

# Half-Year Report

June 2020

We shall continue to work to build a better world

**#TheRightWay**

[santander.pt](https://santander.pt)

*This report was approved by the  
Bank's Board of Directors on  
September 22, 2020*

## **Banco Santander Totta SA**

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## MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



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

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

We were at the forefront with the definition of concrete measures to support our employees, customers and suppliers, in order to mitigate the effects of the pandemic. We supported the Portuguese economy strongly in the first half, having increased credit by €1.9 billion, of which €1.1 billion for companies having a major participation in the protocolled lines.

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

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

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

Pedro Castro e Almeida

| PROFITABILITY                                                                                                                   | GROWTH                                                                                                                                                                        | SOLIDITY                                                                                                                      | COMMUNITY SUPPORT                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  <p>Operating Income</p> <p>€649 mn (-3%)</p> |  <p>Mortgage loans <b>2.7%</b><br/>Customer deposits <b>2.9%</b><br/><b>Change YoY</b></p> |  <p>NPE Ratio</p> <p><b>2.8%</b></p>       |  <p>Combating the pandemic</p> <p><b>Budget greater than €3 million</b></p> |
|  <p>Net Income</p> <p>€154.5 mn (-36%)</p>    |  <p>Main Bank Customers</p> <p><b>783,000 (2%)</b></p>                                     |  <p>Cost of Credit</p> <p><b>0.27%</b></p> |  <p>Santander Companies</p> <p><b>983 internship grants</b></p>             |
|  <p>RoE</p> <p><b>8.5% (-5 p.p.)</b></p>      |  <p>Digital Customers</p> <p><b>866,000 (14%)</b></p>                                      |  <p>CET1 Ratio</p> <p><b>19.8%</b></p>     |  <p>Investment in society</p> <p><b>34,001 beneficiaries</b></p>            |

## TABLE OF INDICATORS

### BALANCE SHEET AND RESULTS (million euro)

|                                                                      | Jun-20 | Jun-19 | Var.   |
|----------------------------------------------------------------------|--------|--------|--------|
| Total Net Assets                                                     | 57,083 | 52,905 | +7.9%  |
| Loans and advances to customers (net)                                | 41,103 | 39,751 | +3.4%  |
| Customers' Resources                                                 | 43,517 | 42,591 | +2.2%  |
| Total shareholders' equity                                           | 3,894  | 3,632  | +7.2%  |
| Net Interest Income                                                  | 398.6  | 426.2  | -6.5%  |
| Net Fees and Other Income                                            | 156.3  | 169.5  | -7.8%  |
| Net Income from Banking Activities                                   | 649.0  | 670.6  | -3.2%  |
| Net Operating Income                                                 | 365.5  | 372.4  | -1.9%  |
| Income before taxes and non-controlling interests                    | 225.4  | 354.2  | -36.4% |
| Consolidated net income attributable to the shareholders of the Bank | 154.5  | 239.8  | -35.6% |

### RATIOS

|                                                | Jun-20 | Jun-19  | Var.       |
|------------------------------------------------|--------|---------|------------|
| ROE                                            | 8.5%   | 13.5%   | -5.0 p.p.  |
| ROA                                            | 0.5%   | 0.9%    | -0.4 p.p.  |
| Efficiency ratio                               | 43.7%  | 44.5%   | -0.8 p.p.  |
| CET I* ratio                                   | 19.8%  | 16.5%   | +3.3 p.p.  |
| Tier I* ratio                                  | 19.8%  | 16.5%   | +3.3 p.p.  |
| Capital* ratio                                 | 22.1%  | 18.6%   | +3.5 p.p.  |
| Non-Performing Exposure Ratio <sup>(1)</sup>   | 2.8%   | 3.3%    | -0.5 p.p.  |
| Non-Performing Exposure coverage ratio         | 61.0%  | 53.3%   | +7.7 p.p.  |
| Cost of credit <sup>(2)</sup>                  | 0.27%  | (0.03%) | +0.30 p.p. |
| Loans-to-deposits ratio (transformation ratio) | 112.4% | 111.9%  | +0.5 p.p.  |

### RATING (long term)

|                   | Jun-20 | Jun-19 |
|-------------------|--------|--------|
| FitchRatings      | BBB+   | BBB+   |
| Moody's           | Baa3   | Baa3   |
| Standard & Poor's | BBB    | BBB    |
| DBRS              | A      | A      |

### Other Data

|                                                  | Jun-20 | Jun-19 | Var. |
|--------------------------------------------------|--------|--------|------|
| Employees**                                      | 6,151  | 6,308  | -157 |
| Employees in Portugal**                          | 6,119  | 6,269  | -150 |
| Branches                                         | 525    | 553    | -28  |
| Total Branches and Corporate Centers in Portugal | 517    | 543    | -26  |

\* Fully implemented with results net of payout

\*\* Headcount criteria

<sup>(1)</sup> In accordance with EBA criteria

<sup>(2)</sup> Last 12-month average



## AWARDS, DISTINCTIONS AND OTHER RELEVANT FACTS IN THE 1ST HALF OF 2020



### Best Bank in Portugal

Within the scope of the Awards for Excellence 2020, Santander in Portugal was granted the "**Best Bank in Portugal 2020**" award by **Euromoney** magazine. The prizes distinguish those institutions that provided the best services to their customers, demonstrating leadership, innovation and dynamism in the markets in which they operate.



### Best Investment Bank in Portugal

In the Corporate Banking area, too, the Bank was recognized, Santander having received the award for "**Best Investment Bank in Portugal 2020**". The magazine pointed out that "the corporate and capital markets business" meant that, despite the competition of other international banks, "the best investment bank came to the fore".



### Best Bank in Portugal

The North American **Global Finance** magazine elected Santander in Portugal as the "**Best Bank in Portugal**", within the scope of the "*World's Best Banks 2020*". To elect the winners objective criteria were taken into account, such as profitability, evolution of assets, geographic scope, development of new business and product innovation.



### Bank of the Year in Portugal

Santander was awarded the "**Bank of the Year in Portugal 2019**" award by **The Banker** magazine, within the scope of the "The Banker Awards 2019". The publication highlights "the position of leadership assumed by Santander in the Portuguese banking sector in recent years, describing its history of growth as a result of the customer-centred strategy and of the commitment to digital innovation".



### Most Reputed Banking Brand

Santander was also the **brand with banking's best reputation** in Portugal, according to the **Global Pulse RepScore 2020 study**, conducted by consultant **On Strategy**. It is the fourth consecutive time that Santander occupies this position, leading in the two dimensions, rational and emotional, that comprise the analysis.



### Company with Best Corporate Reputation

Santander was considered the **Company with the best corporate reputation in Portugal**, on taking 1st place in the sector in the **2019 Merco ranking Companies 2019**. It is also the best positioned bank in the general ranking of the Most Responsible Companies having best Corporate Governance. The analysis was conducted in Portugal for the first time, the methodology of which analysed 1,200 interviews of 12 different stakeholders.



### Best Trade Finance

Santander was distinguished by **Euromoney** magazine as the **"Best Trade Finance Bank"** in Portugal, coming first in the **"Market leader"** and **"Best Service"** categories. The magazine highlights the partnership that Santander has established with Portuguese companies, providing efficient, fast and secure services in foreign trade, as well as the support provided to their internationalization in foreign markets.



### Best Private Banking Services Overall

Santander won the **"Best Private Banking Services Overall"** in Portugal prize, awarded by **Euromoney** magazine. This is the ninth consecutive time that Bank receives this award. Santander also received the award as Best Private Banking in the ESG (environmental, social and corporate governance) category and for its technological development.



### Best Private Bank

Santander in Portugal's Private Banking was elected by **Global Finance** magazine as the **"Best in Portugal"**, within the scope of The World's Best Private Banks Awards for 2020, which distinguish the world's best private-banking business models. This is now the fifth consecutive distinction.



### Best Retail Bank

Santander was distinguished as **"Best Retail Bank in Portugal"** by the British magazine **World Finance**, in the annual awards of this publication. The magazine highlighted the Bank's leadership, based on the global scale and local scope, customer-centric strategy and diversification.



### Best Bank to Work For

Santander was considered the **"Best Bank to Work For in Portugal"**. And 2nd best company (of a size greater than 1,000 employees) to work for, within the scope of the **Great Place to Work**, which included the opinion of the Bank's employees.

#### Other awards and distinctions:

##### *Best Private Banking in the service categories, **Euromoney***

Net-worth-specific services (Ultra High Net Worth clients (Greater than US\$ 30 million); Net-worth-specific services (High Net Worth clients (US\$ 5 million to US\$ 30 million); Net-worth-specific services (Super affluent clients (US\$ 1 million to US\$ 5 million); Asset Management; Family Office Services; Research and Asset Allocation Advice; Philanthropic Advice; ESG/Social Impact Investing; International Clients; Succession Planning Advice and Trusts

*"Best Contact Centre in the Banking sector 2019", **Portuguese Contact Centres Association***

These awards are the responsibility of the entities that grant them.

## Other relevant facts in the 1st half of 2020

### Support in combating the Covid-19 pandemic

Measures to support employees, customers and suppliers, in order to mitigate the effects of the pandemic. The Bank's initial concern was the protection of all employees, implementation of customer support solutions, such as moratoria on mortgage and corporate loans, as well as the adoption of a set of direct support measures in the combat against Covid-19, in the purchase of hospital equipment, in support of the solidarity campaigns and of the most vulnerable groups. The Bank also brought forward payments to suppliers, making payment at sight. The Bank allocated to the fight against the Pandemic a total of €3.2 million.



#### A filosofia digital do Santander

Sorria mais, faça mais e viva mais.  
Seguimos ao seu lado com as  
soluções digitais Santander.



### Digilosofia – The new digital philosophy

Santander announced its new digital positioning, a new philosophy to ensure more day-to-day enjoyment, taking advantage of the digital solutions available.

### New digital payment solutions

New digital technology-based contactless solutions, which allow customers to pay with smartwatches or wearables (Garmin and Fitbit). Another highlight was the launch of the digital card, a pioneering solution between major banks, which allows, on opening an account, the immediate delivery of a digital bank card to the customer.



### Proximity and strengthening the relation

Opening of the third WorkCafé in Portugal, in the city of Espinho. The concept combines bank-branch services with a cafeteria and a co-working zone. The two other WorkCafés are in Lisbon and Coimbra.

### Responsible Family Certification

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





## SOCIAL RESPONSIBILITY

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

The Bank took part in many projects to provide better conditions for the Portuguese health institutions to be able to face Covid-19, and the following are underscored:

- Participation in the Portuguese Banks Association's initiative for the donation of 100 ventilators and 100 monitors to the National Health Service. The Bank contributed more than €230,000 to this initiative;
- Donation for the purchase of ventilators for the National Health Service through an association of large companies;
- Support for the *Tech4Covid19* movement, to which Santander contributed €50,000 euros to acquire protective equipment for hospitals;
- Contribution to the Azores Autonomous Region, involving the purchase of Covid-19 screening test equipment;
- Association with the "Unidos por Portugal" initiative of the Impresa Group, jointly promoted by the Portuguese Football Federation and with the support of *SIC Esperança*, to raise funds to acquire hospital material and personal protective equipment for social organizations.

Santander also provided a support of €500,000 (a €250,000 contribution of the corporate *Solidário Juntos* fund), for the "Global Response to Covid-19 - Donor Conference" initiative, organized by the European Commission. The initiative aims to bring together the efforts of governments, businesses, foundations and citizens of the European Union, to accelerate the development, production and equitable access to vaccines, diagnostics and treatments.

Within the scope of the support for the most vulnerable sectors of society, the Bank took part in the #Nunca Desistir solidarity campaign, of which Santander Portugal was a financial partner, which mobilized the Portuguese to raise money to feed families in need of support in the context of the national emergency. The beneficiaries of the funds raised – about €645,000 – were Portuguese Red Cross and the Emergency Food Network. The Bank donated €50,000 (€25,000 euros to each social solidarity institution).

Through the Santander Solidarity Fund, an internal initiative through which employees have made their donations to ensure access to food by vulnerable individuals and households, more than €84,000 have been allocated for meals, to lend support to more than 5,370 people. In total, the



Fundo Santander Solidário  
**Ajude-nos a ajudar**  
Colaboradores e Santander  
vão ajudar quem mais precisa.  
Ocupamos o valor que ficaria  
do salário mínimo de todos nós.

Fund helped more than 30 IPSS (social solidarity institutions) throughout the country.

The Santander Donativo Participativo 2020 prizes were awarded, an initiative in which Santander employees choose which social and environmental projects the Bank will support financially. The Associations *Ajuda de Berço*, *Academia do Johnson*, *Salvador* and *Crescer Ser* were the winners of the 3rd edition of this initiative, each of these institutions having received support in the amount of €7,500. Besides the four winners, honourable mentions were awarded to 11 other finalist institutions. The projects were presented and sponsored by Santander employees, with a total of 133 applications having been received.

Santander and the University of Coimbra signed an agreement to devote more than €400,000 to the combat against Covid-19. The funds will be entirely dedicated to measures to fight the current pandemic crisis and its social consequences.

### Tira as tuas ideias de quarentena

Universitários unidos contra o COVID-19.  
Vai a [www.bolsas-santander.com](http://www.bolsas-santander.com)  
e inscreve as tuas ideias e projetos.

PRÊMIO  
**UNI-COVID-19**



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

Also within the scope of support for the Universities, Santander has allocated €2 million of its sponsorship to Higher Education Institutions to support initiatives to mitigate the impact of Covid-19. The various Higher Education institutions are using funds of the Bank to support students who are beginning to feel the economic and social effects of the pandemic. As a first step, funds were made available for students who are already in a situation of economic emergency. Starting in September, 1,000 social-support scholarships will be awarded. The measures also include the acquisition of computers and IT equipment to ensure that all students may have access to distance learning under the best possible conditions. This measure was also extended to the staff of the institutions.

In the Health sector, Santander funds will allow Universities and Polytechnics to play a greater role in combating Covid-19, for which they are being called upon, adapting their laboratories for test production and using 3D printers to produce protective equipment for health workers. With the support of Santander, the University of Évora created a solidarity fund of €200,000





and, on the other hand, the University of Trás-os-Montes set up a Temporary Shelter to accommodate the elderly from care homes affected by the pandemic. The Setúbal Polytechnic Institute is also in the forefront by providing test equipment, production of visors and alcohol gel, among other initiatives.

During the 1st half of 2020, the Bank signed: (1) the "Seize the crisis to launch a new paradigm of sustainable development" Manifesto, promoted by BSCD Portugal, through which the largest Portuguese companies undertake to promote a more sustainable development model; and (2) the Lisbon Green Capital 2020 Commitment – Lisbon Climate Action 2030, an initiative of the Lisbon City Council the aim of which is to challenge companies, citizens and all organizations to contribute to sustainability in the city of Lisbon, promoting concrete measures such as the reduction and separation of waste, sustainable mobility and energy saving. With these commitments, Santander strengthens its concern for the environment, within the scope of which it recently announced that in 2020, it will become a carbon neutral company.

Internally, the Bank adopted several measures to support its employees in these times of crisis. In mid-March, telework measures and rotation in the public service posts were implemented.

In a proof of confidence in the stability, solidity and future recovery of the Portuguese economy, Santander Portugal undertakes not to use the simplified layoff measure that was approved by the Portuguese State in this national-emergency period. Employees who are teleworking, in quarantine, or take advantage of the leave arising from the suspension of teaching activities and the closure of care homes, are assured of payment

in full of their salary and of the food allowance. Employees with immediate liquidity needs will be able to bring forward 50% of the Christmas bonus.

Also approved was a training loan of up to €50,000, at a very low rate, so that employees may meet their children's university fees.

Likewise, the Bank supports the payment of the first Covid-19 analysis for all employees having had direct contact with infected people or with symptoms of the disease.

Also released were two medical lines for support to employees, the psychological support line and the medical support line, dedicated to the support of employees and their families having doubts about the disease or anxiety situations, in case of the psychological support line.

The Bank has provided employees, who are working in customer attendance, with masks, visors and personal protective equipment.

Santander has also recently been considered, for the 4th consecutive year as *Great Place to Work*, and has renewed its EFR (Family Responsible Company) certificate, having achieved the level of excellence this year.

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

## GOVERNING BODIES

### BOARD OF THE GENERAL MEETING

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

### BOARD OF DIRECTORS

|               |                                                         |
|---------------|---------------------------------------------------------|
| Chair:        | José Carlos Brito Sítima <sup>1</sup>                   |
| Deputy-chair: | Pedro Aires Coruche Castro e Almeida                    |
| Members:      | Amílcar da Silva Lourenço                               |
|               | Ana Isabel Abranches Pereira de Carvalho Morais         |
|               | Andreu Plaza Lopez                                      |
|               | Daniel Abel Monteiro Palhares Traça                     |
|               | Inês Oom Ferreira de Sousa                              |
|               | Isabel Cristina da Silva Guerreiro                      |
|               | Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota |
|               | Manuel António Amaral Franco Preto                      |
|               | Manuel Maria de Olazábal Albuquerque                    |
|               | Maria Manuela Machado Costa Farelo Ataíde Marques       |
|               | Miguel Belo de Carvalho                                 |
|               | Remedios Ruiz Macia                                     |

### AUDIT COMMITTEE

|          |                                                         |
|----------|---------------------------------------------------------|
| Chair:   | Ana Isabel Abranches Pereira de Carvalho Morais         |
| Members: | Daniel Abel Monteiro Palhares Traça                     |
|          | Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota |
|          | Manuel Maria de Olazábal Albuquerque                    |
|          | Maria Manuela Machado Costa Farelo Ataíde Marques       |

### STATUTORY AUDITOR

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

(1) Dr. José Carlos Sítima assumed the position of Chair of the Bank's Board of Directors, in the wake of the registration of alteration of duties communicated by the Bank of Portugal on May 18, 2020

## EXECUTIVE COMMITTEE

|               |                                      |
|---------------|--------------------------------------|
| Chair:        | Pedro Aires Coruche Castro e Almeida |
| Deputy-chair: | Manuel António Amaral Franco Preto   |
| Members:      | Amílcar da Silva Lourenço            |
|               | Inês Oom Ferreira de Sousa           |
|               | Isabel Cristina da Silva Guerreiro   |
|               | Miguel Belo de Carvalho              |

## RISK COMMITTEE

|          |                                                   |
|----------|---------------------------------------------------|
| Chair:   | Manuel Maria de Olazábal Albuquerque              |
| Members: | Daniel Abel Monteiro Palhares Traça               |
|          | Maria Manuela Machado Costa Farelo Ataíde Marques |
|          | Remedios Ruiz Macia                               |

## REMUNERATION COMMITTEE

|          |                                                         |
|----------|---------------------------------------------------------|
| Chair:   | Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota |
| 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         |
|          | Andreu Plaza Lopez                                      |
|          | Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota |
|          | Manuel Maria de Olazábal Albuquerque                    |

## SALARIES COMMITTEE

|         |                       |
|---------|-----------------------|
| Chair:  | Jaime Pérez Renovales |
| Member: | Roberto di Bernardini |

## COMPANY SECRETARY

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





## BUSINESS FRAMEWORK

### International Economy

In March 2020, the World Health Organization (WHO) declared a pandemic situation associated with the SARS-CoV-2 virus that causes the Covid-19 disease.

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

Despite the confinement having been implemented only in March, GDP contracted significantly already in the 1st quarter, a situation that worsened in the second quarter as stricter confinement was adopted during April, while a start was made in May to a gradual removal of restrictions, but always with activity levels far below those recorded before the pandemic.

The contraction of activity worldwide in the 1st half of the year may have amounted to more than 4% compared to the same period of 2019. This evolution differed between regions and was substantially more pronounced in the developed economies, where (i) the effects of the pandemic were felt earlier, after exposure from Wuhan, China, and (ii) the confinement was more widespread. At present, besides the US, the effects of the pandemic are stronger in emerging economies such as Brazil and India.

Recovery is still uncertain, due to the potential risks, be it for the impact on the labour market, be it for the risks of occurrence of a second wave.

World Economic Growth

|                             | 2019       | 2020        | 2021       |
|-----------------------------|------------|-------------|------------|
| <b>World</b>                | <b>2.9</b> | <b>-4.9</b> | <b>5.4</b> |
| <b>Advanced Economies</b>   | <b>1.7</b> | <b>-8.0</b> | <b>4.8</b> |
| USA                         | 2.3        | -8.0        | 4.5        |
| Euro Area                   | 1.3        | -10.2       | 6.0        |
| United Kingdom              | 1.4        | -10.2       | 6.3        |
| Japan                       | 0.7        | -5.8        | 2.4        |
| <b>Developing Countries</b> | <b>3.7</b> | <b>-3.0</b> | <b>5.9</b> |
| Africa                      | 3.1        | -3.2        | 3.4        |
| Asia                        | 5.5        | -0.8        | 7.4        |
| China                       | 6.1        | 1.0         | 8.2        |
| Central and Eastern Europe  | 2.1        | -5.8        | 4.3        |
| Middle East                 | 1.0        | -4.7        | 3.3        |
| Latin America               | 0.1        | -9.4        | 3.7        |
| Brazil                      | 1.1        | -9.1        | 3.6        |

Source: IMF (June 2020)

The International Monetary Fund (IMF), in the June update of the World Economic Outlook, lowered the economic projections, anticipating a deeper recession in the 1st half of 2020 and a slower recovery as from the second half of the year.

In 2020, the world economy may contract 4.9%, according to the IMF, to recover in 2021 with a growth of 5.4%.

However, regional, but also national, differences are significant, with developed economies contracting between 8% in the US and 10% in the euro zone. Implementation of an almost

universal confinement in these economies, and the interactions between them at the level of integration of the global value chains and also of tourism, largely explain this contraction.

In the emerging economies, the impacts were different, in the light, also, of the spread also of the pandemic. China, where the outbreak began, may grow just marginally (1%), but in economies such as Brazil or India, where the infection is much more significant, the GDP may fall by almost 9% in 2020.

For 2021, the scenario is one of great uncertainty, due to (i) the speed of normalization of activity, especially in the most affected sectors, such as tourism; and (ii) the risks of a second wave of contagion.

The depth of the economic impacts demanded an assertive response by the authorities, in the sense of trying to mitigate the immediate effects, on the one hand, and trying to revive economic activity, on the other.

The action of the major central banks followed a common path, including (i) reductions of the benchmark interest rates, (ii) additional programmes for the injection of liquidity into the banking system, directed at extending credit to the real economy and (iii) increase of the volumes of acquisition of assets.

In the US, the Federal Reserve responded to the historical destruction of jobs by cutting the Fed Funds rate to 0%, as well as programmes to extend liquidity and credit, and the acquisition of financial assets.

The European Central Bank reinforced its intention to pursue a monetary policy of support to economic recovery, based on the maintenance of negative interest rates and asset acquisition and assignment of liquidity programmes, in order to promote basic conditions conducive to recovery and economic growth. For this, new monetary policy mechanisms were created, the PELTROs – Pandemic Emergency Longer-term Refinancing Operations – which began in May 2020 and will continue until July/September 2021, at a fixed refinancing rate 25bp below the refi rate. Additionally, the refinancing conditions of the TLTRO III were revised, with the refinancing rates being reduced by 100pb compared to the average refi rate for transactions carried out between June 2020 and June 2021. In June, the total amount of the PEPP – Pandemic Emergency Purchase Programme was enlarged by €600 billion, to a total of €1,350 billion, which contributed to a stabilization of the risk in the euro area.

The intervention of the central banks dominated the evolution of the bond markets, contributing to the decline of the yields and also of the risk premiums. This intervention, especially by the ECB with the PEPP, allowed the trend seen in April to be annulled, where the yields and spreads of the peripheral countries increased due to fears that the pandemic would structurally penalize their budget dynamics, which before the pandemic were already characterized by high levels of public debt.

The **European Recovery Plan** (NextGen EU) approved in July warrants special emphasis, with a budget of €750 billion, divided between a component of grants to the States, amounting to €390 billion (compared to the initial proposal of €500 billion), and a component of loans amounting to €360 billion.

This plan, to be implemented between 2021 and 2026, will be financed directly by the European Commission, through the issuance of debt in the name of the European Union, constituting the 1st pooling mechanism of European support.

Additionally, the Multi-year Financial Framework for the 2021-27 period was approved, the total of which amounts to €1,074 billion.

Within the scope of the economic recovery plan, Portugal is set to receive an amount greater than €15 billion euros in grants and the possibility of obtaining another €15 billion in loans. Together with the new multi-annual financial framework, Portugal is set to obtain almost €58 billion euros of Community funds for use over the coming decade.

## Portuguese Economy

Economic performance in Portugal replicated the global dynamics, with the effects of the pandemic and containment measures resulting from the imposition of the State of Emergency, between March 18 and May 2.

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

### Macroeconomic Data

|                                 | 2018       | 2019       | 2020 P      |
|---------------------------------|------------|------------|-------------|
| <b>GDP</b>                      | <b>2.6</b> | <b>2.2</b> | <b>-9.5</b> |
| Private Consumption             | 2.9        | 2.3        | -8.9        |
| Public Consumption              | 0.9        | 0.8        | 0.6         |
| Investment                      | 6.2        | 6.5        | -11.1       |
| Exports                         | 4.5        | 3.7        | -25.3       |
| Imports                         | 5.7        | 5.2        | -22.4       |
| Inflation (average)             | 1.0        | 0.3        | 0.1         |
| Unemployment                    | 7.0        | 6.5        | 10.1        |
| Fiscal Balance (% GDP)          | -0.4       | 0.2        | -8.5        |
| Public Debt (% GDP)             | 122.0      | 117.7      | 138.0       |
| Current Account Balance (% GDP) | 1.4        | 0.9        | 0.8         |

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

The peak of the economic impact of the pandemic will have been concentrated in the second quarter, the GDP having fallen by 13.9% after a reduction of 3.8% in the 1st quarter. A contribution to this has been made by a sharp drop in domestic demand, private consumption being heavily penalized, especially the consumption of durable goods, resulting in YoY falls of over 70% in sales of light passenger vehicles. The sharp contraction of investment will have been the result of falls in excess of 30% of the investment in transport material, machinery and equipment. In terms of foreign demand, exports fell by more than 30%, both at intra- and at extra-Community level, and the value of the order book continues to deteriorate. The sharp drop of imports will also have partially annulled the decline of exports, though there continues to be a decrease of in the export coverage rate compared to imports, which will have been reflected in a more negative contribution to growth.

However, post-confinement Portugal is different, with the movement of people remaining at low levels, associated with an almost total absence of tourists, almost nullifying the external demand that fed many service activities, besides trade, lodging and catering. These sectors of activity are characterized by absorbing a vast range of skilled and unskilled labour, of which the vast majority will now be subject to the layoff regime. In July, the provisional estimate of the unemployment rate increased to 8.1%, while the rate of labour underutilization rose to 15.7%. The labour market data begin to reflect the impacts of the pandemic following a reduction between March and May of the participation rate, as people, prevented from seeking

employment, were considered inactive (in this period, about 86,000 people were no longer deemed active population, i.e., employed or unemployed). The simplified layoff mechanism made it possible to avoid a sharp rise of unemployment, with companies keeping on their staff; however, the slow recovery of economic activity is starting to bring pressure to bear on the labour market.

Until the outbreak of the pandemic, the Portuguese economy continued to redress the main imbalances, debt reduction in particular.

At the end of the second quarter of 2020, public debt amounted to 127% of the GDP, an increase of 6pp compared to the same period of 2019, affected by the contraction of GDP in the 1st half.

On the same date, the indebtedness of the private sector stood at 200% (6pp more than 2Q19), mainly reflecting the effect of the sharp drop of the GDP in the first half of 2020, but also the financing of companies under the lines guaranteed by the State, created within the context of the pandemic. In the coming quarters the debt dynamic is set to reflect, in the private sector, the effects of the credit moratoria, with the suspension of payment of capital and/or interest until March 2021.

In the 1st quarter of 2020, the budget balance of the public administrations generated a deficit of 1.1% of the GDP, now reflecting the impact of the pandemic, especially at the level of expenditure: intermediate consumption increased, reflecting the acquisition of medical and hospital supplies.

Long-term interest rates reflected the expectations concerning the impact of the pandemic, on the one hand, and significant intervention by the ECB through the PEPP, on the other. As early as March, when the pandemic began, the 10-year yield increased from about 0.2% to 1.4%, then decreasing steadily, particularly as from May, when it reached 0.4%, an 82bp differential against Germany (as of August 31, 2020).

The risk notation of the Republic assigned by the S&P, Fitch and Moody's agencies is BBB (stable), BBB (stable) and Baa3 (positive). The DBRS agency maintains the BBB-high (stable) rating.

Note: text written with the information available up to August 31, 2020.

## MAJOR RISKS AND UNCERTAINTIES FOR 2020

To date (August 31, 2020), the uncertainties for the current year are extremely high within the framework of the global pandemic associated with Covid-19.

The main economic effects were already being felt in the first half of the year with an unprecedented generalized downturn of activity. In Portugal, in the second quarter, GDP contracted 16.3% year on year, the result: (i) of the disruption of the global production chains; and (ii) of the imposition of containment measures, such as distance working, temporary closures of activities, the closure of borders and, more recently, limitations to movements of the population, which, in Portugal, is an example of the declaration of the state emergency, as from the 19th of March.

The global context is still shrouded in very considerable uncertainty. On the one hand, and from the health point of view, there are risks of a second wave, with ongoing increase of cases of infection by the Covid-19 disease. The size of this contagion, and the response capacity of the health systems, are relevant factors to be considered. On the other hand, recovery capacity, in terms of implementation of the necessary steps for the normalization of activities as a whole, including the European Recovery and Resilience Facility.

Thus, the context in which Banco Santander will operate in Portugal during the second half of the year will still be characterized by considerable uncertainty and potential adversity within the context of the pandemic.

On the one hand, business volumes will probably reflect the effects of the support measures, such as credit lines guaranteed by the State and the moratoria on loans, but also the impacts of the pandemic on the confidence of the economic agents, reflected in their consumption, investment and savings decisions.

On the other hand, the interest-rate environment may continue to be characterized by negative rates, the result of the monetary policy decisions adopted by central banks, including the European Central Bank, with the possibility of further measures besides those adopted in the first half.

In this environment, uncertainty remains high and the overall risks skewed downwards.

## BUSINESS AREAS

### Individuals and Businesses

During the 1st half of 2020 and in the current context of a pandemic, the Bank quickly redefined its priorities, in an agile manner, increasing its support to households, businesses and companies and society in general.



The Bank provided a moratorium on mortgage loans and personal loans, complementing the State's moratorium (in accordance with Decree-

Law 10-J/2020 of March 26), in order to allow the reduction of the charges on these loans for customers that, as a result of the adverse effects of the pandemic, experienced a decrease in their income.

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

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

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

The number of digital customers, users of the Santander App and/or NetBanco increased by 91,000 during the 1st half, to 866,000, an increase of 14%. As a result of the context and of the solutions and measures that the Bank has developed, there continues to be a trend of increasing transactions via the digital

channels (529,000 digital transactional customers), with emphasis on payment via the Santander App.

Also to be highlighted is the positive evolution of the Mundo 123 customers (customers having an account, a card and insurance protection), in which there are now more than 285,700 customers, a growth of 12,000 during the 1st half. Mundo 123 is a multiproduct solution directed at individual customers that, in addition to the advantages of the 123 account, can provide an additional set of benefits, via cash-back, in the Mundo 123 card account.

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

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

At the end of June, the turnover of the Business segment increased by more than €1.275 million compared to last time, an increase of 15%.

### Companies and Institutionals

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

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

Besides providing to its customer Companies a commercial network of experienced professionals highly motivated to provide excellent service to its customers, Santander in Portugal has invested heavily in digital channels in order to streamline





the relationship with the Bank in all matters related with daily banking. The increasing use of the digital channels by Companies demonstrates the importance that customers give to the simplification of procedures and to the fact that they gain autonomy in the use of certain banking products and services for the day-to-day management of their companies.

In the Protocolled Lines, and in conjunction with the public entities involved, Santander

COVID-19  
Medidas para  
apoiar empresas



made available to its customers the Covid-19 lines created to support cash requirements. The injection of liquidity into companies through these lines, combined with the application of the capital moratorium sponsored by the State has allowed companies to relieve the pressure on their treasuries and comply with the most immediate commitments to their employees and suppliers, in a difficult context of sharp reduction or even absence of billing.

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

During the 1st half of 2020, the Bank continued to support the international business of more than 32,000 Portuguese companies. This number is especially significant in view of the difficult environment that came to affect the whole economy since March.

During this period, the Trade Finance teams strengthened their proximity to the companies, seeking to support customers in all the difficulties caused by the present situation. Emphasis is given to the support in foreign-trade processes, involving different countries and international operators, where it was necessary to carry out joint and co-ordinated work to be able to finalize import and export operations successfully.

In the 1st half 2020, Santander Portugal increased its market share in most trade finance operations, a clear sign of the trust of its customers in the professional structure of the Bank and demonstrating the image of solidity and credibility of Santander Portugal in the international markets.

Attention is drawn to the enlargement of the membership of Portuguese companies of the Trade Club Alliance, a global digital support platform for international trade between customers of 14 major international banks present in 60 countries, covering 65% of the leading international trade corridors. More than 860 Portuguese companies are present on the platform, which came to be one of the distribution channels of their products in the international markets.

With regard to Institutional Banking, Santander in Portugal maintains its commitment to the customers of this segment, both with regard to Public Entities, with a strong presence in the Açores and Madeira Regions and with the Municipalities, as well

to Private Entities, with a special focus on Religious Institutions and on Social Economy institutions.

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

## Corporate and Investment Banking

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

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

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

In this framework of isolation, the focus on the development of the digital channels, underlining the digital currency contracting platform (via NetBanco Companies), provides an appropriate response to the needs of users.

In the Global Debt Financing area, the 1st half of 2020 was marked by the following significant operations:

- Participation of Santander Totta, as Bookrunner, in the issue of a Hybrid Green Bond for EDP, with a maturity of 60 years in the amount of €750 million;
- First green issue of a Residential Mortgage Backed Security in Portugal, in this case in the amount of €270 million for UCI;
- Financing the acquisition, by Morgan Stanley Infrastructure, of the Altice Portugal fibre network, in which Santander took part as Mandated Lead Arranger.

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

In the Corporate Finance area we would underscore the completion of the following financial advisory operations: (1) Advising Cellnex in the acquisition of Omtel from Morgan Stanley Infrastructure and Altice; (2) Advising Sonae Sierra and APG in the sale of 50% of Sierra Prime to Allianz and Elo; (3)

Advising Glennmont Partners in the sale of the photovoltaic portfolio in Portugal to Finerge; (4) Advising NOS in the sale of portfolio of the NOS Towering towers to Cellnex; and (5) Advising EDP in the sale of two CCGTs and of the B2C customer business in Spain to Total.

