation of property, plant and equipment 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
Property for own use	50
Equipment	4 to 10

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

Whenever there is an indication that property, plant and equipment may be impaired, an estimate of their 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 the 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 statement of profit or loss, 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 valuation amount corresponds to the market value of the property in its current state.

The Bank's own-service properties that have promissory purchase/sale agreements are accounted in the caption Non-current assets and disposal groups classified as held for sale and those that are in the process of being sold are accounted for under Other assets. These assets were transferred at their net carrying amount in accordance with IAS 16 (purchase cost, net of accumulated depreciation and impairment losses), being tested for impairment at the time of the reclassification and subsequently undergoing periodic valuations to determine possible impairment losses.

Gains and losses on the sale of these assets are recognised 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 Bank records under this caption expenditure incurred during the development stage of projects relating to information technologies implemented and being implemented, as well as those relating to software purchased; in every case where their expected impact will be reflected in years subsequent to that in which they are realised.

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

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

g) Investment property

Investment property comprise buildings and land held by Novimovest - Fundo de Investimento Imobiliário Aberto (Novimovest Fund) 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 property is measured at fair value, determined by periodic valuations performed by specialised independent entities. Changes in the fair value of investment property is recognised directly in the statement of profit or loss for the year.

Expenses incurred with investment property in use, namely maintenance, repairs, insurance and property taxes (municipal property tax) are recognised in the statement of profit or loss for the period to which they refer. Betterments that are expected to generate additional future economic benefits are capitalised.

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

The Bank essentially recognises under the caption "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 the caption "Other assets" (Note 14).

Regarding assets received as payment in kind, their initial recognition is at the lower of their fair value, less expected selling expenses and the carrying amount of the loans granted constituting the object of the recovery, being tested for impairment on the date of reclassification to this caption. Subsequently, these assets are measured at the lower of the initial recognition amount and fair value less selling expenses, and they are not depreciated. Unrealised losses on these assets, thus determined, are recorded in profit or loss.

As described in Note 15 the methodology most frequently used by the Bank to value this type of asset is the market method. Under this method, the market comparison criterion is based on transaction values of real estate similar and comparable to the real estate under study obtained through market prospecting carried out in the area where it is located.

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 selling expenses, the impairment losses will be reverted up to the limit of the amount that the assets would have had they not been reclassified to this caption.

The Bank 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 Bank's legal and tax consultants.

In this way, the caption "Provisions" includes provisions set aside to cover, namely, the post-employment benefits specific to certain members of the Bank's Board of Directors, restructuring plans approved by the Executive Committee, ongoing legal proceedings and other specific risks arising from its business.

j) Employee post-employment benefits

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 survivor 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 based on 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 regarding the defined-benefit plan in respect of those employees has consisted of the payment of retirement 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 those laid down under the terms of that Agreement.

Liabilities for past services recognised 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 to 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 survivor pensions and healthcare 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 at December 31, 2011.

This Decree-Law established that the liabilities to be transferred correspond to pensions payable as at 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 survivor pensions, death allowances and deferred survivor 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 several 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 several Banif employees.

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 but rather a fixed amount (Euros 89.28 per beneficiary and Euros 38.64 in the case of pensioners); and
ii) Introduction of a new benefit called “End of career bonus” (pension bonus). This benefit, because it is allocated on the date of retirement or in the event of death, is considered a post-employment benefit and therefore comes to form part of the retirement liabilities.

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

The Bank's liabilities for retirement pensions are calculated by external experts (Mercer (Portugal), Limitada) based on 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 healthcare (SAMS), as well as the death allowance and the bonus on retirement.

According to IAS 19 - "Employee Benefits" remeasurements are recorded directly in equity (other comprehensive income) and under the caption "Staff Costs" of the statement of profit or loss, the following components are recognised:

- 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 based on the 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 recognised in the statement of profit or loss with a contra-entry in "Other comprehensive income."

Retirement-pension liabilities, less the fair value of the assets of the Pension Fund, are carried under the captions "Other assets" or "Other liabilities," depending on the existence of surplus or insufficient funding. Recognition of a surplus of the 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.

k) Corporate Tax

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

Following the enactment of Law No. 2/2014, of January 16 (IRC Reform) and the wording given by the State Budget Law for 2022 (Law No. 12/2022, of June 27), the taxation of corporate profits for the six-month period ended June 30, 2022 and financial year 2021, 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 the following levels:
  - Up to Euros 1,500 thousand - 0%
  - between Euros 1,500 thousand and Euros 7,500 thousand - 3%
  - between Euros 7,500 thousand and Euros 35,000 thousand - 5%
  - more than Euros 35,000 thousand - 9%.

Therefore, the aforementioned changes implied that the tax rate used by the Bank 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 years of 2020 and 2021 may be used in the subsequent twelve tax years. Additionally, the counting of the period for the tax loss carry forward is suspended for two tax years.

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

The deduction of losses to be made in each year cannot exceed 70% of the respective taxable income (80%, in the case of tax losses generated in 2020 and 2021), the remainder being available for use until the end of the carry-forward period.

Law 98/2019, of September 4, approved a new regime in the matter of the impairments of credit and other financial institutions, also establishing the regime applicable to impairment losses recorded in previous taxation years not yet accepted for tax purposes.
Since this new system is of an optional nature during a five-year adjustment period commencing on or after January 1, 2019, the expected adherence to the new tax regime, applicable in the matter of impairments of credit 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 year (see Article 4.1 of this law). In this sense, the Bank adhered to the definitive regime established in Articles 2 and 3 of this law, in 2019.

The Santander Group decided to apply, as from financial year 2017, the Special Taxation of Groups of Companies Regime (RETGS). Under this regime, the Group's taxable income/tax loss corresponds to the sum of the taxable income/tax loss that comes to be determined by the controlling company through the algebraic sum of the tax profit or loss determined in the periodic separate statements of each company. The companies covered by this scheme are: Santander Totta, SGPS - the controlling company; and Taxagest, Bank, 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 years resulting from timing differences between the carrying amount of an asset or liability and its tax base. Tax credits are also recorded as deferred tax assets.

Deferred tax liabilities are recognised on all taxable timing 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 business combination, and which at the date of the transaction do not affect the accounting or tax profit or loss.

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

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

Deferred tax assets and liabilities have been calculated based on 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 year 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, namely, potential gains and losses on Financial assets at fair value through other comprehensive income, on cash-flow hedging derivatives, as well as those associated with actuarial deviations relating to pension liabilities, which are also recorded in equity captions.

The Board of Directors periodically reviews the position assumed in the preparation of the tax returns 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) Banking sector contribution and Solidarity tax on the banking sector

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

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

These contributions have the same calculation basis, the only variant being the rates applied to the bases:

a) The liabilities calculated and approved by the taxpayer less the base ("Tier 1") and supplementary ("Tier 2") capital and the deposits covered by the Deposit Guarantee Fund. From the liabilities thus calculated are deducted:

- Elements which in accordance with the applicable accounting standards are recognised as equity;

- Liabilities associated with the recognition of defined benefit plan liabilities.
- Liabilities for provisions;
- Liabilities resulting from the revaluation of derivative financial instruments;
- Deferred income, without considering those related to liability transactions and;
- Liabilities for assets not derecognised in securitisation transactions.

b) The notional value of derivative financial instruments off balance sheet calculated by taxpayers, except for hedging financial instruments or which exposure is mutually compensated.

For the banking sector contribution, the rates applicable to the incidence bases defined in points (a) and b) above are 0.110% and 0.0003%, respectively, as provided for in the amendment made by Ordinance No. 165 - A/2016, of June 14, to Article 5 of Ordinance No. 121/2011, of March 30.

For the Additional solidarity tax on the banking sector, the rates applicable to the bases of incidence defined in points (a) and (b) above are 0.02% and 0.00005%, respectively.

m) Treasury shares

Treasury shares are recorded as a debit in the capital accounts at the purchase cost and are not subject to revaluation, with 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, not affecting the financial year's profit or loss.

n) 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. Distributions made on account of equity instruments are deducted from equity as dividends when declared.

o) Earnings per share

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

p) Provision of insurance brokerage services

The Bank uses the accrual-accounting principle in relation to income from the provision of insurance brokerage services - commissions. Thus, income is recorded as and when generated, regardless of the time of payment or receipt. The amounts receivable are subjected to impairment loss analyses.

The Bank does not collect insurance premiums on behalf of insurers, nor does it handle funds relating to insurance contracts. There is therefore no other asset, liability, income or expense to report in respect of the insurance brokerage business carried on by the Bank, other than those already disclosed.

q) Cash and cash equivalents

For purposes of the preparation of the Statement of cash flows, the Bank considers as “Cash and cash equivalents” the balance of the caption “Cash, cash balances at central banks and other demand deposits” in that the items carried under this caption have a maturity period not exceeding 3 months, and their risk of change of value is immaterial.

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

Estimates and judgements impacting the Bank’s consolidated financial statements are continually assessed, representing on each reporting date the Board of Directors’ best estimate, considering historical performance, accumulated experience and expectations as to future events that, in the circumstances in question, 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 35)

Retirement and survivor pensions are estimated based on actuarial valuations 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 consider 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 Bank’s Board of Directors as to the future behaviour of the above variables.

Valuation of financial instruments not traded on active markets (Note 38)

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, 17 and 38)

Impairment losses on loans are calculated as indicated in Note 1.3 (c). In this way, the determination of impairment 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 impairment through collective analysis is performed based on parameters for comparable types of operations, such as instrument type, customer type, credit-risk level as measured by the rating or scoring system, type of collateral, date of initial recognition, relationship between loan and value of the guarantee (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 auction for the payment of overdue loan transactions are measured at the amount agreed by negotiation or judicial means, after deduction of the expenses the Bank expects to incur with their sale, or their quick-sale value, if lower. Properties are subject to periodic valuations conducted by independent evaluators that incorporate various assumptions, namely as regards the evolution of the property market and, where applicable, expectations as to the development of real-estate projects. The assumptions used in the valuation of these properties have an impact on their valuation and hence on the determination of the impairment. Whenever the value resulting from these valuations (net of selling expenses) is lower than the value at which the properties are accounted for, impairment losses are recorded.

As described in Note 15, the methodology most frequently used by the Bank to value this type of asset is the market method. Under this method, the market comparison criterion is based on transaction values of real estate similar and comparable to the real estate under study obtained through market prospecting carried out in the area where it is located.

Taxes (Note 13)

Recognition of deferred tax assets assumes the existence of profits and future taxable income. Additionally, current and deferred taxes were determined based on 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 Bank projects taxable profits based on assumptions. Thus, the recoverability of deferred tax assets depends on the implementation of the strategy of the Bank's Board of Directors.

Determination of the outcome of legal proceedings in progress and restructuring provisions (Notes 17 and 41)

A provision is recognised 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 disbursed to settle the liability on the balance sheet date, is assessed in accordance with the opinion of the Bank's lawyers/legal advisers and decisions of the courts to date, which, however, might not come about. Regarding the restructuring plans, the charges arising from the constructive obligation of reorganising were considered, with the definition of the actions to be developed supported by a detailed formal plan with minimum elements of approach and quantification and identification of the impacted factors.

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 Bank's management (Executive Committee) bodies:

Corporate Investment Banking:

Essentially includes the Bank's business on the financial markets and with large enterprises, involving provision of financial advisory services, namely Corporate and Project Finance, 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 Euros 10 million, channelled through the branch network, and services provided by complementary channels.

Corporate Banking:

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

Corporate Activities:

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

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

The breakdown of the statement of profit or loss by operating segment for the six-month periods ended June 30, 2022 and 2021, is as follows:

	30-06-2022				
	Corporate Investment Banking	Retail Banking	Corporate Banking	Corporate Activities	Total
Net interest income	33,116	284,257	37,656	13,848	368,877
Dividend income	-	-	-	3,656	3,656
Share of the profit or loss of investments in subsidiaries, joint ventures and associates, accounted for under the equity method	-	-	-	1,382	1,382
Net fee and commission income	26,489	202,961	15,304	(2,347)	242,407
Gains/Losses on financial operations a)	7,322	3,956	410	7,632	19,319
Other operating income, net	-	1,686	-	3,946	5,632
Total operating income, net	**66,927**	**492,860**	**53,370**	**28,116**	**641,273**
Administrative expenses	(13,429)	(188,655)	(12,860)	(1,263)	(216,206)
Cash contributions to resolution funds and deposit guarantee schemes	(2,356)	(15,403)	(1,976)	(21,703)	(41,438)
Depreciation	(526)	(21,769)	(598)	-	(22,893)
Profit or loss before impairment and provisions	**50,616**	**267,034**	**37,936**	**5,149**	**360,736**
Impairment and provisions, net of reversals b)	392	5,522	15,292	(22,461)	(1,255)
Profit or loss from non-current assets and disposal groups classified as held for sale not eligible as discontinued operations	-	-	-	16,624	16,624
Other profit or loss, net	-	-	-	(35,884)	(35,884)
Profit or loss before tax from continuing operations	**51,008**	**272,556**	**53,228**	**(36,571)**	**340,221**
Tax expense or income related to profit or loss from continuing operations	(15,812)	(84,492)	(16,501)	8,589	(108,217)
Profit or loss for the period	**35,195**	**188,064**	**36,727**	**(27,983)**	**232,004**

	30-06-2021				
	Corporate Investment Banking	Retail Banking	Corporate Banking	Corporate Activities	Total
Net interest income	26,299	220,172	43,345	92,029	381,845
Dividend income	-	-	-	1,533	1,533
Share of the profit or loss of investments in subsidiaries, joint ventures and associates, accounted for under the equity method	-	-	-	1,097	1,097
Net fee and commission income	22,051	177,122	12,141	(5,472)	205,843
Gains/Losses on financial operations a)	4,048	3,203	290	126,599	134,141
Other operating income, net	-	1,551	-	1,513	3,064
Total operating income, net	**52,399**	**402,049**	**55,776**	**217,299**	**727,523**
Administrative expenses	(12,638)	(226,104)	(14,749)	(1,956)	(255,447)
Cash contributions to resolution funds and deposit guarantee schemes	-	-	-	(37,679)	(37,679)
Depreciation	(1,666)	(23,326)	(213)	-	(25,205)
Profit or loss before impairment and provisions	**38,094**	**152,619**	**40,813**	**177,664**	**409,191**
Impairment and provisions, net of reversals b)	1,078	(30,520)	(8,206)	(271,259)	(308,907)
Profit or loss from non-current assets and disposal groups classified as held for sale not eligible as discontinued operations	-	-	-	10,303	10,303
Other profit or loss, net	-	-	-	(29,565)	(29,565)
Profit or loss before tax from continuing operations	**39,172**	**122,099**	**32,607**	**(112,857)**	**81,022**
Tax expense or income related to profit or loss from continuing operations	(12,143)	(37,851)	(10,108)	28,913	(31,190)
Profit or loss for the period	**27,029**	**84,248**	**22,499**	**(83,945)**	**49,832**

a) Includes the following captions in the statement of profit or loss:
- Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net value;
- Gains or losses on financial assets and liabilities held for trading, net value;
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net value;
- Gains or losses on hedge accounting, net amount;
- Exchange differences, net.

b) This aggregate includes the following captions in the statement of profit or loss
- Provisions or reversal of provisions;

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

- Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss;
- Impairment or reversal of impairment of non-financial assets.

As at June 30, 2022 and December 31, 2021, the breakdown of the assets and liabilities allocated to each operational segment, in accordance with information used by the Bank's Management for decision-making, is as follows:

	30-06-2022				
	Corporate Investment Banking	Retail Banking	Corporate Banking	Corporate Activities	Total
Assets					
Financial assets at fair value through other comprehensive income - loans and advances	-	-	-	2,528,684	2,528,684
Financial assets at amortised cost					
Mortgage loans	-	22,703,416	-	-	22,703,416
Consumer loans	-	1,793,182	-	-	1,793,182
Other loans	3,136,896	6,253,102	5,917,430	258,714	15,566,142
Other balances receivable	-	98,723	-	633,590	732,312
Total allocated assets	**3,136,896**	**30,848,423**	**5,917,430**	**3,420,988**	**43,323,737**
Total non-allocated assets					14,947,435
Total Assets					**58,271,172**
Liabilities					
Financial liabilities at amortised cost					
Deposits - Central banks	-	-	-	7,344,534	7,344,534
Deposits - Credit institutions	-	-	-	554,216	554,216
Deposits - Customers	1,232,469	31,789,013	7,993,574	283,118	41,298,174
Debt securities issued	-	-	-	3,708,474	3,708,474
Total allocated liabilities	**1,232,469**	**31,789,013**	**7,993,574**	**11,890,341**	**52,905,397**
Total non-allocated liabilities					2,055,365
Total Liabilities					**54,960,762**
Guarantees and sureties given	**143,875**	**542,546**	**1,089,197**	**-**	**1,775,618**

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

	31-12-2021				
	Corporate Investment Banking	Retail Banking	Corporate Banking	Corporate Activities	Total
Assets					
Financial assets at fair value through other comprehensive income - loans and advances	-	-	-	2,979,302	2,979,302
Financial assets at amortised cost					
Mortgage loans	-	21,920,887	-	-	21,920,887
Consumer loans	-	1,716,486	-	-	1,716,486
Other loans	3,205,133	6,305,840	6,276,536	30,470	15,817,979
Other balances receivable	-	38,927	-	879,588	918,515
Total allocated assets	**3,205,133**	**29,982,140**	**6,276,536**	**3,889,360**	**43,353,169**
Total non-allocated assets					12,813,450
Total Assets					**56,166,619**
Liabilities					
Financial liabilities at amortised cost					
Deposits - Central banks	-	-	-	7,410,242	7,410,242
Deposits - Credit institutions	-	-	-	393,405	393,405
Deposits - Customers	1,406,297	30,622,766	6,626,786	303,056	38,958,904
Debt securities issued	-	-	-	3,006,747	3,006,747
Total allocated liabilities	**1,406,297**	**30,622,766**	**6,626,786**	**11,113,450**	**49,769,298**
Total non-allocated liabilities					2,146,432
Total Liabilities					**51,915,730**
Guarantees and sureties given	**157,386**	**535,587**	**984,137**	**-**	**1,677,110**

As at June 30, 2022 an December 31, 2021, the Bank did not have relevant business in any geography besides 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 to the financial statements.

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

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE PERIOD

As at June 30, 2022 and December 31, 2021, the subsidiaries and associated companies, and their most significant financial data, taken from the respective financial statements, excluding IAS/IFRS conversion adjustments, can be summarised as follows:

	Shareholding (%) Direct		Shareholding (%) Effective		Net assets		Shareholders' equity		Profit or loss for the period	
Company	30-06-2022	31-12-2021	30-06-2022	31-12-2021	30-06-2022	31-12-2021	30-06-2022	31-12-2021	30-06-2022	31-12-2021
BANCO SANTANDER TOTTA, S.A.	Holding	Holding	Holding	Holding	60,362,337	58,900,196	3,221,175	4,160,679	233,053	303,343
TOTTA (IRELAND), PLC (2)	100.00	100.00	100.00	100.00	600,415	568,046	455,028	460,490	4,364	1,088
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. (1)	100.00	100.00	100.00	100.00	100,873	99,856	97,987	96,928	310	(4,748)
TAXAGEST,SGPS,SA	99.00	99.00	99.00	99.00	55,732	55,737	55,727	55,732	(5)	(12)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	78.74	78.74	78.71	78.71	225,211	263,711	225,211	257,792	1,773	3,960
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	100.00	100.00	100.00	100.00	7,300	7,304	7,140	7,134	6	323
HIPOTOTTA NO. 4 PLC	-	-	-	-	479,170	511,024	(1,896)	(4,286)	1,936	(806)
HIPOTOTTA NO. 5 PLC	-	-	-	-	499,694	521,706	(10,902)	(12,849)	1,762	(2,307)
HIPOTOTTA NO. 4 FTC	-	-	-	-	429,513	450,577	433,645	447,251	306	1,928
HIPOTOTTA NO. 5 FTC	-	-	-	-	483,433	457,596	480,956	455,913	1,764	2,490
Operações de Securitização geridas pela GAMMA, STC	-	-	-	-	1,839,613	2,467,826	-	-	-	-
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.86	21.86	21.86	21.86	418,111	409,384	107,967	118,845	6,320	19,510

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

As at June 30, 2022 and December 31, 2021, 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	Registered office	Consolidation method
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Holding
TOTTA (IRELAND), PLC (2)	Investment management	Ireland	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. (1)	Property management	Portugal	Full
TAXAGEST, SGPS, S.A.	Shareholding management	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Issuance and management of credit cards	Portugal	Equity method
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 FTC	Securitised loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitised loans fund	Portugal	Full
Operações de Securitização geridas pela GAMMA, STC	Securitised loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Real Estate Fund	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitisation management	Portugal	Full

(1) The equity of this subsidiary includes supplementary capital contributions amounting to Euros 99,760 thousand.

(2) Due to this subsidiary closing its financial year on November 30, the amounts reflected in the “Profit or loss for the period” columns correspond to the Net income determined between December 1, 2021 and June 30, 2022 (December 1, 2021 and December 31, 2021).

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, namely, the bonds that they issued with a higher degree of subordination – “equity pieces”.