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

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

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

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

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

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

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

## Foreign Customers and Residents Abroad

The main function of the Foreigners and Resident Abroad area is to support the Bank's individuals and businesses commercial networks in the creation of strong commercial and proximity ties with the communities of Portuguese and Portuguese descendants living abroad, through its representation office network in 6 countries (South Africa, Germany, France, United Kingdom, Switzerland and Venezuela), as well as promoting and attracting customers and business among foreigners who choose Portugal to invest and establish their non-habitual residence.

Maintaining its strategy of proximity and strong connection with the Portuguese communities, Banco Santander in Portugal has strengthened its position in this segment, which is reflected in the increase of business volume and is recognized by its customers as a safe and reliable bank. In June 2020, the Foreign Customers and Residents Abroad area recorded a YoY increase of €160 million in terms of business volume.

The Foreign Customer segment stood out and performed well, especially in loans, with a €57 million variation YoY, an 11.1% increase.

Within the context of the pandemic that we are experiencing there has been a major concern in support for the customers, particularly those who have greater difficulty in the use of digital media, with the "Aqui e Agora" campaign, in clarification and support in the use of digital media in the emigrant community, in particular in the elderly sub-segment.

The growing number of digital customers has constituted an important lever for the entire segment, allowing satisfaction of the financial needs of customers quickly and efficiently, via APP and NetBanco.

## Insurance and investment funds marketed

The 1st half of 2020 was marked by two distinct periods. A first pre-Covid-19 pandemic moment when, both in terms of investment funds and in terms of financial insurance, there was very strong demand for this type of solutions, which naturally led to net subscriptions of around €172 million, mainly related to mixed products. After the start of the pandemic there was a widespread decline in the financial markets, which conditioned

<sup>1</sup> Source: CMVM, Monthly order reception indicators (May 2020)

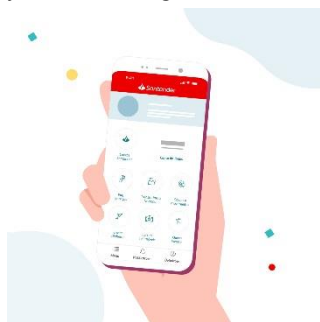
commercial activity, involving outgoings of around €335 million during the second quarter.

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

In this connection, Santander Asset Management (SAM) sought to manage its real-estate investments funds, with the goal of minimising the losses of its participants following the impacts from the Covid-19. At the end of the half-year, the amount of assets under management stood at €2.3 billion.

Real-estate investment funds totalled about €423 million at the end of June.

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



The pandemic context clearly showed the importance of savings/pensions in meeting the needs customers. The pension solutions played a very important role in the commercial business, with the products recording net subscriptions of €26 million in

the form of funds (FPR's) and €17 million in the form of insurance (PPR), benefitting from the Freemium campaign which took place mainly in June.

## Digital Transformation

In a challenging environment, Banco Santander continued its digital transformation plan by creating a number of initiatives to inform and empower customers in the use of the digital channels: App and NetBanco. In this sense, there was an increase in the use of the channels, showing that the vast majority of customers have managed their financial lives from home. In June and 2020, there was an increase of 54,000 users of the App and/or NetBanco, allowing a record high of 866,000 digital customers with at least one access in the past 30 days (about 51% of the active customers).

### *Digital channels for Individual Customers*

In order to respond immediately to customers who have had a reduction in their income with the impact of the Covid-19 pandemic, Banco Santander was the first bank to offer the possibility to its customers to sign up, online, for the credit moratorium through NetBanco.

In parallel, and within the scope of the initiatives included in the digital transformation plan, Banco Santander in Portugal launched in May the new version of the Individuals App, with the aim of improving the user experience of its customers and to contribute to the strengthening of the Santander brand. With a more modern design and with a home screen with quick access buttons, this new version also allowed an evolution at the level of software engineering on taking advantage of the native resources of the operating systems, as well as enhancing the security of the users. In the access to the App for minors a new feature has been added that enables minors to consult their debit or prepaid cards.



**FREE GO!**

Pago com liberdade.  
Sem carteira, sem trocos e livre de preocupações.

Descubra como funciona em português no link: [www.santander.pt/pt/individuals/freego](https://www.santander.pt/pt/individuals/freego)

Santander

In June, as a result of the strategy to position Santander as the "Digital Payments Bank", a solution was released that allows customers who have Santander card to make contactless payments with their Garmin brand smartwatches (through Garmin Pay).

As transition agents for a more sustainable economy, Banco Santander decided to provide customer documents in digital format. These documents are available for consultation via the App (only statements and commercial communications) and NetBanco, in a new layout adapted to various devices (responsive).

With a permanent focus on improving customer experience to ensure their satisfaction and loyalty, the Bank continues attentive to their opinion regarding their visits via the digital channels.

### *Digital channels for Corporate Customers*

To relieve the impact on the liquidity of those companies most affected by the Covid-19 pandemic, and as happened for the individual customers, Banco Santander developed the online subscription to the credit moratorium at NetBanco.

Also at NetBanco, the request for automatic payment terminal (POS) was transformed into in a 100% digital process and a solution was created for the management of differences in the request for export documentary credit. Improvements were made to the NBE Manager platform to optimize the work of the commercial area and reduce procedural errors. Underscored is the introduction of the management of addenda to contracts and the improvement of the management of the data of the users and their accesses (allowing fast alteration of the daily limit of contracts).

In the Companies App all the notification screens were overhauled, user experience was simplified and improved, and notification of the execution of scheduled transfers is permitted.

As was done for individuals, a start was made to measurement of the satisfaction indices in the use of the digital channels for

businesses. This feedback mechanism provides a clearer idea to implement improvements in the future.

### Contact Centre

The volume of contacts of the *Contact Centre* increased by 30% (totalling about 1.6 million contacts), mainly due to issues related to the credit moratorium and the use of the digital channels, because of the pandemic. Specifically, 66% of calls were attended by people, 17% were answered by the auto attendance (IVR) and the remaining 17% by digital contacts (e-mail, chat and response to iterations on the pages and profiles of the Bank's social networks).



Given the increase in the volume of calls and to deal with the restrictions imposed by the government, a strategy was implemented in stages to ensure that the risks were mitigated and the services maintained with normal activity:

- Transformation of non-critical voice services to e-mail;
- Strengthening critical services through training and hiring more employees;
- Separation of the operation into three different places;

- Increase of attendance via digital channels and IVR (automated self-service systems);
- Implementation of 100% teleworking at the Contact Centre (as from March 26).

Underscored during this period is the implementation of several integrated initiatives at the level of digital transformation, with a focus on:

- Enlargement of the chat attendance hours;
- Extension of the chat to all pages of the Individuals site and of the Companies site;
- New IVR options with immediate or informative response;
- Creation of a Line to support moratoria;
- New Call Back options in the event of very considerable traffic;
- Launch of a Virtual Assistant in the Individuals NetBanco.

Customer satisfaction, measured by the NPS methodology, fell slightly during periods of greater traffic, but has returned to normal levels with the recovery of the service levels.



## ECONOMIC AND FINANCIAL INFORMATION

### Consolidated business

At the end of the 1st half of 2020, Banco Santander Totta recorded a net income of €154.5 million, compared with €239.8 million in the same period of the previous year, a decrease of 35.6%, influenced by the effects of the pandemic crisis.

The return on equity (RoE) stood at 8.5% and the efficiency ratio was 43.7%, a decrease of 0.8 percentage points compared to June 2019, reflecting the 3.2% decrease of operating income and the 4.9% decrease of operating costs.

Loans to customers gross, amounted to €42.1 billion, increase 3.4% compared to the amount achieved last time. Loans to individuals grew by 2.6% and loans to companies by 3.1%. The Bank has moratoria on loans to individuals and companies, complementing the State's moratorium (defined in Decree-Law 10-J/2020, of March 26). At the end of June 2020, the moratoria, legal and private, covered more than 88,000 customers, corresponding to an amount of more than €8.9 billion of loans (about 22% of the total portfolio). Within the scope of the credit lines with State guarantee, aimed at mitigating the effects of the pandemic, the Bank approved operations in the amount of €1.3 billion.

The Non-Performing Exposure ratio stood at 2.8%, down 0.5 percentage points, compared with 3.3% reported a year earlier, with a coverage by provisions of 61.0% (7.7 percentage points more than in the same period last year).

Customers' resources amounted to €43.5 billion, up 2.2% compared to the same period of 2019, with a 2.9% increase of deposits and a 1.7% decrease of off-balance sheet resources.

The Common Equity Tier 1 (fully implemented) amounted to 19.8%, increasing by 3.3 percentage points compared to the end of June 2019.

The liquidity reserve available amounted to €15 billion at the end of the 1st half of 2020.

In long-term funding, emphasis is given to the loan granted by the European Central Bank through the new TLTRO III funding

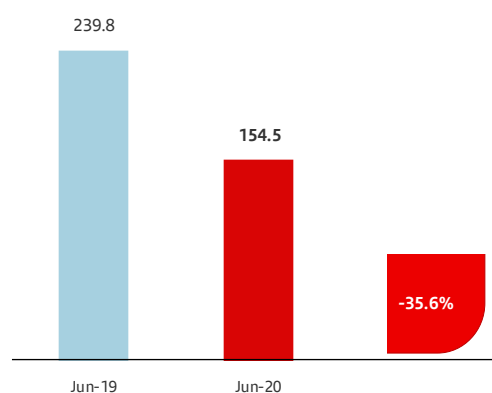
programme, of €6.8 billion (net exposure to the Eurosystem being almost nil, due to the increase of the customer deposits), €2.8 billion of mortgage bonds, €0.9 billion of the loan obtained from the European Investment Bank to finance structural infrastructure projects of the Portuguese economy and €0.6 billion of securitisations.

Short-term funding achieved through repos amounted to €1.6 billion.

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

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

**CONSOLIDATED NET INCOME**  
**ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK**  
million euro



## Results

| <b>CONSOLIDATED INCOME STATEMENTS</b> (million euro)                        | <b>Jun-20</b> | <b>Jun-19</b> | <b>Var.</b>   |
|-----------------------------------------------------------------------------|---------------|---------------|---------------|
| <b>Net interest income</b>                                                  | <b>398.6</b>  | <b>426.2</b>  | <b>-6.5%</b>  |
| Income from equity instruments                                              | 1.7           | 1.6           | +5.9%         |
| Results from associates                                                     | 0.8           | 0.4           | +82.3%        |
| Net fees                                                                    | 185.2         | 195.0         | -5.0%         |
| Other operating results                                                     | (28.9)        | (25.5)        | +13.4%        |
| <b>Commercial revenue</b>                                                   | <b>557.4</b>  | <b>597.8</b>  | <b>-6.8%</b>  |
| Gain/losses on financial assets                                             | 91.5          | 72.8          | +25.7%        |
| <b>Net income from banking activities</b>                                   | <b>649.0</b>  | <b>670.6</b>  | <b>-3.2%</b>  |
| Operating costs                                                             | (283.4)       | (298.1)       | -4.9%         |
| Staff Costs                                                                 | (160.0)       | (172.3)       | -7.1%         |
| General Administrative Costs                                                | (97.7)        | (101.6)       | -3.9%         |
| Depreciation in the year                                                    | (25.7)        | (24.2)        | +6.3%         |
| <b>Net operating Income</b>                                                 | <b>365.5</b>  | <b>372.4</b>  | <b>-1.9%</b>  |
| Impairment, net provisions and other results                                | (140.2)       | (18.3)        | +667.0%       |
| <b>Income before taxes and non-controlling interests</b>                    | <b>225.4</b>  | <b>354.2</b>  | <b>-36.4%</b> |
| Taxes                                                                       | (70.8)        | (114.4)       | -38.1%        |
| <b>Income after taxes and before non-controlling interests</b>              | <b>154.5</b>  | <b>239.8</b>  | <b>-35.6%</b> |
| Non-controlling interests                                                   | 0.0           | 0.0           | -             |
| <b>Consolidated net income attributable to the shareholders of the Bank</b> | <b>154.5</b>  | <b>239.8</b>  | <b>-35.6%</b> |

At the end of June 2020, net interest income stood at €398.6 million, down 6.5% compared to the €426.2 million achieved in the same period of 2019, reflecting the interest on loans due to pressure on interest rates in a competitive environment and lower demand for credit by companies outside the scope of the State guaranteed credit lines, and of the interest of the public debt portfolio, within the scope of its management.

The results from associates were €0.8 million, up 82.3% compared to the €0.4 million obtained last time, through the favourable contribution transverse to all the companies.

Net fees amounted to €185.2 million, down 5.0%, compared to the €195.0 million recorded in the same period of 2019, with emphasis on the reduction seen in the fees on loans and means of payment. This evolution mirrored the effects of the pandemic on the reduction of activity and the impact of the temporary suspension of a number of fees within the scope of the measures to support businesses and households, complementing the moratorium and credit lines provided with a State guarantee, in particular the exemption of fees on national transfers through the Bank's digital channels, free of charge replacement of cards without contactless technology by cards with this technology, and the reduction of fees related with the automatic payment terminals.

Other operating results amounted to -€28.9 million, 13.4% higher than last time, which included the 2020 regulatory costs of €35.6 million (€22.7 million of the contribution to the Single Resolution Fund and €12.9 million to the National Resolution Fund), 9.1% greater than the amount for the preceding year.

Commercial revenue totalled €557.4 million, 6.8% less than the €597.8 million in the same period of 2019.

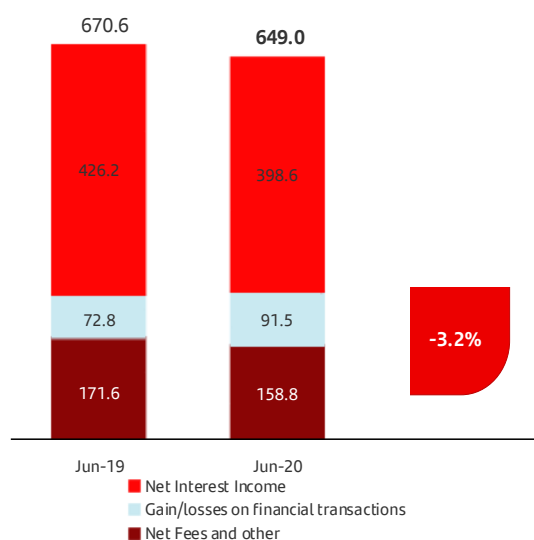
Income from financial assets totalled €91.5 million, up from €72.8 million at end of the 1st half of 2019, with the inclusion of the income generated by the management of the public debt portfolio.

Net income from banking activities amounted to €649.0 million, down 3.2% compared to the amount at the end of June 2019, penalized mainly by the decrease of net interest income and net fees.

At the end of June 2020, of the net income from banking activities, 61% was generated by net interest income (64% a year earlier), 29% by net fees (the same as the previous year) and 10% by other income (3 percentage points above that recorded in June 2019).

## NET INCOME FROM BANKING ACTIVITIES

million euro



Operating costs totalled €283.4 million, a 4.9% YoY decrease. In the past year there has been a reduction of 157 employees and 28 service centres.

Staff costs totalled €160.0 million, down 7.1% in YoY terms.

General administrative costs amounted to €97.7 million, a YoY reduction of 3.9%.

Depreciation in the year amounted to €25.7 million, up 6.3% compared to the end of June 2019, with the investment in the digital transformation.

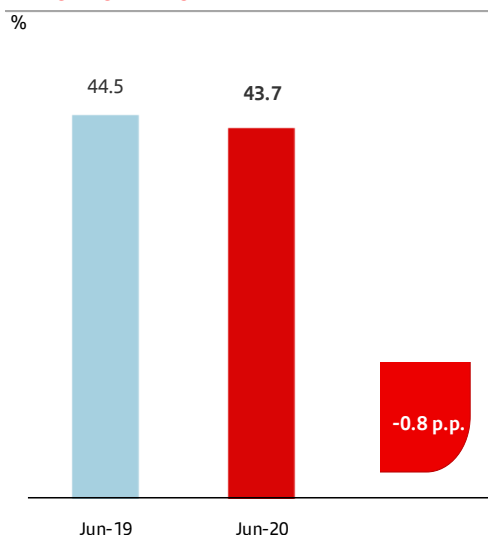
In the operating costs structure, staff costs account for 56% of the total, followed by general administrative costs at 34% and depreciation in the year at 10%.

### OPERATING COSTS (million euro)

|                              | Jun-20         | Jun-19         | Var.             |
|------------------------------|----------------|----------------|------------------|
| Staff costs                  | (160.0)        | (172.3)        | -7.1%            |
| General Administrative Costs | (97.7)         | (101.6)        | -3.9%            |
| Depreciation in the year     | (25.7)         | (24.2)         | +6.3%            |
| <b>Operating costs</b>       | <b>(283.4)</b> | <b>(298.1)</b> | <b>-4.9%</b>     |
| <b>Efficiency ratio</b>      | <b>43.7%</b>   | <b>44.5%</b>   | <b>-0.8 p.p.</b> |

At the end of June 2020, the efficiency ratio decreased by 0.8 percentage points, down from 44.5% to 43.7% through the 3.2% reduction of operating income and the 4.9% reduction of operating costs.

## EFFICIENCY RATIO



Net operating income of €365.5 million decreased 1.9% compared to the €372.4 million achieved in the same period last year, given that the downward trend of operating costs did not fully absorb the reduction of operating income.

Impairment, net provisions and other results entailed a cost of €140.2 million, greater than that recorded in the 1st half of 2019, by €18.3 million. This evolution was influenced by the setting aside of provisions for loan impairment, within the scope of a proactive policy of bringing forward the effects of the adverse macroeconomic scenario, characterized by a sharp contraction of activity, such as prevention of potential losses on

the failure of repayment of loans with non-performing exposures.

Income before taxes and non-controlling interests amounted to €225.4 million, 36.4% less than the €354.2 million at the end of the 1st half of 2019.

Taxes totalled €70.8 million, down 38.1% compared to the €114.4 million recorded a year earlier.

At the end of the 1st half of 2020, Banco Santander Totta returned a net income of €154.5 million, down 35.6% compared to the €239.8 million in the same period last year, reflecting the impact associated with the pandemic crisis.

## Balance Sheet and Business

At the end of June 2020, the business volume amounted to €85.6 billion, up 2.8% compared to the 2019 amount of €83.3

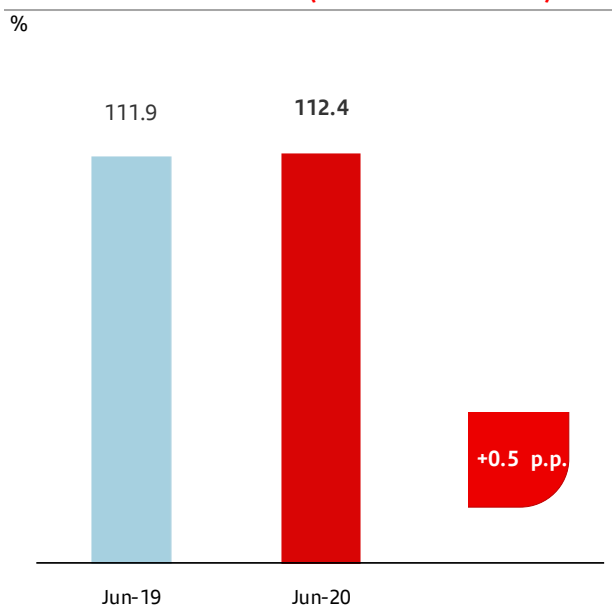
billion, resulting from the 3.4% increase of loans and advances to customers and of the 2.2% increase of customers' resources.

| <b>BUSINESS VOLUME</b> (million euro)   | <b>Jun-20</b> | <b>Jun-19</b> | <b>Var.</b>  |
|-----------------------------------------|---------------|---------------|--------------|
| <b>Business Volume</b>                  | <b>85,635</b> | <b>83,305</b> | <b>+2.8%</b> |
| Loans and advances to customers (gross) | 42,118        | 40,715        | +3.4%        |
| Customers' Resources                    | 43,517        | 42,591        | +2.2%        |

The transformation ratio, measured as the ratio between loans and deposits stood at 112.4% in June 2020, 0.5 percentage

points more than in the same period last year, the result of the growth of loans and advances greater than that of deposits.

## LOAN-TO-DEPOSIT RATIO (Transformation ratio)



At the end of June 2020, the portfolio of Loans and advances to customers (gross) totalled €42.1 billion, up 3.4% compared to the same period last year, reflecting the application of

moratoria to loans for households and businesses and the production of credit lines to support the economy within the context of the health crisis.

| <b>LOANS <sup>(1)</sup></b> (million euro) | <b>Jun-20</b> | <b>Jun-19</b> | <b>Var.</b> |
|--------------------------------------------|---------------|---------------|-------------|
| Loans to individuals                       | 22,168        | 21,604        | +2.6%       |
| <i>of which</i>                            |               |               |             |
| Mortgage                                   | 20,070        | 19,536        | +2.7%       |
| Consumer                                   | 1,679         | 1,626         | +3.3%       |
| Loans to corporates                        | 16,488        | 15,986        | +3.1%       |

<sup>(1)</sup> Loans at amortized cost

Loans to individuals totalled €22.2 billion, a YoY increase of 2.6%.

Mortgage loans rose 2.7% to €20.1 billion and consumer credit increased 3.3% to €1.7 billion.

Corporate loans stood at €16.5 billion, up 3.1% over the same period, reflecting the support granted to the Portuguese business community.

The Bank provided moratoria on loans to individuals and companies, complementing the State's moratorium (defined in Decree-Law 10-J/2020 of March 26), in order to allow the

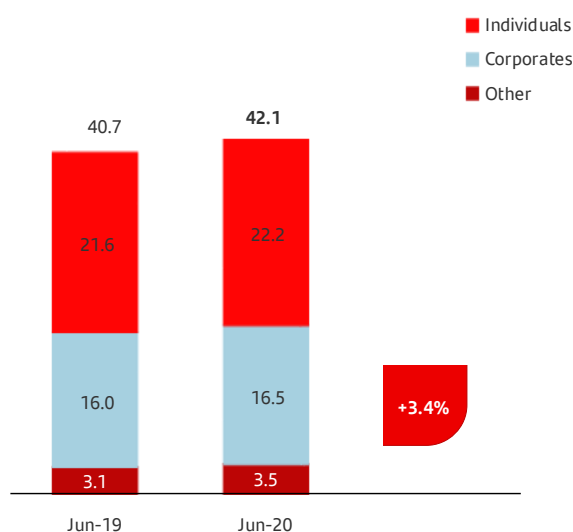
reduction of the charges on these loans for customers whose income decreased as a result of the adverse effects of the pandemic,

At the end of 2020, the moratoria, legal and private, covered more than 88,000 customers, corresponding to an amount credit of more than €8.9 billion (about 22% of the total portfolio). In the credit lines with State guarantee, aimed at reducing the effects of the pandemic, the Bank approved operations in the amount of €1.3 billion, providing businesses with support for their cash needs, within a framework of sharp reduction or lack of billing.



## LOANS AND ADVANCES TO CUSTOMERS (GROSS)

million euro



At the end of June 2020, the Non-Performing Exposure (NPE) ratio, calculated according EBA's definition, stood at 2.8%, a decrease of 0.5pp over the same period last year. The coverage of the Non-Performing Exposure by impairments stood at 61.0% (up 7.7pp compared to the 53.3% determined in June

2019). The cost of credit, measured by the net impairment of credit recovery previously written off from assets as a percentage of the average balance of the loan portfolio stood at 0.27%, reflecting the preventive reinforcement of the impairment of credit to anticipate the pandemic effects.

### CREDIT RISK RATIOS

|                                        | Jun-20 | Jun-19  | Var.       |
|----------------------------------------|--------|---------|------------|
| Non-performing exposure Ratio          | 2.8%   | 3.3%    | -0.5 p.p.  |
| Non Performing Exposure coverage ratio | 61.0%  | 53.3%   | +7.7 p.p.  |
| Cost of credit                         | 0.27%  | (0.03%) | +0.30 p.p. |

At the end of June 2020, customers' resources totalled €43.5 billion, up 2.2% compared to the same period last year, supported by the evolution of deposits (YoY growth of 2.9%),

which offset the decrease of off-balance sheet resources (1.7% less than at the end of June 2019).

### RESOURCES (million euro)

|                                                    | Jun-20        | Jun-19        | Var.         |
|----------------------------------------------------|---------------|---------------|--------------|
| <b>Customers' resources</b>                        | <b>43,517</b> | <b>42,591</b> | <b>+2.2%</b> |
| On-balance sheet resources                         | 36,624        | 35,577        | +2.9%        |
| Deposits                                           | 36,624        | 35,577        | +2.9%        |
| Off-balance sheet resources                        | 6,893         | 7,014         | -1.7%        |
| Investment funds marketed by the Bank              | 2,884         | 2,809         | +2.7%        |
| Insurance and other resources marketed by the Bank | 4,009         | 4,204         | -4.7%        |

Deposits amounted to €36.6 billion, up by a YoY 2.9% constituting the main source of funding of the balance sheet and reflecting the activity of commercial network and the financial soundness of the Bank, which reinforces the trust of customers in a context of interest rates at historic lows.

Customers' off-balance sheet resources stood at €6.9 billion, down 1.7% compared with the amount determined in June

2019, conditioned by the context of the pandemic, which caused a significant economic slowdown, with its impact on the financial markets. Investment funds managed or marketed by the Bank in the amount of €2.9 billion increased by 2.7% over the past year. Insurance and other resources in the amount of €4 billion were down 4.7% year-on-year.



## Solvency Ratios

At the end of June 2020, Banco Santander Totta had a high capitalization, with the Common Equity Tier 1 ratio (CET 1), calculated in accordance with the CRD IV/ CRR IV standards, of 19.8% (fully implemented), with an increase of 3.3 percentage points compared to 16.5% a year earlier, complying with all the capital ratios required by the European Central Bank under the SREP (Supervisory Review and Evaluation Process): CET1 of

8.3%, Tier 1 of 10.125% and Total of 12.5%, in full implementation. This evolution reflected the ability of organic generation of capital and management of the risk weighted assets. Taking into account the recommendation of the European Central Bank (ECB/2020/19) of March 27, 2020, the Board of Directors of Santander in Portugal decided not to distribute dividends in 2020.

| <b>CAPITAL</b> (million euro)     | <b>Jun-20</b> | <b>Jun-19</b> | <b>Var.</b>  |
|-----------------------------------|---------------|---------------|--------------|
| <b>Common Equity Tier 1</b>       | <b>3,491</b>  | <b>3,095</b>  | <b>12.8%</b> |
| Tier 1 Capital                    | 3,491         | 3,095         | +12.8%       |
| Total Capital                     | 3,896         | 3,491         | +11.6%       |
| <b>Risk Weighted Assets (RWA)</b> | <b>17,599</b> | <b>18,765</b> | <b>-6.2%</b> |
| CET 1 ratio                       | 19.8%         | 16.5%         | +3.3 p.p.    |
| Tier 1 ratio                      | 19.8%         | 16.5%         | +3.3 p.p.    |
| Total Capital Ratio               | 22.1%         | 18.6%         | +3.5 p.p.    |

## RELEVANT FACTS AFTER THE CLOSE OF THE PERIOD

There were no relevant facts between July 1, 2020, and the publication of this report.

## THE OUTLOOK FOR THE SECOND HALF OF 2020

As stated earlier, the economic framework is dependent of the health environment, within the framework of the global pandemic associated with Covid-19. Economic recovery began in the first half, gradually and very differently across sectors.

As occurred in the preceding half year, Santander in Portugal continues to monitor the evolution of the pandemic, using the information that comes to be available to assess the potential impact on its business.

Santander in Portugal began the process of return to the new normal, but always ensuring the best safety conditions for all employees, customers and suppliers, with responsibility to ensure the continuity of the financial services and the maintenance of the banking operative with maximum normality and fluidity.

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

Here, the focus is on the Bank's participation in the credit lines with State guarantee and the provision to its customers of the moratoria, both legal and those agreed within the scope of the APB (Portuguese Banks Association). The legal moratoria were extended until March 31, 2021, and under discussion is their extension for another six months, until the end of September 2021, a situation that may include the "APB moratoria".

The materialization of the pandemic's effects on the economy shows the factors of pressure on the profitability levels, through the decrease of revenues and the significant increase of impairments due to the greater probability of default situations of households and corporates. At this point, the moratoria reduce the risk of default in the immediate, but do not eliminate them, especially if the crisis has lasting effects on employment.

The pandemic and the confinement imposed during the State of Emergency resulted in greater use of the digital channels, taking advantage of the ongoing digital transformation process. In this sense, the established transformation strategy will continue to be intensified, essentially: i) through digitalization and optimization of processes, in particular through greater innovation in the digital channels and the strengthening of multi-channel distribution model in order to provide a more complete and accessible service to customers; ii) simplification of the number of products, while maintaining, nevertheless, a complete value proposition that meets the needs of customers; iii) the increase of market shares and of ensuring customer loyalty, strengthening, among others, our position with the SMEs; iv) strict control of the expectable increase of the cost of credit; and v) conservation of solid capital position, in line with the new regulatory requirements.

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

## RISK MANAGEMENT

### Introduction

For Banco Santander in Portugal quality in risk management constitutes a fundamental axis of action, in keeping with the corporate policy of the Group of which it is a part. Prudence in risk management allied to the use of advanced management techniques continues to be a decisive factor, particularly in a highly demanding environment aggravated, since March 2020, by the pandemic situation associated with Covid-19.

The creation and implementation of the Risk Pro programme put into practice by a risk culture disclosed throughout the company and is now present across the business, reinforces those principles across the entire structure of the Bank, decisively influencing all the way the processes are carried out, taking into account not only the surroundings but also the attitudes, behaviours, values and principles in the light of the different types of risks that are faced.

This Risk Pro programme was implemented to involve all the Bank's employees in the management of risks, and the Risk Pro culture encompasses a set of behaviours and conducts that each one has to embrace every day for proactive management of the sundry risks.

### Main vectors of the business

The 1st half of 2020 was marked by the adaptation of the entire structure of the Bank to the pandemic situation, searching for the best solutions to help its customers, particularly in the implementation of the legal moratoria as well as the solutions agreed in accordance with the protocol signed between the major Portuguese banks and the Portuguese Banks Association, and also the approval of the financing lines with state guarantee.

As an additional measure to support the economy, short-term credit lines were automatically extended until October 1, 2020, for customers without moratoria, until March 1, 2021 for customers with moratoria and, for the limits on which they fall due by the second half of July, until October 15, 2020.

The activity of the Credit Risk Area maintained the following aspects as its main vectors:

- Maintaining the principle of segmentation in the treatment of credit risks, differentiating the approach to risks in the light of the characteristics of the customers and of the products.
- Maintaining the strictness of the admission criteria and, consequently, of the quality of the risks admitted in each segment with a view to preserving the good quality of the loan portfolios.
- At the level of portfolio risks, the proximity policy was maintained with the customers, in order to anticipate their credit needs, the reviews of their credit lines and forestall possible problems in their repayment ability.
- Given the economic difficulties that businesses are experiencing in the wake of the Covid-19 situation, profound knowledge of the customers and of the sectors of activity is fundamental, to better assess whether the difficulties experienced by them are cyclical or structural, and to reflect these findings appropriately in the ratings assigned.
- This action and the loan quality of the customers allowed the Non-Performing Loans ratios to be kept under control and at acceptable levels. The business support levels were maintained in attracting new good-risk transactions and customers, and improvements were implemented in the procedures with a view to responding to customer requests more effectively and quickly;
- In terms of the portfolio and customer follow-up function, between March and June 2020, identification was performed of the main sectors of activity most affected by the pandemic and the portfolios of customers in these sectors were analysed, seeking to gauge their current situation and future prospects.
- The customer monitoring and review meetings continued, the Bank's usual practice for the early detection of loan-portfolio alerts.
- The Bank continues to review, develop and apply improvement measures in the management of the new-loan admission process, with the aim of improving the quality of the customer service whenever customers present new loan opportunities.
- In the standardised (or not portfolioed) risks, with a view to ongoing improvement and efficiency of the admission process, and bearing in mind the objective of portfolio quality, the Bank conducted the update and maintenance of the automatic decision models, particularly the scoring and behavioural systems used in the Individuals and Business segments.
- Also in the matter of standardised risks, the focus continued to be centred on ensuring portfolio quality, acting on the NPE (Non-Performing Exposure) and past-due loans, while continuing to provide a range of debt-restructuring products and solutions to adapt the customers' charges to their repayment capacity and current and future disposable income.
- In this sense the defined admission strategies were maintained in the Bank's decision-making systems, as was resource to behavioural systems for the identification of preventative and roll-over measures to be offered to customers.
- In order to maintain the commercial and cross-selling involvement of the customers, marketing campaigns were maintained for the Businesses segment aimed at the production of new loans and customer retention and ongoing operations in order to compensate the natural erosion of this portfolio.

- The economic crisis associated with the pandemic, with a significant number of people in layoff or downturn of their income, and a large number of companies, particularly in some sectors of activity, with significant loss of revenue, meant that this time a significant part of the Bank's portfolio is covered by the public or private moratoria within the scope of the protocol entered into with the APB.
- In a macroeconomic scenario, now far more adverse, in which the nonperforming loan ratios are still under control but with an expectation of deterioration in short term, a strong focus was maintained on recoveries activity, increasing intervention agility. Underscored is the activity of mass management of recovery activity and permanent monitoring of special and judicial/extra-judicial cases.
- In corporate risk management, the permanent focus on knowledge and monitoring of the loan portfolio was maintained, with a view to strict control of its risk, seeking to provide adequate and timely management information in order to allow measures to be taken with a view to proper management of the Bank's risks.
- Attention was also paid to the Bank's in-house models, almost all of which have already been recognised (by the regulators) as advanced (IRB) models for the calculation of the own-resources requirements, as well as their increasing inclusion in management.

## Credit risk

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

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

Portfolioed customers are those that, fundamentally due to the risk assumed, are assigned a risk analyst. This group includes wholesale banking companies, financial institutions and part of the retail banking companies. Assessment of the risk of these customers is performed by the analyst, supplemented with decision-support tools based on in-house risk-assessment models;

Standardised customers are those that do not have a risk analyst specifically designated for their monitoring. This group includes the risks of individuals, self-employed entrepreneurs and not portfolioed retail-banking companies. Assessment of these risks is based on in-house valuation and automatic-decision models, complemented, in a subsidiary manner, when the model is not sufficiently precise, by specialised risk-analyst teams.

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

The overall classification tools are applied to the country-risk, financial entities and CIB (corporate and investment banking), both in determining their rating and in monitoring the risks assumed. These tools assign a rating to each customer as a result of a quantitative or automatic module, based on data/balance sheet ratios or macroeconomic variables, complemented by the analysis performed by the risks analyst who monitors the customer.

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

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

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

Evaluation of the customer and/or transaction by rating or scoring constitutes an assessment of the creditworthiness, which is quantified by the probability of default (PD). In addition to the evaluation of the customer, the quantitative risk analysis considers other aspects such as the term of the transaction, the type of product and the existing collateral. What is thus taken into account is not just the 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, taken jointly, allow a calculation of the expected loss and the unexpected loss. The expected (or probable) loss is considered an additional activity cost (reflecting the risk premium), and this cost is appropriately reflected in the price of the operations and the unexpected loss, which is the basis of the calculation of regulatory capital under the rules the Basel capital accord (BIS II). The unexpected loss is in respect of a very large, though rather improbable, loss that, given its nature, is not considered recurrent and must therefore be duly be covered by own funds.



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

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

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

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

#### *Credit-Risk Cycle*

The risk-management process consists of identifying, measuring, analysing, controlling, negotiating and deciding 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 Risks Committee (ERC). The ERC establishes the risk policies and procedures and determines the limits and delegation of powers.

#### *Planning and establishing limits*

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

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

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

At the level of standardised risks, the planning and setting of limits process is undertaken by means of joint preparation, by

the Risks and Business and Strategic Commercial Plans (SCP) areas, where the expected results of the deal in terms of risk and profitability are reflected, as are the limits to which the activity, the management of the associated risks and the means of support required must be subjected.

#### *Study of the risk, operating decision and monitoring and control*

The study of the risk is a prerequisite of the authorisation of any loan operation at Banco Santander in 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 loan transactions, its solvency and its profitability. Additionally, a study and review are conducted of the valuation assigned when there is an alert or event that affects the customer/transaction.

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

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

#### *Recoveries*

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

- Ensuring the collection or settlement of amounts in an irregular situation, favouring negotiated solutions for the customer's loan situation to return to normal. If a negotiated solution is not possible, an effort will be made to recover the loans through the courts.
- Maintaining and strengthening 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 the customers: Private Individuals, Businesses and Companies, with specific management models. The management of recoveries, so segmented, also respects the different management stages: preventive management, management of irregularities and management of non-performing loans and bankruptcies, each of which has specific models, strategies and circuits. All this activity is shared with the business areas.

## Counterparty risk

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

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

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

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

During the 1st half of 2020 actual exposure of the transactions on interest-rate indexes (Euribor) decreased sharply, reflecting the evolution of medium- and long-term market rates. With regard to exposure to financial groups, structural interest-rate risk hedging transactions were maintained, having the LCH Clearnet as clearing house. The amount of the exposure of the derivatives with the Financial Groups grew slightly due to the increase of the risk coefficient of the long-term interest-rate operations.

## Balance-sheet Risk

### *Control of the balance-sheet risk*

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

The interest-rate risk arises from mismatches between maturities, from the repricing of assets and liabilities and from 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 incurring an excessive cost to meet them.

The interest rate risk of the consolidated balance sheet is measured through modelling the positions of assets and liabilities sensitive to interest-rate variations in accordance with their indexing and re-appraisal structure. This model allows the measurement and control of the risk originating directly from

the movement of the income curve, particularly its impact on net interest income and on the Bank's equity.

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

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

Control of the balance-sheet risks is ensured through application of a structure of quantitative limits that aim to keep exposures within the authorised levels. The limits are 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.

The LCR (Liquidity Coverage Ratio) calculated in accordance with ECB rules stood at 172.2% on 30/06/2020.

### *Management of the balance-sheet structural risk*

In the 1st half of 2020 the liquidity reserve increased by around €3.5 billion. Besides the active measures to generate eligible assets, the revision of the criteria relating to their mobilization for financing operations promoted by the ECB, allowed a liquidity reserve totalling €15 billion to be achieved, available to cope with any unexpected events impacting on the Bank's liquidity situation.

The funding obtained from the European Central Bank was maintained exclusively for long-term operations, and fully through the new funding programme promoted by the ECB (TLTRO III), in the amount of €6.8 billion. Strengthening of the customer deposit base during this period contributed to the reduction of the net exposure to the Eurosystem to zero at the end of the 1st half of 2020.

The policy of diversification of sources and maturities was maintained in respect of short-term funding, as was the diversification of collateral allocated in transactions with repurchase agreement with financial institutions. In terms of long-term funding, besides the €6.8 billion by the ECB, Santander in Portugal closed the 1st half of 2020 with about €0.65 billion of securitisations, €0.9 billion of loans provided by the European Investment Bank to finance structural projects of the Portuguese economy, and also €2.75 billion of covered bonds.

## Market Risk

The scope of activities subject to market risk includes the operations where equity risk is assumed as a result of possible changes in market conditions (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 markets movements.

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

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

### Methodologies

The methodology applied in 2020 within the scope Santander in Portugal for the negotiation 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 having been applied that allow swift and effective inclusion of more recent events that condition the risk levels assumed.

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

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

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

### Calibration and contrast measures (Backtesting)

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

The backtesting analyses performed at Banco Santander in Portugal comply with the BIS recommendations as regards

comparison of internal systems used in the measurement and management of the financial risks. Additionally, hypotheses tests are carried out in backtesting: excess tests, normality tests, average excess measurements, among others.

### Limits

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

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

The VaR remained at very low levels, standing at €6,000 euros on 30/06/2020.

## Operational Risk

### Definition and objectives

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

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

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

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

### Management model

The Bank's organisational model, in terms of management and control of the operational risk results from the Group's adaptation to the Basel II approach.

Supervision and control of the operational risk are undertaken through its governing bodies. In this regard, the Board of Directors and the Executive Committee periodically include in their management the treatment of relevant aspects in the matter of management and mitigation of the operational risk.

The operational risk function is structured in three lines of defence.

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

The second line of defence comprises the area that controls the operational risk and it is responsible, on the one hand, for supervising effective control of the operational risk in its various aspects and, on the other, for assessing whether it is managed as defined and has due regard for the tolerance levels established for the purpose.

The second line of defence is an independent function and complements the first-line management and control functions.

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

The various stages of the management and control model allow:

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

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

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

As regards the identification, measurement and assessment of the operational risk, several quantitative and qualitative instruments were defined, which together permit a diagnosis in the field of operational risk and classification/ evaluation of the different areas in relation to the management their own risk.

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

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

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

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

allowing identification of possible weaknesses and improvement measures.

The Bank also prepares specific supervision and control models in the field of technological and cyber-risk management to ensure the existence of a minimum set of controls that allow adequate control of the Bank's information systems and information resources. Nevertheless, the principle is one of homogenization 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 instruments that complement and ensure a solid environment of control, in particular:

- Policies and procedures;
- Corrective/mitigating measures;
- 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, having as its main objective the involvement of all employees and management bodies in the control and mitigation of the operational risk. The implementation and disclosure of the Banco Santander in Portugal risk culture allow more efficient evaluation and monitoring of the operational risk and simplify decision-making by the business areas and Management.

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

## Compliance and Reputational Risk

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

In turn, reputation (or reputational) risk is understood to be the likelihood of occurrence of negative financial impacts for the institution, reflected in net income or share capital resulting

from an unfavourable perception of its public image, reasoned or not, by customers, suppliers, analysts, employees, investors, the media and other entities with which the institution is related, or by public opinion in general.

The purpose of the Compliance and Reputational risk policies is the management of those risks, as defined in the preceding paragraphs, determining the mechanisms and procedures that allow: i) 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.

In accordance with the applicable legal and regulatory framework, the Bank has set up a compliance function under the Compliance and Conduct Area, the first line in the hierarchy of the Bank, to which functional management of the Compliance and Reputational risks is assigned. The management of the reputational risk is increasingly important at Banco Santander in Portugal and also at the Santander Group, now planning internal training courses specifically dedicated to this type of risk.

In parallel with these two risks, also of particular relevance is the Conduct risk, which impacts more on the relations between the Bank and its employees, customers and suppliers, among other aspects.

Without prejudice to all other aspects arising from the foregoing, the overall policies relating to the Compliance and Reputational risks include various instruments (in particular, those listed hereunder for their special impact on the prevention and management of the said Compliance and Reputational risks, as well as of the Conduct risk:

- Corporate values that translate into concrete "behaviours", which govern the conduct of all employees;
- Compliance policy;
- Policies for the prevention of money laundering and terrorist financing;
- Codes of conduct (with three dimensions: general; in the relationship with customers; and relating to the stock market);
- Marketing and regular product follow-up policies;
- Financial risks policy;
- Identification and management of conflicts of interest policy;
- Quality policy;
- Personal data processing and protection policy;
- Monitoring and follow-up of new regulations;
- Liaison with the supervisory authorities and follow-up of actions undertaken by them;

- Employee training policy, which includes mandatory regulatory, as well as additional, training;
- Corporate defence policies;
- Reputational risk policy (and model of management of this risk);
- Policy for the financing of sensitive sectors (regulates the financing for certain sectors considered sensitive because of their possible social, political or cultural repercussions, establishing the guidelines to assess and decide on the involvement with these same sectors, in order to be able to identify and prevent the associated reputational risk);
- Defence policy (setting the criteria to be followed in financial activity related with this sector and providing an

analysis procedure for all operations and customers covered in the sector).

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

In this context, mention should also be made of the social and environmental sectoral policies (energy, mines and mining sector and soft commodities), which are monitored by the Risk area, and define the criteria to be followed in the financial activity related to these sectors.



## SUPPLEMENTARY INFORMATION

### Money laundering prevention

Banco Santander in Portugal carries on its business in keeping with prevention and control of money laundering and terrorist financing policies and criteria, in accordance with legislation in force.

The Bank complies with the duties established by law and has an organic structure dedicated exclusively to the prevention and control of money laundering and terrorist financing, which is included in the Compliance and Conduct Co-ordination Division. The teams are trained in this matter and are regularly updated in order to identify and monitor situations of possible risk, immediately making the communications judged appropriate to the relevant bodies.

Similarly, the Bank uses IT tools to monitor the customers' operative and its segmentation in the light of the potential risk, applying enhanced due-diligence measures where appropriate, and satisfying other relevant legal and regulatory requirements.

The system is audited annually

In accordance with Bank of Portugal Instruction No. 6/2020, which amended the previous Instruction No. 5/2019, the Bank prepared the Money Laundering Prevention and Financing of Terrorism Report on the activity in these matters, last year, having sent it to the Bank of Portugal following its approval by the Board of Directors with the prior opinion of the Audit Committee.

### Shareholder structure

| Shareholder                 | Nº of shares  | %      |
|-----------------------------|---------------|--------|
| Santander Totta, SGPS, S.A. | 1,241,179,513 | 98.76% |
| Taxagest - SGPS, S.A.       | 14,593,315    | 1.16%  |

### Treasury shares movement

In keeping with the resolution passed by the Annual General Meeting held on May 26, 2020, Banco Santander Totta, SA, may directly or through a dependent company, acquire treasury shares as well as sell those purchased up to the limit and under the other conditions set by law.

Taking into account European Central Bank recommendation (ECB/2020/19) of March 27, 2020, the purchase of treasury shares is suspended until this recommendation has lapsed. The limit initially defined as October 1 was extended by the ECB on July 28 until January 2021, and the recommendation will be reviewed in the course of the fourth quarter, in the light of the economic conditions and financial stability.

On June 30, 2020, Banco Santander Totta, SA, held 416,525 treasury shares corresponding to 0.033% of its share capital. During the 1st half of 2020, the Bank bought no treasury shares: The movement presented had to do with the cancellation of a share purchase, in January 2020, at the instance of the customer.

#### TRANSACTION WITH OWN SHARES - 1H2020

|            | Number of shares | Average unit price (€) | Book value (€) | % of share capital |
|------------|------------------|------------------------|----------------|--------------------|
| 31/12/2019 | 417,583          | 5.23                   | 2,181,972      | 0.033%             |
| Purchases  | -                | -                      | -              | -                  |
| Disposals  | 1,058            | 4.04                   | 4,273          | 0.000%             |
| 30/06/2020 | 416,525          | 5.23                   | 2,177,699      | 0.033%             |

## 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" net of "Interest charge".

### **Net fees**

"Income from services and commissions" less "Charges with services and commissions".

### **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 "Financial assets and liabilities at fair value through profit or loss", "Other Financial assets at fair value through other comprehensive income", "Exchange revaluation", and "Disposal of other assets", as presented in the income statement.

### **Net income from banking activities**

Sum of "commercial revenue" and "Gain/losses on financial assets".

### **Net operating income**

Net income from banking activities minus operating costs.

### **Operating costs**

"Staff costs" plus "General administrative costs" and "depreciation in the year"

### **Net operating income**

Operating income minus operating costs

### **Impairment, net provisions and other results**

Sum of "provisions net of reversals", "impairment on financial assets", "impairment of other non-financial assets", "Results from non-current assets held for sale" and "Other results", as presented in the Income Statement.

### **Income before taxes and non-controlling interests**

Net operating income less impairment, net provisions and other results.

### **Income after taxes and non-controlling interests**

Income before taxes and non-controlling interests less taxes.

### **Consolidated net income attributable to the shareholders of the Bank / Net income**

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

### **Efficiency ratio**

Ratio between operating costs and operating income

### **Loans / Deposits ratio (transformation ratio)**

Calculated in accordance with Bank of Portugal Instruction 6/2018

### **Commercial gap**

Difference between "loans granted and other receivable balances at amortised cost" and "customers' resources and other loans"

### **Business Volume**

Sum of loans and advances to customers (gross) and customers' resources

### **Loans and advances to customers (gross)**

In June 2020, this concept corresponds to the balance sheet item "Loans granted and other accounts receivable at amortized cost" before



impairment, net of "Other balances receivable" (note 10), plus the item "Credit granted" (included in the balance sheet under "Financial assets at fair value through other comprehensive income" (note 9). The reclassification is explained in note 9.

#### **Loans and advances to customers (net)**

Corresponds to the balance sheet item "Credit granted and other balances receivable at amortized cost" net of impairment

#### **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 of financial assets" (of the income statement) and the average of "Credit granted and other balances receivable at amortized cost" (of the balance sheet). – average figure of the past 12 months

#### **Non-performing exposure coverage**

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

#### **Deposits**

Corresponds to the balance sheet item "Resources from customers and other debts".

#### **Off-balance sheet resources**

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

#### **Customers' resources**

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

#### **Liquidity Coverage Ratio (LCR)**

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

#### **Return on Equity (RoE)**

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

#### **Return on Assets (RoA)**

Ratio between net income and net assets

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

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

The members of the Board of Directors of Banco Santander Totta, SA, here identified by name, each signed the declaration transcribed hereunder:

"I declare, under the terms of and for the purposes set out in article 246(1)(c) of the Securities Code that, to the best of my knowledge, the condensed financial statements for the 1st six months of the 2020 period were prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, financial position and results of Banco Santander Totta, SA, and of the companies included in the consolidation perimeter, and that the interim management report faithfully sets out the information required under article 246(2) of the Securities Code".

### **Board of Directors**

|                                                                            |                                                                      |
|----------------------------------------------------------------------------|----------------------------------------------------------------------|
| <hr/> José Carlos Brito Sítima <hr/> Chair                                 | <hr/> Pedro Aires Coruche Castro e Almeida <hr/> Deputy-chair        |
| <hr/> Amílcar da Silva Lourenço <hr/> Member                               | <hr/> Ana Isabel Abranches Pereira de Carvalho Morais <hr/> Member   |
| <hr/> Andreu Plaza Lopez <hr/> Member                                      | <hr/> Daniel Abel Monteiro Palhares Traça <hr/> Member               |
| <hr/> Inês Oom Ferreira de Sousa <hr/> Member                              | <hr/> Isabel Cristina da Silva Guerreiro <hr/> Member                |
| <hr/> Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota <hr/> Member | <hr/> Manuel António Amaral Franco Preto <hr/> Member                |
| <hr/> Manuel Maria de Olazabal y Albuquerque <hr/> Member                  | <hr/> Maria Manuela Machado Costa Farelo Ataíde Marques <hr/> Member |
| <hr/> Miguel Belo de Carvalho <hr/> Member                                 | <hr/> Remedios Ruiz Macia <hr/> Member                               |



## CONSOLIDATED FINANCIAL STATEMENTS

The accounts for the 1st half of 2020 have been submitted neither to limited audit nor to the respective opinion of the Bank's auditors.



**BANCO SANTANDER TOTTA, S.A.**

**CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2020 AND DECEMBER 31, 2019**

(Amounts expressed in thousands of Euros - tEuros)

|                                                                       |    | 30-06-2020        |                  |                   | 31-12-2019        |                                                                   |                                      |                   |                   |            |
|-----------------------------------------------------------------------|----|-------------------|------------------|-------------------|-------------------|-------------------------------------------------------------------|--------------------------------------|-------------------|-------------------|------------|
|                                                                       |    | Amounts before    |                  |                   |                   |                                                                   |                                      |                   |                   |            |
|                                                                       |    | impairment and    |                  |                   | Net               |                                                                   |                                      |                   |                   |            |
|                                                                       |    | depreciation      |                  |                   | assets            |                                                                   |                                      |                   |                   |            |
| ASSETS                                                                |    | Notes             | depreciation     | depreciation      | assets            | assets                                                            | LIABILITIES AND SHAREHOLDERS' EQUITY | Notes             | 30-06-2020        | 31-12-2019 |
| Cash and deposits at central banks                                    | 5  | 7,039,808         | -                | 7,039,808         | 3,153,555         | <b>Liabilities</b>                                                |                                      |                   |                   |            |
| Balances due from other banks                                         | 6  | 509,393           | -                | 509,393           | 339,109           | Financial liabilities held for trading                            | 7                                    | 1,020,162         | 1,114,703         |            |
| Financial assets held for trading                                     | 7  | 995,936           | -                | 995,936           | 1,085,927         | Financial liabilities at amortised cost                           |                                      |                   |                   |            |
| Financial assets mandatory at fair value through profit or loss       | 8  | 138,096           | -                | 138,096           | 144,998           | <i>Resources from central banks</i>                               | 18                                   | 6,801,194         | 3,037,524         |            |
| Financial assets at fair value through other comprehensive income     | 9  | 7,646,583         | 18               | 7,646,565         | 5,862,349         | <i>Resources from other credit institutions</i>                   | 18                                   | 3,025,529         | 3,195,996         |            |
| Financial assets at amortised cost                                    |    |                   |                  |                   |                   | <i>Resources from customers and other debts</i>                   | 18                                   | 36,623,747        | 35,873,272        |            |
| <i>Loans and advances to credit institutions</i>                      | 10 | 17,431            | 125              | 17,306            | 727,486           | <i>Debt securities</i>                                            | 18                                   | 3,645,323         | 3,728,941         |            |
| <i>Credit granted and other balances receivable at amortized cost</i> | 10 | 40,178,259        | 1,018,432        | 39,159,827        | 39,340,180        | <i>Other financial liabilities</i>                                | 18                                   | 225,486           | 218,021           |            |
| Hedging derivatives                                                   | 11 | 40,424            | -                | 40,424            | 56,246            | Hedging derivatives                                               | 11                                   | 499,920           | 393,831           |            |
| Investment in associated companies                                    | 12 | 57,020            | -                | 57,020            | 59,240            | Provisions                                                        | 19                                   | 208,191           | 223,029           |            |
| Investment properties                                                 | 13 | 254,909           | -                | 254,909           | 252,513           | Tax liabilities                                                   | 15                                   | 492,727           | 377,262           |            |
| Other tangible assets                                                 | 14 | 652,070           | 280,865          | 371,205           | 376,593           | Equity representative instruments                                 | 20                                   | 64,738            | 64,620            |            |
| Intangible assets                                                     | 14 | 107,963           | 70,158           | 37,805            | 30,734            | Other liabilities                                                 | 21                                   | 581,558           | 443,311           |            |
| Tax assets                                                            | 15 | 545,712           | -                | 545,712           | 583,982           | Total liabilities                                                 |                                      | <u>53,188,575</u> | <u>48,670,510</u> |            |
| Other assets                                                          | 16 | 327,399           | 113,348          | 214,051           | 248,371           |                                                                   |                                      |                   |                   |            |
| Non-current assets held for sale                                      | 17 | 89,624            | 34,797           | 54,827            | 44,043            | <b>Shareholders' equity</b>                                       |                                      |                   |                   |            |
|                                                                       |    |                   |                  |                   |                   | Share capital                                                     | 22                                   | 1,256,723         | 1,256,723         |            |
|                                                                       |    |                   |                  |                   |                   | Share premium account                                             | 22                                   | 193,390           | 193,390           |            |
|                                                                       |    |                   |                  |                   |                   | Other equity instruments                                          | 22                                   | 135,000           | 135,000           |            |
|                                                                       |    |                   |                  |                   |                   | Accumulated comprehensive income reserves                         | 22                                   | (119,448)         | (224,423)         |            |
|                                                                       |    |                   |                  |                   |                   | Other reseves and retained earnings                               | 22                                   | 2,317,561         | 1,828,113         |            |
|                                                                       |    |                   |                  |                   |                   | (Own shares)                                                      | 22                                   | (44,060)          | (44,065)          |            |
|                                                                       |    |                   |                  |                   |                   | Consolidated net income attributable to the shareholders of th    | 23                                   | 154,516           | 489,451           |            |
|                                                                       |    |                   |                  |                   |                   | Shareholders' equity attributable to the shareholders of the Bank |                                      | <u>3,893,682</u>  | <u>3,634,189</u>  |            |
|                                                                       |    |                   |                  |                   |                   | Non-controlling interests                                         | 24                                   | 627               | 627               |            |
|                                                                       |    |                   |                  |                   |                   | Total shareholders' equity                                        |                                      | <u>3,894,309</u>  | <u>3,634,816</u>  |            |
| Total assets                                                          |    | <u>58,600,627</u> | <u>1,517,743</u> | <u>57,082,884</u> | <u>52,305,326</u> | Total liabilities and shareholders' equity                        |                                      | <u>57,082,884</u> | <u>52,305,326</u> |            |

The accompanying notes form an integral part of the consolidated balance sheet for the six-month period ended June 30, 2020



BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED INCOME STATEMENTS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2020 AND 2019

(Amounts expressed in thousands of Euros - tEuros)

|                                                                                | Notes  | 30-06-2020     | 30-06-2019     |
|--------------------------------------------------------------------------------|--------|----------------|----------------|
| Interest income                                                                | 26     | 578,035        | 606,653        |
| Interest charge                                                                | 26     | (179,387)      | (180,439)      |
| <b>Net interest income</b>                                                     |        | <b>398,648</b> | <b>426,214</b> |
| Income from equity instruments                                                 | 27     | 1,733          | 1,637          |
| Results from associates                                                        | 28     | 751            | 412            |
| Income from services and commissions                                           | 29     | 237,493        | 241,893        |
| Charges with services and commissions                                          | 29     | (52,317)       | (46,892)       |
| Gains/Losses on financial assets                                               |        |                |                |
| <i>Financial assets and liabilities at fair value through profit or loss</i>   | 30     | 6,288          | 12,475         |
| <i>Other Financial assets at fair value through other comprehensive income</i> | 30     | 79,564         | 57,695         |
| <i>Exchange revaluation</i>                                                    | 30     | 5,636          | 4,976          |
| <i>Disposal of other assets</i>                                                | 30     | 61             | (2,331)        |
| Other operating results                                                        | 31     | (28,906)       | (25,495)       |
| <b>Net income from banking activities</b>                                      |        | <b>648,951</b> | <b>670,584</b> |
| Staff costs                                                                    | 32     | (160,015)      | (172,320)      |
| General administrative costs                                                   | 33     | (97,717)       | (101,638)      |
| Depreciation in the year                                                       | 14     | (25,708)       | (24,182)       |
| Provisions, net of reversals                                                   | 19     | (1,354)        | (9,241)        |
| Impairment on financial assets                                                 | 19     | (100,914)      | 16,497         |
| Impairment of other non-financial assets                                       | 19     | (8,539)        | (7,488)        |
| Results from non-current assets held for sale                                  | 34     | (90)           | 10,217         |
| Other results                                                                  | 1.3 l) | (29,258)       | -              |
| <b>Income before taxes and non-controlling interests</b>                       |        | <b>225,356</b> | <b>382,429</b> |
| Taxes                                                                          | 15     | (70,840)       | (142,674)      |
| <b>Income after taxes and before non-controlling interests</b>                 |        | <b>154,516</b> | <b>239,755</b> |
| Non-controlling interests                                                      |        | -              | -              |
| <b>Consolidated net income attributable to the shareholders of the Bank</b>    |        | <b>154,516</b> | <b>239,755</b> |
| Number of ordinary shares outstanding                                          | 23     | 1,241,713,409  | 1,241,722,839  |
| Earnings per share (in Euros)                                                  | 23     | 0.12           | 0.19           |

The accompanying notes form an integral part of the consolidated income statements for the for six-month period ended June 30, 2020

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, AND 2019

(Amounts expressed in thousands of Euros - tEuros)

|                                                                           | 30-06-2020                                      |                                               | 30-06-2019                                 |                                               |
|---------------------------------------------------------------------------|-------------------------------------------------|-----------------------------------------------|--------------------------------------------|-----------------------------------------------|
|                                                                           | Attributable to the<br>shareholders of the Bank | Attributable to non-<br>controlling interests | Attributable to the<br>shareholders of BST | Attributable to non-<br>controlling interests |
| Consolidated net income for the period                                    | 154,516                                         | -                                             | 239,755                                    | -                                             |
| Items that will not be reclassified subsequently to the income statement: |                                                 |                                               |                                            |                                               |
| Actuarial and financial deviations                                        |                                                 |                                               |                                            |                                               |
| Gross value                                                               | (54,306)                                        | -                                             | 39,588                                     | -                                             |
| Tax effect                                                                | -                                               | -                                             | -                                          | -                                             |
| Items that may be reclassified subsequently to the income statement:      |                                                 |                                               |                                            |                                               |
| Revaluation reserves of associated companies valued by the equity method  |                                                 |                                               |                                            |                                               |
| Fair value                                                                | 295                                             | -                                             | 1,050                                      | -                                             |
| Tax effect                                                                | (76)                                            | -                                             | (270)                                      | -                                             |
| Changes in the fair value of debt instruments                             |                                                 |                                               |                                            |                                               |
| Fair value                                                                | (211,419)                                       | -                                             | 369,345                                    | -                                             |
| Tax effect                                                                | 65,512                                          | -                                             | (114,248)                                  | -                                             |
| Changes in fair value of cash flows hedging derivatives                   |                                                 |                                               |                                            |                                               |
| Fair value                                                                | 60,048                                          | -                                             | (60,118)                                   | -                                             |
| Tax effect                                                                | (18,615)                                        | -                                             | 18,638                                     | -                                             |
| Changes in the business model                                             |                                                 |                                               |                                            |                                               |
| Initial impact                                                            |                                                 |                                               |                                            |                                               |
| Gross value                                                               | 373,172                                         | -                                             | -                                          | -                                             |
| Tax effect                                                                | (115,683)                                       | -                                             | -                                          | -                                             |
| Changes in fair value                                                     |                                                 |                                               |                                            |                                               |
| Gross value                                                               | 8,764                                           | -                                             | -                                          | -                                             |
| Tax effect                                                                | (2,717)                                         | -                                             | -                                          | -                                             |
| Consolidated comprehensive income for the first half year                 | 259,491                                         | -                                             | 493,740                                    | -                                             |

The accompanying notes form an integral part of the consolidated statements of other comprehensive income for the for six-month period ended June 30, 2020

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS ENDED JUNE 30, AND DECEMBER 31, 2019

(Amounts expressed in thousands of Euros)

|                                                                                    | Share<br>capital | Share<br>premium<br>account | Other<br>equity<br>instruments | Reserves for accumulated<br>comprehensive income |                 | Legal<br>reserve | Other<br>reserves | Retained<br>earnings | Own shares      | Net<br>income for<br>the period | Non-controlling<br>interests | Shareholders'<br>equity |
|------------------------------------------------------------------------------------|------------------|-----------------------------|--------------------------------|--------------------------------------------------|-----------------|------------------|-------------------|----------------------|-----------------|---------------------------------|------------------------------|-------------------------|
|                                                                                    |                  |                             |                                | Fair<br>value                                    | taxes           |                  |                   |                      |                 |                                 |                              |                         |
| <b>Balances as at December 31, 2018</b>                                            | <b>1,256,723</b> | <b>193,390</b>              | <b>135,000</b>                 | <b>(288,315)</b>                                 | <b>52,993</b>   | <b>414,311</b>   | <b>850,107</b>    | <b>511,242</b>       | <b>(44,022)</b> | <b>469,951</b>                  | <b>919</b>                   | <b>3,552,299</b>        |
| Appropriation of net income                                                        |                  |                             |                                |                                                  |                 |                  |                   |                      |                 |                                 |                              |                         |
| . Transfer to reserves                                                             | -                | -                           | -                              | -                                                | -               | 47,553           | 420,506           | 1,892                | -               | (469,951)                       | -                            | -                       |
| . Distribution of dividends                                                        | -                | -                           | -                              | -                                                | -               | -                | (422,873)         | -                    | -               | -                               | -                            | (422,873)               |
| Acquisition of own shares                                                          | -                | -                           | -                              | -                                                | -               | -                | -                 | -                    | (43)            | -                               | -                            | (43)                    |
| Disposal of equity instruments at fair value through<br>other comprehensive income | -                | -                           | -                              | -                                                | -               | -                | 5,799             | -                    | -               | -                               | -                            | 5,799                   |
| Long term incentives - shares                                                      | -                | -                           | -                              | -                                                | -               | -                | (332)             | -                    | -               | -                               | -                            | (332)                   |
| Other                                                                              | -                | -                           | -                              | -                                                | -               | -                | (92)              | -                    | -               | -                               | (292)                        | (384)                   |
| Consolidated comprehensive income<br>for 2019                                      | -                | -                           | -                              | 50,793                                           | (39,894)        | -                | -                 | -                    | -               | 489,451                         | -                            | 500,350                 |
| <b>Balances as at December 31, 2019</b>                                            | <b>1,256,723</b> | <b>193,390</b>              | <b>135,000</b>                 | <b>(237,522)</b>                                 | <b>13,099</b>   | <b>461,864</b>   | <b>853,115</b>    | <b>513,134</b>       | <b>(44,065)</b> | <b>489,451</b>                  | <b>627</b>                   | <b>3,634,816</b>        |
| Appropriation of net income                                                        |                  |                             |                                |                                                  |                 |                  |                   |                      |                 |                                 |                              |                         |
| . Transfer to reserves                                                             | -                | -                           | -                              | -                                                | -               | 49,972           | 640               | 438,839              | -               | (489,451)                       | -                            | -                       |
| . Distribution of dividends                                                        | -                | -                           | -                              | -                                                | -               | -                | -                 | -                    | -               | -                               | -                            | -                       |
| Acquisition of own shares                                                          | -                | -                           | -                              | -                                                | -               | -                | -                 | -                    | 5               | -                               | -                            | 5                       |
| Disposal of equity instruments at fair value through<br>other comprehensive income | -                | -                           | -                              | -                                                | -               | -                | (3)               | -                    | -               | -                               | -                            | (3)                     |
| Consolidated comprehensive income<br>for the first half-year 2020                  | -                | -                           | -                              | 176,554                                          | (71,579)        | -                | -                 | -                    | -               | 154,516                         | -                            | 259,491                 |
| <b>Balances as at June 30, 2020</b>                                                | <b>1,256,723</b> | <b>193,390</b>              | <b>135,000</b>                 | <b>(60,968)</b>                                  | <b>(58,480)</b> | <b>511,836</b>   | <b>853,752</b>    | <b>951,973</b>       | <b>(44,060)</b> | <b>154,516</b>                  | <b>627</b>                   | <b>3,894,309</b>        |

The accompanying notes form an integral part of the consolidated statements of changes in shareholder' equity for the six-month period ended June 30, 2020

## BANCO SANTANDER TOTTA, S.A.

## CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE FIRST HALF 2020 AND 2019

(Amounts expressed in thousands of Euros)

|                                                                               | 30-06-2020       | 30-06-2019       |
|-------------------------------------------------------------------------------|------------------|------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES:</b>                                   |                  |                  |
| Interest and commissions received                                             | 773,680          | 741,862          |
| Payment of interest and commissions                                           | (173,811)        | (205,540)        |
| Payment to staff and suppliers                                                | (271,265)        | (307,133)        |
| Contributions to the pension funds                                            | -                | -                |
| Foreign exchange and other operating results                                  | (24,394)         | (21,999)         |
| Recovery of uncollectable loans                                               | 4,453            | 4,034            |
| Operating results before changes in operating assets and liabilities          | 308,663          | 211,224          |
| <br>(Increase) / decrease in operating assets                                 |                  |                  |
| Loans and advances to credit institutions                                     | 710,019          | (158,407)        |
| Financial assets held for trading                                             | 89,991           | 79,722           |
| Credit granted and other balances receivable at amortized cost                | (2,381,538)      | (121,398)        |
| Assets and liabilities at fair value through profit or loss                   | 16,129           | 15,371           |
| Non-current assets held for sale                                              | 9,804            | (49,287)         |
| Investment properties                                                         | (2,397)          | 7,512            |
| Other assets                                                                  | (4,166)          | 83,452           |
|                                                                               | (1,562,158)      | (143,035)        |
| <br>Increase / (decrease) in operating liabilities                            |                  |                  |
| Resources from financial institutions and Central Banks                       | 3,551,633        | 236,718          |
| Resources from customers and other debts                                      | 751,928          | 1,679,270        |
| Financial liabilities held for trading                                        | (94,540)         | (93,082)         |
| Other liabilities                                                             | 86,795           | 166,223          |
|                                                                               | 4,295,816        | 1,989,129        |
| <br>Net cash flow from operating activities before income tax                 | 3,042,321        | 2,057,318        |
| Income tax paid                                                               | (17,866)         | (43,734)         |
| <b>Net cash flow from operating activities</b>                                | <b>3,024,455</b> | <b>2,013,584</b> |
| <br><b>CASH FLOW FROM INVESTING ACTIVITIES:</b>                               |                  |                  |
| Dividends received                                                            | 1,733            | 1,637            |
| Purchase of financial assets at fair value through other comprehensive income | (152,451)        | (1,066,380)      |
| Sale of financial assets at fair value through other comprehensive income     | 1,293,828        | 713,960          |
| Other financial assets mandatory at fair value through profit or loss         | 6,902            | 15,587           |
| Income from financial assets at fair value through other comprehensive income | 13,602           | 84,114           |
| Purchase of tangible and intangible assets                                    | (31,368)         | (61,227)         |
| Sale of tangible assets                                                       | 1,481            | 12,944           |
| <b>Net cash flow from investing activities</b>                                | <b>1,133,727</b> | <b>(299,365)</b> |
| <br><b>CASH FLOW FROM FINANCING ACTIVITIES:</b>                               |                  |                  |
| Issuance/(redemption) of debt securities                                      | (89,256)         | (842,033)        |
| Interest paid on bonds issued and other                                       | (10,013)         | (23,215)         |
| Dividends paid                                                                | -                | (422,873)        |
| Interest paid on subordinated liabilities                                     | (2,376)          | (2,528)          |
|                                                                               | (101,645)        | (1,290,649)      |
| <br><b>Net Increase / (Decrease) (a) in cash and cash equivalents</b>         | <b>4,056,537</b> | <b>423,570</b>   |
| <br>Cash and cash equivalents at the beginning of the period                  | 3,492,664        | 2,500,733        |
| Cash and cash equivalents at the end of the period                            | 7,549,201        | 2,924,303        |

The accompanying notes form an integral part of the consolidated statements of cash flow for the six-month period ended June 30, 2020

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## INTRODUCTION

Banco Santander Totta, SA (hereinafter also "Bank" or "Group") was established in 1864 and was formerly known as Companhia Geral de Crédito Predial Português, SA (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, its share capital was reprivatized 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 & Azores, SA, (Totta), by the Group. The main balances and transactions with companies of the Santander Group during the six-month period ending June 30, 2020, and during 2019 are detailed in Note 38. The Bank is included in the Banco Santander, SA (parent company) consolidation.