As at June 30, 2022 and December 31, 2021, the Novimovest Fund balance sheet was as follows:

	30-06-2022	31-12-2021
Real estate portfolio	210,020	213,731
Accounts receivable	6,265	6,972
Cash and banks	8,851	42,901
Accruals and deferrals	75	107
	225,211	263,711
Fund capital	219,163	257,792
Adjustments and provisions	2,403	2,667
Accounts payable	2,056	1,037
Accruals and deferrals	1,589	2,215
	225,211	263,711

As at June 30, 2022 and 2021, the consolidated net income includes a profit of Euros 1,773 thousand and Euros 1,629 thousand, 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 caption is as follows:

	30-06-2022	31-12-2021
Cash	298,735	341,297
Demand deposits at Central banks		
European Central Bank	10,145,746	8,141,015
Other demand deposits at credit institutions		
Demand deposits	349,256	229,077
	10,793,737	8,711,389

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

On September 12, 2019, the ECB Council decided to introduce a two-tier system for the remuneration of excess reserves, exempting part of the surplus liquidity of the institutions, that is, the part of the reserves that exceeds the mandatory reserves, from the negative remuneration at the interest rate applicable to the permanent deposit facility. The ECB Council decided, namely, to exempt a multiple of the mandatory reserves of the institutions, setting 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. On September 8, 2022, the ECB Councul decided to terminate the system introduced in 2019.

6. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

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

	30-06-2022	31-12-2021
Financial assets held for trading		
Derivatives with positive fair value	496,910	587,772
Financial liabilities held for trading		
Derivatives with negative fair value	494,698	605,331

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

As at June 30, 2022 and December 31, 2021, the following derivatives are recorded:

	30-06-2022				31-12-2021			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
OTC Markets								
Forwards								
Purchases	253,746	6,661	5,569	1,092	308,284	4,737	4,390	347
Sales	252,555				307,801			
Swaps								
Currency swaps								
Purchases	1,372,248	14,254	990	13,264	974,114	704	1,141	(437)
Sales	1,361,925				974,444			
Interest rate swaps	24,719,127	437,414	449,297	(11,883)	25,580,771	523,864	541,203	(17,339)
Equity swaps	671,767	26,163	26,488	(325)	686,516	37,864	38,006	(142)
Options								
Currency swaps								
Purchases	72,768	2,971	2,984	(13)	120,523	1,559	1,571	(12)
Sales	72,768				120,523			
Equity swaps								
Purchases	8,092	726	728	(2)	16,262	1,177	1,180	(3)
Sales	8,092				16,262			
Caps & Floors	773,762	8,721	8,642	79	913,972	17,867	17,840	27
	29,566,850	496,910	494,698	2,212	30,019,472	587,772	605,331	(17,559)

As at June 30, 2022, the assets and liabilities captions relating to "Derivative financial instruments" are reduced by the amounts of, approximately, Euros 6,576 thousand and Euros 6,271 thousand "Credit Value Adjustments" and "Debit Value Adjustments", respectively (Euros 3,977 thousand and Euros 715 thousand as at December 31, 2021, respectively), in accordance with the method described in Note 38.

As at June 30, 2022 and December 31, 2021, 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 caption is as follows:

	Fair value	
Description	30-06-2022	31-12-2021
Equity Instruments		
Issued by financial institutions	82,742	99,167
	82,742	99,167

The movement under this caption during the first half of 2022 and financial year 2021 was as follows:

	31-12-2021	Purchases	Redemptions/ Amortisations/ Liquidations/Sales	Unrealised gains/losses	Realised gains/losses (Note 28)	30-06-2022
Equity instruments - residents	99,167	232	(20,491)	5,769	(1,935)	82,742
	99,167	232	(20,491)	5,769	(1,935)	82,742

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

	31-12-2020	Purchases	Redemptions/ Amortisations/ Liquidations/Sales	Unrealised gains/losses	Realised gains/losses	31-12-2021
Equity instruments - residents	132,905	498	(35,731)	1,137	358	99,167
	132,905	498	(35,731)	1,137	358	99,167

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The composition of this caption is as follows:

	30-06-2022								
				Fair Value Reserve					
	Purchase cost	Interest receivable	Hedge adjustment	Positive	Negative	Total	Other	Impairment	Carrying amount
Debt instruments						(Note 20)		(Note 17)	
Issued by public residents	1,952,576	21,952	(68,586)	185,659	-	185,659	(2,017)	-	2,089,584
Issued by other residents	671	1	-	1	-	1	-	(28)	645
	1,953,247	21,953	(68,586)	185,660	-	185,660	(2,017)	(28)	2,090,229
Equity instruments	72,972	-	-	76,190	(333)	75,858	-	-	148,830
	2,026,219	21,953	(68,586)	261,850	(333)	261,518	(2,017)	(28)	2,239,059
Loans and advances	2,300,000	67,804	(116,980)	277,860	-	277,860	-	-	2,528,684
	4,326,219	89,757	(185,566)	539,710	(333)	539,378	(2,017)	(28)	4,767,743

	31-12-2021								
				Fair Value Reserve					
	Purchase cost	Interest receivable	Hedge adjustment	Positive	Negative	Total	Other	Impairment	Carrying amount
Debt instruments						(Note 20)		(Note 17)	
Issued by public residents	1,953,077	51,533	29,255	255,306	(41)	255,265	(2,184)	-	2,286,946
Issued by other residents	1,194	1	-	2	-	2	-	(52)	1,145
	1,954,271	51,534	29,255	255,308	(41)	255,267	(2,184)	(52)	2,288,091
Equity instruments	72,853	-	-	-	(333)	(333)	-	-	72,520
	2,027,124	51,534	29,255	255,308	(374)	254,934	(2,184)	(52)	2,360,611
Loans and advances	2,300,000	31,153	222,491	425,658	-	425,658	-	-	2,979,302
	4,327,124	82,687	251,746	680,966	(374)	680,592	(2,184)	(52)	5,339,913

The movement under this caption during the first half of 2022 and financial year 2021 was as follows:

				Gains/Losses					
	31-12-2021	Purchases	Redemptions/ Amortisations/ Liquidations/ Sales	Unrealised	Realised through Profit or loss	Realised through Equity	Interest/ Hedging/ Other	Impairment	30-06-2022
Equity instruments	72,520	1,852	(1,738)	76,190	-		6	-	148,830
Debt securities	2,288,091	-	(523)	(167,281)	-	-	(30,082)	24	2,090,229
	2,360,611	1,852	(2,261)	(91,091)	-	-	(30,076)	24	2,239,059

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

	31-12-2020	Purchases	Redemptions/ Amortisations/ Liquidations/ Sales	Gains/Losses Unrealised	Gains/Losses Realised through Profit or loss	Gains/Losses Realised through Equity	Interest/ Hedging/ Other	Impairment	31-12-2021
Equity instruments	72,634	2,103	(1,408)	(811)	-	(2)	4	-	72,520
Debt securities	4,491,485	-	(1,884,562)	(49,454)	(189,507)	-	(79,833)	(38)	2,288,091
	4,564,119	2,103	(1,885,970)	(50,265)	(189,507)	(2)	(79,829)	(38)	2,360,611

During the first half of 2022, the Bank carried out a revaluation of its shareholding in SIBS – Sociedade Interbancária de Serviços, S.A., a revaluation that was carried out by external experts.

The public issuers' captions had the following characteristics:

	30-06-2022				31-12-2021			
Description	Purchase cost	Interest receivable	Gains/Losses and other	Carrying amount	Purchase cost	Interest receivable	Gains/Losses and other	Carrying amount
National public issuers								
. Maturing in up to three years	-	-	-	-	-	-	-	-
. Maturing between three and five years	1,797,270	20,730	118,499	1,936,499	1,797,461	49,681	268,459	2,115,601
. Maturing between five and ten years	154,819	1,218	(3,392)	152,645	155,129	1,848	13,918	170,895
. Maturing in more than ten years	487	4	(51)	440	487	4	(41)	450
	1,952,576	21,952	115,056	2,089,584	1,953,077	51,533	282,336	2,286,946

As at June 30, 2022 and December 31, 2021, the Group's portfolio contained Portuguese Treasury Bonds in the amounts of Euros 99,316 thousand and Euros 99,868 thousand, respectively, used as collateral in funding operations (Note 16).

9. FINANCIAL ASSETS AT AMORTISED COST

The "Debt securities" sub-caption has the following composition:

	30-06-2022	31-12-2021
Securitised credit		
. Commercial paper	2,844,367	2,738,472
. Bonds	648,405	712,548
Interest receivable	8,267	11,122
Value adjustments of hedged assets	(80,101)	3,202
Commissions associated with amortised cost (net)	(935)	(930)
	3,420,003	3,464,414
Impairment of debt securities (Note 17)	(4,217)	(5,622)
	3,415,786	3,458,792

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

The "Loans and advances" sub-caption has the following composition:

	30-06-2022	31-12-2021
Loans and advances - Customers		
To corporate customers		
On sight, overdrafts and securitised current accounts	1,012,979	907,078
Commercial portfolio - factoring	1,635,776	1,689,031
Commercial portfolio - other	187,315	270,524
Finance leasing	1,052,527	1,122,300
Loans	8,586,804	8,614,770
Other loans	37,947	33,745
To individuals		
Mortgage loans	22,541,995	21,927,950
Consumer loans and other	2,587,730	2,372,076
	37,643,074	36,937,474
Interest receivable	47,093	48,246
Value adjustments of hedged assets	(50,195)	2,605
Prepayments	153,279	134,381
Commissions associated with amortised cost (net)	(162,825)	(150,653)
	(12,648)	34,579
	37,630,426	36,972,053
Other balances receivable		
Margin accounts	377,933	587,536
Cheques collectible	98,723	38,927
Sundry debtors and other cash equivalents	263,201	299,848
	739,857	926,311
Loans and advances - Credit institutions		
Deposits	13,658	13,174
Loans	10,110	17,242
Other applications	1,279	14
Purchase operations with resale agreement	-	26
Interest receivable	2	1
Deferred income/expenses	(8)	130
	25,041	30,587
Loans and advances	38,395,324	37,928,951
Impairment of loans and advances - customers and other balances receivable	(1,015,958)	(1,013,759)
Impairment of loans and advances - credit institutions	(99)	(117)
Impairment of loans and advances (Note 17)	(1,016,057)	(1,013,876)
	37,379,267	36,915,075

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

In the first half of 2022 and in financial year ended December 31, 2021, portfolios of loans granted to individuals and companies with a carrying amount of Euros 436 thousand and Euros 96,698 thousand, respectively, were sold. As a result of these transactions, in the first half of 2022 and in financial year 2021, losses were recorded in the net amount of Euros (568) thousand (Note 17) and gains in the net amount of Euros 6,376 thousand, respectively.

As at June 30, 2022 and December 31, 2021, the caption "Loans and advances - Customers – To individuals – Mortgage loans" included loans assigned to the autonomous property of the covered bonds issued by the Bank in the amounts of Euros 9,992,759 thousand and Euros 9,965,945 thousand, respectively (Note 16).

The movement under impairment losses during the first half of 2022 and 2021 is presented in Note 17.

The division, by stage, of the financial assets at amortised cost portfolio, has the following breakdown:

	30-06-2022			31-12-2021		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Stage 1	34,806,185	(71,489)	0.21%	33,733,999	(65,342)	0.19%
Stage 2	5,766,189	(253,518)	4.40%	6,400,716	(280,518)	4.38%
Stage 3	1,242,953	(695,267)	55.94%	1,258,650	(673,638)	53.52%
	41,815,327	(1,020,274)		41,393,365	(1,019,498)	

Non-productive assets, net of impairment, are detailed as follows by counterpart and default date:

	30-06-2022				
Counterparts	Non-performing exposures, net	With reduced probability of payment, but not overdue or overdue by <= 90 days	Overdue > 90 days <= 180 days	Overdue > 180 days <= 5 years	Overdue > 5 years
Debt securities	**-**	**-**	**-**	**-**	**-**
Non-financial companies	-	-	-	-	-
Loans and advances	**547,686**	**342,942**	**41,023**	**117,653**	**46,068**
Public sector	100	99	-	-	1
Credit institutions	138	138	-	-	-
Other financial companies	558	91	14	448	5
Non-financial companies	373,511	248,524	25,500	65,607	33,880
Individuals	173,379	94,090	15,509	51,598	12,182
Total financial assets at amortised cost	**547,686**	**342,942**	**41,023**	**117,653**	**46,068**

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

31-12-2021					
Counterparts	Non-performing exposures, net	With reduced probability of payment, but not overdue or overdue by <= 90 days	Overdue > 90 days <= 180 days	Overdue > 180 days <= 5 years	Overdue > 5 years
Debt securities	**462**	**462**	-	-	-
Non-financial companies	462	462	-	-	-
Loans and advances	**584,550**	**406,946**	**16,074**	**103,648**	**57,882**
Public sector	97	97	-	-	-
Credit institutions	154	154	-	-	-
Other financial companies	494	450	-	39	5
Non-financial companies	398,615	294,821	3,979	54,609	45,206
Individuals	185,190	111,424	12,095	49,000	12,671
Total financial assets at amortised cost	**585,012**	**407,408**	**16,074**	**103,648**	**57,882**

The evolution that occurred in the exposure and in the impairment of financial assets at amortised cost in financial year 2021 and in the first half of 2022, was as follows:

	Loans and advances at amortised cost				Impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 31-12-2020	35,182,147	4,252,383	1,390,969	40,825,499	92,478	163,132	749,307	1,004,917
Transfers:								
Stage 1 to 2	(3,391,468)	3,391,468	-	-	(5,538)	128,291	-	122,753
Stage 1 to 3	(83,436)	-	83,436	-	(377)	-	21,856	21,479
Stage 2 to 3	-	(75,291)	75,291	-	-	(4,850)	29,986	25,136
Stage 2 to 1	847,539	(847,539)	-	-	2,311	(18,159)	-	(15,848)
Stage 3 to 2	-	46,146	(46,146)	-	-	6,436	(17,651)	(11,215)
Stage 3 to 1	3,003	-	(3,003)	-	129	-	(466)	(337)
Macroeconomic overlay	-	-	-	-	(39,400)	(46,700)	(47,300)	(133,400)
Re-rating overlay	(300,000)	300,000	-	-	-	15,000	-	15,000
Idiosyncratic overlay	378,700	(378,700)	-	-	-	11,900	-	11,900
Other	-	-	-	-	-	8,000	3,000	11,000
Write-offs and sales	-	-	(98,662)	(98,662)	-	-	(72,295)	(72,295)
Origination, net of amortisations	1,097,514	(287,751)	(143,235)	666,528	15,739	17,468	7,201	40,408
Balance as at 31-12-2021	33,733,999	6,400,716	1,258,650	41,393,365	65,342	280,518	673,638	1,019,498
Transfers:								
Stage 1 to 2	(861,965)	861,965	-	-	(2,746)	33,320	-	30,574
Stage 1 to 3	(30,297)	-	30,297	-	(327)	-	8,500	8,173
Stage 2 to 3	-	(81,302)	81,302	-	-	(10,384)	33,430	23,046
Stage 2 to 1	856,607	(856,607)	-	-	2,845	(37,010)	-	(34,165)
Stage 3 to 2	-	41,183	(41,183)	-	-	6,214	(16,228)	(10,014)
Stage 3 to 1	1,186	-	(1,186)	-	94	-	(483)	(389)
Re-rating overlay	300,000	(300,000)	-	-	-	(15,000)	-	(15,000)
Ukraine war scenario overlay	-	-	-	-	4,845	4,801	4,654	14,300
Post-Model Adjustment	(94,700)	94,700	-	-	-	9,200	-	9,200
Write-offs and sales	-	-	(1,104)	(1,104)	-	-	(949)	(949)
Origination, net of amortisations	901,355	(394,466)	(83,823)	423,066	1,436	(18,141)	(7,295)	(24,000)
Balance as at 30-06-2022	34,806,185	5,766,189	1,242,953	41,815,327	71,489	253,518	695,267	1,020,274

Bearing in mind the high uncertainty regarding the future impacts of the pandemic, as well as the lack of comparable historical information that may not be properly captured by the models in the calculated risk parameters, the Bank approved, in financial year 2020, a procedure of impairment overlays, which regulates the analysis of impairment in exceptional situations that are not properly captured by the models used in the calculation made by the Bank, due to the nature and/or particularities of same. Under this procedure, as at December 31, 2020, the Bank applied two impairment overlays, with the aim of reflecting the impacts, in a comprehensive and prudent manner:

- Macroeconomic Overlay – as an approximation of the impact on impairment of the incorporation of new expectations of economic development, based on the supervisory guidelines and on the macroeconomic projections, amounting to Euros 133.4 million;
- Idiosyncratic Overlay – as an approximation of the impact on impairment of the significant increase in risk (reclassification to stage 2) of the sectors most affected by the economic impact of the pandemic, based on Decree-Law No. 78-A/2020, amounting to Euros 57 million.

In financial year 2021, the treatment given by the Bank to the Overlays was:

- Bearing in mind an expected deterioration in companies' financial year 2020 accounts, a new re-rating overlay was recorded. This overlay led to a reclassification of Euros 300 million of exposure from stage 1 to stage 2 and an increase in impairment of Euros 15 million;
- The idiosyncratic overlay was updated, having been endowed with a new increase in impairment of Euros 11.9 million, essentially in the Portfolio clients (clients with a risk manager) portfolio due to a deterioration of the internal rating, with a return to stage 1 of Euros 378.7 million of exposure being partly offset by the re-rating overlay;
- At the end of the financial year, the Bank recalibrated the IFRS9 model (PD, LGD and EAD) and included the new macroeconomic scenarios in all PD and LGD models. With this update the model began to incorporate the expectations of the evolution of the economy and with this the macroeconomic overlay ceased to apply, with the corresponding impairment values being allocated to the respective exposures.

In the first half of 2022, the treatment given by the Bank to the Overlays was:

- With the updating of companies' accounts in respect of financial year 2021 in the first half of 2022, the re-rating overlay ceased to be applied and the exposure reclassification of Euros 300 million from stage 1 to stage 2 was reversed, as was the corresponding impairment;
- Given the economic uncertainty related to the war scenario in Ukraine, at the end of the first half of 2022 the Bank accounted for a new Ukraine war scenario overlay in the amount of Euros 14.3 millio
- In June 2022, the Bank created a Post-Model Adjustment to block the effect provoked by the operational normalisation of those to which the Bank offered commercial solutions.

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

10. DERIVATIVES - HEDGE ACCOUNTING

The composition of this caption is as follows:

	30-06-2022					
	Carrying amount		Notional amount			
Type of financial instrument	Assets	Liabilities	Up to 3 months	Between 3 months and 1 year	More than 1 year	Total
Hedging derivative instruments						
Fair value hedging						
Interest rate swaps						
Liabilities and loans	103,859	339	17,603	193,114	2,971,214	3,181,931
Financial assets at fair value through other comprehensive income	200,037	16,349	-	-	7,146,000	7,146,000
Equity swaps	-	41	-	-	8,092	8,092
Cash flow hedging						
Interest rate swaps						
Cash flows	-	119,786	-	10,000,000	-	10,000,000
	303,896	136,515	17,603	10,193,114	10,125,306	20,336,023

	31-12-2021					
	Carrying amount		Notional amount			
Type of financial instrument	Assets	Liabilities	Up to 3 months	Between 3 months and 1 year	More than 1 year	Total
Hedging derivative instruments						
Fair value hedging						
Interest rate swaps						
Liabilities and loans	5,592	40,848	16,077	28,345	2,988,767	3,033,189
Financial assets at fair value through other comprehensive income	-	253,238	-	-	3,380,000	3,380,000
Equity swaps	312	-	8,151	-	8,111	16,262
Cash flow hedging						
Interest rate swaps						
Cash flows	1,543	22	-	-	10,000,000	10,000,000
	7,447	294,108	24,228	28,345	16,376,878	16,429,451

The Bank carries out derivatives transactions within the scope of its business, managing its own positions based on expectations as to 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 operations and covered bond issues are also managed by the Bank through the contracting of derivative financial instruments.

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

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

In these types of contracts, offsetting liabilities is provided for in the event of default (this offsetting 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 for hedging or not.

In accordance with the standard, parts of operations commonly known as “embedded derivatives” are also separated and accounted for as derivatives, in a manner such as to recognise the fair value of these operations in profit or loss.

All derivatives (embedded or autonomous) are measured at fair value.

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

The fair value corresponds to the estimated value that the derivatives would have if they were traded on the market on the reference date.

11. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

The composition of this caption is as follows:

	30-06-2022		31-12-2021	
	Effective shareholding (%)	Carrying amount	Effective shareholding (%)	Carrying amount
Unicre - Instituição Financeira de Crédito, S.A.	21.86	35,783	21.86	38,161

As at June 30, 2022 and December 31, 2021, 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 vis-à-vis the associated companies, nor are there any contingent liabilities to be recognised by the Company arising from the holdings therein.

12. TANGIBLE AND INTANGIBLE ASSETS

The composition of this caption is as follows:

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

Investment property

During 2013, following the subscription of several participation units, the Bank came to consolidate, using the full consolidation method, the Novimovest Real Estate Fund, which main assets are rental properties.