On December 16, 2004, the totta demerger/merger operation was registered, under which its financial holdings in Foggia, SGPS, SA and in Totta Seguros – Companhia de Seguros de Vida, SA, were spun off, the remainder of its business, together with Banco Santander Portugal, SA (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, SA (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, SA (Totta IFIC).

On December 20, 2015, following the resolution measure applied by the Bank of Portugal to Banif – Banco Internacional do Funchal, SA (Banif), the Bank acquired the banking business and a set of assets, liabilities, off-balance-sheet items and assets under the 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, SA, taken on June 7, 2017, through the instrument for the sale of the whole of the business, with the transfer of the whole of the shares representing the share capital of Banco Popular Español, SA, to Banco Santander, SA, the latter came to hold indirectly the whole of the share capital and voting rights of Banco Popular Portugal, SA (BAPOP). In this regard, on December 27, 2017, the Bank purchased the entire share capital and voting rights of BAPOP, having carried out its merger by incorporation on that date.

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 482 branches (497 branches as at December 31, 2019). It also has several branches and representation offices abroad and holdings in subsidiaries and associated companies.

The Bank's financial statements for the first half of 2020 were approved at the Board of Directors meeting on September 22, 2020.



## 1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

### 1.1. Basis 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, 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 the preparation of its consolidated financial statements as at June 30, 2020, are consistent with those used in the preparation of the consolidated financial statements as at December 31, 2019, applying in particular IAS 34 (Interim Financial Reporting ).

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

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

Within the scope of the application of the IFRS as approved by the European Union, the Bank adopted the following standards, amendments and interpretations with reference to January 1, 2020:

- **IFRS 3** (Amendment), Definition of business. This amendment is a revision to the definition of business for the purpose of accounting for business combinations. The new definition requires that an acquisition include an input and a substantial process that jointly manage outputs. The outputs are now defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of reductions of costs and other economic benefits for shareholders. Concentration tests are now allowed to determine whether a transaction relates to the acquisition of an asset or a business.
- **IFRS 9, IAS 39 and IFRS 7** (amendment), 'Reform of the reference interest rates'. These amendments are part of the first phase of the IBOR reform of the IASB and allow exemptions related to the reform of the benchmark for the reference interest rates. The exemptions relate to hedge accounting in terms of: i) risk components; ii) "highly likely" requirement; iii) prospective valuation; iv) retrospective effectiveness test (for those adopting IAS 39); and v) recycling the cash-flow hedge reserve, and its objective is that the reform in of the reference interest rates will not determine the termination of hedge accounting. However, any hedge ineffectiveness determined must continue to be recognized in the income statement.
- **IAS 1 and IAS 8** (amendment), 'Definition of material'. This amendment introduces a change to the concept of "material", and clarifies that the mention of unclear information refers to situations whose effect is similar to omitting or distorting such information, the entity to assess the materiality considering the financial statements as a whole. Clarifications are also provided as to

the meaning of "primary users of the financial statements", which are defined as 'current and future investors, lenders and creditors' who rely on the financial statements to obtain a significant part of the information they need.

- **Conceptual structure**, 'Changes in the reference to other IFRS'. As a result of the publication of new Conceptual Structure, the IASB has introduced changes to the wording of various standards and interpretations, such as: IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, SIC 32, in order to clarify the application of the new definitions of asset/ liability and expense/income, besides some of the characteristics of the financial information. These amendments are of retrospective application except if impracticable.

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

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

- **IFRS 16** (amendment), "Leases - COVID-19 related rent concessions". The amendment permits lessees (but not lessors) as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. when three criteria are cumulatively met: i) the change in lease payments results in a revised remuneration of the lease that is equal to, or less than, the remuneration immediately before the change; ii) any reduction of the lease payments only affects payments due on or up to June 30, 2021; and iii) there are no significant changes to other terms and conditions of the lease. Lessees who opt for this exemption, account for the change to the payments of rents as variable lease rents in the period or periods in which the event or condition that leads to reduction of payment occurs. This amendment is applied retrospectively with the impacts reflected as an adjustment to retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee applies the amendment for the first time.
- **IAS 1** (amendment), 'Presentation of financial statements - classification of liabilities'. This amendment seeks to clarify the classification of liabilities as current or non-current balances in the light of the rights that an entity has to defer their payment at the end of each reporting period. The classification of liabilities is not affected by the expectations of the entity (the assessment should determine whether a right exists, but should not consider whether the entity will or will not exercise such right), or by events occurring after the reporting date, such as non-compliance of a covenant. The amendment also includes a new definition of settlement of a liability. This amendment is applied retrospectively.
- **IFRS 3** (amendment) 'References to the conceptual framework'. This amendment updates the references to Conceptual Framework in the wording of IFRS 3, no changes having been introduced to the accounting requirements for concentrations of business activities. The amendment also clarifies the accounting treatment to be adopted in respect of liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a business combination. This amendment is applied retrospectively.

- **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 test phase of tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. This change is applied retrospectively; without restatement of the comparatives.
- **IAS 37** (amendment) 'Onerous contracts – costs of fulfilling a contract'. This amendment specifies that in assessing whether a contract is or is not onerous, only the expenses directly related to the fulfilment of the contract can be considered, such as the incremental costs related to direct labour and materials and the allocation of other directly related expenses such as the allocation of expenditure on depreciation of tangible assets used to fulfil the contract. This change will be applied to contracts that, at the beginning of the first annual reporting period to which the change is applied, also include unfulfilled contractual obligations, with no restatement of the comparative.
- **Improvements to the 2018 – 2020 standards** (to be applied in periods beginning on or after January 1, 2022). This cycle of improvements amends the following standards: IFRS 1, IFRS 16 and IAS 41.
- **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 (building block approach) or simplified model (premium allocation approach) model. The complete model is based on discounted cash flow scenarios weighted by the probability 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 of retrospective application with some exemptions on the transition date.
- **IFRS 17** (amendment) 'Insurance contracts' (applicable in annual periods beginning on or after January 1, 2023). This amendment includes specific changes in eight areas of IFRS 17, such as: i) scope; ii) level of aggregation of insurance contracts; iii) recognition; iv) measurement; v) modification and derecognition; vi) presentation of the statement of financial position; vii) recognition and measurement of the income statement; and viii) disclosures. This amendment also includes clarifications, which aim to simplify some of the requirements of this standard and speed up its implementation.

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

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

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

Subsidiaries are entities (including investment funds and securitization vehicles) controlled by the Group. The Group controls another entity when it has the power to manage the relevant activities of the entity, and when it is exposed, or has right, to the variability in the returns generated by its involvement with that entity and can take possession thereof through the power it holds over the relevant activities of that entity (de facto control). The financial statements of subsidiary companies are consolidated using the full consolidation method as soon as the Group takes control of their business until such time as control ceases. All significant balances and transactions between the consolidated companies have been eliminated. Additionally, where applicable, consolidation adjustments are made in order to ensure consistency in the application of the accounting principles. The amount corresponding to the holding of third parties in subsidiaries that have been consolidated using the full consolidation method is presented under Non-controlling interests (Note 24).

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.

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

Under the equity method, the consolidated financial statements include the portion attributable to the Group's total equity and of the profits and losses recognised by the associated companies. Dividends allocated by associates reduce the amount of the investment made by the Group. The Group performs impairment tests for its investments in associates whenever there are signs of impairment. Impairment losses recorded in prior periods may be reversible, up to the limit of the accumulated losses.

Goodwill corresponds to the positive difference between the acquisition cost of the business and the effective 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 the purpose, goodwill is allocated to cash-flow generating units, never greater than the group of assets comprising each of the Group's operational segments, determination of the respective recoverable amount being based on estimates of future cash flows updated on the basis of discount rates considered appropriate by the Group based on appropriate 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, and is subject to impairment tests.

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

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

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

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

The accounting policies of subsidiaries and 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 items of the financial statements. Thus, expenses and income are recorded as and when generated, regardless of the time of payment or receipt.

#### b) Foreign currency transactions

The Bank's accounts are prepared in the currency of the economic environment in which it

operates ("functional currency"), and are expressed in euros.

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

c) Financial instruments

The classification of financial assets is in keeping with three criteria:

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

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

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

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

The other financial instruments, specifically equity instruments and derivatives, are by definition classified at fair value through profit or loss. For equity instruments, there is the irrevocable option of designating that all fair-value variations are recognised under other comprehensive income, in

which case, only the dividends are recognised in profit or loss, because gains and losses are not reclassified to profit or loss even when they are derecognised/sold.

#### Reclassifications between financial instrument portfolios

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

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

In March 2020, due to the events mentioned in Note 9, the Bank's management took the decision to discontinue the activity of granting loans that require stable financing and in large amounts and terms, within this activity is direct financing to the Portuguese state. This decision was (i) duly documented internally, (ii) disseminated throughout the Bank's structure and (iii) communicated in the Bank's press release in April 2020 to all stakeholders. Management understands that credits impacted by changes in the business model have a significant impact on the Bank's balance sheet, as can be seen in Note 9.

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

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

#### Sale of credits

Gains and losses obtained on the sale of credits on a definitive basis are carried in the income statement under "Impairment of financial assets at amortised cost". These gains or losses correspond to the difference between the selling price fixed and the carrying amount of those assets, net of impairment losses.



Securitised credit not derecognised

The Bank does not derecognise the credits sold in the securitisation operations when:

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

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

Maintenance of the risk and/or benefit is represented by bonds of a higher risk issued by the securitisation vehicle. The amount carried under assets and liabilities represents the proportion of the risk/benefit held by the 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 shall have transferred control over the assets.

Guarantees provided and irrevocable commitments

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

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

Recognition of income and expenditure with services and commissions

Services income 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.

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

Services income 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 services and commissions is carried out using the same criteria adopted for income.

Other financial assets at fair value through other comprehensive income

Other 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 they are subsequently measured at fair value. Gains and losses related to subsequent variation of the fair value are reflected under a specific equity heading named Accumulated comprehensive income reserve until their sale, when they are reclassified to profit or loss for the period, with the exception of equity instruments that remain in share capital.

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

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

Financial assets and liabilities held for trading and other financial assets that must be carried at fair value through profit or loss

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

Financial assets and liabilities held for trading and other financial assets that must be carried at fair value through profit or loss are initially recognised at fair value, the expenses associated with the transactions being recognised in profit or loss at the initial moment. Gains and losses resulting from the subsequent valuation at fair value are recognized in the income statement under "Financial assets and liabilities at fair value through profit or loss".

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 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. 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**

With regard to the measurement of financial liabilities IFRS 9 did not introduce significant changes compared to the requirements previously set out, except for the requirement of recognition of the fair-value variations of financial liabilities resulting from changes in the entity's own credit risk, to be recognised in equity, rather than in profit or loss as required previously, unless such accounting treatment generates accounting mismatch. Subsequent reclassifications of these variations to profit or loss are not allowed, not even at the time of the repurchase of these liabilities.

Other financial liabilities correspond mainly to the resources of central banks and of other credit institutions, customers' deposits and bond issues. These liabilities are initially carried at their fair value, which normally corresponds to the consideration received, net of transaction expenses, and are subsequently carried at amortised cost in keeping with the effective interest-rate method.

### 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 on the secondary market. Purchases and sales of own bonds are included proportionately under the respective headings of debt issued (principal, interest and fees) and the differences between the amount settled and the write-off, or the increase of liabilities, are recognised immediately in profit or loss.

### **Hedge accounting**

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

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

In this framework, the Bank decided to continue applying the hedge accounting defined within the scope of IAS 39.

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

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

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

#### Fair-value hedges

The gains or losses on 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 change in fair value of the hedged item relative to the risk being hedged are also recognised in profit or loss.

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

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

#### Cash flow hedge

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. It also contracted financial derivatives instruments to hedge future flows from the sale of part of its portfolio at fair value through other comprehensive income.

Application of cash-flow hedge accounting is subject to the general requirements referred to above for hedge accounting and entails the following records:

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

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

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

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

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

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

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

- expected loss for credit risk at 12 months, that is, total estimated loss resulting from default events of the financial instrument events that are possible within 12 months of the reporting date (called Stage 1);
- or expected loss for credit risk to maturity, that is, total estimated loss resulting from all possible default events throughout the life of the financial instrument (referred to as Stage 2 and Stage 3). A provision for expected loss for credit risk to maturity is required for a financial

instrument if the credit risk of that financial instrument has increased significantly since the initial recognition or if the financial instrument is impaired.

The expected loss for credit risk is an estimate weighted by the probability of the present value of the loan losses. This estimate results from the present value of the difference between the cash flows due to the 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 adequacy of the provision for losses is based on the present value of expected cash flows of the asset using the original effective interest rate of the asset, regardless of being measured individually or collectively.

#### Impaired financial assets

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

#### Purchased or originated credit-impaired (POCI) financial assets

Financial assets classified as POCI are treated differently, in that they are in an impaired situation. For these assets, the Bank classifies them as Stage 3 for the net amount of the expected loss. In the revaluation of 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 in order to assess whether there has been a significant increase of credit risk since their initial recognition. If there has been a significant increase of the credit risk, the Bank estimates the loan-loss provision to maturity (LTPD (life time probability of default)) and not over 12 months.

The Bank uses scorings and rating systems for internal credit-risk management. These notations allow an assessment of the risk level of the transactions or of the customer at all times and they are considered in the credit-risk approval and monitoring decisions. The models are based on series of data that are considered predictors of the risk of default, which apply judgements, that is, the credit-risk notations are defined using qualitative and quantitative factors that are indicative of the risk of default. The notations consider current characteristics and past events, and their significance for the risk level 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 notation can have a significant deterioration (accumulated PD variation above the defined limit) for evolution of the residual term (sensitivity of the transactions differentiated over time) or for alterations of future expectations regarding the economy.
- Regardless of the outcome of the aforesaid evaluation, the Bank assumes that the credit risk of a financial asset has increased significantly since the initial recognition when the contractual payments are overdue by more than 30 days or when the transactions are identified as loans restructured for financial difficulties.

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

##### Credit risk parameters

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

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

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

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

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

**EAD** is an estimate of exposure on a date of future default, taking into account the expected changes in the exposure after the reporting date. The 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 the purpose of impairment losses, considering the risk of default during the maximum contractual period during which the entity is exposed to the credit risk. However, for financial instruments such as credit cards, credit lines and overdraft facilities that include a loan and an unused commitment component, the Bank's contractual ability to demand repayment and to cancel the unused commitment does not limit the Bank's exposure to loan losses to the contractual period of notice. For such financial instruments, the Bank measures the Expected Credit Risk Loss for the period historically observed as the average life of these instruments.

#### Collective analysis

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

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

#### Individual analysis

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

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

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

#### Incorporation of forward-looking information

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

For the purposes of impairment losses, a pessimistic scenario, the base scenario and an optimistic scenario 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) IFRS 16 - Leases

The Bank applied the modified retrospective approach to determine the impacts at the time of the transition and first adoption of IFRS 16, on January 1, 2019. Thus, the impacts at the time of transition were prospectively determined, the cumulative effect of the initial application being recognized as a balance sheet adjustment on the transition date (January 1, 2019). The main type of contracts that require estimation of an asset for right of use and a liability for lease entail leases of properties (branches and central services) that are assigned to the business of the Bank.

Method for measuring the right of use and lease liability

IFRS 16 defines a set of new requirements for the application of this standard, especially for the classification and measurement of lease operations from the viewpoint of the lessee. As lessee, the Bank records an asset of right of use and a lease liability on the start date of the respective operation:

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

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

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

Use of practical expedients provided for in the standard

In the adoption of IFRS 16 the Bank implemented a set of practical expedients provided for in the standard, namely: low-value leases; short-term leases and non-inclusion of initial direct expenses incurred in the calculation of the right to use; in the measurement of the lease liability it did not separate the non-lease components included in lease contracts.

Definition of the main assumptions on the date of transition and contracts concluded later

On the transition date, the Bank estimated a discount rate differentiated by maturity and collateralized by the same type of target asset of the lease. With regard to the maturity of the lease to be considered in the calculation of the lease liability, its determination must take into account the period of the lease that cannot be cancelled, as well as the period covered by any deadline extension options and/or early termination, if any reasonable certainty as to its exercise exists. Thus, when the term is not defined by contract the Bank made its best estimate for its termination.

e) Tangible assets

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

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

|           | <u>Years of useful life</u> |
|-----------|-----------------------------|
| Premises  | 50                          |
| Equipment | 4 to 10                     |

Non-recoverable expenses incurred with construction works on buildings that are not owned by the Bank (leased) are depreciated over a period of time compatible with their expected useful life or of the lease, if less, which on average corresponds to a period of ten years. Expenditure to be incurred with the dismantling or removal of these assets is considered a part of the initial cost when it involves significant and reliably-measurable amounts. Maintenance and repair expenses are recognized under "General administrative expenses".

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

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

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

Gains and losses on the sale of these assets are recognized under "Results of non-current assets held for sale".

f) Intangible assets

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

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

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

g) Investment properties

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

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

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

h) Non-current assets held for sale

The Bank essentially recognizes under non-current assets 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 with a period of one year. If they do not meet these criteria, those assets are carried under Other assets (Note 16).

When it is a matter of discontinued operational units, in accordance with the provisions of IFRS 5 – Non-current assets held for sale and discontinued operations, the Bank does not recognise potential gains on these assets.

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, and they are tested for impairment on the date of reclassification as non-current assets held for sale. Subsequently, these assets are measured at the lesser of the initial recognition amount and fair value less costs to sell, and they are not depreciated. Unrealized losses on these assets, thus determined, are recorded in profit or loss.

If, on a subsequent date, the facts that led to the recording of impairment losses no longer exist due to an increase of the fair value less sales expense, the impairment losses will be reverted up to the limit of the amount that the assets would have had they not been reclassified to non-current assets held for sale.

i) Provisions

A provision is set aside where there is 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, Provisions includes provisions set aside to cover, *inter alia*, the post-employment benefits specific to certain members of Bank's Board of Directors, restructuring plans approved by the Executive Committee, tax risks, ongoing legal proceedings and other specific risks arising from its business

j) Employee post-employment benefits

The Bank endorsed the collective bargaining agreement (CBA) for the banking industry, and therefore its employees or their families are entitled to retirement, disability and survivors' pensions.

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

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

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

of payment of supplements.

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

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

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

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

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

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

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

On August 8, 2016 the Ministry of Labour published a new CBA in the BTE. The more significant changes were the following:

- i) Change in the formula for determining the employer's contribution to the SAMS, which is no longer a percentage of the pension and becomes a fixed amount (€89.01 per beneficiary and €38.52 in the case of pensioners); and
- ii) Introduction of a new benefit called pension bonus – end of career bonus. This benefit,

because it is allocated on the date of retirement or in event of death, is considered a post-employment benefit and therefore comes to form part of the retirement liabilities.

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

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

According to IAS 19 - "Employee Benefits" actuarial gains and losses are recorded directly in equity (other comprehensive income) and under the heading "Staff costs" of the income statement, the following components being recognized:

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

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

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

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

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

k) Corporation tax

The Bank is subject to the tax system established in the Corporation 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.

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

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

In this sense, the Bank adhered to the definitive regime enshrined in Articles 2 and 3 of this law.

The Santander Totta Group decided to apply as from 2017 the Special Taxation of Groups of Companies Regime (RETGS). Under this regime, the Group's taxable profit/tax loss corresponds to the sum of the taxable profit/tax loss that comes to be determined by the parent company through the algebraic sum of tax results determined in the periodic separate statements of each company. The companies covered by this scheme are: Santander Totta, SGPS - the controlling company, and Taxagest, Banco, Santander Totta Seguros and Gamma - controlled companies. The gain obtained by application of the RETGS is allocated to the entities in question in a manner proportional to the taxable income of each company.

Deferred tax assets and liabilities correspond to the amount of the tax recoverable and payable in future periods resulting from temporary differences between the carrying amount of an asset or liability and its taxation base. Tax credits are also recorded as deferred tax assets.

The Bank does not recognize deferred tax assets or liabilities for the deductible or taxable temporary 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 recognized when they are expected to be recoverable and up to the amount that the existence is probable of future taxable profits that will accommodate the deductible temporary differences.

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

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

l) Banking sector contribution

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

m) Treasury shares

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

n) 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 insurance brokerage business carried on by the Bank, other than those already disclosed.

o) Cash & cash equivalents

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



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

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

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

### Employee post-employment benefits (Note 36)

Retirement and survivor pensions are estimated based on actuarial evaluations carried out by external experts certified by the Insurance and Pension Fund Supervisory Authority (ASF). These estimates incorporate a set of financial and demographic assumptions, including the discount rate, mortality and invalidity tables, pension and salary growth, among others. The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities. Estimated salary and pension growths take into account the country's current situation and the consequent perspectives 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 39)

In the valuation of financial instruments not traded on active markets valuation models or techniques are used. 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 on the basis of valuation techniques, including pricing models or discounted cash flow techniques. When discounted cash flow techniques are used, the future financial flows are estimated in keeping with management's expectations, and the discount rate used corresponds to the market rate for financial instruments of similar characteristics.

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

### Fair value (Notes 7, 8, 9 and 39)

Financial assets and liabilities carried under Financial assets held for trading, Financial liabilities held for trading, Other financial assets mandatorily at fair value through profit or loss and Other financial assets at fair value through other comprehensive income are measured at fair value.

The fair value of a financial instrument corresponds to the amount for which a financial asset or liability may be sold or settled (that is, an exit price) between unrelated, informed parties interested in conducting the transaction in arm's length terms.

The fair value of financial assets and liabilities is determined by a body of the Bank independent of the trading function, taking the following aspects into account:

- For financial instruments traded on active markets, closing price on the reporting date;
- For debt instruments not traded on active markets (including unlisted or illiquid securities), valuation methods and techniques are used that include:
  - i) Bid prices disclosed by means of dissemination of financial information, such as Bloomberg and Reuters, including market prices available for recent transactions;
  - ii) Bid prices obtained from financial institutions operating as market makers; and
  - iii) Valuation models that take into account market data that would be used in setting a price for the financial instrument, reflecting market interest rates and volatility, as well as the liquidity and the credit risk associated with the instrument.

Amortized cost (Notes 10 and 39)

Financial instruments measured at amortised cost are initially recorded at fair value plus or minus expenses or revenues directly attributable to the transaction. Recognition of interest is performed using the effective interest rate method.

Whenever the estimated payments or collections associated with financial instruments measured at amortised cost are revised (and provided that this does not entail derecognition and recognition of new financial instruments), the respective carrying amount is adjusted to reflect the revised cash flows. The new amortised cost is determined by calculating the present value of the revised future cash flows at the original effective interest rate of the financial instrument. The adjustment of the amortized cost is recognised in the income statement.

Determination of impairment losses (Notes 10, 19 and 39)

Impairment losses on loans are calculated as indicated in Note 1.3 (c). In this way, determination of the 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. Determination of the impairment through collective analysis is performed on the basis of parameters for comparable types of operations, such as instrument type, customer type, credit-risk degree as measured by the ratings or scoring system, type of collateral, date of initial recognition, relationship between loan and collateral value (LTV) and incorporation of prospective information.

Non-current assets held for sale (Notes 16 and 17)

Properties, equipment and other goods received as payment in kind or acquired in payment of past-due credit operations are carried at the amount agreed by negotiation or judicial means, after deduction of the lesser of the costs the Bank expects to incur with their sale, or their quick-sale value, if lower. Properties are subject to periodic valuation conducted by independent evaluators, which incorporate various assumptions, particularly as to the evolution of the property market and, where applicable, expectations as

to the development of real-estate projects. The assumptions used in the valuations of these properties have an impact on their valuation and hence on the determination of the impairment.

#### Taxes (Note 15)

Recognition of deferred tax assets assumes the existence of profits and future taxable matter. Additionally, current and deferred taxes were determined on the basis of the interpretation of current tax legislation. Thus, changes to tax laws or to their interpretation by the 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 on the basis of 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 (Notes 19 and 42)

A provision is recognized where there is present (legal or constructive) obligation resulting from past events in respect of which there will be a probable outflow of funds that can be determined reliably. The outcome of the legal proceedings in progress, as well as the respective amount of the provision corresponding to the best estimate of the amount to be spent to settle the liability on the balance/sheet date, is assessed in accordance with the opinion of the Bank's lawyers/legal advisers and decisions of the courts to date, which, however, might not come about.

### 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, Corporate and Project Finance in particular, as well as brokering, custody and settlement of securities services.

#### **Retail Banking:**

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

#### **Business Banking:**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

**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.

The breakdown of the income statement by operating segment for the six-month period ending on at June 30, 2020 and 2019, is as follows:

|                                             | 30-06-2020                         |                   |                       |                         |                       |
|---------------------------------------------|------------------------------------|-------------------|-----------------------|-------------------------|-----------------------|
|                                             | Corporate<br>Investment<br>Banking | Retail<br>Banking | Commercial<br>Banking | Corporate<br>Activities | Total<br>Consolidated |
| Financial margin (narrow sense)             | 35,802                             | 234,618           | 43,433                | 84,795                  | 398,648               |
| Income from equity instruments              | -                                  | -                 | -                     | 1,733                   | 1,733                 |
| <b>Financial margin</b>                     | <b>35,802</b>                      | <b>234,618</b>    | <b>43,433</b>         | <b>86,528</b>           | <b>400,381</b>        |
| Result from associates                      | -                                  | -                 | -                     | 751                     | 751                   |
| Net commissions                             | 24,298                             | 166,671           | 12,200                | (17,993)                | 185,176               |
| Other results from banking activity         | -                                  | 1,651             | -                     | (30,557)                | (28,906)              |
| <b>Commercial margin</b>                    | <b>60,100</b>                      | <b>402,940</b>    | <b>55,633</b>         | <b>38,729</b>           | <b>557,402</b>        |
| Results from financial operations           | 3,392                              | 2,860             | 209                   | 85,088                  | 91,549                |
| <b>Net income from banking activities</b>   | <b>63,492</b>                      | <b>405,800</b>    | <b>55,842</b>         | <b>123,817</b>          | <b>648,951</b>        |
| Operating costs                             | (12,797)                           | (224,112)         | (19,051)              | (1,772)                 | (257,732)             |
| Depreciation and amortization               | (1,605)                            | (23,222)          | (881)                 | -                       | (25,708)              |
| <b>Net operating income</b>                 | <b>49,090</b>                      | <b>158,466</b>    | <b>35,910</b>         | <b>122,045</b>          | <b>365,511</b>        |
| Impairment and provisions, net of reversals | (6,769)                            | 15,016            | 3,491                 | (122,545)               | (110,807)             |
| Non-current assets held for sale            | -                                  | -                 | -                     | (90)                    | (90)                  |
| Other results                               | -                                  | -                 | -                     | (29,258)                | (29,258)              |
| <b>Income before taxes</b>                  | <b>42,321</b>                      | <b>173,482</b>    | <b>39,401</b>         | <b>(29,848)</b>         | <b>225,356</b>        |
| Taxes                                       | (13,120)                           | (53,789)          | (12,214)              | 8,283                   | (70,840)              |
| Non-controlling interests                   | -                                  | -                 | -                     | -                       | -                     |
| <b>Net income for the period</b>            | <b>29,201</b>                      | <b>119,693</b>    | <b>27,187</b>         | <b>(21,565)</b>         | <b>154,516</b>        |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

|                                             | 30-06-2019                         |                   |                       |                         |                       |
|---------------------------------------------|------------------------------------|-------------------|-----------------------|-------------------------|-----------------------|
|                                             | Corporate<br>Investment<br>Banking | Retail<br>Banking | Commercial<br>Banking | Corporate<br>Activities | Total<br>Consolidated |
| Financial margin (narrow sense)             | 41,008                             | 260,623           | 50,851                | 73,732                  | 426,214               |
| Income from equity instruments              | -                                  | -                 | -                     | 1,637                   | 1,637                 |
| <b>Financial margin</b>                     | <b>41,008</b>                      | <b>260,623</b>    | <b>50,851</b>         | <b>75,369</b>           | <b>427,851</b>        |
| Result from associates                      | -                                  | -                 | -                     | 412                     | 412                   |
| Net commissions                             | 24,914                             | 162,963           | 12,639                | (5,515)                 | 195,001               |
| Other results from banking activity         | -                                  | 1,471             | -                     | (26,966)                | (25,495)              |
| <b>Commercial margin</b>                    | <b>65,922</b>                      | <b>425,057</b>    | <b>63,490</b>         | <b>43,300</b>           | <b>597,769</b>        |
| Results from financial operations           | 8,625                              | 2,595             | 587                   | 61,008                  | 72,815                |
| <b>Net income from banking activities</b>   | <b>74,547</b>                      | <b>427,652</b>    | <b>64,077</b>         | <b>104,308</b>          | <b>670,584</b>        |
| Operating costs                             | (12,667)                           | (241,614)         | (18,384)              | (1,293)                 | (273,958)             |
| Depreciation and amortization               | (1,430)                            | (22,214)          | (538)                 | -                       | (24,182)              |
| <b>Net operating income</b>                 | <b>60,450</b>                      | <b>163,824</b>    | <b>45,155</b>         | <b>103,015</b>          | <b>372,444</b>        |
| Impairment and provisions, net of reversals | 1,757                              | 4,126             | (11,754)              | 5,639                   | (232)                 |
| Non-current assets held for sale            | -                                  | -                 | -                     | 10,217                  | 10,217                |
| <b>Income before taxes</b>                  | <b>62,207</b>                      | <b>167,950</b>    | <b>33,401</b>         | <b>118,871</b>          | <b>382,429</b>        |
| Taxes                                       | (19,284)                           | (52,064)          | (10,354)              | (60,972)                | (142,674)             |
| Non-controlling interests                   | -                                  | -                 | -                     | -                       | -                     |
| <b>Net income for the period</b>            | <b>42,923</b>                      | <b>115,886</b>    | <b>23,047</b>         | <b>57,899</b>           | <b>239,755</b>        |

As at June 30, 2020 and December 31, 2019, the breakdown of the assets and liabilities under management of each business segment, in accordance with information used by the Bank's Management for decision-making, is as follows:

|                                                                   | 30-06-2020                         |                   |                       |                         |                       |
|-------------------------------------------------------------------|------------------------------------|-------------------|-----------------------|-------------------------|-----------------------|
|                                                                   | Corporate<br>Investment<br>Banking | Retail<br>Banking | Commercial<br>Banking | Corporate<br>Activities | Total<br>Consolidated |
| <b>Assets</b>                                                     |                                    |                   |                       |                         |                       |
| Financial assets at fair value through other comprehensive income | -                                  | -                 | -                     | 3,049,079               | 3,049,079             |
| Financial assets at amortized cost                                |                                    |                   |                       |                         |                       |
| Mortgage loans                                                    | -                                  | 20,070,173        | -                     | -                       | 20,070,173            |
| Consumer loans                                                    | -                                  | 1,679,493         | -                     | -                       | 1,679,493             |
| Other loans                                                       | 3,816,063                          | 6,187,095         | 6,300,901             | -                       | 16,304,059            |
| Other balances receivable                                         | -                                  | 58,975            | -                     | 1,047,127               | 1,106,102             |
| Total allocated assets                                            | <b>3,816,063</b>                   | <b>27,995,736</b> | <b>6,300,901</b>      | <b>4,096,206</b>        | <b>42,208,906</b>     |
| Total non-allocated assets                                        |                                    |                   |                       |                         | 14,873,978            |
| <b>Total Assets</b>                                               |                                    |                   |                       |                         | <b>57,082,884</b>     |
| <b>Liabilities</b>                                                |                                    |                   |                       |                         |                       |
| Financial resources at amortised cost                             |                                    |                   |                       |                         |                       |
| Resources from customers and other debts                          | 1,799,906                          | 28,546,284        | 5,788,199             | 489,358                 | 36,623,747            |
| Debt securities                                                   | -                                  | -                 | -                     | 3,645,323               | 3,645,323             |
| Total allocated liabilities                                       | <b>1,799,906</b>                   | <b>28,546,284</b> | <b>5,788,199</b>      | <b>4,134,681</b>        | <b>40,269,070</b>     |
| Total non-allocated Liabilities                                   |                                    |                   |                       |                         | 12,919,505            |
| <b>Total Liabilities</b>                                          |                                    |                   |                       |                         | <b>53,188,575</b>     |
| <b>Guarantees and sureties given</b>                              | <b>253,966</b>                     | <b>520,804</b>    | <b>831,713</b>        | <b>-</b>                | <b>1,606,482</b>      |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

|                                          | 31-12-2019                         |                   |                       |                         |                          |
|------------------------------------------|------------------------------------|-------------------|-----------------------|-------------------------|--------------------------|
|                                          | Corporate<br>Investment<br>Banking | Retail<br>Banking | Commercial<br>Banking | Corporate<br>Activities | Total<br>Consolidated    |
| <b>Assets</b>                            |                                    |                   |                       |                         |                          |
| Financial assets at amortized cost       |                                    |                   |                       |                         |                          |
| Mortgage loans                           | -                                  | 19,653,605        | -                     | -                       | 19,653,605               |
| Consumer loans                           | -                                  | 1,706,797         | -                     | -                       | 1,706,797                |
| Other loans                              | 3,664,919                          | 6,046,351         | 8,268,508             | -                       | 17,979,778               |
| Total allocated assets                   | <u>3,664,919</u>                   | <u>27,406,753</u> | <u>8,268,508</u>      | <u>-</u>                | <u>39,340,180</u>        |
| Total non-allocated assets               |                                    |                   |                       |                         | 12,965,146               |
| <b>Total Assets</b>                      |                                    |                   |                       |                         | <u><b>52,305,326</b></u> |
| <b>Liabilities</b>                       |                                    |                   |                       |                         |                          |
| Financial liabilities at amortized cost  |                                    |                   |                       |                         |                          |
| Resources from customers and other debts | 2,435,766                          | 27,074,231        | 5,737,845             | 625,430                 | 35,873,272               |
| Debt securities                          | -                                  | -                 | -                     | 3,728,941               | 3,728,941                |
| Total allocated liabilities              | <u>2,435,766</u>                   | <u>27,074,231</u> | <u>5,737,845</u>      | <u>4,354,371</u>        | <u>39,602,213</u>        |
| Total non-allocated Liabilities          |                                    |                   |                       |                         | 9,068,297                |
| <b>Total Liabilities</b>                 |                                    |                   |                       |                         | <u><b>48,670,510</b></u> |
| <b>Guarantees and sureties given</b>     | <b>285,882</b>                     | <b>576,451</b>    | <b>714,469</b>        | <b>-</b>                | <b>1,576,802</b>         |