As at June 30, 2022 and December 31, 2021, the properties held by the Novimovest Real Estate Fund had the following characteristics:

	30-06-2022	31-12-2021
Land		
Urbanised	20,580	21,044
Non-urbanised	1,015	1,015
Finished constructions		
Rented	145,415	142,239
Not rented	43,010	49,433
Other construction projects	-	-
	210,020	213,731

On the other hand, during the first half of 2022 and financial year 2021, the properties held by the Novimovest Real Estate Fund generated, among other, the following annual income and expenses:

	30-06-2022	31-12-2021
Lease rentals (Note 30)	4,380	10,287
Taxes	(348)	(798)
Condominium charges	(149)	(992)
Maintenance and repairs	(106)	(584)
Insurance	(58)	(137)
	3,719	7,776

The movement under the caption "Investment property", during the first half of 2022 and of 2021, was as follows:

	2022				
	Balance as at 31-12-2021	Additions	Fair value adjustment	Sales	Balance as at 30-06-2022
Property held by Novimovest Fund	213,731	42	16	(3,769)	210,020

	2021				
	Balance as at 31-12-2020	Additions	Fair value adjustment	Sales	Balance as at 30-06-2021
Property held by Novimovest Fund	250,531	176	(176)	(1,011)	249,520

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

The effect of the valuation at fair value of the properties held by the Novimovest Real Estate Fund is recorded in the statement of profit or loss under the caption "Other Operating Gains/Losses - Investment property" (Note 30).

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

As at June 30, 2022 and December 31, 2021, the form of the determination of the fair value of the investment property in accordance with the levels set out in IFRS 13 is as follows:

	Level 3	
	30-06-2022	31-12-2021
Investment property	210,020	213,731

In the event of an increase in the value of rent per square metre or an increase in the occupancy rate or a decrease in the capitalisation rate, the fair value of investment property will increase. On the other hand, if there is an increase in construction or marketing costs, an increase in the capitalisation rate, a decrease in the value of rent per m2 or a decrease in the occupancy rate, the fair value of investment property will decrease.

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

Property, plant and equipment and intangible assets

The movement under these captions during the first half of 2022 and of 2021 can be presented as follows.

	2022												
	31-12-2021				Write-offs and sales		Transfer to/from other assets			30-06-2022			
	Gross amount	Accumulated depreciation	Impairment (Note 17)	Additions	Gross amount	Accumulated depreciation	Gross amount (Note 14)	Accumulated depreciation (Note 14)	Depreciation	Gross amount	Accumulated depreciation	Impairment (Note 17)	Carrying amount
Property, plant and equipment													
Property													
. Property for own use	335,573	(126,979)	(6,146)	2,106	-	-	296	9	(3,310)	337,975	(130,280)	(6,146)	201,549
. Leasehold expenditure	9,162	(7,049)	-	35	-	-	-		(231)	9,197	(7,280)	-	1,917
. Rights of use (IFRS 16)	41,399	(16,854)	-	-	-	-	-	-	(2,125)	41,399	(18,979)	-	22,420
. Other property	167	(81)	-	-	-	-	-	-	(1)	167	(82)	-	85
	386,301	(150,963)	(6,146)	2,141	-	-	296	9	(5,667)	388,738	(156,621)	(6,146)	225,971
Equipment	158,756	(106,278)	-	3,186	(2,139)	1,289	-		(5,750)	159,803	(110,739)	-	49,064
Other tangible assets	2,176	(77)	-	-	-	-	-	-	-	2,176	(77)	-	2,099
	160,932	(106,355)	-	3,186	(2,139)	1,289	-	-	(5,750)	161,979	(110,816)	-	51,163
	547,233	(257,318)	(6,146)	5,327	(2,139)	1,289	296	9	(11,417)	550,717	(267,437)	(6,146)	277,134
Intangible assets													
Software	132,342	(99,854)	-	7,880	-	-	2,727	-	(11,476)	142,949	(111,330)	-	31,619
Other intangible assets	2,009	(2,009)	-	2,727	-	-	(2,727)	-	-	2,009	(2,009)	-	-
Goodwill	1,160	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	135,511	(101,863)	-	10,607	-	-	-	-	(11,476)	146,118	(113,339)	-	32,779

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

	2021														
	31-12-2020				Write-offs and sales		Transfer to/from other assets		Other			30-06-2021			
	Gross amount	Accumulated depreciation	Impairment (Note 17)	Additions	Gross amount	Accumulated depreciation	Gross amount (Note 14)	Accumulated depreciation (Note 14)	Gross amount	Impairment (Note 17)	Depreciation	Gross amount	Accumulated depreciation	Impairment (Note 17)	Carrying amount
Property, plant and equipment															
Property															
. Property for own use	402,826	(141,579)	(23,623)	778	(10,528)	10,520	(7,949)	2,670	-	17,477	(4,064)	385,127	(132,453)	(6,146)	246,528
. Leasehold expenditure	26,770	(21,871)	-	221	(4,630)	4,562	-	-	-	-	(315)	22,361	(17,624)	-	4,737
. Other property	167	(80)	-	-	-	-	-	-	-	-	(1)	167	(81)	-	86
. Rights of use (IFRS 16)	37,155	(12,335)	-	-	-	-	-	-	-	-	(2,356)	37,155	(14,691)	-	22,464
	466,918	(175,865)	(23,623)	999	(15,158)	15,082	(7,949)	2,670	-	17,477	(6,736)	444,810	(164,849)	(6,146)	273,815
Equipment	170,388	(106,007)	-	5,935	(4,284)	3,272	(530)	194	(32)	-	(7,158)	171,477	(109,699)	-	61,778
Other tangible assets	2,184	(75)	-	-	(1)	-	-	-	-	-	(1)	2,183	(76)	-	2,107
	172,572	(106,082)	-	5,935	(4,285)	3,272	(530)	194	(32)	-	(7,159)	173,660	(109,775)	-	63,885
	639,490	(281,947)	(23,623)	6,934	(19,443)	18,354	(8,479)	2,864	(32)	17,477	(13,895)	618,470	(274,624)	(6,146)	337,700
Intangible assets															
Software	111,955	(77,235)	-	8,647	-	-	-	-	2,029	-	(11,310)	122,631	(88,545)	-	34,086
Other intangible assets	5,079	(4,386)	-	1,504	-	-	-	-	(1,997)	-	-	4,586	(4,386)	-	200
Goodwill	1,160	-	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	118,194	(81,621)	-	10,151	-	-	-	-	32	-	(11,310)	128,377	(92,931)	-	35,446

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

13. TAX ASSETS AND LIABILITIES

The composition of these captions is as follows:

	30-06-2022	31-12-2021
Current tax assets	21,376	2,459
Deferred tax assets	265,773	252,049
	287,149	254,508
Current tax liabilities	162,809	79,161
Deferred tax liabilities	219,777	265,686
	382,586	344,847
Deferred taxes	45,996	(13,637)

Taxes in the statement of profit or loss have the following composition:

	30-06-2022	30-06-2021
Current taxes	(85,550)	(62,811)
Deferred taxes	(22,667)	31,621
	(108,217)	(31,190)

The movement under deferred tax assets and liabilities during the first half of 2022 and financial year 2021 is as follows:

	Balance as at 31-12-2021	Other comprehensive income	Statement of profit or loss	Other	Balance as at 30-06-2022
Provisions/Impairment temporarily not accepted for tax purposes:					
. Deferred tax assets	126,066	-	(11,650)	-	114,416
. Deferred tax liabilities	(5,222)	-	-	-	(5,222)
Revaluation of property, plant and equipment:					
. Deferred tax assets	1,144	-	(143)	-	1,001
. Deferred tax liabilities	(1,714)	-	53	-	(1,661)
Pensions:					
. Early retirement pensions	65,105	-	(5,034)	-	60,071
. Retirement pensions	4,111	-	(406)	-	3,705
. Transfer of pension liabilities to Social Security	3,232	-	(162)	-	3,070
Financial assets at fair value through other comprehensive income	(231,625)	45,120	-	-	(186,505)
Hedging derivatives - cash flows	313	37,180	-	-	37,493
Financial assets at fair value through profit or loss	44,589	-	(5,221)	-	39,368
Securitisation operations	(23,266)	-	263	-	(23,003)
Other	3,630	-	(367)		3,263
	(13,637)	82,300	(22,667)	-	45,996

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

	Balance as at 31-12-2020	Other comprehensive income	Statement of profit or loss	Other	Balance as at 31-12-2021
Provisions/Impairment temporarily not accepted for tax purposes:					
. Deferred tax assets	159,564	-	(33,498)	-	126,066
. Deferred tax liabilities	(5,222)	-	-	-	(5,222)
Revaluation of property, plant and equipment:					
. Deferred tax assets	1,430	-	(286)	-	1,144
. Deferred tax liabilities	(1,980)	-	266	-	(1,714)
Tax losses carried forward	12,809	-	(12,809)		-
Pensions:					
. Change in accounting policy related to pensions	17,023	-	(17,023)	-	-
. Early retirement pensions	40,750	-	24,355	-	65,105
. Retirement pensions	4,621	-	(510)	-	4,111
. Transfer of pension liabilities to Social Security	3,555	-	(323)	-	3,232
Financial assets at fair value through other comprehensive income	(326,920)	95,295	-	-	(231,625)
Hedging derivatives - cash flows	13,836	(13,523)	-	-	313
Financial assets at fair value through profit or loss	45,787	-	(1,198)	-	44,589
Securitisation operations	(23,977)	-	711	-	(23,266)
Integration costs	6,558	-	(6,558)	-	-
Other	1,870	-	1,760		3,630
	(50,296)	81,772	(45,113)	-	(13,637)

To use the deferred taxes carried over from Banif, on May 29, 2018, the Bank submitted a replacement Model 22 (Corporate Income Tax) return, regarding the 2015 financial year. The submission of that tax return 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 (as per 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 recognised the right to use Banif's deferred taxes for the years 2009 through 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 Sub-Director-General only recognised the Bank's right to take advantage of Banif's deferred taxes in the total amount of Euros 92,301 thousand, the Bank may demand - under the agreement with the Portuguese authorities involved in Banif's resolution proceedings - a compensation of Euros 157,699 thousand, either in cash or treasury bills. To comply with this decision, the Bank transferred the amount in question, from this caption to the caption "Other balances receivable" (Note 9).

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 prior 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 date is that of the financial year in which that right is exercised.

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

The Bank was subject to a tax inspection up to and including financial year 2018. As a result of the inspection of financial year 2017, it was subject to an additional Corporate Tax assessment. To cover for this assessment, the Bank created a provision in the amount of Euros 17,705 thousand (Note 17). 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 are merely timing corrections.

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 profit or loss determined in the separate periodic returns of each company. The companies covered by this scheme are: Santander Totta, SGPS - the controlling company; and Taxagest, Bank, Santander Totta Seguros, TottaUrbe and Gamma - controlled companies.

14. OTHER ASSETS

The composition of this caption is as follows:

	30-06-2022	31-12-2021
Gold, other precious metals, coins and medals	3,145	3,145
Promises of payment in kind, auctions and other assets received as payment in kind	163,781	181,281
Income receivable and deferred income	23,973	24,232
Deffered expenses	4,533	3,117
Asset operations pending settlement	17,709	38,649
Liabilities for pension and other benefits (Note 35)		
Santander liabilities	(960,135)	-
Net value of Santander Pension Fund	1,040,039	-
London branch liabilities	(36,817)	-
Net value of London Branch Pension Fund	38,942	-
Banif liabilities	(144,911)	-
Net value of Banif Pension Fund	78,878	-
BAPOP liabilities	(151,652)	-
Net value of BAPOP Pension Fund	176,437	-
	253,923	250,424
Impairment losses of assets received as payment in kind (Note 17)	(87,355)	(102,088)
	166,568	148,336

-

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

The "Income receivable and deferred income" caption mainly includes fees receivable from insurers for the marketing of their insurance (Note 34).

The "Asset operations pending settlement" caption includes asset/(liability) operations pending settlement as detailed below:

	30-06-2022		31-12-2021	
	Other assets	Other liabilities (Note 19)	Other assets	Other liabilities (Note 19)
Values in transit and other transactions to be settled	8,702	(8,793)	19,080	(61,442)
SEPA transfers	1,789	(295,925)	48	(126,642)
Balances to be settled - ATM's	2,485	-	2,598	(69)
Other	4,733	(75,625)	16,923	(29,354)
	17,709	(380,343)	38,649	(217,507)

The movement under the caption "Promises of payment in kind, auctions and other assets received as payment in kind" during the six-month periods ended June 30, 2022 and 2021 was as follows:

	December 31, 2021					Transfers to/ from NCAHS	Transfers/ property, plant	Impairment (Note 17)			June 30, 2022		
	Gross amount	Impairment (Note 17)	Net amount	Additions	Sales/ write-offs	Capital (Note 15)	and equipment (Note 12)	Allocation	Replenishment	Use	Gross amount	Impairment (Note 17)	Net amount
Assets received as payment in kind													
Real estate	37,331	(24,190)	13,141	-	-	(3,502)	-	(1,429)	2,687	-	33,829	(22,932)	10,897
Promises of payment in kind	337	(337)	-	-	-	(151)	-		151	-	186	(186)	-
Auctions	6,813	(2,924)	3,889	2,122	-	(2,646)	-	(54)	809	10	6,289	(2,159)	4,130
Other	27,849	(24,019)	3,830	7,850	(509)	(1,016)	-	(560)	487	215	34,174	(23,877)	10,297
Own-use real estate properties for sale	39,838	(25,771)	14,067	32	(11,886)	-	(305)	(374)	5,072	5,062	27,679	(16,011)	11,668
Other property for sale	69,113	(24,847)	44,266	-	(7,489)	-	-	(773)	1,417	2,013	61,624	(22,190)	39,434
	181,281	(102,088)	79,193	10,004	(19,884)	(7,315)	(305)	(3,190)	10,623	7,300	163,781	(87,355)	76,426

	December 31, 2020					Transfers to/from NCAHS		Transfers/ property, plant	Other	Impairment (Note 17)			June 30, 2021		
	Gross amount	Impairment (Note 17)	Net amount	Additions	Sales	Capital	Impairment (Note 17)	and equipment (Note 12)	Impairment (Note 17)	Allocation	Replenishment	Use	Gross amount	Impairment (Note 17)	Net amount
Assets received as payment in kind															
Real estate	51,356	(29,489)	21,867	-	-	(7,843)	1,643	-	-	-	-	-	43,513	(27,846)	15,667
Promises of payment in kind	1,856	(64)	1,792	83	-	(551)	-	-	-	(45)	21	-	1,388	(88)	1,300
Auctions	15,783	(6,316)	9,467	3,949	(2,265)	(9,594)	-	-	-	(1,675)	3,534	1,516	7,873	(2,941)	4,932
Other	32,546	(25,942)	6,604	1,461	(949)	(92)	-	-	-	(1,178)	428	234	32,966	(26,458)	6,508
Own-use real estate properties for sale	47,071	(29,980)	17,091	268	(6,387)	-	-	5,615	(3,650)	(587)	2,731	3,022	46,567	(28,464)	18,103
Other property for sale	84,867	(11,494)	73,373	-	(7,821)	-	-	-	-	(3,620)	-	415	77,046	(14,699)	62,347
	233,479	(103,285)	130,194	5,761	(17,422)	(18,080)	1,643	5,615	(3,650)	(7,105)	6,714	5,187	209,353	(100,496)	108,857

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

As at June 30, 2022 and December 31, 2021, the form of determining the fair value of assets received as payment in kind in accordance with the levels defined in IFRS 13 is to classify them as level 3.

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

15. NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

The movement under this caption was as follows:

	December 31, 2021				Transfers		Impairment (Note 17)			June 30, 2022		
	Gross amount	Accumulated impairment (Note 17)	Additions	Sales	Capital (Note 14)	Impairment (Note 17)	Allocation	Reversals	Use	Gross amount	Accumulated impairment (Note 17)	Carrying amount
Assets received as payment in kind												
Real estate	79,020	(41,873)	318	(21,184)	7,315	-	(13,019)	4,163	6,656	65,469	(44,073)	21,396
Equipment	2,407	(2,100)	407	(439)	-	-	(599)	357	229	2,375	(2,113)	262
Own-use real estate properties for sale	37,457	-	-	(37,457)	-	-	-	-	-	-	-	-
	118,884	(43,973)	725	(59,080)	7,315	-	(13,618)	4,520	6,885	67,844	(46,186)	21,658

	December 31, 2020				Transfers		Impairment (Note 17)			June 30, 2021		
	Gross amount	Accumulated impairment (Note 17)	Additions	Sales	Capital (Note 14)	Impairment (Notes 14 & 17)	Allocation	Reversals	Use and others	Gross amount	Accumulated impairment (Note 17)	Carrying amount
Assets received as payment in kind												
Real estate	92,345	(41,292)	505	(17,745)	18,080	(1,643)	(3,770)	3,319	2,957	93,185	(40,429)	52,756
Equipment	2,006	(1,599)	1,534	(1,198)	-	-	(636)	94	129	2,342	(2,012)	330
	94,351	(42,891)	2,039	(18,943)	18,080	(1,643)	(4,406)	3,413	3,086	95,527	(42,441)	53,086

In the first half of 2022, the Bank sold the head office building (Ramalho Ortigão), which was on the balance sheet for Euros 35 million.

These assets are measured at the amount agreed by negotiation or judicial means, after deduction of the expenses the Bank expects to incur with their sale, or their quick-sale value, if lower. On the other hand, assets recovered following the termination of finance lease contracts are recorded under assets for the principal outstanding on the date of termination of the contract.

Real estate is subject to periodic valuations performed by independent appraisers. Whenever the amount arising from these valuations (net of selling expenses) is lower than the amount at which the properties are measured, impairment losses are recorded. If, on a subsequent date, the facts that led the Bank to record impairment losses no longer exist, the Bank 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 valuations of these properties are 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 where 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 flow method.

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

The valuations performed of the properties referred to above are carried out by independent, specialised entities accredited by the Securities Markets Commission (CMVM).

As at June 30, 2022 and December 31, 2021, the form of determining the fair value of non-current assets held for sale in accordance with the levels defined in IFRS 13 is to classify them as level 3.

16. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

The "Deposits" sub-caption has the following composition:

	30-06-2022	31-12-2021
Deposits - Central banks		
Resources from the European Central Bank - Deposits	7,344,439	7,401,255
Resources from other Central banks - Deposits	95	8,987
	7,344,534	7,410,242
Deposits - Credit institutions		
Resources from Credit institutions		
Short-term resources	471,921	147,271
Deposits	82,094	245,971
Sale operations with repurchase agreement	157	33
Interest payable/deferred expenses	44	130
	554,216	393,405
Deposits - Customers		
Term deposits	14,170,483	14,062,767
Demand deposits	26,588,729	24,309,763
Structured deposits	137	8,231
Saving deposits	532,631	573,104
Notice deposits	2,000	-
Interest payable/deferred expenses	4,180	4,988
Value adjustments for hedging operations	14	51
	41,298,174	38,958,904
Deposits	**49,196,923**	**46,762,551**

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

As at June 30, 2022 and December 31, 2021, the caption "Deposits – Credit institutions – Resources from Credit institutions - Sales operations with repurchase agreement", is broken down, by type of asset underlying the repo operations, as follows:

	30-06-2022			
	Capital	Interest	Deferred expenses	Total
Government Bonds - Portugal	(99,316)	-	(15)	(99,331)
Government Bonds - Foreign	(205,273)		(153)	(205,426)
Bonds issued by other non-residents	304,951	-	(37)	304,914
	362	-	(205)	157

	31-12-2021			
	Capital	Interest	Deferred expenses	Total
Government Bonds - Portugal	(99,868)	-	(105)	(99,973)
Bonds issued by other non-residents	99,945	-	61	100,006
	77	-	(44)	33

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

The "Debt securities" sub-caption has the following composition:

	30-06-2022			31-12-2021		
	Issued	Reacquired	Balance	Issued	Reacquired	Balance
Mortgage bonds						
Opening balance	8,600,000	(6,600,000)	2,000,000	8,800,000	(6,800,000)	2,000,000
Issued	750,000	-	750,000	-	-	-
Reacquired	-	(773,800)	(773,800)	-	-	-
Redeemed	(750,000)	750,000	-	(200,000)	200,000	-
Closing balance	8,600,000	(6,623,800)	1,976,200	8,600,000	(6,600,000)	2,000,000
Interest payable	-	-	10,930	-	-	9,339
Cost-related commissions	-		(16,949)	-	-	(18,674)
	8,600,000	(6,623,800)	1,970,181	8,600,000	(6,600,000)	1,990,665
Bonds issued in the scope of securitisation operations						
Opening balance	3,374,158	(2,837,840)	536,318	3,806,917	(3,192,235)	614,682
Redeemed	(684,372)	648,830	(35,542)	(432,759)	354,395	(78,364)
Closing balance	2,689,786	(2,189,010)	500,776	3,374,158	(2,837,840)	536,318
Interest payable	-	-	-	-	-	-
Cost-related commissions	-	-	(39,141)	-	-	(41,992)
	2,689,786	(2,189,010)	461,635	3,374,158	(2,837,840)	494,326
Structured bonds						
Opening balance	191,227	(116)	191,111	8,227	-	8,227
Issued	100,800	-	100,800	183,000	-	183,000
Reacquired	-	(19)	(19)	-	(116)	(116)
Closing balance	292,027	(135)	291,892	191,227	(116)	191,111
Interest payable	-	-	3,596	-	-	2,796
Value adjustments for hedging operations	-	-	(256)	-	-	100
	292,027	(135)	295,232	191,227	(116)	194,007
Other bonds						
Opening balance	-	-	-	-	-	-
Issued	650,000	-	650,000			
Closing balance	650,000	-	650,000	-	-	-
Interest payable	-	-	884			
	650,000	-	650,884	-	-	-
Subordinated liabilities						
Opening balance	327,599	-	327,599	554,791	(209,100)	345,691
Issued	-	-	-	-	-	-
Redeemed	-	-	-	(227,192)	209,100	(18,092)
Closing balance	327,599	-	327,599	327,599	-	327,599
Interest payable	-	-	2,943	-	-	150
	327,599	-	330,542	327,599	-	327,749
	12,559,412	(8,812,945)	3,708,474	12,492,984	(9,437,956)	3,006,747

Under 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, of the bonds issued within the scope of securitisation operations and of the cash bonds are described in Annex I, and those of the subordinated liabilities in Annex II.

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

Between May 2008 and June 2022, the Bank undertook twenty-seven covered bond issuances under the "€ 12,500,000,000 Covered Bonds Programme". As at June 30, 2022 and December 31, 2021, the covered bonds had an autonomous set of net assets consisting of:

	30-06-2022	31-12-2021
Loans and advances (Note 9)	9,992,759	9,965,945
Loan interest	5,872	5,082
Derivatives	33,063	(54,776)
	10,031,694	9,916,251

The "Other financial liabilities" sub-caption has the following composition:

	30-06-2022	31-12-2021
Cheques and orders payable	112,856	49,323
Creditors and other resources		
Creditors for futures operations	20,281	21,347
Contributions to other health systems	1,683	1,610
Public sector	29,565	34,537
Creditors under factoring contracts	58,535	62,137
Creditors for supplies of goods	1,025	1,969
Creditors for values payable	8,315	16,858
Other	15,787	6,664
Commitments for future rents (application of IFRS 16)	22,586	24,830
	270,633	219,275

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

Commitments for future rents corresponds to the adoption of IFRS 16, and their movement during the first half of 2022 and financial year 2021 was as follows:

	Lease liability	Right of use (Note 12)
Balance as at December 31, 2020	**25,232**	**24,820**
Depreciation 2021	(4,575)	(4,519)
Outs	(1,172)	(1,101)
Ins	2,345	2,345
Extensions and rent modifications	3,000	3,000
Balance as at December 31, 2021	**24,830**	**24,545**
Depreciation 2022	(2,244)	(2,125)
Balance as at June 30, 2022	**22,586**	**22,420**

For the same period the contractual cash flows are as follows:

	30-06-2022	31-12-2021
.Up to 1 year	4,206	4,663
.Up to 2 years	4,010	4,402
.Up to 3 years	3,419	4,160
.Up to 4 years	2,892	3,116
.Up to 5 years	2,802	3,005
.More than 5 years	5,257	5,484
	22,586	24,830

17. MOVEMENT UNDER PROVISIONS AND IMPAIRMENT

The movement under Provisions during the first half of 2022 and of 2021 was as follows:

	2022					
	31-12-2021	Allocations	Reversals	Use	Transfers/ Other	30-06-2022
Impairment of guarantees and commitments given (Note 23)	51,178	2,302	(5,216)	-	-	48,264
Restructuring	87,204	-	-	(18,249)	-	68,955
Other provisions	63,428	7,100	(3,437)	(1,355)	(2,000)	63,736
	201,810	9,402	(8,653)	(19,604)	(2,000)	180,955

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

	2021					
	31-12-2020	Allocations	Reversals	Use	Transfers/ Other	30-06-2021
Impairment of guarantees and commitments given	57,466	1,428	(997)	-	-	57,897
Restructuring	54,369	242,791	-	(8,898)	-	288,262
Other provisions	119,489	3,264	(7,737)	(52,448)	(28,850)	33,718
	231,324	247,483	(8,734)	(61,346)	(28,850)	379,877

The amount presented under the restructuring concept is intended to cover the commitments already assumed and disclosed to employees.

The breakdown of Other Provisions was as follows:

	30-06-2020	31-12-2021
Pensions and other post-employment defined benefit obligations	14,346	14,268
Tax issues (Note 13)	17,955	17,955
Legal issues and pending tax disputes	2,818	2,065
Other provisions	28,617	29,140
	63,736	63,428

In 2021, the Bank undertook a profound operational and commercial transformation plan, adapting to the new competitive, more digital context, with a significant investment in process simplification and technology, oriented to the improvement of the quality of service, and which allowed the optimisation of the branch network (-79), and consequent reduction of staff numbers (-1,175). To implement this transformation plan, a provision of Euros 235 million (Euros 220 million under the restructuring concept and Euros 15 million under the concept of other provisions) was recorded in the first quarter, which was added to the one already constituted at the end of 2020 in the amount of Euros 66 million (Euros 20 million under the concept of restructuring and Euros 26 million under the concept of other provisions). The amounts concerned were used to reduce the staff numbers, Euros 187 million, to optimise the branch network, Euros 23 million, and for the operational and commercial transformation, Euros 36 million.
In addition, in 2021 the Bank transferred Euros 22.5 million as first allocation to the Fundação Santander Portugal (Foundation).

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

The movement under Impairment during the first half of 2022 and of 2021 was as follows:

	2022						
	31-12-2021	Allocations	Reversals of impairment losses	Use and others	30-06-2022	Recoveries of past due loans and other	Gain/loss from loan sales
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss:							
Impairment of debt securities (Note 9)	5,622	150	(1,555)		4,217	-	-
Impairment of loan and advances (Note 9)	1,013,876	60,609	(57,490)	(938)	1,016,057	(3,403)	567
Impairment of financial assets at fair value through other comprehensive income (Note 8)	52	-	(24)	-	28	(13)	-
	1,019,550	60,759	(59,069)	(938)	1,020,302	(3,416)	567
Impairment or reversal of impairment of non-financial assets:							
Property, plant and equipment (Note 12)	6,146	-	-	-	6,146	-	-
Other assets (Note 14)	102,088	3,190	(10,623)	(7,300)	87,355	-	-
Non-current assets held for sale (Note 15)	43,973	13,618	(4,520)	(6,885)	46,186	-	-
	152,207	16,808	(15,143)	(14,185)	139,687	-	-

	2021						
	31-12-2020	Allocations	Reversals of impairment losses	Use and others	30-06-2021	Recoveries of past due loans and other	Gain/loss from loan sales
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss:							
Impairment of debt securities	11,145	8,195	(8,189)	-	11,151	-	-
Impairment of loan and advances	993,772	237,567	(166,127)	2,235	1,067,447	(2,768)	98
Impairment of financial assets at fair value through other comprehensive income	14	-	(1)	-	13	-	-
	1,004,931	245,762	(174,317)	2,235	1,078,611	(2,768)	98
Impairment or reversal of impairment of non-financial assets:							
Property, plant and equipment (Note 12)	23,623	-	-	(17,477)	6,146	-	-
Other assets (Note 14)	103,285	7,105	(6,714)	(3,180)	100,496	-	-
Non-current assets held for sale (Note 15)	42,891	4,406	(3,413)	(1,443)	42,441	-	-
	169,799	11,511	(10,127)	(22,100)	149,083	-	-

18. SHARE CAPITAL REPAYABLE ON DEMAND

As at June 30, 2022 and December 31, 2021, this caption represented the participation units of the Novimovest Fund not owned by the Group.

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

19. OTHER LIABILITIES

The composition of this caption is as follows:

	30-06-2022	31-12-2021
Staff expenses	59,031	68,262
Other charges	95,188	69,181
Deferred income	8,823	10,163
Liabilities for pension and other benefits (Note 35)		
Santander liabilities	-	1,155,946
Net value of Santander Pension Fund	-	(1,164,211)
London branch liabilities	-	52,915
Net value of London Branch Pension Fund	-	(49,938)
Banif liabilities	-	167,108
Net value of Banif Pension Fund	-	(92,220)
BAPOP liabilities	-	185,616
Net value of BAPOP Pension Fund	-	(194,073)
Other (Note 14)	380,343	217,507
	543,385	426,256

As at June 30, 2022 and December 31, 2021, “Other charges” correspond, essentially, to expense accruals related to the normal activity of the Bank.

20. EQUITY

As at June 30, 2022 and December 31, 2021, the Bank’s share capital was represented by 1,391,779,674 and 1,256,723,284 shares, each with a par value of Euro 1, fully subscribed and paid up by the following shareholders:

	30-06-2022			31-12-2021		
	Number of shares	Shareholding %	Amount	Number of shares	Shareholding %	Amount
Santander Totta, SGPS, S.A.	1,376,219,267	98.88%	1,376,219	1,241,179,513	98.76%	1,241,180
Treasury shares	15,019,058	1.08%	15,019	15,016,375	1.19%	15,016
Other	541,349	0.04%	541	527,396	0.04%	527
	1,391,779,674	100.00%	1,391,780	1,256,723,284	100.00%	1,256,723

At the General Meeting of May 4, 2022, a share capital increase of Euros 135,057 thousand was approved, with Santander Totta, SGPS, S.A. subscribing Euros 135,039 thousand. It was also deliberated to reimburse, in full, the ancillary capital contributions realised by Santander Totta, SGPS, S.A. in the amount of Euros 135,000 thousand, after obtaining authorisation from the Bank of Portugal.

During the first half of 2022, the Bank purchased 2,683 treasury shares for Euros 12 thousand (6,535 treasury shares for Euros 30 thousand in financial year 2021).

Under the terms of Order No. 408/99, of June 4, published in the Official Gazette of Portugal – 1st Series B, No. 129, the share premium, in the amount of Euros 193,390 thousand, cannot be used for the attribution of dividends or for the purchase of treasury shares.

On June 29, 2022, Banco Santander Totta issued "€ 400,000,000 Fixed Rate Resettable Perpetual Additional Tier I" subordinated bonds that qualify for the Tier 1 capital ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV – Capital Requirements Directive), with same having been entirely acquired by Santander Totta, SGPS, S.A.. This operation has no defined term, has the option of early repayment by the Bank from the end of the 5th year, and an interest rate of 9.159% per year, during the first 5 years. As an Additional Tier 1 instrument, the corresponding interest payment is decided at the Bank's discretion and is also subject to compliance with a set of conditions, situations that led to its recording under this caption.

On February 28, 2022, the General Meeting deliberated to distribute dividends related to retained earnings in the amount of Euros 502,855 thousand.

On May 4, 2022, the General Meeting deliberated to distribute dividends in respect of financial year 2021 in the amount of Euros 273,008 thousand.

On June 7, 2022, the General Meeting deliberated the distribution of dividends related to retained earnings in the amount of Euros 748,000 thousand.

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

As at June 30, 2022 and December 31, 2021, the breakdown of the Accumulated other comprehensive income reserves was as follows:

	30-06-2022	31-12-2021
Gross effect of appreciations		
Items that will not be reclassified in profit or loss		
Actuarial gains or losses (-) on defined-benefit pension plans	(700,360)	(813,131)
Fair value change in own equity instruments measured at fair value through other comprehensive income	75,858	(333)
Share of other income and expenses recognised in investments in subsidiaries, joint ventures and associates	(686)	(425)
Total items that will not be reclassified in profit or loss	(625,188)	(813,889)
Items that may be reclassified in profit or loss		
Cash flow hedging reserves [effective part]	(120,943)	(1,009)
Fair value change in debt instruments measured at fair value through other comprehensive income	463,520	680,925
Fair value change in debt securities measured at fair value through other comprehensive income	185,660	255,267
Fair value change in loans and advances measured at fair value through other comprehensive income	277,860	425,658
Total items that may be reclassified in profit or loss	342,577	679,558
Tax effect		
Items that will not be reclassified in profit or loss - tax effect		
Actuarial gains or losses (-) on defined-benefit pension plans	204,286	204,286
Fair value change in own equity instruments measured at fair value through other comprehensive income	(22,223)	-
Share of other income and expenses recognised in investments in subsidiaries, joint ventures and associates	571	598
Total items that will not be reclassified in profit or loss - tax effect	182,634	204,884
Items that may be reclassified in profit or loss - tax effect		
Cash flow hedging reserves [effective part]	37,493	313
Fair value change in debt instruments measured at fair value through other comprehensive income	(143,066)	(210,410)
Fair value change in debt securities measured at fair value through other comprehensive income	(56,929)	(78,456)
Fair value change in loans and advances measured at fair value through other comprehensive income	(86,137)	(131,954)
Total items that may be reclassified in profit or loss - tax effect	(105,573)	(210,097)
Accumulated other comprehensive income	(205,550)	(139,544)

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 attribution of dividends or to increase share capital.

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

The captions "Retained earnings" and "Other reserves" have the following composition:

	30-06-2022	31-12-2021
Retained earnings	402,736	1,608,681
Other reserves		
Legal reserve	569,691	539,357
Reserves of companies consolidated	97,241	157,654
Reserves of companies under the equity method	11,461	11,729
Merger reserves		
On incorporation of totta and BSP	541,334	541,334
On incorporation of BSN	35,405	35,405
On incorporation of Totta IFIC	90,520	90,520
On incorporation of BAPOP	(8,411)	(8,411)
Other reserves	(397,714)	(397,978)
	939,527	969,610

Retained earnings

As at June 30, 2022 and December 31, 2021, this caption recognises undistributed profits or losses of prior years (see "Other reserves").

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 Bank sets aside a legal reserve until it equals the share capital, or the sum of the free reserves constituted and the retained earnings, if greater. To this end, a fraction of not less than 10% of the profit or loss for the year of the Company's separate business is annually transferred to this reserve, until said amount is achieved. This reserve may only be used 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)

Other reserves

This caption includes the revaluation reserves. In 1998, under Decree-Law 31/98, of February 11, the Bank revalued its Property, Plant and Equipment, increasing their value, net of accumulated depreciation, by approximately Euros 23,245 thousand, which was recorded in revaluation reserves. The net amount resulting from the revaluation carried out can only be used for share capital increases or to cover losses, as and when they are used (amortised) or the assets to which they relate are sold. Additionally, this caption includes the impacts of accounting policy changes and the impacts originated by the sale of equity instruments.

21. PROFIT OR LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

In the first half of 2022 and of 2021, the determination of the consolidated profit can be summarised as follows:

	30-06-2022		30-06-2021	
	Profit or loss for the period	Contribution to the consolidated profit or loss	Profit or loss for the period	Contribution to the consolidated profit or loss
Profit or loss for the period of the Bank (individual basis)	233,053	233,053	53,973	53,973
Profit or loss for the period of the other Group companies:				
Totta (Ireland), Plc.	3,276	3,276	4,127	4,127
Novimovest - Fundo de Investimento Imobiliário Aberto	1,773	1,396	1,629	1,283
Unicre, Instituição Financeira de Crédito, S.A.	6,320	1,382	5,172	1,131
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	7	7	181	181
Totta Urbe, Empresa de Administração e Construções, S.A.	310	310	1,683	1,683
Lusimovest Fundo de Investimento Imobiliário	-	-	144	37
Taxagest, S.A.	(5)	(5)	(9)	(9)
	11,681	6,366	12,927	8,433
Elimination of intragroup dividends received:				
Totta (Ireland), Plc.		(8,737)		(9,124)
Unicre, Instituição Financeira de Crédito, S.A.		(3,834)		(4,704)
		(12,571)		(13,828)
Adjustments related to securitisation operations		4,468		1,424
Other		688		(171)
Consolidated profit or loss attributable to the shareholders of the parent		232,004		49,832

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

Basic earnings per share are calculated by dividing the consolidated net income attributable to the Bank's shareholders by the weighted average number of common shares in circulation during the period.

	30-06-2022	30-06-2021
Consolidated profit or loss attributable to the shareholders of the parent	232,004	49,832
Weighted average number of ordinary shares issued	1,391,779,674	1,256,723,284
Weighted average number of treasury shares	15,019,058	15,009,840
Weighted average number of ordinary shares outstanding	1,270,059,203	1,241,713,444
Basic earnings per share attributable to the shareholders of the Bank (Euros)	0.18	0.04

Basic earnings per share are the same as diluted earnings per share since there are no contingently issuable common shares, namely through options, warrants or equivalent financial instruments as at the reporting date.

22. MINORITY INTERESTS [NON-CONTROLLING INTERESTS]

The value of third-party holdings in Group companies is broken down by entity, as follows:

	30-06-2022	31-12-2021
Taxagest, S.A.	557	557
Other	69	69
	626	626

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

23. OFF-BALANCE-SHEET ACCOUNTS

The breakdown of off-balance-sheet liabilities is as follows:

	30-06-2022	31-12-2021
Guarantees given and other contingent liabilities		
Financial guarantees and sureties	339,098	330,997
Loan commitments granted		
Revocable	6,649,620	6,378,768
Irrevocable	588,350	565,980
	7,237,970	6,944,748
Other commitments granted		
Non-financial guarantees and sureties	1,436,520	1,346,113
Documentary credits outstanding	325,360	315,004
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	6,378	6,736
Other commitments granted	84	-
	1,837,311	1,736,822
	9,414,379	9,012,567
Assets pledged as guarantee		
Bank of Portugal	147,001	152,926
Deposit Guarantee Fund	80,730	78,205
Investor Indemnity System	7,598	8,342
Assets pledged as collateral in monetary policy operations	14,909,506	16,496,874
	15,144,835	16,736,347
Liabilities for services provided		
Deposit and custodianship services	39,970,294	41,779,767
Instruments received for collection	558,908	617,382
Other values	186,273	151,679
	40,715,475	42,548,828

Assets pledged as collateral for monetary policy operations correspond to the collateral pool that the Bank has with the European Central Bank, to secure operational liquidity.

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

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

	30-06-2022							
	Exposure				Impairment (Note 17)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan commitments granted	6,766,546	461,691	9,733	7,237,970	6,133	3,399	36	9,568
Financial guarantees	304,306	10,462	24,330	339,098	573	488	13,848	14,910
Other commitments granted	1,662,062	40,264	134,985	1,837,311	678	551	22,557	23,786
	8,732,914	512,417	169,048	9,414,379	7,384	4,438	36,442	48,264

	31-12-2021							
	Exposure				Impairment (Note 17)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan commitments granted	6,219,555	715,297	9,896	6,944,748	4,116	4,507	136	8,759
Financial guarantees	291,622	12,284	27,091	330,997	595	602	15,258	16,455
Other commitments granted	1,542,902	44,600	149,320	1,736,822	666	580	24,718	25,964
	8,054,079	772,181	186,307	9,012,567	5,377	5,689	40,112	51,178

Deposit Guarantee Fund

Pursuant to Decree-Law 298/92, of December 31, the Deposit Guarantee Fund was established in November 1994 to secure the deposits made at credit institutions, in accordance with the limits established in the General Credit Institutions and Financial Companies Regime. The initial contribution to the Fund, established by an Order of the Ministry of Finance, was made through the delivery of cash and deposit securities, and was amortised over 60 months as from January 1995. Except for that referred to in the following paragraph, the regular annual contributions to the Fund are recognised as an expense for the year 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 an irrevocable commitment to the Deposit Guarantee Fund to pay up the 10 % of the annual contribution, if and when so requested. The accumulated unpaid amount, in respect of which this commitment was entered into, totalled Euros 68,969 thousand. The assets pledged to the Bank of Portugal are reflected under off-balance-sheet captions at their market value. In financial years 2022 and 2021, the Bank paid 100% of the annual contribution in the amounts of Euros 532 thousand and Euros 50 thousand, respectively (Note 32).

Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as expenses. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at June 30, 2022 and December 31, 2021, these liabilities amounted to Euros 6,378 thousand and Euros 6,736 thousand, respectively.