As at June 30, 2020 and December 31, 2019, the Bank did not have relevant business in any geography other than that of the domestic business.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE PERIOD

As at June 30, 2020 and December 31, 2019, the subsidiary and associate companies and their most significant financial data taken from the respective separate financial statements, excluding adjustments on conversion to IAS/IFRS, can be summarised as follows:

| Company                                                        | Direct (%)<br>participation |              | Effective (%)<br>participation |              | Total assets<br>(net) |            | Shareholders'<br>equity |            | Net income<br>of the period |            |
|----------------------------------------------------------------|-----------------------------|--------------|--------------------------------|--------------|-----------------------|------------|-------------------------|------------|-----------------------------|------------|
|                                                                | 30-06-2020                  | 31-12-2019   | 30-06-2020                     | 31-12-2019   | 30-06-2020            | 31-12-2019 | 30-06-2020              | 31-12-2019 | 30-06-2020                  | 31-12-2019 |
| BANCO SANTANDER TOTTA, S.A.                                    | Headquarters                | Headquarters | Headquarters                   | Headquarters | 60,260,049            | 55,639,804 | 3,759,891               | 3,497,526  | 157,611                     | 499,715    |
| TOTTA IRELAND, PLC <sup>(2)</sup>                              | 100.00                      | 100.00       | 100.00                         | 100.00       | 591,652               | 579,674    | 463,421                 | 458,974    | 5,904                       | 1,457      |
| TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. <sup>(1)</sup>      | 100.00                      | 100.00       | 100.00                         | 100.00       | 136,542               | 148,280    | 128,176                 | 131,505    | 1,033                       | 6,083      |
| TAXAGEST,SGPS,SA                                               | 99.00                       | 99.00        | 99.00                          | 99.00        | 55,750                | 55,751     | 55,746                  | 55,747     | (1)                         | 8          |
| NOVIMOVEST - Fundo de Investimento Imobiliário Aberto          | 78.74                       | 78.74        | 78.74                          | 78.74        | 313,520               | 312,552    | 304,552                 | 303,994    | 558                         | 5,750      |
| GAMMA, Sociedade Financeira de Titularização de Créditos, S.A. | 100.00                      | 100.00       | 100.00                         | 100.00       | 7,230                 | 7,166      | 6,785                   | 6,747      | 38                          | 228        |
| HIPOTOTTA NO. 4 PLC                                            | -                           | -            | -                              | -            | 591,929               | 622,446    | (4,645)                 | (4,697)    | 6                           | (958)      |
| HIPOTOTTA NO. 5 PLC                                            | -                           | -            | -                              | -            | 592,153               | 616,581    | (10,875)                | (11,309)   | 555                         | (4,005)    |
| HIPOTOTTA NO. 4 FTC                                            | -                           | -            | -                              | -            | 530,996               | 561,424    | 530,286                 | 560,487    | 144                         | (740)      |
| HIPOTOTTA NO. 5 FTC                                            | -                           | -            | -                              | -            | 525,261               | 550,361    | 524,792                 | 549,042    | 67                          | (1,171)    |
| Operações de Securitização geridas pela GAMMA, STC             | -                           | -            | -                              | -            | 2,951,069             | 3,157,980  | -                       | -          | -                           | -          |
| UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.               | 21.86                       | 21.86        | 21.86                          | 21.86        | 344,429               | 374,480    | 85,679                  | 96,688     | 2,549                       | 16,194     |
| LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO                 | 25.76                       | 25.76        | 25.76                          | 25.76        | 106,786               | 106,281    | 101,321                 | 100,597    | 724                         | 292        |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020  
(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2020 and December 31, 2019, the business, the location of the registered office and the consolidation method used for the companies included in the consolidation were as follows:

| Company                                                        | Activity                                | Headquarters | Consolidation Method |
|----------------------------------------------------------------|-----------------------------------------|--------------|----------------------|
| BANCO SANTANDER TOTTA, S.A.                                    | Banking                                 | Portugal     | Headquarters         |
| TOTTA (IRELAND), PLC <sup>(2)</sup>                            | Investment management                   | Ireland      | Full                 |
| TOTTA URBE - Emp.Admin. e Construções, S.A. <sup>(1)</sup>     | Holding company                         | Portugal     | Full                 |
| TAXAGEST, SGPS, S.A.                                           | Holding company                         | Portugal     | Full                 |
| UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.               | Issuance and management of credit cards | Portugal     | Equity               |
| HIPOTOTTA nº 4 PLC                                             | Investment management                   | Ireland      | Full                 |
| HIPOTOTTA nº 5 PLC                                             | Investment management                   | Ireland      | Full                 |
| HIPOTOTTA nº 4 FTC                                             | Securitized loans fund                  | Portugal     | Full                 |
| HIPOTOTTA nº 5 FTC                                             | Securitized loans fund                  | Portugal     | Full                 |
| Operações de Securitização geridas pela GAMMA, STC             | Securitized loans fund                  | Portugal     | Full                 |
| NOVIMOVEST - Fundo de Investimento Imobiliário Aberto          | Real Estate Fund                        | Portugal     | Full                 |
| GAMMA, Sociedade Financeira de Titularização de Créditos, S.A. | Securitized loans                       | Portugal     | Full                 |
| LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO                 | Real Estate Fund                        | Portugal     | Equity               |

- (1) The equity of this subsidiary included supplementary capital contributions amounting to €99,760k.
- (2) By virtue of this subsidiary closing its economic year on November 30, the amounts reflected in the "Income for the period" columns correspond to the net income determined between December 1, 2019, and June 30, 2020 (December 1, 2018 and December 31, 2019).

During 2019, the Group sold the holding in Benim-Sociedade Imobiliária, SA, and wound up Atlantes Mortgage Nº 1 FTC, Banif International Bank, LTD and Primestar Servicing, SA.

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

As at June 30, 2020 and December 31, 2019, the composition of the Novimovest Fund balance sheet was as follows:

|                            | 30-06-2020     | 31-12-2019     |
|----------------------------|----------------|----------------|
| Securities portfolio       | -              | -              |
| Real estate portfolio      | 254,909        | 252,513        |
| Accounts receivable        | 8,857          | 6,672          |
| Cash and banks             | 49,713         | 53,312         |
| Accruals and deferrals     | 41             | 55             |
|                            | <u>313,520</u> | <u>312,552</u> |
| Fund capital               | 304,552        | 303,994        |
| Adjustments and provisions | 4,646          | 3,802          |
| Accounts payable           | 2,567          | 2,973          |
| Accruals and deferrals     | 1,755          | 1,783          |
|                            | <u>313,520</u> | <u>312,552</u> |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

As at June 30, 2020 and December 31, 2019, the consolidated net income includes a profit of €439k and €4,528k, respectively, attributable to the Novimovest Fund.

5. CASH AND DEPOSITS AT CENTRAL BANKS

The breakdown of this heading is as follows:

|                                  | <u>30-06-2020</u> | <u>31-12-2019</u> |
|----------------------------------|-------------------|-------------------|
| Cash                             | 264,427           | 354,664           |
| Demand deposits in central banks |                   |                   |
| European Central Bank            | 6,775,381         | 2,798,891         |
|                                  | <u>7,039,808</u>  | <u>3,153,555</u>  |

In accordance with Regulation No. 2818/98, of December 1, issued by the European Central Bank, as from January 1, 1999, 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 euro area and all customer deposits with maturities less than two years. A coefficient of 1% is applied to this base and an amount of €100,000 is deducted. Compliance with the mandatory minimum deposits, for a given observation period, is carried out taking into consideration the average of balances of deposits at the Bank of Portugal during that period. The minimum required reserves are remunerated at the RFI rate (on these dates this rate is zero).

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

6. BALANCES DUE FROM OTHER BANKS

The breakdown of this heading is as follows:

|                                  | <u>30-06-2020</u> | <u>31-12-2019</u> |
|----------------------------------|-------------------|-------------------|
| Balances due from domestic banks |                   |                   |
| Demand deposits                  | 3,141             | 13,798            |
| Balances due from foreign banks  |                   |                   |
| Demand deposits                  | 506,252           | 325,311           |
|                                  | <u>509,393</u>    | <u>339,109</u>    |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020  
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7. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

The breakdown of this heading is as follows:

|                                        | <u>30-06-2020</u>  | <u>31-12-2019</u>  |
|----------------------------------------|--------------------|--------------------|
| Financial assets held for trading      |                    |                    |
| Derivatives with positive fair value   | <u>995,936</u>     | <u>1,085,927</u>   |
| Financial liabilities held for trading |                    |                    |
| Derivatives with negative fair value   | <u>(1,020,162)</u> | <u>(1,114,703)</u> |

As at June 30, 2020 and December 31, 2019, the following derivatives are recorded:

|                     | 30-06-2020        |                |                  |                 | 31-12-2019        |                  |                  |                 |
|---------------------|-------------------|----------------|------------------|-----------------|-------------------|------------------|------------------|-----------------|
|                     | Notional value    | Assets         | Liabilities      | Net             | Notional value    | Assets           | Liabilities      | Net             |
| Forwards            |                   |                |                  |                 |                   |                  |                  |                 |
| Purchases           | 382,376           | 5,869          | 5,801            | 68              | 348,012           | 3,363            | 3,215            | 148             |
| Sales               | 382,297           |                |                  |                 | 347,891           |                  |                  |                 |
| Swaps               |                   |                |                  |                 |                   |                  |                  |                 |
| Currency Swaps      |                   |                |                  |                 |                   |                  |                  |                 |
| Purchases           | 1,172,499         | 4,829          | 74               | 4,755           | 1,769,065         | 93               | 8,255            | (8,162)         |
| Sales               | 1,167,950         |                |                  |                 | 1,776,582         |                  |                  |                 |
| Interest Rate Swaps | 32,353,476        | 914,858        | 944,240          | (29,382)        | 25,701,557        | 1,004,267        | 1,025,517        | (21,250)        |
| Equity Swaps        | 720,879           | 18,693         | 18,665           | 28              | 731,745           | 21,612           | 21,342           | 270             |
| Options             |                   |                |                  |                 |                   |                  |                  |                 |
| Currency Swaps      |                   |                |                  |                 |                   |                  |                  |                 |
| Purchases           | 27,227            |                |                  |                 | 72,416            |                  |                  |                 |
| Sales               | 27,227            | 172            | 174              | (2)             | 72,416            | 540              | 540              | -               |
| Equity Swaps        |                   |                |                  |                 |                   |                  |                  |                 |
| Purchases           | 67,886            | 1,552          | 1,571            | (19)            | 146,926           | 2,873            | 2,871            | 2               |
| Sales               | 67,886            |                |                  |                 | 146,926           |                  |                  |                 |
| Caps and Floors     | 1,030,200         | 49,963         | 49,637           | 326             | 1,073,415         | 53,179           | 52,963           | 216             |
|                     | <u>37,399,903</u> | <u>995,936</u> | <u>1,020,162</u> | <u>(24,226)</u> | <u>32,186,951</u> | <u>1,085,927</u> | <u>1,114,703</u> | <u>(28,776)</u> |

As at June 20, 2020, the assets and liabilities headings relating to "Derivative financial instruments" are reduced by the amounts of approximately €10,185k and €12,036k of "Credit Value Adjustments" and "Debit Value Adjustments", respectively (€7,120k and €7,141k as at December 31, 2019, respectively), in accordance with the method described in Note 39.

As at June 30, 2020, and December 31, 2019, almost all the trading derivative financial instruments were hedged back-to-back with Banco Santander, SA.

The composition of this heading is as follows:

| Description             | Fair value     |                |
|-------------------------|----------------|----------------|
|                         | 30-06-2020     | 31-12-2019     |
| Equity Instruments      |                |                |
| Issued by residents     | 137,846        | 144,372        |
| Issued by non-residents | 250            | 626            |
|                         | <u>138,096</u> | <u>144,998</u> |

The breakdown of this heading is as follows:

|                         | 30-06-2020  |            |            |                    |          |           |         |            |            |
|-------------------------|-------------|------------|------------|--------------------|----------|-----------|---------|------------|------------|
|                         | Acquisition | Interest   | Hedge      | Fair Value Reserve |          |           | Other   | Impairment | Book Value |
|                         | cost        | receivable | adjustment | Positive           | Negative | Total     |         |            |            |
|                         |             |            |            |                    |          | (Note 22) |         | (Note 19)  |            |
| Debt instruments        |             |            |            |                    |          |           |         |            |            |
| Issued by residents     |             |            |            |                    |          |           |         |            |            |
| Public residents        | 3,620,083   | 41,214     | 89,587     | 435,551            | (44)     | 435,507   | (2,692) | -          | 4,183,699  |
| Other residents         | 1,996       | -          | -          | -                  | -        | -         | -       | (18)       | 1,978      |
| Issued by non-residents |             |            |            |                    |          |           |         |            |            |
| Foreign public issuers  | 309,795     | 2,944      | -          | 25,694             | -        | 25,694    | -       | -          | 338,433    |
|                         | 3,931,874   | 44,158     | 89,587     | 461,245            | (44)     | 461,201   | (2,692) | (18)       | 4,524,110  |
| Equity instruments      | 72,579      | -          | -          | 797                | -        | 797       | -       | -          | 73,376     |
|                         | 4,004,453   | 44,158     | 89,587     | 462,042            | (44)     | 461,998   | (2,692) | (18)       | 4,597,486  |
| Credit granted          | 2,300,000   | 67,804     | 299,339    | 381,936            | -        | 381,936   | -       | -          | 3,049,079  |
|                         | 6,304,453   | 111,962    | 388,926    | 843,978            | (44)     | 843,934   | (2,692) | (18)       | 7,646,565  |
|                         |             |            |            |                    |          |           |         |            |            |
|                         | 31-12-2019  |            |            |                    |          |           |         |            |            |
|                         | Acquisition | Interest   | Hedge      | Fair Value Reserve |          |           | Other   | Impairment | Book Value |
|                         | cost        | receivable | adjustment | Positive           | Negative | Total     |         |            |            |
|                         |             |            |            |                    |          | (Note 22) |         | (Note 19)  |            |
| Debt instruments        |             |            |            |                    |          |           |         |            |            |
| Issued by residents     |             |            |            |                    |          |           |         |            |            |
| Public residents        | 4,680,416   | 75,853     | 48,352     | 648,093            | (56)     | 648,037   | (2,860) | -          | 5,449,798  |
| Other residents         | 2,327       | -          | -          | -                  | -        | -         | -       | (89)       | 2,238      |
| Issued by non-residents |             |            |            |                    |          |           |         |            |            |
| Foreign public issuers  | 310,338     | 1,412      | -          | 24,662             | -        | 24,662    | -       | -          | 336,412    |
|                         | 4,993,081   | 77,265     | 48,352     | 672,755            | (56)     | 672,699   | (2,860) | (89)       | 5,788,448  |
| Equity instruments      | 73,183      | -          | -          | 718                | -        | 718       | -       | -          | 73,901     |
|                         | 5,066,264   | 77,265     | 48,352     | 673,473            | (56)     | 673,417   | (2,860) | (89)       | 5,862,349  |

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

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The public issuers headings had the following characteristics:

| Description                           | 30-06-2020       |                     |                                   |                  | 31-12-2019       |                     |                                   |                  |
|---------------------------------------|------------------|---------------------|-----------------------------------|------------------|------------------|---------------------|-----------------------------------|------------------|
|                                       | Acquisition cost | Interest receivable | Gain/losses reflected in reserves | Book value       | Acquisition cost | Interest receivable | Gain/losses reflected in reserves | Book value       |
| National public issuers               |                  |                     |                                   |                  |                  |                     |                                   |                  |
| Maturing between three and five years | 22,615           | 676                 | 940                               | 24,231           | 23,008           | 184                 | 914                               | 24,106           |
| Maturing between five and ten years   | 3,596,982        | 40,533              | 521,507                           | 4,159,022        | 4,600,348        | 73,967              | 682,619                           | 5,356,934        |
| Maturing in more than ten years       | 486              | 4                   | (44)                              | 446              | 57,060           | 1,702               | 9,996                             | 68,758           |
| Foreign public issuers                |                  |                     |                                   |                  |                  |                     |                                   |                  |
| Maturing between three and five years | 1,504            | 1                   | 19                                | 1,524            | 1,505            | 4                   | 22                                | 1,531            |
| Maturing between five and ten years   | 308,291          | 2,943               | 25,675                            | 336,909          | 308,833          | 1,408               | 24,640                            | 334,881          |
|                                       | <u>3,929,878</u> | <u>44,157</u>       | <u>548,097</u>                    | <u>4,522,132</u> | <u>4,990,754</u> | <u>77,265</u>       | <u>718,191</u>                    | <u>5,786,210</u> |

As at June 30, 2020 and December 31, 2019, the Group's portfolio contained Portuguese Treasury Bonds in the amounts of €175.422k and €445,207k respectively, used as collateral in funding operations (Note 18).

#### 10. FINANCIAL ASSETS AT AMORTISED COST

The placements at credit institutions sub-heading comprises the following:

|                                            | 30-06-2020    | 31-12-2019     |
|--------------------------------------------|---------------|----------------|
| Loans and advances to other domestic banks |               |                |
| Deposits                                   | 2             | 1              |
| Loans                                      | <u>2,660</u>  | <u>55</u>      |
|                                            | <u>2,662</u>  | <u>56</u>      |
| Loans and advances to other foreign banks  |               |                |
| Deposits                                   | 14,764        | 17,609         |
| Other applications                         | -             | 709,836        |
| Interest receivable                        | 5             | 14             |
|                                            | <u>14,769</u> | <u>727,459</u> |
|                                            | <u>17,431</u> | <u>727,515</u> |
| Impairment losses (Note 19)                | <u>(125)</u>  | <u>(29)</u>    |
|                                            | <u>17,306</u> | <u>727,486</u> |

As at December 31, 2019 "Investments at credit institutions abroad – Other investments" includes margin accounts of €507.569k. In 2020 the margin account was reclassified to Loans and advances and other receivables at amortized cost in the amount of €883,560k.

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The credit extended and other receivable balances at amortised cost sub-heading is broken down as follows:

|                                                                                       | 30-06-2020         | 31-12-2019        |
|---------------------------------------------------------------------------------------|--------------------|-------------------|
| To corporate clients                                                                  |                    |                   |
| Discount and other credit securities                                                  | 148,252            | 195,390           |
| Loans                                                                                 | 8,182,888          | 9,555,392         |
| Current account loans                                                                 | 982,604            | 1,033,064         |
| Overdrafts                                                                            | 125,779            | 121,144           |
| Factoring                                                                             | 1,460,866          | 1,541,033         |
| Finance leasing                                                                       | 1,093,871          | 1,124,395         |
| Other credits                                                                         | 47,400             | 52,241            |
| To individuals                                                                        |                    |                   |
| Mortgage loans                                                                        | 19,970,558         | 19,541,151        |
| Consumer credit and other loans                                                       | 2,253,015          | 2,291,403         |
|                                                                                       | <u>34,265,233</u>  | <u>35,455,213</u> |
| Loans represented by securities                                                       | 4,174,361          | 3,765,428         |
| Overdue loans and interest                                                            | 522,195            | 504,040           |
| Interest receivable                                                                   | 81,685             | 88,071            |
| Value adjustments of hedged assets                                                    | 57,714             | 219,139           |
| Deferred expenses                                                                     | 99,427             | 94,969            |
| Commissions associated with amortized cost (net)                                      | (132,731)          | (149,262)         |
| Supplies                                                                              | 607                | -                 |
|                                                                                       | <u>4,803,258</u>   | <u>4,522,385</u>  |
|                                                                                       | <u>39,068,491</u>  | <u>39,977,598</u> |
| Other balances receivable                                                             |                    |                   |
| Margin accounts                                                                       | 833,560            | -                 |
| Cheques for collection                                                                | 58,975             | 60,591            |
| Debtors                                                                               | 217,233            | 223,470           |
|                                                                                       | <u>1,109,768</u>   | <u>284,061</u>    |
|                                                                                       | <u>40,178,259</u>  | <u>40,261,659</u> |
| Impairment of loans and advances to customers                                         | (1,014,768)        | (921,479)         |
| Impairment of other balances receivable                                               | (3,664)            | -                 |
| Impairment of loans and advances to customers and other balances receivable (Note 19) | <u>(1,018,432)</u> | <u>(921,479)</u>  |
|                                                                                       | <u>39,159,827</u>  | <u>39,340,180</u> |

In the first half of 2019, portfolios of loans granted to individuals and companies, with a carrying amount of €157,071k, were sold. As a result of these transactions net gains were recorded in the amount of €2,082k (Note 19).

As at June 30, 2020 and December 31, 2019, "Domestic loans – To individuals - Mortgage" included loans assigned to the autonomous property of the mortgage bonds issued by the Bank in the amounts of €10,240,158k and €9,345,054k, respectively (Note 18).

Movement under impairments losses during the first halves of 2020 and 2019 is presented in Note 19.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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As at June 30, 2020, and December 31, 2019, the breakdown of overdue loans and interest by default period was as follows:

|                                  | 30-06-2020     | 31-12-2019     |
|----------------------------------|----------------|----------------|
| Up to three months               | 13,468         | 23,106         |
| Between three and six months     | 21,181         | 24,530         |
| Between six months and one year  | 63,526         | 88,965         |
| Between one year and three years | 184,872        | 207,774        |
| More than three years            | 239,148        | 159,665        |
|                                  | <u>522,195</u> | <u>504,040</u> |

As at June 30, 2020 and December 31, 2019, the detail of the division by stage of the portfolio of loans and other receivable balances at amortized cost is as follows:

|         | 30-06-2020        |                    |          | 31-12-2019        |                  |          |
|---------|-------------------|--------------------|----------|-------------------|------------------|----------|
|         | Gross value       | Impairment         | Coverage | Gross value       | Impairment       | Coverage |
| Stage 1 | 36,807,653        | (89,069)           | 0.24%    | 36,616,680        | (64,526)         | 0.18%    |
| Stage 2 | 1,817,152         | (109,724)          | 6.04%    | 2,022,651         | (72,855)         | 3.60%    |
| Stage 3 | 1,553,454         | (819,639)          | 52.76%   | 1,622,328         | (784,098)        | 48.33%   |
|         | <u>40,178,259</u> | <u>(1,018,432)</u> |          | <u>40,261,659</u> | <u>(921,479)</u> |          |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020  
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The evolution that occurred in the exposure and in the impairment for financial assets at amortized cost in 2019 and the first half of 2020 was as follows:

|                                 | Credit granted and other balances receivable |           |           |             | Impairment |          |           |           |
|---------------------------------|----------------------------------------------|-----------|-----------|-------------|------------|----------|-----------|-----------|
|                                 | Stage 1                                      | Stage 2   | Stage 3   | Total       | Stage 1    | Stage 2  | Stage 3   | Total     |
| <b>Balance as at 01-01-2019</b> | 36,740,255                                   | 1,962,197 | 2,035,403 | 40,737,855  | 78,690     | 96,651   | 933,243   | 1,108,584 |
| Transfers:                      |                                              |           |           |             |            |          |           |           |
| Stage 1 to 2                    | (925,665)                                    | 925,665   | -         | -           | (4,544)    | 27,068   | -         | 22,524    |
| Stage 1 to 3                    | (81,163)                                     | -         | 81,163    | -           | (13,261)   | -        | 43,723    | 30,462    |
| Stage 2 to 3                    | -                                            | (107,057) | 107,057   | -           | -          | (7,736)  | 30,262    | 22,526    |
| Stage 2 to 1                    | 772,355                                      | (772,355) | -         | -           | 3,291      | (37,561) | -         | (34,270)  |
| Stage 3 to 1                    | 87,493                                       | -         | (87,493)  | -           | 471        | -        | (9,420)   | (8,949)   |
| Write offs and sales            | -                                            | -         | (233,531) | (233,531)   | -          | -        | (173,210) | (173,210) |
| Origination net of depreciation | 23,405                                       | (86,725)  | (179,345) | (242,665)   | (121)      | (12,034) | (7,358)   | (19,513)  |
| <b>Balance as at 31-12-2019</b> | 36,616,680                                   | 2,022,651 | 1,622,328 | 40,261,659  | 64,526     | 72,855   | 784,098   | 921,479   |
| Transfers:                      |                                              |           |           |             |            |          |           |           |
| Stage 1 to 2                    | (468,288)                                    | 468,288   | -         | -           | (2,340)    | 17,617   | -         | 15,277    |
| Stage 1 to 3                    | (12,246)                                     | -         | 12,246    | -           | (140)      | -        | 5,167     | 5,027     |
| Stage 2 to 3                    | -                                            | (43,294)  | 43,294    | -           | -          | (3,427)  | 13,966    | 10,539    |
| Stage 2 to 1                    | 409,585                                      | (409,585) | -         | -           | 1,325      | (17,160) | -         | (15,835)  |
| Stage 3 to 2                    | -                                            | 34,393    | (34,393)  | -           | -          | 2,765    | (10,709)  | (7,944)   |
| Stage 3 to 1                    | 1,520                                        | -         | (1,520)   | -           | 47         | -        | (324)     | (277)     |
| Business model reclassification | (2,331,153)                                  | -         | -         | (2,331,153) | -          | -        | -         | -         |
| Write offs and sales            | -                                            | -         | (4,117)   | (4,117)     | -          | -        | (4,080)   | (4,080)   |
| Overlay                         | -                                            | -         | -         | -           | 39,000     | 46,000   | 40,000    | 125,000   |
| Origination net of depreciation | 2,591,555                                    | (255,301) | (84,384)  | 2,251,870   | (13,349)   | (8,926)  | (8,479)   | (30,754)  |
| <b>Balance as at 30-06-2020</b> | 36,807,653                                   | 1,817,152 | 1,553,454 | 40,178,259  | 89,069     | 109,724  | 819,639   | 1,018,432 |

## 11. HEDGING DERIVATIVES

The breakdown of this heading is as follows:

| Financial instrument                                                    | 30-06-2020 |             |                |                             |                  |            |
|-------------------------------------------------------------------------|------------|-------------|----------------|-----------------------------|------------------|------------|
|                                                                         | Book value |             | Notional value |                             |                  | Total      |
|                                                                         | Assets     | Liabilities | Until 3 months | Between 3 months and 1 year | More than 1 year |            |
| Hedging derivatives                                                     |            |             |                |                             |                  |            |
| Fair value coverage                                                     |            |             |                |                             |                  |            |
| Interest rate swaps                                                     |            |             |                |                             |                  |            |
| Liabilities and credit                                                  | 331        | 87,305      | 15,915         | 259,232                     | 2,836,535        | 3,111,682  |
| Other financial assets at fair value through other comprehensive income | -          | 389,972     | -              | -                           | 3,880,000        | 3,880,000  |
| Equity swaps                                                            | 529        | 10          | 7,613          | 27,476                      | 32,796           | 67,885     |
| Cash flow coverage                                                      |            |             |                |                             |                  |            |
| Interest rate swaps                                                     |            |             |                |                             |                  |            |
| Cash flows                                                              | 39,564     | -           | -              | 2,000,000                   | 3,000,000        | 5,000,000  |
| Forward sale                                                            | -          | 22,633      | 96,237         | 1,412,637                   | -                | 1,508,874  |
|                                                                         | 40,424     | 499,920     | 119,765        | 3,699,345                   | 9,749,331        | 13,568,441 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

| Financial instrument                                                    | 31-12-2019    |                |                  |                             |                  |                   |
|-------------------------------------------------------------------------|---------------|----------------|------------------|-----------------------------|------------------|-------------------|
|                                                                         | Book value    |                | Notional value   |                             |                  | Total             |
|                                                                         | Assets        | Liabilities    | Until 3 months   | Between 3 months and 1 year | More than 1 year |                   |
| Hedging derivatives                                                     |               |                |                  |                             |                  |                   |
| Fair value coverage                                                     |               |                |                  |                             |                  |                   |
| Interest rate swaps                                                     |               |                |                  |                             |                  |                   |
| Liabilities and credit                                                  | 2,187         | 244,164        | 4,004            | 111,244                     | 4,340,124        | 4,455,372         |
| Other financial assets at fair value through other comprehensive income | -             | 49,904         | -                | -                           | 2,080,000        | 2,080,000         |
| Equity swaps                                                            | 135           | 765            | 10,781           | 25,326                      | 42,339           | 78,446            |
| Cash flow coverage                                                      |               |                |                  |                             |                  |                   |
| Interest rate swaps                                                     |               |                |                  |                             |                  |                   |
| Cash flows                                                              | 52,795        | -              | -                | 6,000,000                   | 3,000,000        | 9,000,000         |
| Forward sale                                                            | 1,129         | 98,998         | 1,061,803        | 1,404,835                   | 326,558          | 2,793,196         |
|                                                                         | <u>56,246</u> | <u>393,831</u> | <u>1,076,588</u> | <u>7,541,405</u>            | <u>9,789,021</u> | <u>18,407,014</u> |

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

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

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

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

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

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

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

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

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



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12. INVESTMENT IN ASSOCIATED COMPANIES

As at June 30, 2020 and December 31, 2019, the breakdown of this heading is as follows:

|                                                  | 30-06-2020                  |               | 31-12-2019                  |               |
|--------------------------------------------------|-----------------------------|---------------|-----------------------------|---------------|
|                                                  | Effective participation (%) | Book value    | Effective participation (%) | Book value    |
| Domestic                                         |                             |               |                             |               |
| Lusimovest - Fundo de Investimento Imobiliário   | 25.77                       | 26,109        | 25.77                       | 25,923        |
| Unicre - Instituição Financeira de Crédito, S.A. | 21.86                       | 30,911        | 21.86                       | 33,317        |
|                                                  |                             | <u>57,020</u> |                             | <u>59,240</u> |

As at June 30, 2020 and December 31, 2019, the financial investments held in Unicre included goodwill. The impairment test conducted on the goodwill at Unicre revealed no impairment losses in this financial investment.

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

13. INVESTMENT PROPERTIES

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

As at June 30, 2020 and December 31, 2019, the characteristics of properties held by the Novimovest Real Estate Fund were as follows:

|                             | 30-06-2020     | 31-12-2019     |
|-----------------------------|----------------|----------------|
| Land                        |                |                |
| Urbanized                   | 13,810         | 13,972         |
| Non-urbanized               | 1,125          | 1,128          |
| Finished constructions      |                |                |
| Rented                      | 177,305        | 190,611        |
| Not rented                  | 41,005         | 29,060         |
| Other construction projects | 21,664         | 17,742         |
|                             | <u>254,909</u> | <u>252,513</u> |

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

Movement under "Investment properties" in the first halves of 2020 and 2019 was as follows:

|                                    | 2020                      |           |                         |         |
|------------------------------------|---------------------------|-----------|-------------------------|---------|
|                                    | Balances at<br>31-12-2019 | Increases | Fair value<br>valuation | Sales   |
| Properties held by Novimovest Fund | 252,513                   | 4,127     | (732)                   | (999)   |
|                                    |                           |           |                         |         |
|                                    | 2019                      |           |                         |         |
|                                    | Balances at<br>31-12-2018 | Increases | Fair value<br>valuation | Sales   |
| Properties held by Novimovest Fund | 297,625                   | -         | (1,590)                 | (5,922) |

The effect of the valuation at fair value of the properties held by the Novimovest Real Estate Fund is recorded in the income statement under Other operating results – Gains / Losses on investment properties (Note 31).

Investment properties held by the Group are valued bi-annually, or more frequently if an event occurs in the meantime giving rise to doubts as to the value of the latest valuation conducted by specialised, independent entities in accordance with the method described in Note 17.