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

24. NET INTEREST INCOME

The composition of this caption is as follows:

	30-06-2022	30-06-2021
Interest income		
Interest on cash and deposits at Central banks and Credit institutions	160	27
Interest on non-trading financial assets mandatorily at fair value through profit or loss	-	450
Interest on financial assets at fair value through other comprehensive income	66,969	67,489
Interest on financial assets at amortised cost		
Loans and advances - Credit institutions	664	65
Debt securities	24,221	28,523
Loans and advances - Customers	282,515	273,876
Interest on resources at Central banks and other Credit institutions	56,816	45,524
Interest on hedging derivatives	113,510	135,046
Other	1	461
	544,856	551,461
Interest expenses		
Interest on financial liabilities at amortised cost		
Deposits - Credit institutions	(1,914)	(2,436)
Deposits - Customers	(3,452)	(3,340)
Debt securities issued	(29,485)	(14,928)
Interest on assets of Central banks and Credit institutions	(15,741)	(9,391)
Interest on assets of Costumers	(12,408)	(1,151)
Interest on hedging derivatives	(112,800)	(134,189)
Interest on lease liabilities	(179)	(199)
Other	-	(3,982)
	(175,979)	(169,616)
	368,877	381,845

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

25 DIVIDEND INCOME

This caption refers to dividends received and is broken down as follows:

	30-06-2022	30-06-2021
SIBS – Sociedade Interbancária de Serviços, S.A.	3,643	1,533
Other	13	-
	3,656	1,533

26. SHARE OF THE PROFIT OR LOSS FROM INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES ACCOUNTED FOR UNDER THE EQUITY METHOD

The composition of this caption is as follows:

	30-06-2022	30-06-2021
Unicre - Instituição Financeira de Crédito, S.A.	1,382	1,060

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

27. FEE AND COMMISSION INCOME AND EXPENSES

The composition of this caption is as follows:

	30-06-2022	30-06-2021
Fee and commission income	**292,881**	**256,476**
Securities	8,010	7,783
Corporate finance	563	711
Consultancy fees	-	650
Asset management	1,030	1,189
Custodianship	2,896	2,948
Payment services	145,839	133,473
Securitised current accounts	53,549	49,254
Credit cards	10,510	9,355
Debit cards and other card payments	71,439	65,519
Transfers and other payment orders	9,816	8,793
Other fee and commission income related to payment services	525	552
Customer resources distributed but not managed [by product type]	80,828	70,237
Collective investment	17,282	14,988
Insurance products	63,546	55,249
Structured financial instruments	6,187	1,434
Loan commitments granted	4,082	3,521
Financial guarantees granted	2,005	2,871
Loans granted	30,225	24,938
Forex	44	23
Other fee and commission income	11,172	6,698
Fee and commission expenses	**50,474**	**50,633**
Securities	2,892	1,731
Asset management	238	254
Payment services	36,300	33,806
of which: credit, debit and other cards	34,790	32,225
Financial guarantees received	705	1,446
Other fee and commission expenses	10,339	13,396

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

28. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

The composition of these captions is as follows:

	30-06-2022	30-06-2021
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	**753**	**129,180**
Gains or losses of financial assets at fair value through other comprehensive income - Debt instruments	-	126,898
Financial assets at fair value through other comprehensive income - Debt instruments	-	2,242
Other	-	40
Financial liabilities measured at amortised cost - Debt instruments	753	-
Gains or losses on financial assets and liabilities held for trading, net	**6,269**	**(2,623)**
Debt instruments	6,269	(2,623)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**3,834**	**1,313**
Debt securities	-	1,496
Own equity instruments	3,834	(183)
Gains or losses from hedge accounting, net	**-**	**-**
Hedging derivatives	(573,022)	(109,406)
Hedged element	573,022	109,406
Exchange differences, net	**8,873**	**6,296**

In the first half of 2021, the gains recorded in the caption "Financial assets at fair value through other comprehensive income" were justified, essentially, by the sale of public debt bonds.

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

The composition of this caption is as follows:

	30-06-2022	30-06-2021
Gains on investment property	1	38
Losses on investment property	(411)	(63)
	(410)	(25)

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

30. OTHER OPERATING INCOME AND EXPENSES

The composition of this caption is as follows:

	30-06-2022	30-06-2021
Other operating income		
Income from services rendered	1,277	1,235
Rents earned	4,380	4,811
Fair value changes of investment property	917	-
Other	2,665	3,193
	9,239	9,239
Other operating expenses		
Fair value changes of investment property	(901)	(176)
Charges incurred with customers	(1,665)	(3,710)
Other	(1,082)	(2,289)
	(3,648)	(6,175)

The caption “Rents earned” includes the amounts of Euros 4,380 thousand and Euros 4,811 thousand, respectively, in respect of the rents earned by the Novimovest Real Estate Fund (Note 12).

In the caption “Charges incurred with customers”, expenses with internal and external fraud are recorded.

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

31. ADMINISTRATIVE EXPENSES

The composition of this caption is as follows:

Staff expenses

	30-06-2022	30-06-2021
Remuneration		
Management and supervisory boards	1,783	2,326
Employees	84,808	106,259
Other variable remuneration	12,578	10,461
	99,169	119,046
Mandatory social charges		
Charges on remuneration	22,996	29,384
Pension Funds	2,628	3,953
Other	363	457
	25,987	33,794
Other staff expenses		
Complementary pension plan (Note 35)	210	210
Staff transfers	541	586
Other	3,390	3,663
	4,141	4,459
	129,297	157,299

Other administrative expenses

	30-06-2022	30-06-2021
External supplies	4,098	4,388
External services:		
Specialised services	39,515	37,994
Maintenance of software and hardware	26,527	32,022
Other lease operations (short-term and low-value leases)	1,740	2,196
Communications	2,532	3,299
Advertising and publishing	3,667	3,857
Travel, accommodation and entertainment expenses	1,343	739
Maintenance and repairs	1,394	2,035
Transportation	1,925	2,057
Insurance	1,161	953
Other services	2,060	3,312
Subscriptions and donations	179	3,466
Other taxes	768	1,830
	86,909	98,148

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

32. CASH CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

The composition of this caption is as follows:

	30-06-2022	30-06-2021
Contributions to the Resolution Fund		
National Resolution Fund	(12,552)	(12,853)
Single Resolution Fund	(28,354)	(24,776)
Contributions to the Deposit Guarantee Fund	(532)	(50)
	(41,438)	(37,679)

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 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 of 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 resolution authority, determines the amount of the contribution of each institution depending on the risk profile of each entity. In 2022 and 2021, and as provided for in a Bank of Portugal letter, the Single Resolution Council (CUR) allowed banking institutions, for these financial years, to opt for the use of an irrevocable payment commitment, in the proportion of 15% of the amount of the annual contribution. The annual contribution amounted to Euros 33,358 thousand and Euros 29,149 thousand, respectively.

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

The composition of this caption is as follows:

	30-06-2022			30-06-2021		
	Gains	Losses	Net	Gains	Losses	Net
Assets received as payment in kind	4,622	(11,752)	(7,130)	3,918	(241)	3,677
Other non-financial assets	31,764	(8,010)	23,754	15,065	(8,439)	6,626
	36,386	(19,762)	16,624	18,983	(8,680)	10,303

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

34. PROVISION OF INSURANCE BROKERAGE SERVICES

Income from the provision of insurance brokerage services relates primarily to commissions billed for the marketing of life and non-life insurance, as follows:

	30-06-2022			30-06-2021		
	Life Products	Non-Life Products	Total (Note 27)	Life Products	Non-Life Products	Total (Note 27)
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	19,617	-	19,617	19,702	-	19,702
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	26,453	-	26,453	21,543	-	21,543
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	-	16,241	16,241	-	12,850	12,850
Other	287	948	1,235	-	1,154	1,154
	46,357	17,189	63,546	41,245	14,004	55,249

As at June 30, 2022 and December 31, 2021, the caption "Other assets – Income receivable and deferred income" (Note 14) includes mainly commissions receivable from insurers as detailed hereunder:

	30-06-2022	31-12-2021
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	9,712	10,019
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	4,596	4,233
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	2,842	2,521
Other	10	645
	17,160	17,418

These amounts refer, essentially, to the commissions determined and not yet paid in respect of premiums of insurance marketed during the second quarter of 2022 and the fourth quarter of 2021.

35. EMPLOYEE POST-EMPLOYMENT BENEFITS

To determine the liabilities for past services of the Bank (Santander and BAPOP plan) in respect of employees in service and those already retired, actuarial studies were conducted by Mercer (Portugal), Limitada. The current value of the past-service liabilities, as well as the related costs of current services, were calculated based on the Projected Unit Credit method.

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

The Bank's liabilities for retirement pensions, healthcare and death allowances as at June 30, 2022 and December 31, 2021, as well as the respective coverage, are detailed as follows:

	Santander		BAPOP	
	30-06-2022	31-12-2021	30-06-2022	31-12-2021
Estimate of liabilities for past services:				
- Pensions:				
.Current employees	172,694	237,145	69,356	86,279
.Pensioners	53,535	59,716	6,514	7,444
.Retired staff and early retired staff	587,755	679,673	66,097	78,691
	813,984	976,534	141,967	172,414
- Healthcare system (SAMS)	135,640	166,240	9,204	12,505
- Death allowance	4,732	6,162	481	697
- Retirement bonus	5,779	7,010	-	-
	960,135	1,155,946	151,652	185,616
Coverage of liabilities:				
- Net value of the Fund	1,040,039	1,164,211	176,438	194,073
Excess/(Insufficient) funding (Note 19)	79,904	8,265	24,786	8,457
Actuarial and financial deviations generated in the period				
- Change in assumptions	(197,221)	-	(34,021)	-
- Experience adjustments:				
.Other actuarial (gains) or losses	22,370	8,430	640	1,077
.Financial (gains) or losses	93,821	(45,334)	16,196	(7,038)
	116,191	(36,904)	16,836	(5,961)
	(81,030)	(36,904)	(17,185)	(5,961)

The main assumptions used by the Bank to determine its liabilities for retirement pensions were as follows:

Mortality Table	30-06-2022	31-12-2021
Female	TV 88/90 (-1)	TV 88/90 (-1)
Male	TV 88/90	TV 88/90
Rate of return on pension fund assets	2.60%	1.10%
Technical actuarial rate (discount rate)	2.60%	1.10%
Salary growth rate	0.75%	0.75%
Pension growth rate	0.50%	0.50%

Decree-Law 167-E/2013, of December 31, changed the normal retirement age under the General Social Security Regime; however, the sustainability factor is 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.

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

The movement under liabilities for past services in the first half of 2022 and in financial year 2021, can be detailed as follows:

	Santander		BAPOP	
	30-06-2022	31-12-2021	30-06-2022	31-12-2021
Liabilities at beginning of period	1,155,946	1,123,784	185,616	181,921
Cost of current services	1,652	5,462	450	1,363
Interest expense	6,128	11,940	836	1,638
Actuarial (gains) or losses	(174,851)	8,430	(33,381)	1,077
Early retirements	7,739	81,386	406	10,139
Amounts paid	(37,632)	(60,193)	(2,527)	(4,182)
Other	-	(17,352)	-	(6,953)
Employee contributions	1,153	2,489	252	613
Liabilities at end of period	960,135	1,155,946	151,652	185,616

The expenses for the year relating to pensions include the cost of current services and interest expense, net of the expected return on the Pension Fund assets. In the first half of 2022 and in financial year 2021, the expenses with pensions have the following composition (Note 31):

	30-06-2022	31-12-2021
Cost of current services	2,102	6,825
Interest expense	6,964	13,578
Income from assets calculated using	(6,964)	(13,578)
Defined benefit plan	2,102	6,825
Defined contribution plan	499	938
London Branch plan	27	126
	2,628	7,889

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 the Bank (1.5%), calculated based on 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.

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.

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

The movement under actuarial deviations was as follows:

	Santander		BAPOP	
	30-06-2022	31-12-2021	30-06-2022	31-12-2021
Deviations at beginning of period (Note 20)	758,860	795,764	1,503	7,464
Actuarial (gains) or losses	(174,851)	8,430	(33,381)	1,077
Financial (gains) or losses	93,821	(45,334)	16,196	(7,038)
Deviations at end of period (Note 20)	677,830	758,860	(15,682)	1,503

The Santander Pension Fund is managed by Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A., and the BAPOP Pension Fund is managed by Santander Totta Seguros – Companhia de Seguros de Vida, S.A. As at June 30, 2022 and December 31, 2021, the number of participants of the Funds was the following:

	Santander		BAPOP	
	30-06-2022	31-12-2021	30-06-2022	31-12-2021
Current employees				
Defined benefit plan	3,165	3,272	645	673
Defined contribution plan	537	496	95	98
Pensioners	1,349	1,333	30	31
Retired staff and early retired staff	6,100	6,113	211	210
	11,151	11,214	981	1,012

The movement under the Bank's Pension Fund during the first half of 2022 and in financial year 2021 was as follows.

	Santander		BAPOP	
	30-06-2022	31-12-2021	30-06-2022	31-12-2021
Fund value at beginning of period	1,164,211	1,143,046	194,073	186,718
Bank contributions (monetary)	-	21,595	-	2,248
Employee contributions	1,153	2,489	252	613
Profit or loss of the fund:				
Income from assets calculated using discount rate	6,128	11,940	836	1,638
Income of the fund above the discount rate	(93,821)	45,334	(16,196)	7,038
Amounts paid	(37,632)	(60,193)	(2,527)	(4,182)
Fund value at end of period	1,040,039	1,164,211	176,438	194,073

The yields of the Pension Fund amounted in the first half of 2022 to (7.64%) in Santander and (7.72%) in BAPOP, and in 2021 to 5.13% in Santander and 5.27% in BAPOP.

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

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 instruments, holdings in collective-investment institutions, bank deposits, other monetary assets, and land and buildings registered in the land registry.

On the other hand, that policy is guided by risk-diversification and profitability criteria, and the Managing Company may opt for a more or less conservative policy by increasing or decreasing the exposure to shares 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	Buckets considered
Bonds	40% to 95%
Real estate	0% to 25%
Equities	0% to 20%
Liquidity	0% to 15%
Alternatives	0% to 10%
Commodities	0% to 5%

As at June 30, 2022 and December 31, 2021, the composition of the Pension Fund was as follows:

	Santander		BAPOP	
	30-06-2022	31-12-2021	30-06-2022	31-12-2021
Debt instruments:				
. Rating A	50,789	46,393	14,575	9,672
. Rating AA	23,477	5,233	3,396	843
. Rating AAA	10,774	783	4,225	91
. Rating BBB	314,472	426,870	72,159	85,689
. Rating BB	18,009	40,584	3,283	8,046
. Without rating for the issuance or the issuer	11,658	17,311	1,015	1,127
Real estate funds	114,363	118,103	939	926
Mutual funds	435,972	427,943	68,951	76,366
Deposits	16,883	37,521	8,139	7,101
Real estate				
. Commercial spaces	19,665	19,551	-	-
. Land	1,297	1,297	-	-
Equity instruments - Foreign equities – listed	-	79	-	-
Derivative financial instruments	190	1,954	4	210
Other	22,490	20,589	(248)	4,002
	1,040,039	1,164,211	176,438	194,073

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

The method for calculating the fair value of the assets and liabilities mentioned above, adopted by the Managing Companies, as recommended in IFRS 13 (Note 38), was as follows:

	30-06-2022				31-12-2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	515,159	-	12,673	527,832	624,204	-	18,438	642,642
Investment funds	620,225	-	-	620,225	504,309	-	119,029	623,338
Equity instruments	-	-	-	-	79	-	-	79
Derivative financial instruments	194	-	-	194	2,164	-	-	2,164
Real estate	-	-	20,962	20,962	-	-	20,848	20,848
Other		-	47,264	47,264	-	-	69,213	69,213
	1,135,578	-	80,899	1,216,477	1,130,756	-	227,528	1,358,284

The Pension Fund's portfolio included the following assets related to companies of the Santander Group in Portugal:

	30-06-2022	31-12-2021
Leased real estate properties	15,365	14,253
Securities (including units in funds managed)	204,041	189,719
	219,406	203,972

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 Euros 4,430 thousand. In the six-month periods ended June 30, 2022 and 2021, the premium paid by the Bank amounted to Euros 210 thousand, respectively (Note 31).
This plan covers the contingencies of retirement, death and permanent absolute disability for customary work or invalidity.

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 these occur. In the case of the beneficiary's death, this amount will be further increased by Euros 6,000.

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

Defined-benefit pension plan – former London Branch

As at June 30, 2022 and December 31, 2021, the main assumptions used in the calculation of retirement pension liabilities related to the pension plan covering the employees of the former Bank's London Branch were as follows:

	30-06-2022	31-12-2021
Mortality table	100% S3NMA_Light/ 100% S3NFA_Light	100% S3NMA_Light/ 100% S3NFA_Light
Technical actuarial rate (discount rate)	3.8%	1.8%
Salary growth rate	3.0%	3.2%
Pension growth rate	2.2%	2.2%
Inflation rate	3.0%	3.2%

As at June 30, 2022 and December 31, 2021, the liabilities for the defined-benefit pension plan and their coverage were as follows:

	30-06-2022	31-12-2021
Estimated liabilities for past services	36,817	52,915
Coverage of liabilities	38,941	49,938
Excess/(insufficient) funding (Note 19)	2,124	(2,977)

The movement under liabilities for past services in the first half of 2022 and in financial year 2021, can be detailed as follows:

	30-06-2022	31-12-2021
Liabilities at beginning of period	52,915	56,628
Cost of current services	14	25
Interest expense	461	718
Actuarial (gains) or losses	(15,994)	(2,445)
Amounts paid	(579)	(2,011)
Liabilities at end of period	36,817	52,915

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

The movement in the Fund in the first half of 2022 and in financial year 2021, was as follows:

	30-06-2022	31-12-2021
Book value at beginning of period	49,938	48,718
Profit or loss of the fund:		
. Income from assets calculated using discount rate	449	616
. Income of the fund above/(below) the discount rate	(10,883)	2,598
Bank contributions	16	17
Amounts paid	(579)	(2,011)
Book value at end of period	38,941	49,938

The movement in actuarial deviations in the first half of 2022 and in financial year 2021, was as follows:

	30-06-2022	31-12-2021
Deviations at beginning of period (Note 20)	11,530	16,573
Actuarial (gains) or losses	(15,994)	(2,445)
Financial (gains) or losses	10,883	(2,598)
Deviations at end of period (Note 20)	6,419	11,530

As at June 30, 2022 and December 31, 2021, the portfolio of the Pension Fund of the London Branch included the following assets:

	30-06-2022	31-12-2021
Debt instruments	14,596	20,243
Equity instruments	15,898	21,800
Other	8,447	7,895
Fund value	38,941	49,938

The liabilities for defined-benefit pension plans expose the Bank to the following risks:

- Investment risk – the updated value of liabilities is calculated based on 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 based on 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 based on an estimate of the future salary of the participants. Thus, an increase in participants' salaries will increase pension liabilities.

Pension Fund – Banif

As a result of the resolution measure applied to Banif on December 20, 2015, several 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 Fund Supervisory Authority for the transfer to the Bank of Banif's position as associate of the Banif Pension Fund, regarding 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 of termination of the share has already been authorised by the Insurance and Pension Fund 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 healthcare (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 payment 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.

b) Defined-benefit pension plan I – former BBCA subpopulation (closed to new subscribers): (i) payment of retirement, disability, presumable disability and survivor 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 healthcare (SAMS), and (iii) death allowances, both under the terms of the CBA.

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

Banif also 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, except for those included following the merger by incorporation of the former BBCA, who are not covered by the Company Agreement. The initial contribution was calculated based on: (i) supplementary old-age pensions estimated in the valuation 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 to which the plan applies of employees taken on after January 1, 2007, provided they had not died, retired or terminated the contract by the date of entry into force of the Company Agreement.

The breakdown of the estimated liabilities for past services as at June 30, 2022 and December 31, 2021, using the Bank's assumptions, is as follows for the defined-benefit pension plan (considering both the Banif and the former BBCA subpopulations):

	30-06-2022				
	Liabilities				
	Pensions	Healthcare system (SAMS)	Death allowance	Retirement bonus	Total
Current employees	7,417	4,476	51	782	12,726
Retired staff, pensioners and early retired staff	116,192	10,267	410	-	126,869
Former participants with vested rights	3,629	1,690	-	-	5,319
Total liabilities for past services	127,238	16,433	461	782	144,914
Value of the Pension Fund					78,878
Insufficient funding					(66,036)

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

	31-12-2021				
	Liabilities				
	Pensions	Healthcare system (SAMS)	Death allowance	Retirement bonus	Total
Current employees	10,133	6,504	75	979	17,691
Retired staff, pensioners and early retired staff	128,607	12,085	522	-	141,214
Former participants with vested rights	6,052	2,151	-	-	8,203
Total liabilities for past services	144,792	20,740	597	979	167,108
Value of the Pension Fund					92,220
Insufficient funding					(74,888)

The breakdown of the Banif Pension Fund portfolio associated with the defined-benefit pension plan, by asset type, is as follows:

	30-06-2022		31-12-2021	
Type of Asset	Total	Relative weight	Total	Relative weight
Debt instruments	44,238	54.46%	47,366	58.31%
Mutual fund	6,177	7.60%	1,738	2.14%
Real estate fund	4,343	5.35%	2,952	3.63%
Real estate	13,698	16.86%	13,699	16.86%
Equity instruments	8,898	10.95%	21,599	26.59%
Other	3,876	4.77%	7,604	9.36%
	81,230		94,958	
Net assets to be transferred	(2,352)		(2,738)	
	78,878		92,220	

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.

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

36. 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 Euros 25,450,000 thousand. In the older transactions the loans were sold at par (book) value to loan securitisation funds denominated Fundos Hipototta FTC. A substantial part of the securitisations was repurchased by the Bank under said agreements, while Hipototta No. 4 and Hipototta No. 5 remain active. In January 2018, the Bank carried out a new securitisation in the amount of Euros 2,266,000 thousand, 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, classes A, B and C bonds, with different levels of subordination and rating and, consequently, remuneration. These bonds were acquired, in their entirety, 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, the Hipototta Funds (No. 4 and No. 5) issued securitisation units of an amount identical to the loan portfolios acquired, which were subscribed, in their entirety, by Fundos Hipototta (nº 4 and nº 5) PLC, having its registered office in Ireland.

On the other hand, Fundos Hipototta (nº 4 and nº 5) FTC delivered all amounts received from the Bank and from the Directorate General of the Treasury to Fundos Hipototta (nº 4 and nº 5) PLC, separating the instalments into principal and interest.

As a form of funding, Fundos Hipototta (nº 4 and nº 5) PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration.
As at June 30, 2022, bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC

Issued debt	Amount: Initial	Amount: Current	Rating: Fitch	Redemption date	Early redemption date	Remuneration: Up to early redemption date	Remuneration: After early redemption date
Class A	2,616,040	360,676	A	September, 2048	December, 2014	Euribor 3 months + 0.12%	Euribor 3 months + 0.24%
Class B	44,240	13,122	A	September, 2048	December, 2014	Euribor 3 months + 0.19%	Euribor 3 months + 0.40%
Class C	139,720	41,441	BB-	September, 2048	December, 2014	Euribor 3 months + 0.29%	Euribor 3 months + 0.58%
	2,800,000	415,239					
Class D	14,000	7,000	NR	September, 2048	December, 2014	Residual income of the securitised portfolio	
	2,814,000	422,239					

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

Hipototta nº 5 PLC

Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P	Moody´s			Up to early redemption date	After early redemption date
Class A1	200,000	-			February, 2060	February, 2014	Euribor 3 months + 0.05%	Euribor 3 months + 0.10%
Class A2	1,693,000	326,509	A	Aa2	February, 2060	February, 2014	Euribor 3 months + 0.13%	Euribor 3 months + 0.26%
Class B	26,000	26,000	A	Aa2	February, 2060	February, 2014	Euribor 3 months + 0.17%	Euribor 3 months + 0.34%
Class C	24,000	24,000	A	Aa2	February, 2060	February, 2014	Euribor 3 months + 0.24%	Euribor 3 months + 0.48%
Class D	26,000	26,000	A	A3	February, 2060	February, 2014	Euribor 3 months + 0.50%	Euribor 3 months + 1.00%
Class E	31,000	31,000	A	Ba2	February, 2060	February, 2014	Euribor 3 months + 1.75%	Euribor 3 months + 3.50%
	2,000,000	433,509						
Class F	10,000	6,000	CCC-	Ca	February, 2060	February, 2014	Residual income of the securitised portfolio	
	2,010,000	439,509						

The bonds issued by Fundos Hipototta nº 4 PLC earn interest quarterly on March, June, September and December 30 of each year. The bonds issued by Fundos Hipototta nº 5 PLC earn interest quarterly on February 28, and on May, August and November 30 of 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 options 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 Fundos Hipototta nº 5 PLC, 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 liabilities 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 the expenses of the operations, namely:

- Taxes;
- Expenses and commissions calculated on the value of the portfolios (custody and servicer fees charged by the Bank, and management fees, charged by the Funds);
- Interest on the bonds of the other classes;
- Losses due to default.

On the date on which the securitisations were contracted, subordinated loans were concluded between the Bank and Hipototta, which correspond to credit facilities/lines in the event of a need for liquidity on the part of Hipototta. Swap Agreements were also concluded between the Santander Group and the securitisation vehicles, and between the Bank and the Santander Group, intended to hedge the interest-rate risk.

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

Banif securitisation operations

In the wake of the resolution measure applied to Banif, the Bank acquired several securitisation operations issued by said entity, and the corresponding securitised loans and bonds issued were transferred.

Atlantes Mortgage No. 2

An operation carried out in March 2008, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issuance of Atlantes Mortgage No. 2, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 2

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	349,100	82,984	AA	AA	September, 2060	Euribor 3 months + 0.33%
Class B	18,400	10,331	AA	AA	September, 2060	Euribor 3 months + 0.95%
Class C	7,500	4,211	BBB+	A+	September, 2060	Euribor 3 months + 1.65%
	375,000	97,526				
Class D	16,125	8,838	NR	NR	September, 2060	Residual income of the securitised portfolio
	391,125	106,364				

Atlantes Mortgage No. 3

An operation carried out 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		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	558,600	145,265	AA	AA	August, 2061	Euribor 3 months + 0.2%
Class B	41,400	20,833	NR	NR	August, 2061	Euribor 3 months + 0.5%
	600,000	166,098				
Class C	57,668	37,377	NR	NR	August, 2061	Residual income of the securitised portfolio
	657,668	203,475				

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

Atlantes Mortgage No. 4

An operation carried out 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	162,368	AA	AA	December, 2064	Euribor 3 months + 0.15%
Class B	35,750	17,881	NR	NR	December, 2064	Euribor 3 months + 0.3%
	550,000	180,249				
Class C	74,250	49,987	NR	NR	December, 2064	Residual income of the securitised portfolio
	624,250	230,236				

Hipototta 13

In January 2018, the Bank carried out a new securitisation in the amount of Euros 2,266,000 thousand, 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. These bonds were acquired, in their entirety, by the Bank.

Hipototta 13

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	1,716,000	765,078	NR	A+(sf)	October, 2072	Euribor 3 months + 0.6%
Class B	484,000	484,000	NR	NR	October, 2072	Euribor 3 months + 1%
	2,200,000	1,249,078				
Class C	66,000	38,885	NR	NR	October, 2072	Residual income of the securitised portfolio
	2,266,000	1,287,963				
VFN	0.001	0.001	NR	NR	October, 2072	No remuneration

The Azor Mortgage No. 1 operation was wound up during 2021 and during the first half of 2022 the Azor Mortgage no. 2 and the Atlantes Mortgage nos. 5 and 7 operations were wound up.

37. RELATED ENTITIES

The Bank's related entities with which it maintained balances or transactions in the first half of 2022 are as follows:

Name of the related entity	Registered office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta (Ireland), PLC	Ireland
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Unicre-Instituição Financeira de Crédito	Portugal

Name of the related entity	Registered office
Entities under common direct or indirect control by the Bank	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
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
Caceis	France
CCPT - ComprarCasa Rede Serviços Imobiliários, S.A.	Portugal
Consulteam - Consultores de Gestão, Lda	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Open Bank Santander Consumer S.A.	Spain
Mapfre Santander Portugal - Co. de Seguros S.A.	Portugal
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank, National Association	United States
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Global Technology, S.L.	Spain
Santander Global Facilities, S.L.	Spain
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

The Bank's related entities with which it maintained balances or transactions in financial year 2021 are as follows:

Name of the related entity	Registered office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta (Ireland), PLC	Ireland
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Unicre-Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal

Name of the related entity	Registered office
Entities under common direct or indirect control by the Bank	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
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
Caceis	France
CCPT - ComprarCasa Rede Serviços Imobiliários, S.A.	Portugal
Consulteam - Consultores de Gestão, Lda	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Open Bank Santander Consumer S.A.	Spain
Mapfre Santander Portugal - Co. de Seguros S.A.	Portugal
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank, National Association	United States
Santander Consumer Bank AG	Germany
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Technology, S.L.	Spain
Santander Global Facilities, S.L.	Spain
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

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

As at June 30, 2022 and December 31, 2021, the balances and transactions maintained during these financial periods with related parties were as follows:

	30-06-2022		
	Entities that directly or indirectly control the Group	Entities significantly influenced by the Group	Entities under common direct or indirect control by the Group
Assets:			
Cash balances in other credit institutions	48,870	-	24,291
Financial assets held for trading	311,839	-	1,395
Financial assets at amortised cost			
Loans and advances	316,678	43,539	42,948
Derivatives - hedge accounting	105,300	-	-
Investments in subsidiaries, joint ventures and associates	-	35,783	-
Intangible assets	-	-	4,099
Other assets	51	-	17,277
Liabilities:			
Financial liabilities held for trading	390,183	-	34,746
Financial liabilities at amortised cost			
Deposits - Credit institutions	292,379	-	9,022
Deposits - Customers	982,955	121	312,634
Debt securities issued	1,001,501	-	8,069
Other financial liabilities	-	-	1,369
Derivatives - hedge accounting	3,223	-	-
Tax liabilities	161,902	-	-
Other liabilities	4,634	-	10,379
Statement of profit or loss:			
Interest income	82,960	220	183
Interest expense	98,462	-	213
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for under the equity method	-	1,382	-
Fee and commission income	508	169	64,711
Fee and commission expense			627
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	264,297	-	(2.619)
Exchange differences, net	(11.267)	-	-
Other operating income	1	-	105
Administrative expenses	4,634	-	23,861
Depreciation	-	-	1,338
Off balance sheet items:			
Financial guarantees granted	16,370	-	4,015
Loan commitments granted	23,100	2,005	12,903
Other commitments granted	38,045	-	129,363
Guarantees received	1	-	-
Foreign exchange operations and derivatives	26,839,248	-	451,709
Liabilities for services provided	3,198,427	-	10,085,056
Customer resources distributed but not managed	-	-	6,285,569

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

	31-12-2021		
	Entities that directly or indirectly control the Group	Entities significantly influenced by the Group	Entities under common direct or indirect control by the Group
Assets:			
Cash balances in other credit institutions	53,683	-	25,459
Financial assets held for trading	249,868	-	8,552
Financial assets at amortised cost			
Loans and advances	598,389	48,375	2,767
Derivatives - hedge accounting	5,904	-	-
Investments in subsidiaries, joint ventures and associates	-	38,161	-
Tax assets	3	-	-
Other assets	14	-	16,889
Liabilities:			
Financial liabilities held for trading	554,995	-	36,658
Financial liabilities at amortised cost			
Deposits - Credit institutions	24,238	-	857
Deposits - Customers	312,799	1	364,824
Debt securities issued	365,046	-	8,399
Derivatives - hedge accounting	48,990	-	-
Tax liabilities	78,189	-	-
Other liabilities	13,068	-	9,772
Statement of profit or loss:			
Interest income	178,173	328	84
Interest expense	209,568	-	374
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for under the equity method	-	4,194	-
Fee and commission income	853	339	116,831
Fee and commission expense	3,176	-	1,389
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	100,834	-	(16.675)
Administrative expenses	8,006	-	46,300
Exchange differences, net	4,153	-	-
Other operating income	16	1	208
Off balance sheet items:			
Guarantees provided and other contingent liabilities	50,420	22	149,287
Guarantees received	1	-	-
Commitments to third parties	120,997	2,002	17,453
Foreign exchange operations and derivatives	27,305,868	-	460,312
Liabilities for services provided	2,010,648	-	10,601,270

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

GOVERNING BODIES

Board of Directors

As at June 30, 2022 and December 31, 2021, advances or loans granted to members of the governing bodies, considered key personnel of the Bank's management, amounted to Euros 1,484 thousand and Euros 1,069 thousand, respectively. Deposits to members of the governing bodies were granted at market conditions. As at June 30, 2022 and 2021, fixed and variable remunerations totalled Euros 1,783 thousand and Euros 2,326 thousand, respectively.

Regarding 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 that previously defined in the former totta regulation. Members of the Board of Directors whose term of office 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 under 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 June 30, 2022 and December 31, 2021, liabilities with this plan amounted to Euros 14,346 thousand and Euros 14,268 thousand, respectively, and were covered by a provision of the same amount carried in the caption “Provisions and other post-employment defined-benefit obligations” (Note 17).

Regarding employment-termination benefits, as provided for in the Commercial 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)

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

Fair value

The following table summarises, for each group of financial assets and liabilities, their fair values with reference to June 30, 2022 and December 31, 2021:

	30-06-2022			
	Measured at fair value	Measured at amortised cost	Book Value	Measured at fair value
Assets				
Cash, cash balances at central banks and other demand deposits	-	10,793,737	10,793,737	10,806,536
Financial assets held for trading	496,910	-	496,910	496,910
Non-trading financial assets mandatorily at fair value through profit or loss	82,742	-	82,742	82,742
Financial assets at fair value through other comprehensive income	4,767,743	-	4,767,743	4,767,743
Financial assets at amortised cost	-	40,795,053	40,795,053	40,336,913
Derivatives – Hedge accounting	303,896	-	303,896	303,896
	5,651,291	51,588,790	57,240,081	56,794,740
Liabilities				
Financial liabilities held for trading	494,698	-	494,698	494,698
Financial liabilities measured at amortised cost				
Deposits	-	49,196,923	49,196,923	49,132,793
Debt securities issued	-	3,708,474	3,708,474	3,588,673
Other financial liabilities	-	270,633	270,633	270,633
Derivatives – Hedge accounting	136,515	-	136,515	136,515
	631,213	53,176,030	53,807,243	53,623,312

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

	31-12-2021			
	Measured at fair value	Measured at amortised cost	Book Value	Measured at fair value
Assets				
Cash, cash balances at central banks and other demand deposits	-	8,711,389	8,711,389	8,703,673
Financial assets held for trading	587,772	-	587,772	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	99,167	-	99,167	99,167
Financial assets at fair value through other comprehensive income	5,339,913	-	5,339,913	5,339,913
Financial assets at amortised cost	-	40,373,867	40,373,867	40,149,005
Derivatives – Hedge accounting	7,447	-	7,447	7,447
	6,034,299	49,085,256	55,119,555	54,886,977
Liabilities				
Financial liabilities held for trading	605,331	-	605,331	605,331
Financial liabilities measured at amortised cost				
Deposits	-	46,762,551	46,762,551	46,713,455
Debt securities issued	-	3,006,747	3,006,747	3,096,295
Other financial liabilities	-	219,275	219,275	219,275
Derivatives – Hedge accounting	294,108	-	294,108	294,108
	899,439	49,988,573	50,888,012	50,928,464

As at June 30, 2022 and December 31, 2021, the carrying amount of the financial instruments measured at fair value, by valuation methodology, was as follows:

	30-06-2022			
	Methodology to determine fair value			
	Quotations on active market (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	466,594	30,316	496,910
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	82,742	82,742
Financial assets at fair value through other comprehensive income	184,809	4,433,459	149,475	4,767,743
Derivatives – Hedge accounting	-	303,896	-	303,896
	184,809	5,203,949	262,533	5,651,291
Liabilities				
Financial liabilities held for trading	-	462,945	31,753	494,698
Derivatives – Hedge accounting	-	136,515	-	136,515
	-	599,460	31,753	631,213

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

	31-12-2021			
	Methodology to determine fair value			
	Quotations on active market (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	562,538	25,234	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	99,167	99,167
Financial assets at fair value through other comprehensive income	204,778	5,061,470	73,665	5,339,913
Derivatives – Hedge accounting	-	7,447	-	7,447
	204,778	5,631,455	198,066	6,034,299
Liabilities				
Financial liabilities held for trading	-	574,170	31,161	605,331
Derivatives – Hedge accounting	-	294,108	-	294,108
	-	868,278	31,161	899,439

For the determination of the fair value of the financial instruments, the valuation methods used consisted of obtaining quotations on active markets or using other valuation techniques, namely the discounting of future cash flows.

The fair value of the financial instruments measured at amortised cost, by valuation methodology, was as follows:

	30-06-2022			
	Methodology to determine fair value			
	Quotations on active market (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
Assets				
Cash, cash balances at central banks and other demand deposits	-	10,806,536	-	10,806,536
Financial assets at amortised cost	-	349,406	39,987,507	40,336,913
	-	11,155,942	39,987,507	51,143,449
Liabilities				
Financial liabilities measured at amortised cost				
Deposits	-	7,898,090	41,234,703	49,132,793
Debt securities issued	-	1,810,013	1,778,660	3,588,673
Other financial liabilities	-	-	270,633	270,633
	-	9,708,103	43,283,996	52,992,099

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

	31-12-2021			
	Methodology to determine fair value			
	Quotations on active market (Level 1)	Other valuation techniques (Level 2)	Other valuation techniques (Level 3)	Total
Assets				
Cash, cash balances at central banks and other demand deposits	-	8,703,673	-	8,703,673
Financial assets at amortised cost	-	355,177	39,793,828	40,149,005
	-	9,058,850	39,793,828	48,852,678
Liabilities				
Financial liabilities measured at amortised cost				
Deposits	-	7,753,321	38,960,134	46,713,455
Debt securities issued	-	2,041,267	1,055,028	3,096,295
Other financial liabilities	-	-	219,275	219,275
	-	9,794,588	40,234,437	50,029,025

For the determination of the fair value of the financial instruments measured at amortised cost, the valuation methods used consisted of discounting the future cash flows.

The valuation at fair value of the Bank'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 and some private debt.

- Level 2 - Financial instruments recorded at fair value using prices traded on markets 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 derivative financial instruments used 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 options and structured 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 financial 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 Bank calculates the "Credit Value Adjustment" (CVA) and the "Debit Value Adjustment" (DVA) for derivative financial instruments 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 the discount factor for the respective term. The CVA and DVA calculated for each counterparty thus result from the sum of the 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
  - Probability of default calculated considering the internal rating assigned to the customer (see credit risk section of these Notes) x loss given default (specific for project finance customers and 60% for other customers).

- Level 3 - The Bank classifies in this level financial instruments 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 Bank uses extrapolations of market data and the derivatives entered in the scope of securitisation operations.

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

The main assumptions used in determining the fair value of the financial instruments measured at amortised cost, by type of financial instrument, were as follows:

- The future cash flows from applications and resources 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 the 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 statement of financial position value.

- In the case of debt securities issued, 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 June 30, 2022 and in financial year ended December 31, 2021, the movement under 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
As at December 31, 2020	27,172	132,127	74,145
Purchases	-	498	2,103
Sales	-	-	(1,407)
Redemptions	-	(34,654)	-
Fair value changes	(1,938)	1,196	(1,176)
As at December 31, 2021	25,234	99,167	73,665
Purchases	-	232	1,852
Sales	-	-	(1,738)
Redemptions	-	(20,318)	-
Fair value changes	5,082	3,661	75,696
As at June 30, 2022	30,316	82,742	149,475

(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:

	30-06-2022		31-12-2021	
	EUR	USD	EUR	USD
Overnight	-0.16%	2.12%	-0.64%	0.20%
1 month	-0.16%	2.12%	-0.64%	0.20%
3 months	-0.12%	2.29%	-0.57%	0.21%
6 months	0.26%	2.79%	-0.55%	0.31%
9 months	0.58%	3.13%	-0.52%	0.42%
1 year	0.84%	3.28%	-0.48%	0.53%
3 years	1.58%	3.15%	-0.15%	1.17%
5 years	1.81%	3.07%	0.02%	1.36%
7 years	1.99%	3.05%	0.13%	1.47%
10 years	2.20%	3.07%	0.30%	1.58%

Hedge accounting

As at June 30, 2022 and December 31, 2021, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	30-06-2022					
	Hedged element				Hedging instrument	
	Nominal value	Amount net of impairment	Fair value changes	Carrying amount	Nominal value	Fair value
Fair value hedging:						
Financial assets at amortised cost	3,181,017	3,181,587	(130,296)	3,051,291	3,181,017	103,497
Financial assets at fair value through other comprehensive income	4,146,000	4,707,922	(185,566)	4,522,356	7,146,000	183,686
Financial liabilities measured at amortised cost						
Deposits - Customers	(914)	(914)	(14)	(928)	914	25
Debt securities issued	(8,092)	(8,325)	256	(8,069)	8,092	(41)
Cash flow hedging:						
Financial assets at amortised cost	10,000,000	10,000,000	-	10,000,000	10,000,000	(119,786)
	17,318,011	17,880,270	(315,620)	17,564,650	20,336,023	167,381

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

	31-12-2021					
	Hedged element				Hedging instrument	
	Nominal value	Amount net of impairment	Fair value changes	Carrying amount	Nominal value	Fair value
Fair value hedging:						
Financial assets at amortised cost	3,084,241	3,089,350	5,807	3,095,157	3,031,714	(35,315)
Financial assets at fair value through other comprehensive income	3,380,000	3,423,924	251,746	3,675,670	3,380,000	(253,238)
Financial liabilities measured at amortised cost						
Deposits - Customers	(9,560)	(9,609)	(51)	(9,660)	9,626	102
Debt securities issued	(8,111)	(8,299)	(100)	(8,399)	8,111	269
Cash flow hedging:						
Financial assets at amortised cost	10,000,000	10,000,000	-	10,000,000	10,000,000	1,521
	16,446,570	16,495,366	257,402	16,752,768	16,429,451	(286,661)

Cash-flow hedging

The expected periods for the occurrence of cash flows that will affect the profit or loss for the period present the following detail:

	30-06-2022					
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	More than 3 years	Total
Interest rate swaps	1,892	(13,733)	(107,945)		-	(119,786)

	31-12-2021					
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	More than 3 years	Total
Interest rate swaps	4,434	9,686	21,387	(33,986)	-	1,521

The gains and losses recognised in the statements of profit or loss for the first half of 2022 and financial year 2021, with fair-value hedging operations, presented the following detail:

	30-06-2022			31-12-2021		
	Hedged element	Hedging instrument	Net	Hedged element	Hedging instrument	Net
Financial assets at amortised cost	(136,103)	136,103	-	(51,357)	51,357	-
Financial assets at fair value through other comprehensive income	(437,312)	437,312	-	(120,832)	120,832	-
Financial liabilities measured at amortised cost						
Deposits - Customers	36	(36)	-	186	(186)	-
Debt securities issued	355	(355)	-	149	(149)	-
	(573,024)	573,024	-	(171,854)	171,854	-

RISK MANAGEMENT

CREDIT RISK

Credit-risk management at the Bank 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, as well as within every area of activity.

Credit-risk management is carried out by an independent body, the Risks Area, which is responsible, namely, 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-loan operations, and credit and business cards) and rating systems used at the Bank.