As at June 30, 2020, and December 31, 2019, the form of determination of the fair value of the investment properties in accordance with the levels set out in IFRS 13 is as follows:

|                       | Level 3    |            |
|-----------------------|------------|------------|
|                       | 30-06-2020 | 31-12-2019 |
| Investment properties | 254,909    | 252,513    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020

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

14. OTHER TANGIBLE ASSETS AND INTANGIBLE ASSETS

Movement under these headings during the first halves of 2020 and 2019 is as follows.

|                                    | 2020            |                             |                         |              |                      |                             |                                                          |                             |                    |                             |                  |                 |                             |                         |               |
|------------------------------------|-----------------|-----------------------------|-------------------------|--------------|----------------------|-----------------------------|----------------------------------------------------------|-----------------------------|--------------------|-----------------------------|------------------|-----------------|-----------------------------|-------------------------|---------------|
|                                    | 31-12-2019      |                             |                         |              | Write-offs and sales |                             | Transfers<br>From/to non-current<br>assets held for sale |                             | Transfers<br>other |                             | Depreciation     | 30-06-2020      |                             |                         |               |
|                                    | Gross<br>amount | Accumulated<br>depreciation | Impairment<br>(Note 19) | Acquisitions | Gross<br>amount      | Accumulated<br>depreciation | Gross<br>amount                                          | Accumulated<br>depreciation | Gross<br>amount    | Accumulated<br>depreciation | in the<br>period | Gross<br>amount | Accumulated<br>depreciation | Impairment<br>(Note 19) | Net<br>amount |
|                                    |                 |                             |                         |              |                      |                             | (Note 16)                                                |                             |                    |                             |                  |                 |                             |                         |               |
| Tangible assets                    |                 |                             |                         |              |                      |                             |                                                          |                             |                    |                             |                  |                 |                             |                         |               |
| Real estate properties             |                 |                             |                         |              |                      |                             |                                                          |                             |                    |                             |                  |                 |                             |                         |               |
| Real estate properties for own use | 413,714         | 137,398                     | 6,146                   | 2,584        | 15                   | -                           | (4,806)                                                  | (1,418)                     | -                  | -                           | 4,257            | 411,477         | 140,237                     | 6,146                   | 265,094       |
| Leasehold expenditure              | 28,211          | 22,336                      | -                       | 312          | 94                   | 110                         | -                                                        | -                           | -                  | -                           | 1,015            | 28,429          | 23,241                      | -                       | 5,188         |
| Other property                     | 167             | 79                          | -                       | -            | -                    | -                           | -                                                        | -                           | -                  | -                           | -                | 167             | 79                          | -                       | 88            |
| Rights of use (IFRS 16 - Note 18)  | 41,288          | 6,190                       | -                       | -            | -                    | -                           | -                                                        | -                           | -                  | -                           | 3,072            | 41,288          | 9,262                       | -                       | 32,026        |
|                                    | 483,380         | 166,003                     | 6,146                   | 2,896        | 109                  | 110                         | (4,806)                                                  | (1,418)                     | -                  | -                           | 8,344            | 481,361         | 172,819                     | 6,146                   | 302,396       |
| Equipment                          | 159,795         | 96,547                      | -                       | 11,107       | 2,282                | 1,755                       | (95)                                                     | (33)                        | -                  | -                           | 7,068            | 168,525         | 101,827                     | -                       | 66,698        |
| Other tangible assets              | 2,184           | 70                          | -                       | -            | -                    | -                           | -                                                        | -                           | -                  | -                           | 3                | 2,184           | 73                          | -                       | 2,111         |
|                                    | 161,979         | 96,617                      | -                       | 11,107       | 2,282                | 1,755                       | (95)                                                     | (33)                        | -                  | -                           | 7,071            | 170,709         | 101,900                     | -                       | 68,809        |
|                                    | 645,359         | 262,620                     | 6,146                   | 14,003       | 2,391                | 1,865                       | (4,901)                                                  | (1,451)                     | -                  | -                           | 15,415           | 652,070         | 274,719                     | 6,146                   | 371,205       |
| Intangible assets                  |                 |                             |                         |              |                      |                             |                                                          |                             |                    |                             |                  |                 |                             |                         |               |
| Software purchased                 | 84,819          | 55,479                      | -                       | 15,236       | -                    | -                           | -                                                        | -                           | 2,069              | -                           | 10,293           | 102,124         | 65,772                      | -                       | 36,352        |
| Unfinished intangible assets       | 4,620           | 4,386                       | -                       | 2,128        | -                    | -                           | -                                                        | -                           | (2,069)            | -                           | -                | 4,679           | 4,386                       | -                       | 293           |
| Negative consolidation differences | 1,160           | -                           | -                       | -            | -                    | -                           | -                                                        | -                           | -                  | -                           | -                | 1,160           | -                           | -                       | 1,160         |
|                                    | 90,599          | 59,865                      | -                       | 17,364       | -                    | -                           | -                                                        | -                           | -                  | -                           | 10,293           | 107,963         | 70,158                      | -                       | 37,805        |

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|                                    | 2019            |                             |            |              |                        |                             |                 |                             |                 |                             |              |                  |                 |                             |            |
|------------------------------------|-----------------|-----------------------------|------------|--------------|------------------------|-----------------------------|-----------------|-----------------------------|-----------------|-----------------------------|--------------|------------------|-----------------|-----------------------------|------------|
|                                    | 31-12-2018      |                             |            |              | Transferências from/to |                             |                 |                             | Transfers       |                             | Depreciation | 30-06-2019       |                 |                             |            |
|                                    | Gross<br>amount | Accumulated<br>depreciation | Impairment | Acquisitions | Write-offs and sales   |                             | other assets    |                             | other           |                             |              | in the<br>period | Gross<br>amount | Accumulated<br>depreciation | Impairment |
|                                    |                 |                             |            |              | Gross<br>amount        | Accumulated<br>depreciation | Gross<br>amount | Accumulated<br>depreciation | Gross<br>amount | Accumulated<br>depreciation |              |                  |                 |                             |            |
|                                    |                 |                             |            |              |                        |                             |                 |                             |                 |                             | (Note 19)    |                  |                 |                             |            |
| Tangible assets                    |                 |                             |            |              |                        |                             |                 |                             |                 |                             |              |                  |                 |                             |            |
| Real estate properties             |                 |                             |            |              |                        |                             |                 |                             |                 |                             |              |                  |                 |                             |            |
| Real estate properties for own use | 432,145         | 141,813                     | 6,146      | 2,459        | -                      | -                           | (5,622)         | (1,918)                     | 176             | -                           | 4,541        | 429,158          | 144,436         | 6,146                       | 278,576    |
| Leasehold expenditure              | 28,310          | 21,143                      | -          | 525          | 308                    | 252                         | -               | -                           | (182)           | -                           | 812          | 28,345           | 21,703          | -                           | 6,642      |
| Other property                     | 167             | 78                          | -          | -            | -                      | -                           | -               | -                           | -               | -                           | 1            | 167              | 79              | -                           | 88         |
| Rights of use                      | -               | -                           | -          | 37,997 a)    | -                      | -                           | -               | -                           | -               | -                           | 3,095        | 37,997           | 3,095           | -                           | 34,902     |
|                                    | 460,622         | 163,034                     | 6,146      | 40,981       | 308                    | 252                         | (5,622)         | (1,918)                     | (6)             | -                           | 8,449        | 495,667          | 169,313         | 6,146                       | 320,208    |
| Equipment                          | 141,835         | 88,616                      | -          | 7,815        | 3,968                  | 3,551                       | (91)            | (34)                        | (75)            | (48)                        | 5,958        | 145,516          | 90,941          | -                           | 54,575     |
| Other tangible assets              | 2,110           | 38                          | -          | -            | -                      | -                           | -               | -                           | 26              | 26                          | 3            | 2,136            | 67              | -                           | 2,069      |
|                                    | 143,945         | 88,654                      | -          | 7,815        | 3,968                  | 3,551                       | (91)            | (34)                        | (49)            | (22)                        | 5,961        | 147,652          | 91,008          | -                           | 56,644     |
|                                    | 604,567         | 251,688                     | 6,146      | 48,796       | 4,276                  | 3,803                       | (5,713)         | (1,952)                     | (55)            | (22)                        | 14,410       | 643,319          | 260,321         | 6,146                       | 376,852    |
| Intangible assets                  |                 |                             |            |              |                        |                             |                 |                             |                 |                             |              |                  |                 |                             |            |
| Software                           | 62,830          | 36,497                      | -          | 10,226       | -                      | -                           | -               | -                           | 2,486           | 22                          | 9,526        | 75,542           | 46,045          | -                           | 29,497     |
| Other intangible assets            | 4,878           | 3,893                       | -          | 2,205        | -                      | -                           | -               | -                           | (2,432)         | -                           | 246          | 4,651            | 4,139           | -                           | 512        |
| Positive consolidation differences | 1,160           | -                           | -          | -            | -                      | -                           | -               | -                           | -               | -                           | -            | 1,160            | -               | -                           | 1,160      |
|                                    | 68,868          | 40,390                      | -          | 12,431       | -                      | -                           | -               | -                           | 54              | 22                          | 9,772        | 81,353           | 50,184          | -                           | 31,169     |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020  
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15. CURRENT TAX AND DEFERRED TAX ASSETS AND LIABILITIES

As at June 30, 2020 and December 31, 2019, the breakdown of this heading is as follows:

|                          | 30-06-2020     | 31-12-2019     |
|--------------------------|----------------|----------------|
| Current tax assets       | 15,074         | 27,869         |
| Deferred tax assets      | 530,638        | 556,113        |
|                          | <u>545,712</u> | <u>583,982</u> |
| Current tax liabilities  | 156,656        | 87,171         |
| Deferred tax liabilities | 336,071        | 290,091        |
|                          | <u>492,727</u> | <u>377,262</u> |
| Deferred taxes           | <u>194,567</u> | <u>266,022</u> |

As at December 31, 2020 and June 30, 2019, the breakdown of taxes in the income statement is as follows:

|                 | 30-06-2020      | 30-06-2019       |
|-----------------|-----------------|------------------|
| Current taxes   | (70,890)        | (93,566)         |
| Deferred assets | 50              | (49,108)         |
|                 | <u>(70,840)</u> | <u>(142,674)</u> |

Movement under deferred tax assets and liabilities during the first half of 2020 and in 2019 was as follows:

|                                                                   | Balances at<br>31-12-2019 | Other<br>Comprehensive<br>Income | Income<br>statement | Other      | Balances at<br>30-06-2020 |
|-------------------------------------------------------------------|---------------------------|----------------------------------|---------------------|------------|---------------------------|
| Provisions/impairment temporarily not accepted for tax purposes   |                           |                                  |                     |            |                           |
| .Deferred tax assets                                              | 188,261                   | -                                | 13,966              | -          | 202,227                   |
| .Deferred tax liabilities                                         | (5,222)                   | -                                | -                   | -          | (5,222)                   |
| Revaluation of tangible assets                                    |                           |                                  |                     |            |                           |
| .Deferred tax assets                                              | 1,568                     | -                                | (143)               | -          | 1,425                     |
| .Deferred tax liabilities                                         | (2,123)                   | -                                | 66                  | -          | (2,057)                   |
| Reportable tax losses                                             | 185,508                   | -                                | -                   | -          | 185,508                   |
| Pensions:                                                         |                           |                                  |                     |            |                           |
| .Change in accounting policy related to pensions                  | 38,158                    | -                                | (8,025)             | -          | 30,133                    |
| .Early retirement pensions                                        | 39,803                    | -                                | (2,465)             | -          | 37,338                    |
| Transfer of pension liabilities to the<br>Social Security         | 3,878                     | -                                | (162)               | -          | 3,716                     |
| Financial assets at fair value through other comprehensive income | (226,051)                 | (52,888)                         | -                   | -          | (278,939)                 |
| Hedging derivatives - cash flows                                  | 16,436                    | (18,615)                         | -                   | -          | (2,179)                   |
| Financial assets at fair value through profit or loss             | 37,517                    | -                                | -                   | -          | 37,517                    |
| Securitization operations:                                        | (24,120)                  | -                                | (138)               | -          | (24,258)                  |
| Integration costs                                                 | 10,530                    | -                                | (2,128)             | -          | 8,402                     |
| Other                                                             | 1,879                     | -                                | (921)               | (2)        | 956                       |
|                                                                   | <u>266,022</u>            | <u>(71,503)</u>                  | <u>50</u>           | <u>(2)</u> | <u>194,567</u>            |

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|                                                                   | Balances at<br>31-12-2018 | Other<br>Comprehensive<br>Income | Income<br>statement | Other      | Balances at<br>31-12-2019 |
|-------------------------------------------------------------------|---------------------------|----------------------------------|---------------------|------------|---------------------------|
| Provisions/Impairment temporarily not accepted for tax purposes   |                           |                                  |                     |            |                           |
| .Deferred tax assets                                              | 229,023                   | -                                | (40,762)            | -          | 188,261                   |
| .Deferred tax liabilities                                         | (5,243)                   | -                                | 21                  | -          | (5,222)                   |
| Revaluation of tangible assets                                    |                           |                                  |                     |            |                           |
| .Deferred tax assets                                              | 2,140                     | -                                | (572)               | -          | 1,568                     |
| .Deferred tax liabilities                                         | (2,983)                   | -                                | 860                 | -          | (2,123)                   |
| Reportable tax losses                                             | 219,136                   | -                                | (33,628)            | -          | 185,508                   |
| Pensions:                                                         |                           |                                  |                     |            |                           |
| .Change in accounting policy related to pensions                  | 55,112                    | -                                | (16,954)            | -          | 38,158                    |
| .Early retirement pensions                                        | 37,465                    | -                                | 2,338               | -          | 39,803                    |
| Transfer of pension liabilities to the<br>Social Security         | 4,201                     | -                                | (323)               | -          | 3,878                     |
| Financial assets at fair value through other comprehensive income | (141,477)                 | (88,822)                         | 4,248               | -          | (226,051)                 |
| Hedging derivatives - cash flows                                  | (9,901)                   | 26,337                           | -                   | -          | 16,436                    |
| Financial assets at fair value through profit or loss             | 21,240                    | -                                | 16,277              | -          | 37,517                    |
| Securitization operations:                                        | (24,701)                  | -                                | 581                 | -          | (24,120)                  |
| Integration costs                                                 | 17,735                    | -                                | (7,205)             | -          | 10,530                    |
| Other                                                             | 1,081                     | -                                | 12                  | 786        | 1,879                     |
|                                                                   | <u>402,828</u>            | <u>(62,485)</u>                  | <u>(75,107)</u>     | <u>786</u> | <u>266,022</u>            |

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

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

The Bank was subject to a tax inspection up to and including 2016. As a result of the inspection, it was subject to an additional IRC assessment related with the autonomous taxation and with sundry corrections to the tax loss determined that year. In the matter of Stamp Duty, the Bank was also subject to an additional assessment. The corrections made to taxable income covered various matters and most are merely temporary corrections.

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

The Bank records under Provisions under Liabilities the amount that it considers appropriate to satisfy the additional assessments to which it was subjected, as well as for contingencies relating to fiscal years not yet reviewed by the Tax Authority (Note 19).

Of the Bank's tax losses €27,655k can be used up until 2026 and €157,843k up until 2027. The Group decided to apply as from 2017 the Special Taxation of Groups of Companies Regime (RETGS). This new regime is reflected in the algebraic sum of the tax results determined in the separate periodic returns of each company. The companies covered by this scheme are: Santander Totta, SGPS - the controlling company, and Taxagest, Banco, Santander Totta Seguros and Gamma - controlled companies.

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## 16. OTHERS ASSETS

The breakdown of this heading is as follows:

|                                                                             | 30-06-2020     | 31-12-2019     |
|-----------------------------------------------------------------------------|----------------|----------------|
| Gold, other precious metals, coins and medals                               | 3,145          | 3,145          |
| Promises and other assets                                                   |                |                |
| received as settlement of defaulting                                        | 267,499        | 255,543        |
| Income receivable and deferred income                                       | 23,814         | 24,095         |
| Deferred costs                                                              | 1,337          | 1,350          |
| Other assets pending regularization                                         | 31,604         | 52,430         |
|                                                                             | <u>327,399</u> | <u>336,563</u> |
| Impairment losses for assets received as settlement of defaulting (Note 19) | (113,348)      | (88,192)       |
|                                                                             | <u>214,051</u> | <u>248,371</u> |

The "Income receivable" heading mainly includes fees receivable from insurers for the marketing of their insurance (Note 35).

As at June 30, 2020 and December 31, 2019, "Operations pending settlement" includes loan/borrowing operations pending settlement as detailed below:

|                                                        | 30-06-2020    |                   | 31-12-2019    |                   |
|--------------------------------------------------------|---------------|-------------------|---------------|-------------------|
|                                                        | Other assets  | Other liabilities | Other assets  | Other liabilities |
|                                                        | (Note 21)     |                   | (Note 21)     |                   |
| Values in transit and other transactions to be settled | 17,854        | (34,542)          | 34,280        | (25,858)          |
| Transfers within SEPA                                  | 967           | (179,102)         | 130           | (126,562)         |
| Balances to be settled in ATM's                        | 2,802         | -                 | 2,504         | (6)               |
| Other                                                  | 9,981         | (40,144)          | 15,516        | (32,277)          |
|                                                        | <u>31,604</u> | <u>(253,788)</u>  | <u>52,430</u> | <u>(184,703)</u>  |

Movement under "Payment in kind promises, auctions and other assets received as payment in kind" during the six-month period ended in June 2020 and 2019 was as follows:

|                                             | December 31, 2019 |                 |                |               |                 | Impairment (Note 19)            |                                      |                 |              |                       | June 30, 2020  |                  |                |
|---------------------------------------------|-------------------|-----------------|----------------|---------------|-----------------|---------------------------------|--------------------------------------|-----------------|--------------|-----------------------|----------------|------------------|----------------|
|                                             | Gross value       | Impairment      | Net value      | Increases     | Sales           | Transfers to/from AFS (Note 17) | Transfers /tangible assets (Note 14) | Increases       | Reversals    | Utilisation and other | Gross value    | Impairment       | Net value      |
|                                             |                   | (Note 19)       |                |               |                 |                                 |                                      |                 |              |                       |                | (Note 19)        |                |
| Assets received as settlement of defaulting |                   |                 |                |               |                 |                                 |                                      |                 |              |                       |                |                  |                |
| Real estate properties                      | 64,026            | (28,141)        | 35,885         | -             | -               | 12,956                          | -                                    | -               | -            | (17,239)              | 76,982         | (45,380)         | 31,602         |
| Lieu of payment                             | 1,976             | (86)            | 1,890          | -             | -               | (176)                           | -                                    | (1)             | -            | -                     | 1,800          | (87)             | 1,713          |
| Auctions                                    | 16,474            | (5,203)         | 11,271         | 3,411         | -               | (2,970)                         | -                                    | (1,259)         | 62           | -                     | 16,915         | (6,400)          | 10,515         |
| Other                                       | 33,454            | (26,911)        | 6,543          | 1,451         | (1,816)         | (155)                           | -                                    | (710)           | 709          | 120                   | 32,934         | (26,792)         | 6,142          |
| Own real estate properties for sale         | 42,407            | (27,467)        | 14,940         | 40            | (2,503)         | -                               | 3,450                                | (1,627)         | 634          | 687                   | 43,394         | (27,773)         | 15,621         |
| Other real estate properties for sale       | 97,206            | (384)           | 96,822         | 7,065         | (8,797)         | -                               | -                                    | (7,021)         | 387          | 102                   | 95,474         | (6,916)          | 88,558         |
|                                             | <u>255,543</u>    | <u>(88,192)</u> | <u>167,351</u> | <u>11,967</u> | <u>(13,116)</u> | <u>9,655</u>                    | <u>3,450</u>                         | <u>(10,618)</u> | <u>1,792</u> | <u>(16,330)</u>       | <u>267,499</u> | <u>(113,348)</u> | <u>154,151</u> |

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|                                             | December 31, 2018 |            |               |           |          | Transfers<br>to/from AFS<br>(Note 17) | Transfers<br>/tangible assets<br>(Note 149) | Impairment (Note 19) |           |                          | 30 de junho de 2019 |            |               |
|---------------------------------------------|-------------------|------------|---------------|-----------|----------|---------------------------------------|---------------------------------------------|----------------------|-----------|--------------------------|---------------------|------------|---------------|
|                                             | Gross<br>amount   | Impairment | Net<br>amount | Increases | Sales    |                                       |                                             | Increases            | Reversals | Utilisation<br>and other | Gross<br>amount     | Impairment | Net<br>amount |
|                                             | (Note 19)         |            |               |           |          |                                       |                                             |                      |           |                          | (Note 19)           |            |               |
| Assets received as settlement of defaulting |                   |            |               |           |          |                                       |                                             |                      |           |                          |                     |            |               |
| Real estate properties                      | 109,320           | (52,155)   | 57,165        | 9,900     | (4,760)  | (47,593)                              | -                                           | (5,771)              | 8,640     | 1,304                    | 66,867              | (47,982)   | 18,885        |
| Lieu of payment                             | 11,435            | (43)       | 11,392        | -         | (8,826)  | -                                     | -                                           | (18)                 | 2         | -                        | 2,609               | (59)       | 2,550         |
| Auctions                                    | 49,820            | (27,452)   | 22,368        | 9,751     | (8,178)  | 605                                   | -                                           | (1,110)              | 215       | -                        | 51,998              | (28,347)   | 23,651        |
| Other                                       | 139,419           | (4,168)    | 135,251       | 2,388     | (24,309) | (84)                                  | -                                           | (214)                | 12,764    | -                        | 117,414             | 8,382      | 125,796       |
| Bankruptcy                                  | 1,892             | (1,892)    | -             | 478       | (103)    | (521)                                 | -                                           | (258)                | 404       | -                        | 1,746               | (1,746)    | -             |
| Other real estate properties for sale       | 44,773            | (23,624)   | 21,149        | 39        | (1,993)  | -                                     | 3,761                                       | (7,902)              | 392       | 871                      | 46,580              | (30,263)   | 16,317        |
|                                             | 356,659           | (109,334)  | 247,325       | 22,556    | (48,169) | (47,593)                              |                                             | (15,273)             | 22,417    | 2,175                    | 287,214             | (100,015)  | 187,199       |

The determination of impairment losses is performed according to the methodology described in Note 17.

## 17. NON-CURRENT ASSETS HELD FOR SALE

Movement under this heading in the six-month period ended June 2020 and 2019 was as follows:

|                        | December 31, 2019 |                         |           |          | Transf. from/to<br>other assets<br>(Note 16) | Impairment (note 19) |           |                          | June 30, 2020   |                                        |           |
|------------------------|-------------------|-------------------------|-----------|----------|----------------------------------------------|----------------------|-----------|--------------------------|-----------------|----------------------------------------|-----------|
|                        | Gross<br>amount   | Impairment<br>(Note 19) | Increases | Sales    |                                              | Increases            | Reversals | Utilisation<br>and other | Gross<br>amount | Accumulated<br>impairment<br>(Note 19) | Net value |
|                        |                   |                         |           |          |                                              |                      |           |                          |                 |                                        |           |
| Real estate properties | 74,822            | (31,223)                | 33,190    | (10,833) | (9,655)                                      | (3,560)              | 3,840     | (2,332)                  | 87,524          | (33,275)                               | 54,249    |
| Equipment              | 2,047             | (1,603)                 | 635       | (582)    | -                                            | (68)                 | 75        | 75                       | 2,100           | (1,521)                                | 579       |
|                        | 76,869            | (32,826)                | 33,825    | (11,415) | (9,655)                                      | (3,628)              | 3,915     | (2,257)                  | 89,624          | (34,796)                               | 54,828    |

|                        | December 31, 2018 |                              |           |          | Transf. from/to<br>other assets<br>(Note 16) | Impairment (note 19) |           |                          | June 30, 2019   |                                        |           |
|------------------------|-------------------|------------------------------|-----------|----------|----------------------------------------------|----------------------|-----------|--------------------------|-----------------|----------------------------------------|-----------|
|                        | Gross<br>amount   | Accumulate<br>d<br>(Note 19) | Increases | Sales    |                                              | Increases            | Reversals | Utilisation<br>and other | Gross<br>amount | Accumulated<br>impairment<br>(Nota 19) | Net value |
|                        |                   |                              |           |          |                                              |                      |           |                          |                 |                                        |           |
| Real estate properties | 46,277            | (16,599)                     | 7,753     | (11,376) | 47,593                                       | (20,889)             | 6,439     | 6,466                    | 90,247          | (24,583)                               | 65,664    |
| Equipment              | 1,913             | (1,569)                      | 588       | (512)    | -                                            | (355)                | 173       | 159                      | 1,989           | (1,592)                                | 397       |
|                        | 48,190            | (18,168)                     | 8,341     | (11,888) | 47,593                                       | (21,244)             | 6,612     | 6,625                    | 92,236          | (26,175)                               | 66,061    |

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

Real estate is subject to periodic valuations performed by independent valuers. Whenever the amount arising from these valuations (net of selling expenses) is lower than the amount at which the properties are carried, impairment losses are recorded. If, on a subsequent date, the facts that led the 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.

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.



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b) Income method

This method is intended to estimate the value of the property based on the capitalisation of its net rent, updated to the present moment, using the discounted cash flows method.

c) Cost method

The cost method consists of determining the replacement value of the property in question taking into account the cost of building another one of identical functionality, less the amount relating to its functional, physical and economic depreciation/obsolescence.

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

18. FINANCIAL LIABILITIES AT AMORTISED COST

The central banks resources sub-heading comprises the following:

|                                    | 30-06-2020       | 31-12-2019       |
|------------------------------------|------------------|------------------|
| Resources from Bank of Portugal    |                  |                  |
| Deposits                           | 6,799,339        | 3,033,002        |
| Resources from other Central Banks |                  |                  |
| Deposits                           | 1,855            | 4,522            |
|                                    | <u>6,801,194</u> | <u>3,037,524</u> |

The composition of the resources of other credit institutions sub-heading is as follows:

|                                             | 30-06-2020       | 31-12-2019       |
|---------------------------------------------|------------------|------------------|
| Resources from domestic credit institutions |                  |                  |
| Deposits                                    | 123,176          | 162,910          |
| Other resources                             | 2,073            | 1,833            |
| Interest payable                            | -                | 16               |
| Revenue with deferred income                | 168              | 50               |
|                                             | <u>125,417</u>   | <u>164,809</u>   |
| Resources from foreign credit institutions  |                  |                  |
| Consigned resources                         | 900,000          | 900,000          |
| Short-term resources                        | 71,441           | 152,216          |
| Deposits                                    | 340,376          | 316,070          |
| Sale operations with repurchase agreement   | 1,581,109        | 1,654,668        |
| Other resources                             | 6,417            | 7,738            |
| Interest payable                            | 769              | 495              |
|                                             | <u>2,900,112</u> | <u>3,031,187</u> |
|                                             | <u>3,025,529</u> | <u>3,195,996</u> |

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The customers' resources and other loans sub-heading comprises the following:

|                                          | 30-06-2020        | 31-12-2019        |
|------------------------------------------|-------------------|-------------------|
| Term deposits                            | 14,887,386        | 16,986,546        |
| Demand deposits                          | 20,842,165        | 17,787,089        |
| Structured deposits                      | 59,804            | 217,162           |
| Savings deposits                         | 746,522           | 800,057           |
| Other                                    | 77,467            | 69,629            |
|                                          | <u>36,613,344</u> | <u>35,860,483</u> |
| Interest payable                         | 9,933             | 12,420            |
| Value adjustments for hedging operations | 470               | 369               |
|                                          | <u>10,403</u>     | <u>12,789</u>     |
|                                          | <u>36,623,747</u> | <u>35,873,272</u> |

The debt securities sub-heading comprises the following:

|                                                  | 30-06-2020        |                    |                  | 31-12-2019        |                    |                  |
|--------------------------------------------------|-------------------|--------------------|------------------|-------------------|--------------------|------------------|
|                                                  | Issues            | Repurchases        | Amount           | Issues            | Repurchases        | Amount           |
| <b>Covered bonds</b>                             |                   |                    |                  |                   |                    |                  |
| Opening balance                                  | 8,050,000         | (5,300,000)        | 2,750,000        | 7,700,000         | (4,200,000)        | 3,500,000        |
| Issued                                           | 750,000           | -                  | 750,000          | 1,100,000         | -                  | 1,100,000        |
| Repurchased                                      | -                 | (750,000)          | (750,000)        | -                 | (1,100,000)        | (1,100,000)      |
| Reimbursed                                       | -                 | -                  | -                | (750,000)         | -                  | (750,000)        |
| Interest payable                                 | -                 | -                  | 15,577           | -                 | -                  | 10,526           |
| Commissions associated to the cost               | -                 | -                  | (23,957)         | -                 | -                  | (25,372)         |
| <b>Final balance</b>                             | <u>8,800,000</u>  | <u>(6,050,000)</u> | <u>2,741,620</u> | <u>8,050,000</u>  | <u>(5,300,000)</u> | <u>2,735,154</u> |
| <b>Bonds issued in securitization operations</b> |                   |                    |                  |                   |                    |                  |
| Opening balance                                  | 4,269,015         | (3,525,534)        | 743,481          | 4,898,562         | (4,010,288)        | 888,274          |
| Reimbursed                                       | (262,321)         | 168,128            | (94,193)         | (629,547)         | 484,754            | (144,793)        |
| Interest payable                                 | -                 | -                  | 640              | -                 | -                  | (55,140)         |
| Commissions associated to the cost               | -                 | -                  | (52,083)         | -                 | -                  | -                |
| <b>Final balance</b>                             | <u>4,006,694</u>  | <u>(3,357,406)</u> | <u>597,845</u>   | <u>4,269,015</u>  | <u>(3,525,534)</u> | <u>688,341</u>   |
| <b>Structured bonds</b>                          |                   |                    |                  |                   |                    |                  |
| Issued                                           | 8,227             | -                  | 8,227            | 8,227             | -                  | 8,227            |
| Interest payable                                 | 50                | -                  | 50               | 3                 | -                  | 3                |
| Value adjustments for hedging operations         | 235               | -                  | 235              | 152               | -                  | 152              |
|                                                  | <u>8,512</u>      | <u>-</u>           | <u>8,512</u>     | <u>8,382</u>      | <u>-</u>           | <u>8,382</u>     |
| <b>Subordinated liabilities</b>                  |                   |                    |                  |                   |                    |                  |
| Issued                                           | 522,099           | (225,362)          | 296,737          | 522,099           | (225,361)          | 296,738          |
| Interest payable                                 | -                 | -                  | 609              | -                 | -                  | 326              |
|                                                  | <u>522,099</u>    | <u>(225,362)</u>   | <u>297,346</u>   | <u>522,099</u>    | <u>(225,361)</u>   | <u>297,064</u>   |
|                                                  | <u>13,337,305</u> | <u>(9,632,768)</u> | <u>3,645,323</u> | <u>12,849,496</u> | <u>(9,050,895)</u> | <u>3,728,941</u> |

Under the law, holders of the covered bonds have a special creditor privilege over the autonomous assets and liabilities, which constitutes a guarantee of the debt to which the bondholders will have access in the event of the issuer's insolvency.

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

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Between May 2008 and June 2020, the Bank undertook twenty-five covered-bond issues under the €12.5 billion Covered Bonds Programme. As at June 30, 2020 and December 31, 2019, covered bonds had autonomous assets and liabilities comprising:

|                              | 30-06-2020        | 31-12-2019       |
|------------------------------|-------------------|------------------|
| Loans and advances (Note 10) | 10,240,158        | 9,345,054        |
| Credit interests             | 8,163             | 7,038            |
| Commissions                  | (51,085)          | (52,346)         |
| Deferred costs               | 2,126             | 2,605            |
| Derivatives                  | (169,873)         | (178,272)        |
|                              | <u>10,029,489</u> | <u>9,124,079</u> |

The Other financial liabilities sub-heading comprises the following:

|                                                  | 30-06-2020     | 31-12-2019     |
|--------------------------------------------------|----------------|----------------|
| Cheques and orders payable                       | 73,821         | 63,307         |
| Creditors and other resources                    |                |                |
| Creditors resulting from operations with futures | 17,545         | 5,418          |
| Public sector                                    | 22,536         | 32,071         |
| Creditors under factoring contracts              | 47,138         | 44,257         |
| Creditors for supplies of goods                  | 1,438          | 5,090          |
| Other                                            | 30,500         | 32,522         |
| Commitments to future income (IFRS 16)           | 32,508         | 35,356         |
|                                                  | <u>225,486</u> | <u>218,021</u> |

Commitments with future rents corresponds to the adoption of IFRS 16, and their movement during the 2019 and the first half of 2020 was as follows:

|                                        | Lease liabilities    | Right of use<br>(Note 14) |
|----------------------------------------|----------------------|---------------------------|
| <b>Balance as at January 1, 2019</b>   | <u><b>37,997</b></u> | <u><b>37,997</b></u>      |
| Depreciation 2019                      | (6,603)              | (6,190)                   |
| Outs                                   | (1,220)              | (1,891)                   |
| Ins                                    | 3,238                | 3,238                     |
| Rent extensions and modification       | 1,944                | 1,944                     |
| <b>Balance as at December 31, 2019</b> | <u><b>35,356</b></u> | <u><b>35,098</b></u>      |
| Depreciation 2020                      | (2,848)              | (3,072)                   |
| <b>Balance as at June 30, 2020</b>     | <u><b>32,508</b></u> | <u><b>32,026</b></u>      |

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19. MOVEMENT IN PROVISIONS AND IN IMPAIRMENT

Movement under Provisions and under impairment during the first halves of 2020 and 2019, was as follows:

|                                                                             | 2020           |              |                |                 |                |
|-----------------------------------------------------------------------------|----------------|--------------|----------------|-----------------|----------------|
|                                                                             | 31-12-2019     | Increases    | Reversals      | Utilization     | Others         |
| Provisions for tax contingencies                                            | 10,589         | -            | -              | -               | 54             |
| Provisions for pensions and other charges                                   | 78,116         | 78           |                | (10,680)        | (1,598)        |
| Impairment and provisions for guarantees and other sureties given (Note 25) | 53,248         | 4,236        | (1,090)        | -               | -              |
| Other provisions                                                            | 81,076         | 2,245        | (4,115)        | (4,207)         | 239            |
|                                                                             | <u>223,029</u> | <u>6,559</u> | <u>(5,205)</u> | <u>(14,887)</u> | <u>(1,305)</u> |
|                                                                             |                |              |                |                 | <u>208,191</u> |

|                                                                   | 2019           |               |                 |                 |                |
|-------------------------------------------------------------------|----------------|---------------|-----------------|-----------------|----------------|
|                                                                   | 31-12-2018     | Increases     | Reversals       | Utilisation     | 30-06-2019     |
| Provisions for tax contingencies                                  | 10,796         | -             | -               | (207)           | 10,589         |
| Provisions for pensions and other charges                         | 129,353        | 162           | -               | (25,951)        | 103,564        |
| Impairment and provisions for guarantees and other sureties given | 53,159         | 4,843         | -               | -               | 58,002         |
| Other provisions                                                  | 93,138         | 16,010        | (11,774)        | (358)           | 97,016         |
|                                                                   | <u>286,446</u> | <u>21,015</u> | <u>(11,774)</u> | <u>(26,516)</u> | <u>269,171</u> |

|                                                                                          | 2020           |                |                                |                        |                  |                              |                           |
|------------------------------------------------------------------------------------------|----------------|----------------|--------------------------------|------------------------|------------------|------------------------------|---------------------------|
|                                                                                          | 31-12-2019     | Increases      | Reversals of impairment losses | Utilization and others | 30-06-2020       | Recoveries of past due loans | Gain/loss from loan sales |
| Impairment to loans and advances to credit institutions (Note 10)                        | 29             | 121            | (25)                           | -                      | 125              | -                            | -                         |
| Impairment to credit granted and other balances receivable (Note 10)                     | 921,479        | 361,081        | (256,799)                      | (7,329)                | 1,018,432        | (4,451)                      | 1,058                     |
| Impairment to financial assets at fair value through other comprehensive income (Note 9) | 89             | 57             | (128)                          | -                      | 18               | -                            | -                         |
|                                                                                          | <u>921,597</u> | <u>361,259</u> | <u>(256,952)</u>               | <u>(7,329)</u>         | <u>1,018,575</u> | <u>(4,451)</u>               | <u>1,058</u>              |
| Tangible assets (Note 14)                                                                | 6,146          | -              | -                              | -                      | 6,146            | -                            | -                         |
| Other assets (Note 16)                                                                   | 88,192         | 10,618         | (1,792)                        | 16,330                 | 113,348          | -                            | -                         |
| Non-current assets held for sale (Note 17)                                               | 32,826         | 3,628          | (3,915)                        | 2,257                  | 34,796           | -                            | -                         |
|                                                                                          | <u>127,164</u> | <u>14,246</u>  | <u>(5,707)</u>                 | <u>18,587</u>          | <u>154,290</u>   | <u>-</u>                     | <u>-</u>                  |

|                                                                                          | 2019             |                |                                |                        |                |                              |                           |
|------------------------------------------------------------------------------------------|------------------|----------------|--------------------------------|------------------------|----------------|------------------------------|---------------------------|
|                                                                                          | 31-12-2018       | Increases      | Reversals of impairment losses | Utilization and others | 30-06-2019     | Recoveries of past due loans | Gain/loss from loan sales |
| Impairment to loans and advances to credit institutions                                  | 84               | 2              | (46)                           | -                      | 40             | -                            | -                         |
| Impairment to credit granted and other balances receivable                               | 1,108,584        | 138,483        | (147,243)                      | (136,051)              | 963,773        | (5,611)                      | (2,082)                   |
| Impairment to financial assets at fair value through other comprehensive income (Note 9) | 3                | -              | -                              | -                      | 3              | -                            | -                         |
| Investment in associates (Note 12)                                                       | 1,918            | -              | -                              | -                      | 1,918          | -                            | -                         |
|                                                                                          | <u>1,110,589</u> | <u>138,485</u> | <u>(147,289)</u>               | <u>(136,051)</u>       | <u>965,734</u> | <u>(5,611)</u>               | <u>(2,082)</u>            |
| Tangible assets (Note 14)                                                                | 6,146            | -              | -                              | -                      | 6,146          | -                            | -                         |
| Other assets (Note 16)                                                                   | 109,334          | 15,273         | (22,417)                       | (2,175)                | 100,015        | -                            | -                         |
| Non-current assets held for sale (Note 17)                                               | 18,168           | 21,244         | (6,612)                        | (6,625)                | 26,175         | -                            | -                         |
|                                                                                          | <u>133,648</u>   | <u>36,517</u>  | <u>(29,029)</u>                | <u>(8,800)</u>         | <u>132,336</u> | <u>-</u>                     | <u>-</u>                  |

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As at June 30, 2020 and December 31, 2019, the breakdown of Provisions for pensions and other charges was as follows:

|                                                                   | <u>30-06-2020</u> | <u>31-12-2019</u> |
|-------------------------------------------------------------------|-------------------|-------------------|
| Restructuring plans                                               | 51,683            | 62,278            |
| BAPOP retirement prize                                            | -                 | 1,684             |
| Supplementary pension plan<br>of the Board of Directors (Note 38) | 14,233            | 14,154            |
|                                                                   | <u>65,916</u>     | <u>78,116</u>     |

## 20. EQUITY INSTRUMENTS

As at June 30, 2020 and December 31, 2019, this item represented units of the Novimovest Fund not held by the Group.