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 Bank. The types of transactions covered include the purchase and sale of securities, the contracting of repos, securities lending and derivative instruments. Given the high complexity and volume of transactions, as well as the requirements necessary for an 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 daily in accordance with an integrated system that allows the recording of the approved limits and the 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 risk concentration 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 derivative positions is captured through determination of the CVA/DVA.

For specific customer segments (namely global corporate customers) 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 Bank has an exposure of more than Euros 500,000 are performed by risk analysts who monitor those customers and supported by rating models developed by the Bank 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, has subjacent the degree of risk inherent to the customer and a probability of default at one year that the Bank monitors and calibrates on a constant and regular basis.

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

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:

Factor	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 Bank's information technology system.

In this way, the Bank'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 June 30, 2022 and December 31, 2021, the maximum exposure to the credit risk and the respective carrying amount of the financial instruments was as follows:

	30-06-2022		31-12-2021	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Cash, cash balances at central banks and other demand deposits	10,793,737	10,793,737	8,711,389	8,711,389
Financial assets held for trading	496,910	496,910	587,772	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	82,742	82,742	99,167	99,167
Financial assets at fair value through other comprehensive income	4,767,743	4,767,743	5,339,913	5,339,913
Financial assets at amortised cost	40,795,053	48,033,023	40,373,867	47,318,615
Derivatives – Hedge accounting	303,896	303,896	7,447	7,447
	57,240,082	64,478,052	55,119,555	62,064,303
Guarantees provided (Note 23)				
Financial guarantees and sureties	339,098	339,098	330,997	330,997
Non-financial guarantees and sureties	1,436,520	1,436,520	1,346,113	1,346,113
Documentary credits outstanding	325,360	325,360	315,004	315,004
	2,100,978	2,100,978	1,992,114	1,992,114

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

The maximum exposure in "Financial assets at amortised cost" is as follows:

	30-06-2022	31-12-2021
Carrying amount	40,795,053	40,373,867
Other commitments granted (Note 23)		
Revocable	6,649,620	6,378,768
Irrevocable	588,350	565,980
Maximum exposure	48,033,023	47,318,615

Impairment losses

The Expected Credit Loss (ECL) calculation incorporates a Forward-Looking perspective by including macroeconomic scenarios (optimistic, base and acid) in the PD and LGD models, applying to each scenario a given probability of occurrence. The scenarios mirror the behaviour of macroeconomic variables used in stress models, such as GDP, the unemployment rate, the housing price index (HPI), Euribor rates, inflation, among others, being updated at least once a year. For sensitivity analysis, a 100% weighting is assumed in extreme scenarios. In a 100% acid scenario the impact on impairment would be + Euros 77.1 million, in an 100% optimistic scenario it would be - Euros 43 million, which represents an impact on the total of the impairment recorded at the close of 2021 of +7.3% and -4% respectively.

The impacts on the portfolios are different due to the sensitivities of each portfolio to specific macroeconomic variables; for example, the housing (mortgage) loan portfolio is highly sensitive to the housing price index, just as business or portfolio clients (clients with a risk manager) are sensitive to developments in GDP, unemployment, inflation or the Bond Yield 10y.

In a 100% acid scenario, it is considered that the macroeconomic context remains surrounded by uncertainty factors that may have a future impact on the calculation of the ECL, and an increase in volatility may occur, namely, with changes in macroeconomic variable forecasts, uncertainty as to the longevity of the COVID-19 pandemic, increased pressure on the effectiveness of the European Central Bank's monetary policies, measures taken at government level or other support measures. This scenario considers that the increase in inflationary pressures, the rise in interest rates, conditions the evolution of housing prices, weakens the evolution of the labour market, factors that penalise the expansion of the economy and the dynamics of recovery, resulting in an increase in the impairment of loan portfolios such as the mortgage, business or portfolio clients (clients with a risk manager) portfolios, which is mirrored in the amounts mentioned above.

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

In an 100% optimistic scenario it is considered that in the definition of its monetary policies, the monetary authority (ECB) controls both the cost of short-term loans and the monetary base, seeking to ensure price stability, aimed at an inflation rate or interest rate, generating confidence in the currency, contributing to the stability of GDP, to maintain low unemployment levels and predictable exchange rates, factors that contribute to a reduction in the impairment of loans portfolios such as the mortgage, business or portfolio clients (clients with a risk manager) portfolios.

As at June 30, 2022 and December 31, 2021, the concentration by activity sector of the portfolio of loans and advances at amortised cost, was as follows:

	30-06-2022			
Activity sector	**Gross amount**	**Impairment**	**Carrying amount**	**Concentration %**
Agriculture, animal husbandry, hunting, forestry and fisheries	307,434	(6,432)	301,002	0.78%
Extractive industries	21,490	(1,950)	19,540	0.05%
Manufacturing	2,103,151	(104,690)	1,998,461	5.20%
Electricity, gas, steam, hot and cold water and cold air	477,834	(484)	477,350	1.24%
Water catchment, treatment and distribution; sanitation, waste management and depollution	66,382	(1,907)	64,475	0.17%
Construction	1,044,939	(76,566)	968,373	2.52%
Wholesale and retail trade; motor vehicle and motorcycle repairs	1,993,584	(74,958)	1,918,626	5.00%
Transport and storage	584,144	(29,145)	554,999	1.45%
Accommodation, catering and similar	1,335,240	(75,643)	1,259,597	3.28%
Information and communication activities	108,925	(3,208)	105,717	0.28%
Real estate activities	1,379,403	(57,294)	1,322,109	3.44%
Consultancy, scientific, technical and similar activities	564,557	(23,946)	540,611	1.41%
Administrative and support activities	332,784	(33,382)	299,402	0.78%
Public administration and defence; mandatory social security	536	(1)	535	0.00%
Education	72,197	(1,100)	71,097	0.19%
Human healthcare and social support activities	270,838	(3,678)	267,160	0.70%
Artistic, shows, sports and recreational activities	87,508	(9,797)	77,711	0.20%
Other services	617,384	(127,914)	489,470	1.27%
Loans and advances - financial institutions	705,307	(1,089)	704,218	1.83%
Loans and advances - public sector	1,171,795	(10,341)	1,161,454	3.02%
Loans and advances - Individuals - secured by real estate	22,620,085	(219,318)	22,400,767	58.34%
Loans and advances - Individuals - other	2,529,807	(153,214)	2,376,593	6.19%
	38,395,324	**(1,016,057)**	**37,379,267**	**100.00%**

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

	31-12-2021			
Activity sector	**Gross amount**	**Impairment**	**Carrying amount**	**Concentration %**
Agriculture, animal husbandry, hunting, forestry and fisheries	280,236	(6,514)	273,722	0.72%
Extractive industries	25,361	(1,989)	23,372	0.06%
Manufacturing	2,120,772	(98,386)	2,022,386	5.33%
Electricity, gas, steam, hot and cold water and cold air	529,094	(285)	528,809	1.39%
Water catchment, treatment and distribution; sanitation, waste management and depollution	68,640	(1,822)	66,818	0.18%
Construction	958,136	(75,050)	883,086	2.33%
Wholesale and retail trade; motor vehicle and motorcycle repairs	1,964,401	(75,372)	1,889,029	4.98%
Transport and storage	608,178	(29,125)	579,053	1.53%
Accommodation, catering and similar	1,362,541	(81,132)	1,281,409	3.38%
Information and communication activities	108,576	(3,020)	105,556	0.28%
Real estate activities	1,319,954	(59,015)	1,260,939	3.32%
Consultancy, scientific, technical and similar activities	692,043	(25,701)	666,342	1.76%
Administrative and support activities	378,102	(37,701)	340,401	0.90%
Public administration and defence; mandatory social security	2,582	(14)	2,568	0.01%
Education	71,749	(1,244)	70,505	0.19%
Human healthcare and social support activities	272,813	(3,621)	269,192	0.71%
Artistic, shows, sports and recreational activities	91,335	(12,237)	79,098	0.21%
Other services	643,437	(134,007)	509,430	1.34%
Loans and advances - financial institutions	902,343	(791)	901,552	2.38%
Loans and advances - public sector	1,215,593	(10,292)	1,205,301	3.18%
Loans and advances - Individuals - secured by real estate	21,839,928	(219,768)	21,620,160	57.00%
Loans and advances - Individuals - other	2,473,137	(136,790)	2,336,347	6.16%
	37,928,951	**(1,013,876)**	**36,915,075**	**100.00%**

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”.

Thus, as at June 30, 2022 and December 31, 2021, the breakdown of performing and non-performing exposures was as follows:

	30-06-2022			31-12-2021		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Performing exposures	40,572,374	(325,007)	0.8%	40,134,715	(345,860)	0.9%
Non-performing exposures						
. Collateralised loans	2,155	(2,155)	0.0%	-	-	0.0%
. Individuals	386,156	(212,777)	55.1%	383,618	(198,428)	51.7%
. Companies	854,642	(480,335)	56.2%	875,032	(475,210)	54.3%
	1,242,953	(695,267)		1,258,650	(673,638)	
	41,815,327	(1,020,274)		41,393,365	(1,019,498)	

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

The degree of coverage of non-performing exposures, net of impairment, by collateral was as follows:

	30-06-2022			31-12-2021		
	Carrying amount	Collateral	Coverage	Carrying amount	Collateral	Coverage
Non-performing exposures						
. Individuals	173,379	128,587	74.2%	185,190	144,819	78.2%
. Companies	374,307	255,527	68.3%	399,822	266,368	66.6%
	547,686	384,114		585,012	411,187	

Forborne exposures

In accordance with Bank of Portugal Instruction No. 04/2018, institutions must identify and mark, in their information systems, loan contracts of a customer in financial difficulties, whenever there are changes to the terms and conditions of such contracts (including extension of the repayment term, introduction of grace periods, capitalisation of interest, reduction of interest rates, pardon of interest or principal) or the institution contracts new credit facilities for the (total or partial) settlement of the service of the existing debt.

As at June 30, 2022 and December 31, 2021, the breakdown of forborne exposures was as follows:

	30-06-2022			31-12-2021		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Performing exposures	418,839	(39,924)	9.5%	487,720	(45,137)	9.3%
Non-performing exposures						
. Individuals	179,852	(82,756)	46.0%	203,245	(90,033)	44.3%
. Companies	561,456	(300,035)	53.4%	622,120	(324,329)	52.1%
	741,308	(382,791)		825,365	(414,362)	
	1,160,147	(422,715)		1,313,085	(459,499)	

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 and Commercial areas. Committee meetings are held monthly, and at these meetings the balance-sheet risks are analysed, and strategic options decided.

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

For the ALM area, the following balance-sheet management limits are defined:

- Limits intended to control the interest-rate risk, in particular, the sensitivity of the Net Interest Margin (NIM), and the sensitivity of the Market Value of Equities (MVE) to unexpected interest-rate variations; and
- Limits intended to control the liquidity risk through the net accumulated liquidity and illiquidity coefficient indicators.

The Bank'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 minimisation of the costs associated with the funding activity.

It should be noted that the Bank does not perform any liquidity-risk analysis for trading financial instruments.

As at June 30, 2022 and December 31, 2021, the breakdown of the projected (undiscounted) cash flows of the financial instruments, in keeping with their contractual maturities, was as follows:

	30-06-2022								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Undetermined	Derivatives	Total
Assets									
Cash, cash balances at central banks and other demand deposits	638,991	(9,441)	(28,014)	(75,013)	10,071,627	-	-	-	10,598,150
Financial assets held for trading	-	-	-	-	-	-	-	496,910	496,910
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	82,742	-	82,742
Financial assets at fair value through other comprehensive income	2	73,304	61,802	270,217	2,007,074	2,898,240	148,830	-	5,459,469
Financial assets at amortised cost	422,319	2,283,151	5,625,181	10,314,636	7,498,887	18,352,772	-	-	44,496,946
Derivatives – Hedge accounting	-	-	-	-	-	-	-	303,896	303,896
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	35,783	-	35,783
	1,061,312	2,347,014	5,658,969	10,509,840	19,577,588	21,251,012	267,355	800,806	61,473,896
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	494,698	494,698
Financial liabilities measured at amortised cost									
Deposits - Central banks	95	-	6,696,585	681,467	-	-	-	-	7,378,147
Deposits - Credit institutions	582,670	-	32,935	-	-	-	-	-	615,605
Deposits - Customers and other loans	26,838,030	6,277,811	6,125,023	1,229,682	863,760	55,058	-	-	41,389,364
Debt securities issued	-	59,083	222,888	1,559,906	196,370	2,080,139	-	-	4,118,386
Derivatives – Hedge accounting	-	-	-	-	-	-	-	136,515	136,515
	27,420,795	6,336,894	13,077,431	3,471,055	1,060,130	2,135,197	-	631,213	54,132,715

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

	31-12-2021								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Undetermined	Derivatives	Total
Assets									
Cash, cash balances at central banks and other demand deposits	570,374	-	-	-	8,141,015	-	-	-	8,711,389
Financial assets held for trading	-	-	-	-	-	-	-	587,772	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	99,167	-	99,167
Financial assets at fair value through other comprehensive income	2	60,218	74,892	270,201	2,065,386	2,901,103	72,520	-	5,444,322
Financial assets at amortised cost	528,711	2,340,897	4,947,722	9,649,573	8,090,391	18,552,539	-	-	44,109,833
Derivatives – Hedge accounting	-	-	-	-	-	-	-	7,447	7,447
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	38,161	-	38,161
	1,099,087	2,401,115	5,022,614	9,919,774	18,296,792	21,453,642	209,848	595,219	58,998,091
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	605,331	605,331
Financial liabilities measured at amortised cost									
Deposits - Central banks	8,987	-	-	7,264,073	-	-	-	-	7,273,060
Deposits - Credit institutions	337,492	53,081	1,766	30	-	-	-	-	392,369
Deposits - Customers and other loans	24,446,657	6,248,443	6,154,935	1,115,679	896,499	63,300	-	-	38,925,513
Debt securities issued	-	43,924	154,748	1,381,479	120,872	1,674,021	-	-	3,375,044
Derivatives – Hedge accounting	-	-	-	-	-	-	-	294,108	294,108
	24,793,136	6,345,448	6,311,449	9,761,261	1,017,371	1,737,321	-	899,439	50,865,425

Determination of the projected cash flows from financial instruments was based on principles and assumptions used by the Bank in the management and control of liquidity arising from its business, namely:

- The projected cash flows of assets and liabilities with variable remuneration 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" (cash, cash balances at credit institutions). Equity instruments carried as financial assets at fair value through other comprehensive income, were considered as having an indeterminate maturity. For non-trading financial assets mandatorily at fair value through profit or loss, and for financial assets and liabilities held for trading, their fair value was considered to be their transactional value on demand, given that their management is based on the control of their exposure to market risk.

- Operations relating to credit lines without defined maturity or periodically renewable, namely 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 Bank may make early redemption of the bonds that make up this caption was considered;

- The projected flows relating to demand deposits 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 Bank'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 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 entirety 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 probable 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, 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 the financial variables or of the alteration of the composition of the portfolios.

The Bank 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 price of the underlying item (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 the profit or loss levels already achieved during the year (Loss Triggers and Stop Losses).

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

Regarding 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 repricing structure. This model allows the measurement and control of the risks originating directly from the movement of the income curve, namely their 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 calculated based on balance sheet positions that act as indicators of structural and short-term liquidity requirements.

INTEREST-RATE RISK

As at June 30, 2022 and December 31, 2021, the breakdown of financial instruments by exposure to interest-rate risk was as follows:

	30-06-2022				
	Exposure to		Not subject		
	Fixed rate	Floating rate	to interest rate risk	Derivatives	Total
Assets					
Cash, cash balances at central banks and other demand deposits	-	10,145,746	647,991	-	10,793,737
Financial assets held for trading	-	-	-	496,910	496,910
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	82,742	-	82,742
Financial assets at fair value through other comprehensive income	4,252,576	671	514,496	-	4,767,743
Financial assets at amortised cost	7,470,855	34,067,971	(743,773)	-	40,795,053
Derivatives – Hedge accounting	-	-	-	303,896	303,896
	11,723,431	44,214,388	501,456	800,806	57,240,081
Liabilities					
Financial liabilities held for trading	-	-	-	494,698	494,698
Financial liabilities measured at amortised cost	-	-	-		
Deposits - Central banks		7,344,534			7,344,534
Deposits - Credit institutions	143,641	410,531	44	-	554,216
Deposits - Customers and other loans	14,742,446	26,551,534	4,194		41,298,174
Debt securities issued	2,961,891	784,576	(37,993)	-	3,708,474
Other financial liabilities		-	270,633	-	270,633
Derivatives – Hedge accounting	-	-	-	136,515	136,515
	17,847,978	35,091,175	236,878	631,213	53,807,244

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

	31-12-2021				
	Exposure to		Not subject		
	Fixed rate	Floating rate	to interest rate risk	Derivatives	Total
Assets					
Cash, cash balances at central banks and other demand deposits	-	8,141,015	570,374	-	8,711,389
Financial assets held for trading	-	-	-	587,772	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	99,167	-	99,167
Financial assets at fair value through other comprehensive income	4,253,077	1,194	1,085,642	-	5,339,913
Financial assets at amortised cost	7,257,500	33,748,986	(632,619)	-	40,373,867
Derivatives – Hedge accounting	-	-	-	7,447	7,447
	11,510,577	41,891,195	1,122,564	595,219	55,119,555
Liabilities					
Financial liabilities held for trading	-	-	-	605,331	605,331
Financial liabilities measured at amortised cost					
Deposits - Central banks	7,501,017	-	(90,775)	-	7,410,242
Deposits - Credit institutions	211,956	181,319	130	-	393,405
Deposits - Customers and other loans	14,629,200	24,324,665	5,039	-	38,958,904
Debt securities issued	2,335,710	719,318	(48,281)	-	3,006,747
Other financial liabilities	-	-	219,275	-	219,275
Derivatives – Hedge accounting	-	-	-	294,108	294,108
	24,677,883	25,225,302	85,388	899,439	50,888,012

Financial Instruments – non-trading

The method of calculation of the sensitivity of the net 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 which 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 interest-rate risk;
- For each sensitive transaction (contract), the future flows duly 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 the difference between these, the interest-rate risk gap are calculated.

The interest-rate gap allows an approximation of the sensitivity of the net 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 net 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 decreases 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 which renewal is presumed, are replaced with new transactions of the same amount, so that the balance-sheet balances remain constant during the year under analysis;
- Maturities and repricing – the real maturities and repricing of the transactions are considered. Assets and liabilities which contribution to net interest income and which 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 in question are used.

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

As at June 30, 2022 and December 31, 2021, the sensitivity of the net asset value of the Bank's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	30-06-2022		31-12-2021	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash, cash balances at central banks	3,161	3,225	(1,445)	416,249
Financial assets at fair value				
through other comprehensive income	(74,079)	77,068	(89,928)	94,045
Financial assets at amortised cost	(777,711)	830,147	(915,620)	1,109,594
	(848,629)	910,440	(1,006,993)	1,619,888
Derivatives – Hedge accounting	267,741	(297,376)	202,485	(231,190)
Liabilities				
Financial liabilities measured at amortised cost				
Deposits - Central banks	(3,671)	2,880	(3,203)	88,910
Deposits - Credit institutions	(218)	219	(79)	79
Deposits - Customers and other loans	(1,229,647)	1,302,922	(1,230,462)	1,302,594
Debt securities issued	(130,351)	138,423	(120,409)	143,837
Other financial liabilities	(14,630)	14,905	(20,519)	20,855
	(1,378,517)	1,459,349	(1,374,672)	1,556,275

Financial Instruments – trading

The basic parameters for calculation of the VaR applicable are, in general, 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;

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

- 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) to allow the aggregation of different units; and
- Market data time window: A 2-year time window is used, or at least 520 data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile gives equal weighting to the set of 520 observations considered. The 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, such that all interactions between the market factors, their volatilities and the correlations between them, are duly mirrored in the historical period selected.

On the other hand, the complete revaluation of the portfolio requires a valuation of each of the instruments, using the respective mathematical expression to obtain the market value of each individual position. In using forms of revaluation, non-linear effects implicit in certain financial products as a result of changes in market factors are calculated and collected on the VaR values.