## 21. OTHER LIABILITIES

The breakdown of this heading is as follows:

|                                                        | <u>30-06-2020</u> | <u>31-12-2019</u> |
|--------------------------------------------------------|-------------------|-------------------|
| Relating to personnel                                  |                   |                   |
| Vacation and vacation subsidies                        | 31,802            | 39,325            |
| Other variable remuneration                            | 16,281            | 29,470            |
| Christmas subsidy                                      | 9,496             | -                 |
| End of career award (BAPOP)                            | 1,358             | -                 |
| Other personnel costs                                  | 2,456             | 698               |
| Other charges                                          | 146,896           | 143,947           |
| Liabilities with pensions and other benefits (Note 36) |                   |                   |
| Pension fund of BST                                    | 1,126,793         | 1,131,980         |
| Bank pension fund book value                           | (1,107,078)       | (1,160,573)       |
| London branch liabilities                              | 53,335            | 51,848            |
| London branch pension fund book value                  | (44,014)          | (44,654)          |
| Former Banif liabilities                               | 160,458           | 161,803           |
| Former Banif pension fund book value                   | (89,665)          | (101,126)         |
| Former Popular liabilities                             | 181,684           | 181,503           |
| Former Popular pension fund book value                 | (180,122)         | (185,459)         |
| Other deferred income                                  | 11,050            | 2,433             |
| Liability operations to be settled                     | 7,040             | 7,413             |
| Other (Note 16)                                        | 253,788           | 184,703           |
|                                                        | <u>581,558</u>    | <u>443,311</u>    |

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## 22. EQUITY

As at June 30, 2020 and December 31, 2019, the Bank's share capital was represented by 1,256,723,284 shares, each of a par value of €1, fully subscribed and paid up by the following shareholders:

|                             | 30-06-2020           |                       |                  | 31-12-2019           |                      |                  |
|-----------------------------|----------------------|-----------------------|------------------|----------------------|----------------------|------------------|
|                             | Number<br>of shares  | % of<br>participation | Amount           | Number<br>of shares  | % of<br>participatio | Amount           |
| Santander Totta, SGPS, S.A. | 1,241,179,513        | 98.76%                | 1,241,179        | 1,241,179,513        | 98.76%               | 1,241,180        |
| Own shares                  | 15,009,840           | 1.19%                 | 15,010           | 15,010,898           | 1.19%                | 15,011           |
| Other                       | 533,931              | 0.04%                 | 534              | 532,873              | 0.05%                | 532              |
|                             | <u>1,256,723,284</u> | <u>100.00%</u>        | <u>1,256,723</u> | <u>1,256,723,284</u> | <u>100.00%</u>       | <u>1,256,723</u> |

During 2019, the Bank purchased 10,453 treasury shares for the amount of €43k.

Under the terms of Order-in-Council No. 408/99, of June 4, published in *Diário da República* – 1st series B, No. 129, the issue premiums, in the amount of €193,390k, cannot be used for the allocation of dividends or for the acquisition of treasury shares.

Other capital instruments refer to the ancillary capital contributions granted by shareholder Santander Totta, SGPS, SA, which neither bear interest nor have a defined reimbursement period. Those contributions can be reimbursed only by resolution of the Board of Directors, upon prior authorisation of the Bank of Portugal.

In 2019 the Bank distributed dividends in the amount of €422,873k (net amount of dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.336 per share.

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As at June 30, 2020 and December 31, 2019, the breakdown of reserves for accumulated comprehensive income was as follows:

|                                                                                     | <u>30-06-2020</u> | <u>31-12-2019</u> |
|-------------------------------------------------------------------------------------|-------------------|-------------------|
| Revaluation reserves                                                                |                   |                   |
| Reserves resulting from the fair value valuation                                    |                   |                   |
| Of other financial assets at fair value through other comprehensive income (Note 9) | 843,934           | 673,417           |
| Revaluation reserves of companies under the equity method                           | 3,870             | 3,575             |
| Of cash-flow hedging instruments                                                    | 7,030             | (53,018)          |
| Actuarial gains and losses (Note 38)                                                |                   |                   |
| Pension Fund of BST                                                                 | (836,855)         | (799,225)         |
| Pension Fund of the Lond branch of BST                                              | (15,522)          | (13,447)          |
| Pension fund of Former Banif                                                        | (46,865)          | (36,753)          |
| Pension fund of Former BAPOP                                                        | (12,526)          | (8,037)           |
| Actuarial gains and losses of companies under the equity method                     | (4,034)           | (4,034)           |
|                                                                                     | <u>(60,968)</u>   | <u>(237,522)</u>  |
| Deferred tax reserves                                                               |                   |                   |
| For temporary differences                                                           |                   |                   |
| Reserves resulting from the fair value valuation of:                                |                   |                   |
| Other financial assets at fair value through other comprehensive income             | (260,538)         | (207,650)         |
| Revaluation reserves of companies under the equity method                           | (987)             | (911)             |
| Hedging instruments                                                                 |                   |                   |
| Cash-flow hedging instruments                                                       | (2,179)           | 16,436            |
| Tax impact of actuarial gains and losses                                            | 204,286           | 204,286           |
| Tax impact due to actuarial deviations of companies in equity method                | 938               | 938               |
|                                                                                     | <u>(58,480)</u>   | <u>13,099</u>     |
|                                                                                     | <u>(119,448)</u>  | <u>(224,423)</u>  |

Deferred taxes were calculated based on legislation currently in force and correspond to the best estimate of the impact of the realisation of the potential gains and losses included in the revaluation reserves.

Revaluation reserves cannot be used for the allocation of dividends or to increase share capital.

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As at June 30, 2020 and December 31, 2019, the breakdown of "Other reserves and retained earnings" is as follows:

|                                                            | 30-06-2020       | 31-12-2019       |
|------------------------------------------------------------|------------------|------------------|
| Legal reserve                                              | 511,836          | 461,864          |
| Other reserves                                             |                  |                  |
| Reserves of consolidated companies                         | 168,030          | 164,605          |
| Reserves of companies consolidated under the equity method | (621)            | 8,822            |
| Merger reserve                                             |                  |                  |
| By incorporation of Totta and BSP                          | 541,334          | 541,334          |
| By incorporation of BSN                                    | 35,405           | 35,405           |
| By incorporation of Totta IFIC                             | 90,520           | 90,520           |
| By incorporation of BAPOP                                  | (8,411)          | (8,411)          |
| Other reserves                                             | 27,495           | 20,840           |
| Retained earnings                                          | 951,973          | 513,134          |
|                                                            | <u>2,317,561</u> | <u>1,828,113</u> |

#### 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 to capital or sum of the free reserves formed and of the retained earnings, if greater. To this end, a fraction of not less than 10% of the net income for the period of the separate business is annually transferred to this reserve, until the said amount is achieved. This reserve may be used only to cover accumulated losses or to increase the share capital.

#### Merger reserve

In accordance with legislation in force, the merger reserve is considered equivalent to the legal reserve, and may only be used to cover accumulated losses or increase the share capital.

#### Other reserves

This heading includes the revaluation reserves, in 1998, under Decree-Law 31/98 of February 11, and the Bank revalued its tangible fixed assets, increasing their value, net of accumulated depreciation, by approximately €23,245k, 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 (amortized) or the assets to which they relate are sold.



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### 23. CONSOLIDATED PROFIT FOR THE PERIOD

In the first half of 2020 and of 2019, the determination of the consolidated profit can be summarised as follows:

|                                                                | 30-06-2020                      |                                                      | 30-06-2019                      |                                                      |
|----------------------------------------------------------------|---------------------------------|------------------------------------------------------|---------------------------------|------------------------------------------------------|
|                                                                | Net Income<br>for the<br>period | Contribution<br>to the<br>consolidated<br>net income | Net Income<br>for the<br>period | Contribution<br>to the<br>consolidated<br>net income |
| Net income of BST (individual basis)                           | 157,611                         | 157,611                                              | 249,510                         | 249,510                                              |
| Net income of other Group companies:                           |                                 |                                                      |                                 |                                                      |
| Totta (Ireland), Plc.                                          | 5,904                           | 5,904                                                | 5,182                           | 5,182                                                |
| Novimovest - Fundo de Investimento Imobiliário Aberto          | 558                             | 439                                                  | 2,941                           | 2,353                                                |
| Unicre, Instituição Financeira de Crédito, S.A.                | 2,549                           | 557                                                  | 6,778                           | 1,482                                                |
| Gamma, Sociedade Financeira de Titularização de Créditos, S.A. | 38                              | 38                                                   | 26                              | 26                                                   |
| Totta Urbe, Empresa de Administração e Construções, S.A.       | 1,033                           | 1,033                                                | 3,316                           | 3,316                                                |
| Banif International Bank, LTD                                  | -                               | -                                                    | 89                              | 89                                                   |
| Lusimovest Fundo de Investimento Imobiliário                   | 724                             | 187                                                  | (3)                             | (1)                                                  |
| Taxagest, S.A.                                                 | (1)                             | (1)                                                  | 4                               | 4                                                    |
|                                                                | 10,805                          | 8,157                                                | 18,333                          | 12,451                                               |
| Elimination of dividends:                                      |                                 |                                                      |                                 |                                                      |
| Unicre, Instituição Financeira de Crédito, S.A.                |                                 | (3,192)                                              |                                 | (5,203)                                              |
| Adjustments related with securitization operations             |                                 | (3,122)                                              |                                 | (8,525)                                              |
| Other                                                          |                                 | (4,938)                                              |                                 | (8,478)                                              |
| Consolidated net income for the period                         |                                 | 154,516                                              |                                 | 239,755                                              |

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 year.

|                                                                          | 30-06-2020    | 30-06-2019    |
|--------------------------------------------------------------------------|---------------|---------------|
| Consolidated net income attributable to the shareholders of BST          | 154,516       | 239,755       |
| Weighted average number of ordinary shares issued                        | 1,256,723,284 | 1,256,723,284 |
| Weighted average number of own shares                                    | 15,009,875    | 15,000,445    |
| Weighted average number of ordinary shares outstanding                   | 1,241,713,409 | 1,241,722,839 |
| Basic earnings per share attributable to the shareholders of BST (Euros) | 0.12          | 0.19          |

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

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## 24. NON-CONTROLLING INTERESTS

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

|                | 30-06-2020 | 31-12-2019 |
|----------------|------------|------------|
| Taxagest, S.A. | 557        | 557        |
| Other          | 70         | 70         |
|                | <u>627</u> | <u>627</u> |

## 25. OFF-BALANCE-SHEET ACCOUNTS

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

|                                                            | 30-06-2020        | 31-12-2019        |
|------------------------------------------------------------|-------------------|-------------------|
| Guarantees given and other contingent liabilities          |                   |                   |
| Financial guarantees and sureties                          | <u>551,472</u>    | <u>563,159</u>    |
| Commitments for credit granted                             |                   |                   |
| Revocable                                                  | 5,642,778         | 5,166,328         |
| Irrevocable                                                | <u>626,618</u>    | <u>1,000,630</u>  |
|                                                            | <u>6,269,396</u>  | <u>6,166,958</u>  |
| Other commitments granted                                  |                   |                   |
| Non-financial guarantees and sureties                      | 1,055,010         | 1,013,643         |
| Documentary credits                                        | 366,813           | 374,410           |
| Deposit Guarantee Fund                                     | 68,969            | 68,969            |
| Investor Indemnity System                                  | 7,424             | 6,817             |
| Other commitments granted                                  | <u>215</u>        | <u>215</u>        |
|                                                            | <u>1,498,431</u>  | <u>1,464,054</u>  |
|                                                            | <u>8,319,299</u>  | <u>8,194,171</u>  |
| Assets pledged as collateral                               |                   |                   |
| Bank of Portugal                                           | 156,276           | 165,818           |
| Deposit Guarantee Fund                                     | 85,430            | 85,447            |
| Investor Indemnity System                                  | 9,112             | 9,114             |
| Assets pledged as guarantees in monetary policy operations | <u>14,789,190</u> | <u>11,621,096</u> |
|                                                            | <u>15,040,008</u> | <u>11,881,475</u> |
| Liabilities for services rendered                          |                   |                   |
| Deposit and custodial services                             | 38,187,383        | 36,555,568        |
| Amounts received for collection                            | 379,635           | 161,128           |
| Other values                                               | <u>95,381</u>     | <u>76,780</u>     |
|                                                            | <u>38,662,399</u> | <u>36,793,476</u> |

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

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Guarantees and contingent commitments have the following exposure per stage:

|                                | 30-06-2020       |                |                |                  |                      |              |               |               |
|--------------------------------|------------------|----------------|----------------|------------------|----------------------|--------------|---------------|---------------|
|                                | Exposure         |                |                |                  | Impairment (Note 19) |              |               |               |
|                                | Stage 1          | Stage 2        | Stage 3        | Total            | Stage 1              | Stage 2      | Stage 3       | Total         |
|                                |                  |                |                |                  |                      |              |               | (Note 19)     |
| Commitments for credit granted | 5,641,197        | 621,111        | 7,088          | 6,269,396        | 4,017                | 871          | 13            | 4,901         |
| Financial guarantees           | 471,802          | 37,764         | 41,906         | 551,472          | 363                  | 492          | 23,739        | 24,594        |
| Other commitments granted      | 1,282,647        | 57,491         | 158,293        | 1,498,431        | 1,293                | 174          | 25,432        | 26,899        |
|                                | <u>7,395,646</u> | <u>716,366</u> | <u>207,287</u> | <u>8,319,299</u> | <u>5,673</u>         | <u>1,537</u> | <u>49,184</u> | <u>56,394</u> |

|                                | 31-12-2019       |                  |                |                  |                      |              |               |               |
|--------------------------------|------------------|------------------|----------------|------------------|----------------------|--------------|---------------|---------------|
|                                | Exposure         |                  |                |                  | Impairment (Note 19) |              |               |               |
|                                | Stage 1          | Stage 2          | Stage 3        | Total            | Stage 1              | Stage 2      | Stage 3       | Total         |
|                                |                  |                  |                |                  |                      |              |               | (Note 19)     |
| Commitments for credit granted | 5,391,943        | 768,621          | 6,394          | 6,166,958        | 3,040                | 1,403        | 9             | 4,452         |
| Financial guarantees           | 394,581          | 127,140          | 41,438         | 563,159          | 482                  | 329          | 21,562        | 22,373        |
| Other commitments granted      | 1,186,718        | 114,059          | 163,277        | 1,464,054        | 1,262                | 183          | 24,978        | 26,423        |
|                                | <u>6,973,242</u> | <u>1,009,820</u> | <u>211,109</u> | <u>8,194,171</u> | <u>4,784</u>         | <u>1,915</u> | <u>46,549</u> | <u>53,248</u> |

#### Deposit Guarantee Fund

Pursuant to Decree-Law 298/92 of December 31, the Deposit Guarantee Fund was created in November 1994 in order to secure the deposits made at credit institutions, in accordance with the limits established in the General Credit Institutions Regime. The initial contribution to the Fund, established by Ministry of Finance Order-in-Council, was made through the delivery of cash and deposit securities, and has been amortised over 60 months as from January 1995. Except for what is referred to in the following paragraph, the regular annual contributions to the Fund are recognised as an expense for the period to which they relate.

Until 2011, as permitted by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Deposit Guarantee Fund, having also entered into an irrevocable commitment to the Deposit Guarantee Fund to pay up the 10 % of the annual contribution, if and when so requested. The unpaid amount accumulated as at June 30, 2020, and December 31, 2019, for which this commitment was entered into totalled €68,969k. The assets pledged to the Bank of Portugal are reflected under off-balance sheet headings at their market value. In 2020 and 2019, the Bank paid 100% of the annual contribution in the amounts of €48k and €50k, respectively (Note 31).

#### Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as expense. 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, 2020 and December 31, 2018, these liabilities amounted to €7,424k and €6,817k, respectively.

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## 26. NET INTEREST INCOME

The composition of this heading is as follows:

|                                                                               | 30-06-2020            | 30-06-2019            |
|-------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>Interest income</b>                                                        |                       |                       |
| Interest on deposits in Central Banks and credit institutions                 | 172                   | 327                   |
| Interest on financial assets at fair value through other comprehensive income | 48,317                | 61,734                |
| Interest on financial assets at amortised cost                                |                       |                       |
| Loans and advances to credit institutions                                     | 1,255                 | 7,031                 |
| Loans represented by securities                                               | 28,630                | 36,184                |
| Loans granted to customers                                                    | 332,894               | 352,901               |
| Interest on resources from Central Banks and credit institutions              | 7,031                 | 6,807                 |
| Interest on hedging derivatives                                               | 157,639               | 141,526               |
| Other                                                                         | 2,097                 | 143                   |
|                                                                               | <u>578,035</u>        | <u>606,653</u>        |
| <b>Interest charges</b>                                                       |                       |                       |
| Interest on financial liabilities at amortised cost                           |                       |                       |
| Resources from other credit institutions                                      | (3,230)               | (6,359)               |
| Resources from customers and other debts                                      | (13,231)              | (26,210)              |
| Debt securities                                                               | (21,315)              | (27,702)              |
| Interest on hedging derivatives                                               | (137,124)             | (118,257)             |
| Other                                                                         | (4,487)               | (1,911)               |
|                                                                               | <u>(179,387)</u>      | <u>(180,439)</u>      |
|                                                                               | <u><u>398,648</u></u> | <u><u>426,214</u></u> |

## 27. INCOME FROM EQUITY INSTRUMENTS

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

|                                                  | 30-06-2020   | 30-06-2019   |
|--------------------------------------------------|--------------|--------------|
| SIBS – Sociedade Interbancária de Serviços, S.A. | 1,733        | 1,634        |
| Other                                            | -            | 3            |
|                                                  | <u>1,733</u> | <u>1,637</u> |

## 28. RESULTS FROM ASSOCIATES

The composition of this heading is as follows:

|                                                  | 30-06-2020 | 30-06-2019 |
|--------------------------------------------------|------------|------------|
| Unicre - Instituição Financeira de Crédito, S.A. | 564        | 412        |
| Other                                            | 187        | -          |
|                                                  | <u>751</u> | <u>412</u> |

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29. SERVICES AND COMMISSIONS

The composition of this heading is as follows:

|                                                   | <u>30-06-2020</u> | <u>30-06-2019</u> |
|---------------------------------------------------|-------------------|-------------------|
| <b>Income from services and commissions</b>       |                   |                   |
| Guarantees given                                  | 8,775             | 9,452             |
| Commitments to third parties                      | 2,507             | 402               |
| Banking services provided                         |                   |                   |
| Deposit and custody services                      | 3,153             | 3,106             |
| Asset management and collection                   | 7,897             | 6,107             |
| Real estate and mutual fund management            | 11,524            | 12,957            |
| Value Transfers                                   | 636               | 896               |
| Card transactions                                 | 40,534            | 45,274            |
| Annuities                                         | 15,514            | 15,111            |
| Credit operations                                 | 25,228            | 26,313            |
| Other services rendered                           | 6,798             | 499               |
| Operations carried out on behalf of third parties |                   |                   |
| Securities                                        | 8,584             | 7,585             |
| Other                                             | 40                | 86                |
| Other commission received                         |                   |                   |
| Insurance companies (Note 35)                     | 50,969            | 50,571            |
| Deposits                                          | 42,969            | 39,915            |
| Cheques                                           | 2,806             | 4,674             |
| Other                                             | 9,559             | 18,945            |
|                                                   | <u>237,493</u>    | <u>241,893</u>    |
| <b>Charges with services and commissions</b>      |                   |                   |
| Guarantees received                               | (1,353)           | (2,233)           |
| Banking services rendered by third parties        |                   |                   |
| Funds for collection and management               | (896)             | (818)             |
| Transactions with customers                       | (30,956)          | (34,444)          |
| Credit operations                                 | (1,575)           | (3,959)           |
| Other services rendered                           | (3,416)           | (1,028)           |
| Operations carried out by third parties           |                   |                   |
| Securities                                        | (1,566)           | (928)             |
| Other                                             | (3,388)           | (2,909)           |
| Other commissions paid                            | (9,167)           | (573)             |
|                                                   | <u>(52,317)</u>   | <u>(46,892)</u>   |
|                                                   | <u>185,176</u>    | <u>195,001</u>    |

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### 30. GAINS/LOSSES ON FINANCIAL ASSETS

The results of assets and liabilities at fair value through profit or loss and results of other financial assets that must be carried at fair value through profit or loss sub-headings are as follows:

|                                                                                  | 30-06-2020    | 30-06-2019    |
|----------------------------------------------------------------------------------|---------------|---------------|
| Gain/losses on financial assets held for trading                                 |               |               |
| Equity instruments                                                               | -             | 90            |
| Derivative instruments                                                           | 1,049         | 10,095        |
|                                                                                  | <u>1,049</u>  | <u>10,185</u> |
| Gain/losses on financial assets mandatory at fair value through P&L accounts     |               |               |
| Debt instruments                                                                 | 3,013         | -             |
| Equity instruments                                                               | 2,079         | 2,290         |
|                                                                                  | <u>5,092</u>  | <u>2,290</u>  |
| Gain/losses on hedging derivatives                                               |               |               |
| Hedging derivatives                                                              | (178,819)     | (204,324)     |
| Item covered                                                                     | 178,966       | 204,324       |
|                                                                                  | <u>147</u>    | <u>-</u>      |
|                                                                                  | <u>6,288</u>  | <u>12,475</u> |
| Gain/losses on financial assets at fair value through other comprehensive income |               |               |
| Debt instruments                                                                 | 79,564        | 57,029        |
| Other                                                                            | -             | 666           |
|                                                                                  | <u>79,564</u> | <u>57,695</u> |
| Exchange revaluation                                                             | <u>5,636</u>  | <u>4,976</u>  |

The breakdown of the results of the sale of other assets is as follows:

|                                      | 30-06-2020  | 30-06-2019     |
|--------------------------------------|-------------|----------------|
| Gains on investment properties       | <u>106</u>  | <u>2,168</u>   |
| Losses on investment properties      | (45)        | (4,349)        |
| Other losses in financial operations | -           | (150)          |
|                                      | <u>(45)</u> | <u>(4,499)</u> |
|                                      | <u>61</u>   | <u>(2,331)</u> |

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31. OTHER OPERATING RESULTS

The breakdown of this heading is as follows:

|                                                       | 30-06-2020      | 30-06-2019      |
|-------------------------------------------------------|-----------------|-----------------|
| Rents received                                        | 5,528           | 7,206           |
| Income from services rendered                         | 1,491           | 1,471           |
| Contributions to the Deposit Guarantee Fund (Note 25) | (48)            | (50)            |
| Contributions to the Resolution Fund                  |                 |                 |
| National Resolution Fund                              | (12,875)        | (12,261)        |
| Single Resolution Fund                                | (22,701)        | (20,336)        |
| Charges related to transactions made by customers     | (2,326)         | (3,624)         |
| Other charges and operating expenses                  | 2,025           | 2,099           |
|                                                       | <u>(28,906)</u> | <u>(25,495)</u> |

On June 30, 2020 and 2019, "Rents earned" includes the amounts of €5,474k and €6,726k, respectively, in respect of the rents earned by the Novimovest Real Estate Fund (Note 13).

Decree-Law 24/2013 of February 19, established the regime governing bank contributions to the new Resolution Fund, created for the purpose of prevention, mitigation and containment of the systemic risk. According to Bank of Portugal Notice No. 1/2013 and Instructions No. 6/2013 and 7/2013, payment is laid down of an initial contribution and periodic contributions to the Resolution Fund.

Within the scope of the single Resolution mechanism the annual contributions will be transferred to the Single Resolution Fund, in accordance with article 3(3) of the agreement on the transfer and pooling of the contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014. The Bank of Portugal, as resolution authority, determines the amount of the contribution of each institution depending on the risk profile of each entity. In December 2015 the Bank paid an additional contribution to the Resolution Fund in the amount of €13,318k, in keeping with a letter received from the Bank of Portugal in November 2015. In 2019 and 2020 and as provided for in the Bank of Portugal's letter, the Single Resolution Council (CUR) allowed banking institutions, in these years, to opt for the use of irrevocable payment commitment, in the proportion of 15% of the amount of the annual contribution. The annual contribution amounted to €26,707k and €23.924k, respectively.

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### 32. STAFF COSTS

The composition of this heading is as follows:

|                                             | 30-06-2020     | 30-06-2019     |
|---------------------------------------------|----------------|----------------|
| Remuneration                                |                |                |
| Management and supervisory boards (Note 38) | 2,731          | 4,121          |
| Employees                                   | 111,364        | 113,542        |
| Other variable remuneration                 | 6,161          | 16,036         |
|                                             | <u>120,256</u> | <u>133,699</u> |
| Mandatory social charges                    |                |                |
| Charges on remuneration                     | 30,500         | 30,178         |
| Pension Funds (Note 36)                     | 4,106          | 2,854          |
| Other mandatory social charges              | 486            | 552            |
|                                             | <u>35,092</u>  | <u>33,584</u>  |
| Other staff costs                           |                |                |
| Complementary pension plan (Note 36)        | 291            | 291            |
| Staff transfers                             | 609            | 644            |
| Other                                       | 3,767          | 4,102          |
|                                             | <u>4,667</u>   | <u>5,037</u>   |
|                                             | <u>160,015</u> | <u>172,320</u> |

### 33. GENERAL ADMINISTRATIVE COSTS

The composition of this heading is as follows:

|                                                          | 30-06-2020    | 30-06-2019     |
|----------------------------------------------------------|---------------|----------------|
| External services                                        |               |                |
| Specialized services                                     | 37,262        | 36,334         |
| Maintenance of software and hardware                     | 27,366        | 26,373         |
| Other lease operations (short-term and low-value leases) | 2,396         | 3,124          |
| Communications                                           | 4,273         | 5,256          |
| Advertising and publishing                               | 6,517         | 6,900          |
| Travel, lodging and representation expenses              | 1,305         | 2,608          |
| Maintenance and repairs                                  | 2,228         | 2,667          |
| Transportation                                           | 2,138         | 2,560          |
| Insurance                                                | 1,080         | 728            |
| Other                                                    | 3,147         | 3,498          |
| External supplies                                        | 5,434         | 5,843          |
| Subscriptions and donations                              | 3,217         | 3,573          |
| Other taxes                                              | 1,354         | 2,174          |
|                                                          | <u>97,717</u> | <u>101,638</u> |



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34. RESULTS FROM NON-CURRENT ASSETS HELD FOR SALE

The composition of this heading is as follows:

|                                    | 30-06-2020    |                 |             | 30-06-2019    |                 |               |
|------------------------------------|---------------|-----------------|-------------|---------------|-----------------|---------------|
|                                    | Gain          | Loss            | Net         | Gain          | Loss            | Net           |
| Assets received in lieu of payment | 2,870         | (5,562)         | (2,692)     | 33,999        | (23,872)        | 10,127        |
| Other non-financial assets         | 18,298        | (15,696)        | 2,602       | -             | -               | -             |
|                                    | <u>21,168</u> | <u>(21,258)</u> | <u>(90)</u> | <u>33,999</u> | <u>(23,872)</u> | <u>10,127</u> |

35. 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:

|                                                                    | 30-06-2020    |                   |               | 30-06-2019    |                   |               |
|--------------------------------------------------------------------|---------------|-------------------|---------------|---------------|-------------------|---------------|
|                                                                    | Life Products | Non-Life Products | Total         | Life Products | Non-Life Products | Total         |
|                                                                    | (Note 30)     |                   |               |               |                   |               |
| Santander Totta Seguros - Companhia de Seguros de Vida, S.A.       | 20,246        | -                 | 20,246        | 24,667        | -                 | 24,667        |
| Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A. | 18,932        | -                 | 18,932        | 15,634        | -                 | 15,634        |
| Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.     | -             | 11,007            | 11,007        | -             | 9,514             | 9,514         |
| Other                                                              | -             | 784               | 784           | -             | 756               | 756           |
|                                                                    | <u>39,178</u> | <u>11,791</u>     | <u>50,969</u> | <u>40,301</u> | <u>10,270</u>     | <u>50,571</u> |

As at June 30, 2020 and 2019, Other assets – Income receivable (Note 16) includes commissions receivable from insurers as detailed hereunder:

|                                                                    | 30-06-2020    | 30-06-2019    |
|--------------------------------------------------------------------|---------------|---------------|
| Santander Totta Seguros - Companhia de Seguros de Vida, S.A.       | 9,913         | 11,564        |
| Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A. | 2,888         | 2,705         |
| Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.     | 1,881         | 1,631         |
| Other                                                              | 11            | 12            |
|                                                                    | <u>14,693</u> | <u>15,912</u> |

These amounts refer essentially to the commissions determined and not yet paid in respect of premiums of insurance marketed during the second quarter of 2020 and 2019.

36. EMPLOYEE POST-EMPLOYMENT BENEFITS

For the determination of 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.

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The Bank's liabilities for retirement pensions, health care and death benefits as at June 20, 2020 and December 31, 2019, as well as the respective coverage, are detailed as follows:

|                                                                 | Santander  |            | BAPOP      |            |
|-----------------------------------------------------------------|------------|------------|------------|------------|
|                                                                 | 30-06-2020 | 31-12-2019 | 30-06-2020 | 31-12-2019 |
| Estimate of liabilities for past services:                      |            |            |            |            |
| - Pensions                                                      |            |            |            |            |
| .Current employees                                              | 316,098    | 314,702    | 64,144     | 63,195     |
| .Pensioners                                                     | 48,007     | 46,489     | 7,867      | 7,970      |
| .Retired staff and early retired staff                          | 576,673    | 584,284    | 96,282     | 97,164     |
|                                                                 | 940,778    | 945,475    | 168,293    | 168,329    |
| - Healthcare systems (SAMS)                                     | 171,127    | 171,834    | 12,661     | 12,456     |
| - Death subsidy                                                 | 6,408      | 6,349      | 730        | 718        |
| - Retirement bonus                                              | 8,480      | 8,322      | -          | -          |
|                                                                 | 1,126,793  | 1,131,980  | 181,684    | 181,503    |
| Coverage of liabilities:                                        |            |            |            |            |
| - Net assets of the Fund                                        | 1,107,078  | 1,160,573  | 180,122    | 185,459    |
| Excess / insufficient funding (Note 21)                         | (19,715)   | 28,593     | (1,562)    | 3,956      |
| Actuarial and financial deviations generated in the period/year |            |            |            |            |
| - Change in assumptions                                         | -          | 150,685    | -          | 26,378     |
| - Experience adjustments:                                       |            |            |            |            |
| .Other actuarial (gains) / losses                               | 7,751      | 12,609     | (122)      | (11,924)   |
| .Financial (gains) / losses                                     | 29,880     | (50,241)   | 4,611      | (7,170)    |
|                                                                 | 37,631     | (37,632)   | 4,489      | (19,094)   |
|                                                                 | 37,631     | 113,053    | 4,489      | 7,284      |

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

|                                          |                          |
|------------------------------------------|--------------------------|
| Mortality Table                          |                          |
| Female                                   | TV 88/90 <sup>(-1)</sup> |
| Male                                     | TV 88/90                 |
| Rate of return on pension fund assets    | 1.10%                    |
| Technical actuarial rate (discount rate) | 1.10%                    |
| Wage growth rate                         | 0.75%                    |
| Pension growth rate                      | 0.50%                    |
| Inflation rate                           | 0.75%                    |

Decree-Law 167-E/2013, of December 31, changed the normal age of access to retirement under the general Social Security regime to 66 years (in 2019 the normal retirement age is 66 years and 5 months), though the sustainability factor was no longer applicable to beneficiaries who retire at that age.

The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities.

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Movement under liabilities for past services during the first half of 2020 and in 2019, can be detailed as follows with regard to the Bank's pension plan:

|                                                 | Santander        |                  | BAPOP          |                |
|-------------------------------------------------|------------------|------------------|----------------|----------------|
|                                                 | 30-06-2020       | 31-12-2019       | 30-06-2020     | 31-12-2019     |
| Responsibilities at the beginning of the period | 1,131,980        | 972,776          | 181,503        | 163,111        |
| Cost of current services                        | 2,791            | 3,712            | 674            | 891            |
| Cost of interests                               | 6,012            | 19,609           | 817            | 3,382          |
| (Actuarial Gains / Losses)                      | 7,751            | 163,294          | (122)          | 14,454         |
| Early retirements                               | 7,886            | 23,891           | 355            | 2,673          |
| Amounts paid                                    | (30,864)         | (53,794)         | (1,852)        | (3,665)        |
| Employee Contributions                          | 1,237            | 2,492            | 309            | 657            |
| Responsibilities at the end of the period       | <u>1,126,793</u> | <u>1,131,980</u> | <u>181,684</u> | <u>181,503</u> |

The expense for the year relating to pensions includes the cost of current services and the interest expense, deducted from the expected return of the assets of the Pension Fund. In the first half of 2020 and in the period ended December 31, 2019, the breakdown of pension costs is as follows (Note 32):

|                                   | 30-06-2020   | 31-12-2019   |
|-----------------------------------|--------------|--------------|
| Cost of current services          | 3,465        | 4,603        |
| Cost of interests                 | 6,829        | 22,991       |
| Assets return using discount rate | (6,829)      | (22,991)     |
| Defined benefit plan              | 3,465        | 4,603        |
| Defined contribution plan         | 560          | 1,487        |
| London branch plan                | 81           | 608          |
|                                   | <u>4,106</u> | <u>6,698</u> |

The Bank's employees taken on after January 1, 2009, came to be enrolled in Social Security, and are covered by a supplementary defined-contribution pension plan, and by the rights acquired under clause 93 of the CBA (published in BTE No. 29 of August 8, 2016). The plan is funded through contributions by employees (1.5%) and by BST (1.5%) calculated on the basis of the effective monthly remuneration. For the purpose, each employee may opt for an open pension at his or her choice, to which Bank transfers his or her contribution.

Estimated salary and pension growths take into account the country's current situation and the consequent prospect of smaller increases in the future, or even maintenance of current values.