As at June 30, 2022 and December 31, 2021, the VaR associated with the interest-rate risk corresponded to:

	30-06-2022	31-12-2021
VaR 99% percentile	(0)	(1)
VaR Weighted 99% percentile	(0)	(1)

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 using 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 June 30, 2022 and December 31, 2021, the detail of the financial instruments by currency was as follows:

	30-06-2022			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash, cash balances at central banks and other demand deposits	10,503,974	130,710	159,053	10,793,737
Financial assets held for trading	494,618	108	2,184	496,910
Non-trading financial assets mandatorily at fair value through profit or loss	82,742	-	-	82,742
Financial assets at fair value through other comprehensive income	4,767,743	-	-	4,767,743
Financial assets at amortised cost	40,237,242	519,454	38,357	40,795,053
Derivatives – Hedge accounting	281,656	22,240	-	303,896
Investments in subsidiaries, joint ventures and associates	35,783	-	-	35,783
	56,403,758	672,512	199,594	57,275,864
Liabilities				
Financial liabilities held for trading	493,496	108	1,094	494,698
Financial liabilities measured at amortised cost				
Deposits - Central banks	7,344,534	-	-	7,344,534
Deposits - Credit institutions	436,108	117,700	408	554,216
Deposits - Customers and other loans	39,782,473	1,258,404	257,297	41,298,174
Debt securities issued	3,708,474	-	-	3,708,474
Other financial liabilities	270,633	-	-	270,633
Derivatives – Hedge accounting	136,515	-	-	136,515
	52,172,233	1,376,212	258,799	53,807,244

	31-12-2021			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash, cash balances at central banks and other demand deposits	8,569,303	41,254	100,832	8,711,389
Financial assets held for trading	585,930	774	1,068	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	99,167	-	-	99,167
Financial assets at fair value through other comprehensive income	5,339,913	-	-	5,339,913
Financial assets at amortised cost	39,720,655	612,783	40,429	40,373,867
Derivatives – Hedge accounting	1,903	5,544	-	7,447
Investments in subsidiaries, joint ventures and associates	38,161	-	-	38,161
	54,355,032	660,355	142,329	55,157,716
Liabilities				
Financial liabilities held for trading	603,908	774	649	605,331
Financial liabilities measured at amortised cost				
Deposits - Central banks	7,410,242	-	-	7,410,242
Deposits - Credit institutions	203,010	188,589	1,806	393,405
Deposits - Customers and other loans	37,425,273	1,261,121	272,510	38,958,904
Debt securities issued	3,006,747	-	-	3,006,747
Other financial liabilities	219,275	-	-	219,275
Derivatives – Hedge accounting	288,657	5,344	107	294,108
	49,157,112	1,455,828	275,072	50,888,012

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

As at June 30, 2022 and December 31, 2021, the VaR associated with the exchange-rate risk corresponded to:

	30-06-2022	31-12-2021
VaR 99% percentile	(5)	(14)
VaR Weighted 99% percentile	(6)	(13)

ASSET PRICE RISK

Financial Instruments – trading

As at June 30, 2022 and December 31, 2021, the Bank had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

39. CAPITAL MANAGEMENT

The Bank has a solid capital position, coherent with its business model, balance sheet structure, risk appetite and regulatory requirements. The strength of the balance sheet and the profitability of the Bank allow us to exercise our activity of financing the economy and generate capital organically. The various capital metrics are stable, with ratios comfortably above regulatory requirements and aligned with the risk appetite approved by top management.

The management and adequacy of capital aims to ensure solvency and maximise profitability, as well as compliance with regulatory requirements. Capital management is a key strategic tool for decision making. There is a governance framework approved by top management where the criteria, policies, functions, metrics and processes related to capital management are established.

At the end of the first half, the CET1 phasing in ratio is 16.9% and the total phasing in capital ratio is 19.3%, comfortably meeting the minimum requirements of 8.34% and 12.5%, respectively. The decrease in the CET1 ratio was 10.2%, which is explained by the distribution of dividends, the updating of the models and the adequate management of the RWA growth, namely through the contracting of a new synthetic securitisation operation.

On June 28, 2019, the Bank operationalised the first synthetic securitisation operation originated by the Bank. The operation is based on a portfolio of Corporates, SMEs, City Councils and Sole Proprietorships in the amount of Euros 2.4 thousand millions, 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 Euros 181.3 million mezzanine tranche was fully placed with foreign institutional investors, through a special purpose vehicle being incorporated to the effect, with a premium of 8.7%.

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

On July 26, 2021, the Bank operationalised the second synthetic securitisation operation originated by same. The transaction has subjacent a portfolio of Corporates, SMEs, Sole Proprietorships and Project Finance in the amount of Euros 3.05 thousand millions, for which the Bank purchased protection corresponding to a mezzanine tranche with an attachment point of 1.2% and a detachment point of 7.2%. The mezzanine tranche, in the amount of Euros 183 million, was fully placed with foreign institutional investors, in the form of a CLN issued directly by the Bank, with a premium of 9.0%.

On May 16, 2022, the Bank operationalised the third synthetic securitisation operation originated by the Bank. The operation has subjacent to it a portfolio of Corporates, SMEs, Sole Proprietorships and Project Finance in the amount of Euros 1.2 thousand millions, in relation to which the Bank acquired protection in respect of a mezzanine tranche with an attachment point of 1.4% and a detachment point of 8.4%. The mezzanine tranche, in the amount of Euros 101 million, was fully placed with foreign institutional investors, in the form of a CLN directly issued by the Bank, with a premium of 8.7%.

The following table summarises the composition of the regulatory capital and prudential ratios of the Bank as at June 30, 2022 and December 31, 2021 (both in BIS III - Phasing in):

Amounts in Euros million

	jun/22	dez/21
A - LEVEL 1 OWN FUNDS (TIER I)	2,705	3,918
Eligible Capital (includes additional instruments eligible as Tier 1)	1,541	1,541
Eligible Reserves and Retained earnings (excl. Minority interests)	1,137	2,439
Eligible Minority interests	-	-
Deductions from Base Own Funds	27	(62)
B - LEVEL 2 OWN FUNDS (TIER II)	387	381
Subordinated liabilities with undetermined maturity	328	328
Eligible Minority interests	-	-
Other Elements/Deductions from Complementary Own Funds	60	53
C - DEDUCTIONS FROM TOTAL OWN FUNDS	-	-
D - TOTAL ELIGIBLE OWN FUNDS (A+B+C)	3,092	4,298
E - RISK-WEIGHTED ASSETS	15,981	14,428
RATIOS		
TIER I (A/E)	16.9%	27.2%
CORE CAPITAL (CET1)	16.9%	27.2%
TIER II (B/E)	2.4%	2.6%
CAPITAL ADEQUACY RATIO (D/E)	19.3%	29.8%
LEVERAGE	6.6%	7.4%

40. 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 resolution measures implemented by the Bank of Portugal, in the capacity of national resolution authority, and to perform all other functions conferred by law within the scope of the implementation of such measures.

The Bank, like the majority of the financial institutions operating in Portugal, is one of the institutions participating in the Resolution Fund, making contributions resulting from the application of a rate set annually by the Bank of Portugal based, essentially, on the amount of their liabilities. In 2022, the periodic contribution made by the Bank amounted to Euros 12,552 thousand, based on a contribution rate of 0.046%.

Resolution measure applied to Banco Espírito Santo, S. A.

Within the scope of its responsibility as supervision and resolution 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 resolution 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 Euros 4,900 million, of which Euros 365 million corresponded to its own financial resources. A loan was also granted by a banking syndicate to the Resolution Fund in the amount of Euros 635 million, with the participation of each credit institution weighted in the light of several factors, including the respective dimension. The remainder (Euros 3,900 million) consisted of a repayable loan granted by the Portuguese State.

Following the implementation of said resolution 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 valuation, conducted to estimate the credit recovery level for each class of creditors in a hypothetical scenario of a normal insolvency process of BES as at August 3, 2014. Under applicable law, if it is found that creditors which credits have not been transferred to Novo Banco bear a larger loss than would hypothetically be the case if BES had entered liquidation at a moment immediately preceding that of the application of the resolution 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 Euros 750 million, which will be followed by a new inflow of capital in the amount of Euros 250 million, to be realised 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 the corresponding 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 the 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 based on Novo Banco's annual accounts certified by the respective auditor, and there is a possibility of intra-annual assessments 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 with their carrying amounts, net of impairment, as at June 30, 2016 (around Euros 7.9 thousand million 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 by Novo Banco in accordance with the accounting standards, 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 has made payments of Euros 3,293 million to Novo Banco in respect of the 2017 to 2020 accounts, having used for the purpose its own financial resources resulting from the contributions paid, directly or indirectly, by the banking sector, complemented by a State loan of Euros 2,130 million within the scope of the framework agreement celebrated between the Portuguese State and the Resolution Fund.

On May 31, 2021, the Resolution Fund entered a new loan agreement amounting to a maximum of Euros 475 million with a set of banks to meet the Fund's financing needs arising from commitments made to Novo Banco under the Contingent Capital Agreement. The Bank's share was Euros 104 million.

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 Euros 3,890 million.

Resolution 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 an urgent resolution process of the institution in the form of a 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 Euros 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, and which has the Resolution Fund as its sole shareholder. Oitante issued bonds representing the debt, in the amount of Euros 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 Euros 2,255 million, which aimed to cover future contingencies, of which Euros 489 million was financed by the Resolution Fund, and Euros 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 Euros 136 million, by way of partial early repayment of the resolution measure applied to Banif, allowing the amount owed to drop from Euros 489 million to Euros 353 million.

Resolution Fund's liabilities and funding

Following the resolution 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 resolution can assume a loss greater than what it would assume if the institution had gone into liquidation;
- negative effects arising from the resolution process resulting in liabilities or additional contingencies for 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 sale process of Novo Banco to Lone Star.

To preserve financial stability by promoting the conditions that lend predictability and stability to the contribution effort to 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 adjusted to the Resolution Fund's ability to fulfil its obligations in full on the basis of its regular income, 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, based on 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 the applicable legislation governing the charging of special contributions, and 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, and the public announcements made by the Resolution Fund and the Office of the Minister of Finance, 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.

41. 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 of 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 process 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 AdC 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 Loans and Loans to Companies. Bank Santander Totta was sentenced to a fine of Euros 35 million, plus a fine of Euros 650 thousand 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 AdC, with the case now pending before the Competition, Regulation and Supervision Court.

In the scope of the judicial challenge, the amount and type of the collateral to be provided, to suspend the contested decision was set. In this regard, the Bank presented a bank guarantee in the amount of Euros 17,825 thousand, issued by the Bank itself, to fulfil the mentioned collateral.

The trial hearing sessions took place between October 2021 and March 2022, with the Competition, Regulation and Supervision Court issuing a first decision on April 28, 2022. In this decision, while generally confirming the facts included in the AdC's sanctioning decision on the alleged exchange of non-public information on spreads and credit production, the Competition Court recognised, as alleged by Santander, that a preliminary ruling on this matter by the Court of Justice of the European Union (CJEU), due to the absence of jurisprudence and decision-making practice considering autonomous exchanges of information between competitors, such as the one at issue in this case, as infringements of competition law "by object", that is, independently of its effects on the market, was merited.

Consequently, the Competition Court has suspended its judgment and final decision while the preliminary ruling is being decided by the CJEU, which will be resumed after the latter Court clarifies the issues raised by the Competition Court.

This decision confirms that the alleged offense is not as clear as the Competition Authority tried to argue, since the Competition Court itself has doubts about the applicable legal framework.

In accordance with the normal procedures of that case at the CJEU, the written opinion of Banco Santander Totta was delivered in August 30, 2022.

The Bank will await the decision of the CJEU and, subsequently, the decision on the judicial challenge lodged, not waiving the exercise of all the legal and judicial faculties that ensure the protection of its interests.

In line with what has been its position throughout the proceedings, the Bank strongly refutes all the arguments underlying the decision of the AdC, and its judicial challenge through the Competition, Regulation and Supervision Court has been supported, namely, by the opinion of distinguished Law Professors, attesting to the absence of any unlawful conduct by the institution.

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 30, 2022.

42. CLIMATIC RISK

The physical consequences (physical risk) of climate change (e.g., rise in average temperature or adverse weather events) and the transition to a climate-neutral economy (transition risk) are priorities for the Bank. For this reason, the Bank is committed to the objectives of the Paris Agreement and considers that taking action to this end is a shared responsibility.

The Bank is increasingly aware of the impact climate change has on its business, so it treats this risk as strategic, also considering the impact of its lending policy on global climatic risks.

Climatic risks are a booster to traditional risks, including credit risk. Climate risks are amplified through transition channels, whether macro (e.g., GDP), or micro (e.g., destruction of agricultural crops). Both physical risk and transition risk can affect the quality of our credit portfolio, especially in the economic sectors of agriculture and food and in the mortgage segment. In addition, the Bank estimates that the energy, transport, materials and construction (including real estate), and agricultural, food and forestry sectors are those most exposed to the risks of climate change.

During 2020, a set of regulations related to climate change and environmental issues was issued for banking, and this trend is expected to continue in the future. The two most important guidelines issued in 2020 are the "ECB Guide on climate-related and environmental risks" and the "EBA guidelines on loan origination and monitoring". The common denominator of these guidelines is the focus on environmental and social aspects. In this vein, the ECB is expected to require banks to take an end-to-end approach to climatic and environmental risks across their processes and business management. In this sense, the Bank is developing initiatives to incorporate these guidelines into its risk management model, in origination and in its business processes.

The Bank is currently focused on measurement (heatmaps, stress tests, scenario analysis, customer risk assessments), structural data improvement and information collection, monitoring and reporting. The aim of these initiatives is to create awareness and knowledge and, later, expand the dissemination on climatic risks.

Regarding the estimates to be incorporated in the preparation of its financial statements, the Bank also considered the impact in terms of classification of financial instruments linked to climatic indicators or other sustainability indicators: relevance is given to the impact of the contractual conditions of financial instruments associated with climatic indicators or sustainability on the contractual cash flows of financial instruments (and whether they represent only capital and interest payments).

43. SUBSEQUENT EVENTS

On the date of approval of these consolidated financial statements by the Bank's Board of Directors, there were no events subsequent to June 30, 2022 – 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.

44. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on September 27, 2022.

45. 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.

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AS AT JUNE 30, 2022

(Amounts expressed in thousands of Euros - tEuros)

		Issue amount				Value adjustments					
Securities issued	Currency	Total	Subscribed by the Group	Balance sheet	Interest payable/ prepaid commissions	for hedging operations	Total	Interest rate	Date issued	Date maturing	Index
Structured bonds											
OB.BST INDEX LINKED NOTES 2024 23/12/2024	EUR	8,227	135	8,092	233	(256)	8,069	Floating	20 Dec 2019	23 Dec 2024	Bucket indices
Syntotta 2 - Credit Linked Notes due August 2037	EUR	183,000	-	183,000	2,608	-	185,608	Floating	26 Jul 2021	15 Aug 2037	Euribor 3m (floored at 0) + 9%
Syntotta 3 - Credit Linked Notes due January 2042	EUR	100,800	-	100,800	755	-	101,555	Floating	31 May 2022	31 Jan 2042	Euribor 3m (floored at 0) + 9%
Total		**292,027**	**135**	**291,892**	**3,596**	**(256)**	**295,232**				
Covered bonds											
Hipotecária XVII	EUR	750,000	750,000	-	(149)	-	(149)	0.902%	15 Apr 2016	15 Apr 2023	Fixed rate
Hipotecária XVIII	EUR	750,000	750,000	-	(299)	-	(299)	0.652%	26 Jul 2016	26 Jul 2023	Fixed rate
Hipotecárias XX - 1ª	EUR	750,000	750,000	-	(862)	-	(862)	1.201%	7 Dec 2017	7 Dec 2027	Fixed rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	(961)	-	(961)	1.481%	10 Apr 2017	10 Apr 2027	Fixed rate
Hipotecárias XXII	EUR	1,000,000	3,800	996,200	(1,520)	-	994,680	0.875%	25 Apr 2017	25 Apr 2024	Fixed rate
Hipotecárias XXIII	EUR	1,000,000	20,000	980,000	2,127	-	982,127	1.250%	5 Jul 2019	5 Jul 2029	Fixed rate
Hipotecária XXIV	EUR	1,100,000	1,100,000	-	(1,665)	-	(1,665)	0.412%	5 Jul 2019	5 Jul 2029	Fixed rate
Hipotecárias XXV	EUR	750,000	750,000	-	(441)	-	(441)	0.51%	27 Mar 2020	27 Mar 2025	Fixed rate
Hipotecária XXVI	EUR	750,000	750,000	-	(1,257)	-	(1,257)	0.00%	28 Oct 2020	28 Oct 2030	Fixed rate
Hipotecária XXVII	EUR	750,000	750,000	-	(992)	-	(992)	0.639%	4 Mar 2022	4 Mar 2029	Fixed rate
Total		**8,600,000**	**6,623,800**	**1,976,200**	**(6,019)**	**-**	**1,970,181**				
Bonds issued under securitisation operations of mortgage loans											
Hipototta 4 - Class A - Notes	EUR	360,676	263,940	96,736	(326)	-	96,410	Floating	9 Dec 2005	30 Dec 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	13,122	13122	-	-	-	-	Floating	9 Dec 2005	30 Dec 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	41,441	41,441	-	-	-	-	Floating	9 Dec 2005	30 Dec 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	-	-	-	-	Floating	9 Dec 2005	30 Dec 2048	Residual return generated by securitised portfolio
Hipototta 5 - Class A2 - Notes	EUR	326,509	267,812	58,697	(116)	-	58,581	Floating	22 Mar 2007	28 Feb 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	-	-	-	-	Floating	22 Mar 2007	28 Feb 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	-	-	-	-	Floating	16 Mar 2007	28 Feb 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	-	-	-	-	Floating	22 Mar 2007	28 Feb 2060	Euribor 3m+0.50% (up to early redemption date in February 2014); Euribor 3m+1.00% (after early redemption date)
Hipototta 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	-	Floating	22 Mar 2007	28 Feb 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	-	-	-	-	Floating	22 Mar 2007	28 Feb 2060	Residual return generated by securitised portfolio
Atlantes Mortgage 2 - Class A	EUR	82,984	-	82,984	(10,347)	-	72,637	Floating	5 Mar 2008	18 Sep 2060	Euribor 3m+0.33%
Atlantes Mortgage 2 - Class B	EUR	10,331	10,331	-	-	-	-	Floating	5 Mar 2008	18 Sep 2060	Euribor 3m+0.95%

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AS AT JUNE 30, 2022

(Amounts expressed in thousands of Euros - tEuros)

Securities issued	Currency	Issue amount Total	Issue amount Subscribed by the Group	Issue amount Balance sheet	Value adjustments Interest payable/ prepaid commissions	Value adjustments for hedging operations	Total	Interest rate	Date issued	Date maturing	Index
Atlantes Mortgage 2 - Class C	EUR	4,211	4,211	-	-	-	-	Floating	5 Mar 2008	18 Sep 2060	Euribor 3m+1.65%
Atlantes Mortgage 2 - Class D	EUR	8,838	8,838	-	-	-	-	Floating	5 Mar 2008	18 Sep 2060	Residual return generated by securitised portfolio
Atlantes Mortgage 3 - Class A	EUR	145,265	45,274	99,991	(7,448)	-	92,543	Floating	30 Oct 2008	20 Aug 2061	Euribor 3m+0.20%
Atlantes Mortgage 3 - Class B	EUR	20,833	20,833	-	-	-	-	Floating	30 Oct 2008	20 Aug 2061	Euribor 3m+0.50%
Atlantes Mortgage 3 - Class C	EUR	37,377	37,377	-	-	-	-	Floating	30 Oct 2008	20 Aug 2061	Residual return generated by securitised portfolio
Atlantes Mortgage 4 - Class A	EUR	162,368	-	162,368	(20,904)	-	141,464	Floating	16 Feb 2009	30 Dec 2064	Euribor 3m+0.15%
Atlantes Mortgage 4 - Class B	EUR	17,881	17,881	-	-	-	-	Floating	16 Feb 2009	30 Dec 2064	Euribor 3m+0.30%
Atlantes Mortgage 4 - Class C	EUR	49,987	49,987	-	-	-	-	Floating	16 Feb 2009	30 Dec 2064	Residual return generated by securitised portfolio
Hipototta nº13 Class A	EUR	765,078	765,078	-	-	-	-	Floating	9 Jan 2018	23 Oct 2072	Euribor 3m+0.60%
Hipototta nº13 Class B	EUR	484,000	484,000	-	-	-	-	Floating	9 Jan 2018	23 Oct 2072	Euribor 3m+1%
Hipototta nº13 Class C	EUR	38,885	38,885	-	-	-	-	Floating	9 Jan 2018	23 Oct 2072	Residual return generated by securitised portfolio
Hipototta nº13 Class D	EUR	0	-	-	-	-	-	Floating	9 Jan 2018	23 Oct 2072	
Total		**2,689,786**	**2,189,010**	**500,776**	**(39,141)**	**-**	**461,635**				

Other bonds issued

Securities issued	Currency	Issue amount Total	Issue amount Subscribed by the Group	Issue amount Balance sheet	Value adjustments Interest payable/ prepaid commissions	Value adjustments for hedging operations	Total	Interest rate	Date issued	Date maturing	Index
OB.BANCO SANTANDER TOTTA VAR	EUR	650,000	**-**	650,000	**884**	-	650,884	4.51%	20-Jun-2022	20-Jun-2028	
Total		650,000	-	650,000	884	-	650,884				
Total		**12,231,813**	**8,812,945**	**3,418,868**	**(40,680)**	**(256)**	**3,377,932**				

BANCO SANTANDER TOTTA, S.A.

OTHER SUBORDINATED LIABILITIES AS AT JUNE 30, 2022

(Amounts expressed in thousands of Euros - tEuros)

		Issue amount								
Securities issued	Currency	Issued	Reacquired	Balance sheet	Accruals	Total	Interest rate		Maturity	Early redemption as from:
OB.BANCO SANTANDER TOTTA SA 7.5% 06/10/2026	EUR	7,599	-	7,599	419	8,018	Fixed rate	7.50%	6 Oct 2026	
OB. BST 2030 TIER2	EUR	320,000	-	320,000	2,524	322,524	Floating rate	1.58%	31 Dec 2030	31 Dec 2025
		327,599	**-**	**327,599**	**2,943**	**330,542**				