The average duration of pension liabilities of the employees of the Bank, of BAPOP and of Banif is 15 years, including those in active service and pensioners.

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Movement under actuarial deviations in the first half of 2020 and in 2019 was as follows:

|                                                     | Santander  |            | BAPOP      |            |
|-----------------------------------------------------|------------|------------|------------|------------|
|                                                     | 30-06-2020 | 31-12-2019 | 30-06-2020 | 31-12-2019 |
| Deviations at the beginning of the period (Note 22) | 799,225    | 686,172    | 8,037      | 753        |
| Actuarial (Gains) / Losses                          | 7,751      | 163,294    | (122)      | 14,454     |
| Financial (Gains) / Losses                          | 29,879     | (50,241)   | 4,611      | (7,170)    |
| Deviations at the end of the period (Note 22)       | 836,855    | 799,225    | 12,526     | 8,037      |

The Santander Pension Fund is managed by Santander Pensões - Sociedade Gestora de Fundos de Pensões, SA, and the BAPOP Pension Fund is managed by Santander Totta Seguros – Companhia de Seguros de Vida, SA. On June 30, 2020 and December 31, 2019, the number of participants of the Funds was as follows:

|                                       | Santander  |            | BAPOP      |            |
|---------------------------------------|------------|------------|------------|------------|
|                                       | 30-06-2020 | 31-12-2019 | 30-06-2020 | 31-12-2019 |
| Current employees <sup>(1)</sup>      |            |            |            |            |
| Defined benefit plan                  | 3,995      | 4,055      | 727        | 737        |
| Defined contribution plan             | 442        | 389        | 122        | 125        |
| Pensioners                            | 1,257      | 1,242      | 30         | 28         |
| Retired staff and early retired staff | 5,729      | 5,731      | 148        | 146        |
|                                       | 11,423     | 11,417     | 1,027      | 1,036      |

Movement under the Bank's Pension Fund during the first half of 2020 and in 2019 was as follows:

|                                            | Santander  |            | BAPOP      |            |
|--------------------------------------------|------------|------------|------------|------------|
|                                            | 30-06-2020 | 31-12-2019 | 30-06-2020 | 31-12-2019 |
| Book value at the beginning of the period  | 1,160,573  | 979,892    | 185,459    | 163,475    |
| Bank contribution (monetary)               | -          | 162,133    | -          | 14,440     |
| Employees contribution                     | 1,237      | 2,492      | 309        | 657        |
| Net income of the fund                     |            |            |            |            |
| Income from assets using discount rate     | 6,011      | 19,609     | 817        | 3,382      |
| Income of the fund above the discount rate | (29,879)   | 50,241     | (4,611)    | 7,170      |
| Amount paid                                | (30,864)   | (53,794)   | (1,852)    | (3,665)    |
| Book value at the end of the period        | 1,107,078  | 1,160,573  | 180,122    | 185,459    |

The yields of the Pension Fund amounted to Santander (2.03%) and BAPOP (1.78%) in 2020, and Santander 7.25% and BAPOP 7.66% in 2019.

The investments and allocation policy of the Bank's Pension Fund determines that the asset portfolio be constituted in compliance with security, profitability and liquidity criteria, through a diverse set of investments, namely shares, bonds, other debt securities, holdings in collective-investment institutions, bank deposits, other monetary assets and land and buildings included in the land registry. On the other hand, that policy is guided by risk-diversification and profitability criteria and the Fund's Management Company may opt for a more or less conservative policy by increasing or decreasing the

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exposure to equities or bonds, according to its expectations as to the evolution of the markets and in accordance with the defined investment limits.

The investment policy of the Bank's Pension Fund in force provides for the following limits:

| <u>Asset Class</u> | <u>Intervals foreseen</u> |
|--------------------|---------------------------|
| Securities         | 40% a 95%                 |
| Real estate        | 0% a 25%                  |
| Shares             | 0% a 20%                  |
| Liquidity          | 0% a 15%                  |
| Alternatives       | 0% a 10%                  |
| Commodities        | 0% a 5%                   |

As at June 30 2020 and December 31, 2019, the composition of the Bank's Pension Fund was as follows:

|                                             | <u>Santander</u>  |                   | <u>BAPOP</u>      |                   |
|---------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                             | <u>30-06-2020</u> | <u>31-12-2019</u> | <u>30-06-2020</u> | <u>31-12-2019</u> |
| Debt instruments:                           |                   |                   |                   |                   |
| . Rating A                                  | 88,827            | 69,147            | 22,733            | 17,620            |
| . Rating BBB                                | 419,330           | 522,599           | 72,266            | 83,538            |
| . Rating BB                                 | 5,046             | 3,999             | 800               | 808               |
| . Without rating to the issuance and issuer | 60,656            | 62,640            | 8,220             | 7,965             |
| Real estate funds                           | 124,592           | 123,925           | 1,275             | 1,246             |
| Mutual funds                                | 318,992           | 245,157           | 69,814            | 62,478            |
| Deposits                                    | 23,564            | 67,828            | 6,482             | 9,592             |
| Real estate funds                           |                   |                   |                   |                   |
| . Commercial spaces                         | 19,216            | 19,238            | -                 | -                 |
| . Land                                      | 1,142             | 1,142             | -                 | -                 |
| Equity instruments:                         |                   |                   |                   |                   |
| . Portuguese shares – listed                | 114               | 187               | -                 | -                 |
| . Foreign shares – listed                   | 28,543            | 36,955            | -                 | 157               |
| Derivative financial instruments            |                   |                   |                   |                   |
| . Options listed                            | (1,006)           | (149)             | (157)             | 36                |
| Other                                       | 18,062            | 7,905             | (1,311)           | 2,019             |
|                                             | <u>1,107,078</u>  | <u>1,160,573</u>  | <u>180,122</u>    | <u>185,459</u>    |

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As at June 30, 2020 and December 31, 2019, the method for the determination of the fair value of the assets and liabilities mentioned above, adopted by the Management Companies as recommended in the IFRS 13 (Note 39), was as follows:

|                                  | 30-06-2020       |          |                |                  | 31-12-2019       |          |                |                  |
|----------------------------------|------------------|----------|----------------|------------------|------------------|----------|----------------|------------------|
|                                  | Level 1          | Level 2  | Level 3        | Total            | Level 1          | Level 2  | Level 3        | Total            |
| Debt instruments                 | 609,002          | -        | 68,876         | 677,878          | 697,711          | -        | 70,605         | 768,316          |
| Investment Funds                 | 368,040          | -        | 146,633        | 514,673          | 279,349          | -        | 153,457        | 432,806          |
| Equity instruments               | 28,657           | -        | -              | 28,657           | 37,299           | -        | -              | 37,299           |
| Derivative financial instruments | (1,163)          | -        | -              | (1,163)          | (113)            | -        | -              | (113)            |
| Real estate                      | -                | -        | 20,358         | 20,358           | -                | -        | 20,380         | 20,380           |
|                                  | <u>1,004,536</u> | <u>-</u> | <u>235,867</u> | <u>1,240,403</u> | <u>1,014,246</u> | <u>-</u> | <u>244,442</u> | <u>1,258,688</u> |

In 2010 insurance was taken out at Santander Totta Seguros – Companhia de Seguros de Vida, SA, to meet the liabilities of a new supplementary defined-contribution pension plan attributed to the Bank's senior management. The initial contribution to the new plan amounted to €4,430k. In the first six months of 2020 and 2019, the premium paid by the Bank amounted to €291k, (Note 32).

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 the benefits are realised. In the case of the beneficiary's death this amount will be further increased by €6,000.

Defined-benefit pension plan – former London Branch

As at June 30, 2020 and December 31, 2019, the main assumptions used in the calculation of retirement pension liabilities related with the pension plan covering the employees of Bank's London Branch were as follows:

|                                          | 30-06-2020                    | 31-12-2019                    |
|------------------------------------------|-------------------------------|-------------------------------|
|                                          | 92% of S3NMA/<br>98% of S3NFA | 92% of S3NMA/<br>98% of S3NFA |
| Mortality table                          |                               |                               |
| Technical actuarial rate (discount rate) | 1.4%                          | 1.9%                          |
| Wage growth rate                         | 2.4%                          | 2.2%                          |
| Pension growth rate                      | 1.9%                          | 1.8%                          |
| Inflation rate                           | 2.4%                          | 2.2%                          |

As at June 30, 2020, and December 31, 2019, the liabilities for the defined-benefit pension plan and

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their coverage were as follows:

|                                                   | 30-06-2020 | 31-12-2019 |
|---------------------------------------------------|------------|------------|
| Estimated liabilities for past-services           | 53,335     | 51,848     |
| Coverage of responsibilities                      | 44,014     | 44,654     |
| Excess financed amount / (non-financed) (Note 21) | (9,321)    | (7,194)    |

Movement under liabilities for past services during the first half of 2020 and in 2019 can be detailed as follows:

|                                               | 30-06-2020 | 31-12-2019 |
|-----------------------------------------------|------------|------------|
| Liabilities as at the beginning of the period | 51,848     | 44,509     |
| Cost of current services                      | 20         | 432        |
| Interest cost                                 | 455        | 1,252      |
| Actuarial (gains)/losses                      | 1,627      | 7,384      |
| Amounts paid                                  | (615)      | (1,729)    |
| -----                                         |            |            |
| Liabilities as at end of the period           | 53,335     | 51,848     |

The movement occurred in the Fund in the first half of 2020 and in 2019 was as follows:

|                                                    | 30-06-2020 | 31-12-2019 |
|----------------------------------------------------|------------|------------|
| Book value at the beginning of the period          | 44,654     | 38,891     |
| Net income of the Fund:                            |            |            |
| Return on assets calculated with the discount rate | 396        | 1,076      |
| Income of the Fund above/(below) the discount rate | (448)      | 6,046      |
| Contribution of the Branch                         | 27         | 370        |
| Amounts paid                                       | (615)      | (1,729)    |
| Book value at the end of the period                | 44,014     | 44,654     |

The movement under actuarial deviations in the first half of 2020 and in 2019 was as follows:

|                                                     | 30-06-2020 | 31-12-2019 |
|-----------------------------------------------------|------------|------------|
| Deviations at the beginning of the period (Note 22) | 13,447     | 12,109     |
| Actuarial (gains)/losses                            | 1,627      | 7,384      |
| Financial (gains)/losses                            | 448        | (6,046)    |
| Deviations at the end of the period (Note 22)       | 15,522     | 13,447     |

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As at June 30, 2020 and December 31, 2019, the portfolio of the Pension Fund of the London Branch included the following assets:

|                    | 30-06-2020    | 31-12-2019    |
|--------------------|---------------|---------------|
| Debt instruments   | 25,413        | 27,486        |
| Equity instruments | 18,413        | 17,446        |
| Other              | 187           | (278)         |
| Fund value         | <u>44,014</u> | <u>44,654</u> |

Liabilities for defined-benefit pension plans expose the Bank to the following risks:

- Investment risk – the updated value of the liabilities is calculated on the basis of a discount rate determined with reference, in terms of credit risk, to high-quality bonds 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 the bonds will increase the pension liabilities.
- Longevity risk – the updated amount of the liabilities is calculated on the basis of the best estimate at the time of the expected mortality of the participants before and after the retirement date. An increase of the life expectancy of the plan's participants will increase the pension liabilities.
- Salary risk – the updated amount of the liabilities is calculated on the basis of an estimate of the future salary of the participants. So, an increase of the participants' salary will increase the pension liabilities.

#### Pension Fund – Banif

As a result of the resolution measure applied to Banif on December 20, 2015, a number of employees were transferred to the Bank, as were the corresponding liabilities for past services. Also transferred were the liabilities for retired employees, retirees, pensioners and former participants with vested rights. On January 27, 2016, authorisation was requested of the Insurance and Pension Funds Supervisory Authority for the transfer to the Bank of Banif's position as associate of the Banif Pension Fund, with regard to the defined-benefit pension plan, subpopulations A and B, and in defined-contribution pension plans II and III. By letter dated June 7, 2016, the Bank of Portugal stated that the parties should revise some of the terms of the Contract for the Termination of the Share of the Pension Fund. The process is undergoing final assessment by the Insurance and Pension Funds Supervisory Authority.



Banif employees were covered by different types of pension plans:

- a) The first pension plan, defined-benefit, was subdivided between the Banif population and 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 Social Security; (ii) future payment of mandatory contributions for post-employment medical care (SAMS, the Medical-Social Assistance Services). For employees eligible for the retirement pension, the contribution of 6.5% was made on pensions and for employees associated with the defined-contribution plan, the benefit was changed to a single capital on retirement, corresponding to 6.5% of the capital constituted, based on the initial contribution plus the amount of the future contributions. Future contributions to the SAMS were changed in accordance with the new rules of the CBA.
- b) Defined-benefit pension plan I – former BBCA subpopulation (closed to new subscribers): (i) payment of retirement, disability, presumable disability and survivors' pensions, in accordance with the CBA and the regimes introduced by Decree-Law 1-A/2011 of January 3 and Decree-Law 127/2011 of December 31; (ii) future payment of mandatory contributions relating to post-employment medical care (SAMS) and (iii) death benefits, both under the terms of the CBA.

Banif had two defined-contribution pension plans:

- c) Pension plan II – monthly contribution by Banif of 4.5% of the remuneration to which the plan applies and an initial contribution on the date of constitution of the plan, which included all employees taken on by Banif before January 1, 2007, with the exception of those included following the merger by incorporation of the former BBCA, who are not covered by the Company Agreement. The initial contribution was calculated in the light of: (i) supplementary old-age pensions estimated in the evaluation of liabilities performed by the Responsible Actuary of the Pension Plan on December 31, 2006; and (ii) the current value of the future contributions.
- d) Pension plan III contribution by Banif of 1.5% of the remuneration of employees taken on after January 1, 2007, provided they had not died, retired or rescinded by the date of entry into force of the Company Agreement.

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The breakdown of the estimated liabilities for past services as at June 30, 2019 and December 31, 2019, using the Bank's assumptions, is as follows for the defined-benefit pension plan (considering both the Banif and the former BBKA sub-populations):

|                                        | 30-06-2020  |                |               |                     |          |
|----------------------------------------|-------------|----------------|---------------|---------------------|----------|
|                                        | Liabilities |                |               |                     |          |
|                                        | Healthcare  |                |               |                     | Total    |
|                                        | Pensions    | systems (SAMS) | Death Subsidy | Prize in retirement |          |
| Current Employees                      | 23,120      | 8,650          | 136           | 1,110               | 33,016   |
| Retired staff and pensioners           |             |                |               |                     | -        |
| Early retired staff                    | 110,261     | 10,822         | 473           | -                   | 121,556  |
| Former participants with vested rights | 3,714       | 2,172          | -             | -                   | 5,886    |
| Total liabilities for past services    | 137,095     | 21,644         | 609           | 1,110               | 160,458  |
| Book value of the pension fund         |             |                |               |                     | 89,665   |
| Insufficient financing                 |             |                |               |                     | (70,793) |

|                                        | 31-12-2019  |                |               |                     |          |
|----------------------------------------|-------------|----------------|---------------|---------------------|----------|
|                                        | Liabilities |                |               |                     |          |
|                                        | Healthcare  |                |               |                     | Total    |
|                                        | Pensions    | systems (SAMS) | Death Subsidy | Prize in retirement |          |
| Current Employees                      | 22,837      | 8,436          | 133           | 1,086               | 32,492   |
| Retired staff and pensioners           | 84,462      | 6,918          | 229           | -                   | 91,609   |
| Early retired staff                    | 26,977      | 4,271          | 246           | -                   | 31,494   |
| Former participants with vested rights | 3,714       | 2,494          | -             | -                   | 6,208    |
| Total liabilities for past services    | 137,990     | 22,119         | 608           | 1,086               | 161,803  |
| Book value of the pension fund         |             |                |               |                     | 101,126  |
| Insufficient fund                      |             |                |               |                     | (60,677) |

As at June 30, 2010 and December 31, 2019, the breakdown of the portfolio of the Banif Pension Fund

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associated with the defined-benefit pension plan by asset type is as follows:

| Assets                      | 30-06-2020    |                 | 31-12-2019     |                 |
|-----------------------------|---------------|-----------------|----------------|-----------------|
|                             | Total         | Relative weight | Total          | Relative weight |
| Debt Instruments            | 41,596        | 45.21%          | 47,884         | 46.14%          |
| Securities investment funds | 3,034         | 3.30%           | 4,381          | 4.22%           |
| Real estate fund            | 500           | 0.54%           | 1,160          | 1.12%           |
| Real estate properties      | 13,722        | 14.91%          | 13,722         | 13.22%          |
| Equity instruments          | 27,550        | 29.94%          | 31,733         | 30.58%          |
| Deposits                    | 4,924         | 5.35%           | 83             | 0.08%           |
| Other                       | 679           | 0.74%           | 4,811          | 4.64%           |
|                             | <u>92,005</u> |                 | <u>103,774</u> |                 |
| Assets to be transfered     | (2,340)       |                 | (2,648)        |                 |
|                             | <u>89,665</u> |                 | <u>101,126</u> |                 |

The value of the assets to be transferred corresponds to the amount of the assets of the Pension Fund's portfolio to be allocated to the coverage of the liabilities relating to Banif employees who were not transferred to the Bank.

### 37. SECURITISATION OPERATIONS

#### Description of the operations

Between July 2003 and January 2018, the Bank securitised part of its mortgage-loan portfolio through thirteen operations, the initial amount of which was €25,450,000k. In the older transactions the loans were sold for their par (book) value to loan securitisation funds denominated Fundos Hipototta FTC. A substantial part of the securitisations was repurchased by the Bank under the said agreements, while the Hipototta No. 4 and Hipototta No. 5 were maintained. In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma – Sociedade de Titularização de Créditos (Gamma STC), which financed the transaction through the issue of Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating and, consequently, remuneration. All these bonds were acquired by the Bank.

The Hipototta Funds (No. 4 and No. 5) are managed by Navegador – Sociedade Gestora de Fundos de Titularização de Créditos, SA. (Navegador). 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 Navegador.

As a form of funding, Hipototta Funds (No. 4 and No. 5) issued securitisation units of an amount identical to the loan portfolios acquired, which were fully subscribed by Hipototta Funds (No. 4 and No. 5) PLC, having its registered office in Ireland.

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On the other hand, Hipototta Funds (No. 4 and No.º 5) FTC delivered all amounts received from the Bank and from the Directorate General of the Treasury to Hipototta Funds (No. 4 and No. 5) PLC, separating the instalments into principal and interest.

As a form of funding, Hipototta Funds No. 4 and No. 5) PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration.

As at June 30, 2020, bonds issued that are still alive have the following characteristics:

| Hipototta nº 4 PLC |                  |                |        |                 |                       |                                              |                                              |  |
|--------------------|------------------|----------------|--------|-----------------|-----------------------|----------------------------------------------|----------------------------------------------|--|
| Issued Debt        | Amount           |                | Rating |                 | Early redemption date | Remuneration                                 |                                              |  |
|                    | Initial          | Current        | Fitch  | Redemption date |                       | Up to early redemption date                  | After early redemption date                  |  |
| Class A            | 2,616,040        | 463,069        | A      | September, 2048 | December, 2014        | Euribor 3 months + 0.12%                     | Euribor 3 months + 0.24%                     |  |
| Class B            | 44,240           | 16,847         | A      | September, 2048 | December, 2014        | Euribor 3 months + 0.19%                     | Euribor 3 months + 0.40%                     |  |
| Class C            | 139,720          | 53,205         | BB-    | September, 2048 | December, 2014        | Euribor 3 months + 0.29%                     | Euribor 3 months + 0.58%                     |  |
|                    | <u>2,800,000</u> | <u>533,121</u> |        |                 |                       |                                              |                                              |  |
| Class D            | 14,000           | 7,000          | NR     | September, 2048 | December, 2014        | Residual income of the securitized portfolio |                                              |  |
|                    | <u>2,814,000</u> | <u>540,121</u> |        |                 |                       |                                              |                                              |  |
|                    |                  |                |        |                 |                       |                                              |                                              |  |
| Hipototta nº 5 PLC |                  |                |        |                 |                       |                                              |                                              |  |
| Issued Debt        | Amount           |                | Rating |                 | 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%                     |  |
| Class A2           | 1,693,000        | 420,320        | A      | Aa3             | February, 2060        | February, 2014                               | Euribor 3 meses + 0,10%                      |  |
| Class B            | 26,000           | 26,000         | A      | Aa3             | February, 2060        | February, 2014                               | Euribor 3 meses + 0,26%                      |  |
| Class C            | 24,000           | 24,000         | A      | A1              | February, 2060        | February, 2014                               | Euribor 3 meses + 0,34%                      |  |
| Class D            | 26,000           | 26,000         | A      | Baa2            | February, 2060        | February, 2014                               | Euribor 3 meses + 0,48%                      |  |
| Class E            | 31,000           | 31,000         | BBB    | Ba2             | February, 2060        | February, 2014                               | Euribor 3 meses + 1,00%                      |  |
|                    | <u>2,000,000</u> | <u>527,320</u> |        |                 |                       |                                              | Euribor 3 meses + 3,50%                      |  |
| Class F            | 10,000           | 6,000          | CCC-   | Ca              | February, 2060        | February, 2014                               | Residual income of the securitized portfolio |  |
|                    | <u>2,010,000</u> | <u>533,320</u> |        |                 |                       |                                              |                                              |  |

The bonds issued by Hipototta No. 4 PLC earn interest quarterly on March, June, September and December 30 each year. The bonds issued by Hipototta nº 5 PLC earn interest quarterly on February 28 and on May, August and November 30 each year.

The Bank has an option to reimburse the bonds in advance, on the dates indicated above. For all the Hipototta, BST has call option to repurchase the loan portfolios at par when these are equal to or less than 10% of the initial amount of the operations.

Additionally, up to 5 days before the interest-payment dates in each quarter, the Hipototta are entitled to make partial repayments of bonds issued of classes A, B and C, as well as of classes D and E in the case of Hipototta nº 5 PLC, in order to adjust the amount of the liabilities to that of the assets (loan portfolio).

The Hipototta No. 4 class D bonds and the Hipototta No. 5 class F bonds constitute the last liability to be settled.

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The remuneration of the bonds of these classes corresponds to the difference between the yield of the securitised loan portfolios and the sum of all costs of the operations, namely:

- Taxes;
- Expenses and commissions calculated on the value of the portfolios (custody fee and servicer fee charged by the Bank, and management fee, charged by the Funds);
- Interest on the bonds of the other classes;
- Losses due to default.

On the date on which the securitisations were contracted, subordinated loans were concluded between the Bank and Hipototta, which correspond to credit facilities/lines in case of a need for liquidity on the part of Hipototta. Swap Agreements were also concluded between the Santander Group and securitisation vehicles, and between the Bank and the Santander Group intended to hedge the interest-rate risk.

#### Banif securitisation operations

In the wake of the resolution measure applied to Banif, the Bank acquired a number of securitisation operations issued by the said entity, and the corresponding securitised loans and bonds issued were transferred.

#### Azor Mortgage No. 1

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

| Azor Mortgage nº 1 |                |               |        |         |                 |                                              |
|--------------------|----------------|---------------|--------|---------|-----------------|----------------------------------------------|
| Issued Debt        | Amount         |               | Rating |         | Redemption date | Remuneration                                 |
|                    | Initial        | Current       | S&P    | Moody's |                 | Up to early redemption date                  |
| Class A            | 253,000        | -             | AA     | A1      | September, 2047 | Euribor 3 months + 0.3%                      |
| Class B            | 19,000         | 14,382        | AA     | Aa3     | September, 2047 | Euribor 3 months + 0.76%                     |
| Class C            | 9,000          | 9,000         | A      | Aa3     | September, 2047 | Euribor 3 months + 1.75%                     |
|                    | <u>281,000</u> | <u>23,382</u> |        |         |                 |                                              |
| Class D            | 10,000         | 10,000        | NR     | NR      | September, 2047 | Residual income of the securitized portfolio |
|                    | <u>291,000</u> | <u>33,382</u> |        |         |                 |                                              |

#### Atlantes Mortgage No. 2

Operation carried out in March 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 2, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

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| Atlantes Mortgage nº 2 |                |                |         |       |                 |                                              |
|------------------------|----------------|----------------|---------|-------|-----------------|----------------------------------------------|
| Issued Debt            | Amount         |                | Rating  |       | Redemption date | Remuneration                                 |
|                        | Initial        | Current        | S&P     | Fitch |                 | Up to early redemption date                  |
| Class A                | 349,100        | 104,977        | AA(sf)  | AA    | September, 2060 | Euribor 3 months + 0.33%                     |
| Class B                | 18,400         | 13,069         | AA(sf)  | A+    | September, 2060 | Euribor 3 months + 0.95%                     |
| Class C                | 7,500          | 5,327          | BBB(sf) | BBB+  | September, 2060 | Euribor 3 months + 1.65%                     |
|                        | <u>375,000</u> | <u>123,373</u> |         |       |                 |                                              |
| Class D                | 16,125         | 10,983         | NR      | NR    | September, 2060 | Residual income of the securitized portfolio |
|                        | <u>391,125</u> | <u>134,356</u> |         |       |                 |                                              |

### Azor Mortgage No. 2

Operation carried out in July 2008, in which the mortgage loans originated at the former BBCA were ceded to Gamma STC. To finance itself, Gamma STC issued Azor Mortgages No. 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

| Azor Mortgage nº 2 |                |                |         |        |                 |                                              |
|--------------------|----------------|----------------|---------|--------|-----------------|----------------------------------------------|
| Issued Debt        | Amount         |                | Rating  |        | Redemption date | Remuneration                                 |
|                    | Initial        | Current        | S&P     | Fitch  |                 | Up to early redemption date                  |
| Class A            | 253,500        | 79,503         | AA (sf) | A (sf) | December, 2065  | Euribor 3 months + 0.3%                      |
| Class B            | 46,500         | 43,080         | NR      | NR     | December, 2065  | Euribor 3 months + 0.8%                      |
|                    | <u>300,000</u> | <u>122,583</u> |         |        |                 |                                              |
| Class C            | 6,750          | 6,750          | NR      | NR     | December, 2065  | Residual income of the securitized portfolio |
|                    | <u>306,750</u> | <u>129,333</u> |         |        |                 |                                              |

### Atlantes Mortgage No. 3

Operation carried out in October 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the 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 |         | Redemption date | Remuneration                                 |
|                        | Initial        | Current        | S&P    | Fitch   |                 | Up to early redemption date                  |
| Class A                | 558,600        | 181,640        | AA     | AA (sf) | August, 2061    | Euribor 3 months + 0.2%                      |
| Class B                | 41,400         | 26,049         | NR     | NR      | August, 2061    | Euribor 3 months + 0.5%                      |
|                        | <u>600,000</u> | <u>207,689</u> |        |         |                 |                                              |
| Class C                | 57,668         | 46,026         | NR     | NR      | August, 2061    | Residual income of the securitized portfolio |
|                        | <u>657,668</u> | <u>253,715</u> |        |         |                 |                                              |

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#### Atlantes Mortgage No. 4

Operation carried out in February 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the 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 |       | Redemption date | Remuneration                                 |
|                        | Initial | Current | S&P    | Fitch |                 | Up to early redemption date                  |
| Class A                | 514,250 | 204,196 | A+     | A+    | December, 2064  | Euribor 3 months + 0.15%                     |
| Class B                | 35,750  | 22,487  | NR     | NR    | December, 2064  | Euribor 3 months + 0.3%                      |
|                        | 550,000 | 226,683 |        |       |                 |                                              |
| Class C                | 74,250  | 62,053  | NR     | NR    | December, 2064  | Residual income of the securitized portfolio |
|                        | 624,250 | 288,736 |        |       |                 |                                              |

#### Atlantes Mortgage No. 5

Operation carried out in December 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 5, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

| Atlantes Mortgage nº 5 |         |         |        |       |                 |                                              |
|------------------------|---------|---------|--------|-------|-----------------|----------------------------------------------|
| Issued Debt            | Amount  |         | Rating |       | Redemption date | Remuneration                                 |
|                        | Initial | Current | S&P    | Fitch |                 | Up to early redemption date                  |
| Class A                | 455,000 | 164,628 | AAA    | AA-   | November, 2068  | Euribor 3 months + 0.15%                     |
| Class B                | 45,000  | 30,394  | NR     | NR    | November, 2068  | Euribor 3 months + 0.3%                      |
|                        | 500,000 | 195,022 |        |       |                 |                                              |
| Class C                | 66,250  | 52,538  | NR     | NR    | November, 2068  | Residual income of the securitized portfolio |
|                        | 566,250 | 247,560 |        |       |                 |                                              |

#### Atlantes Mortgage No. 7

Operation carried out in November 2010, in which a residential mortgage-loan portfolio was ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 7, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

| Atlantes Mortgage nº 7 |         |         |        |       |                 |                                              |
|------------------------|---------|---------|--------|-------|-----------------|----------------------------------------------|
| Issued Debt            | Amount  |         | Rating |       | Redemption date | Remuneration                                 |
|                        | Initial | Current | S&P    | Fitch |                 | Up to early redemption date                  |
| Class A                | 357,300 | 130,161 | AA     | AA-   | August, 2066    | Euribor 3 months + 0.15%                     |
| Class B                | 39,700  | 24,188  | NR     | NR    | August, 2066    | Euribor 3 months + 0.3%                      |
|                        | 397,000 | 154,349 |        |       |                 |                                              |
| Class C                | 63,550  | 50,329  | NR     | NR    | August, 2066    | Residual income of the securitized portfolio |
|                        | 460,550 | 204,678 |        |       |                 |                                              |

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### Hipototta 13

In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to 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. All these bonds were acquired by the Bank.

| Hipototta 13 |                  |                  |        |        |                 |                                              |
|--------------|------------------|------------------|--------|--------|-----------------|----------------------------------------------|
| Issued Debt  | Amount           |                  | Rating |        | Redemption date | Remuneration                                 |
|              | Initial          | Current          | S&P    | Fitch  |                 | Up to early redemption date                  |
| Class A      | 1,716,000        | 1,107,754        | NR     | A+(sf) | October, 2072   | Euribor 3 months + 0.6%                      |
| Class B      | 484,000          | 484,000          | NR     | NR     | October, 2072   | Euribor 3 months + 1%                        |
|              | <u>2,200,000</u> | <u>1,591,754</u> |        |        |                 |                                              |
| Class C      | 66,000           | 49,737           | NR     | NR     | October, 2072   | Residual income of the securitized portfolio |
|              | <u>2,266,000</u> | <u>1,641,491</u> |        |        |                 |                                              |
| VFN          | 0.001            | 0.001            | NR     | NR     | October, 2072   | No remuneration                              |

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



**38. RELATED ENTITIES**

The Bank's related entities with which it maintained balances or transactions in the first half of 2020 are as follows:

| <b>Name of the related entity</b>                                                       | <b>Headquarters</b> |
|-----------------------------------------------------------------------------------------|---------------------|
| <b>Companies that directly or indirectly control the Group</b>                          |                     |
| Santander Totta, SGPS                                                                   | Portugal            |
| Santusa Holding, S.L.                                                                   | Spain               |
| Banco Santander, S.A.                                                                   | Spain               |
| <b>Companies under direct or indirect control by the Group</b>                          |                     |
| 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            |
| <b>Companies significantly influenced by the Group</b>                                  |                     |
| Unicre-Instituição Financeira de Crédito                                                | Portugal            |
| Lusimovest - Fundo de Inv. Imobiliário                                                  | Portugal            |
| <b>Special Purpose Entities that are directly or indirectly controlled by the Group</b> |                     |
| Hipototta NO. 4 PLC                                                                     | Ireland             |
| Hipototta NO. 4 FTC                                                                     | Portugal            |
| Hipototta NO. 5 PLC                                                                     | Ireland             |
| Hipototta NO. 5 FTC                                                                     | Portugal            |
| Operações de Securitização geridas pela GAMMA, STC                                      | Portugal            |

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| Name of the related entity                                                        | Headquarters   |
|-----------------------------------------------------------------------------------|----------------|
| <b>Companies that directly or indirectly are under common control by the Bank</b> |                |
| 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         |
| Consulteam - Consultores de Gestão, Lda                                           | Portugal       |
| Financeira El Corte Inglés, Portugal, S.F.C., S.A.                                | Portugal       |
| Santander Global Operation, S.A.                                                  | Spain          |
| Gesban Servicios Administrativos Globais                                          | Spain          |
| Ibérica de Compras Corporativas                                                   | Spain          |
| Inbond Inversiones 2014, S.L.                                                     | Spain          |
| Open Bank Santander Consumer S.A.                                                 | Spain          |
| Popular Seguros - Companhia de Seguros S.A.                                       | Portugal       |
| Portal Universia Portugal, Prestação de Serviços de Informática, S.A.             | Portugal       |
| Santander Consumer Services, S.A.                                                 | Portugal       |
| Retama Real Estate, S.L.                                                          | Spain          |
| Santander Asset Management SGFIM, S.A.                                            | Portugal       |
| Santander Asset Management, S.A. SGIC.                                            | Spain          |
| Santander Back-Office Globales Mayorista                                          | Spain          |
| Santander Bank & Trust Ltd.                                                       | Bahamas        |
| Santander Bank, National Association                                              | USA            |
| Santander Consumer Bank AG                                                        | Germany        |
| Santander Consumer Finance S.A.                                                   | Spain          |
| Santander Consumer, EFC, S.A.                                                     | Spain          |
| Santander Global Thechnology, S.L.                                                | Spain          |
| Santander Investment Securities, Inc                                              | USA            |
| Santander Investment, S.A.                                                        | Spain          |
| Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.                  | Portugal       |
| Santander Securities Services, S.A.                                               | Espanha        |
| Santander Totta Seguros, Companhia de Seguros de Vida, S.A.                       | Portugal       |
| Santander UK plc                                                                  | United Kingdom |
| Sovereign Bank                                                                    | USA            |
| UCI Mediação de Seguros, Unipessoal Lda.                                          | Portugal       |
| Union de Créditos Inmobiliários, SA                                               | Spain          |

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The Bank's related entities with which it maintained balances or transactions in 2019 are as follows:

| Name of the related entity                                                              | Headquarters |
|-----------------------------------------------------------------------------------------|--------------|
| <b>Companies that directly or indirectly control the Group</b>                          |              |
| Santander Totta, SGPS                                                                   | Portugal     |
| Santusa Holding, S.L.                                                                   | Spain        |
| Banco Santander, S.A.                                                                   | Spain        |
| <b>Companies under direct or indirect control by the Group</b>                          |              |
| Banif International Bank, Ltd (Bahamas)                                                 | Bahamas      |
| 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     |
| Primestar Servicing                                                                     | Portugal     |
| <b>Companies significantly influenced by the Group</b>                                  |              |
| Benim - Sociedade Imobiliária, SA                                                       | Portugal     |
| Unicre-Instituição Financeira de Crédito                                                | Portugal     |
| Lusimovest - Fundo de Inv. Imobiliario                                                  | Portugal     |
| <b>Special purpose Entities that are directly or indirectly controlled by the Group</b> |              |
| Hipototta NO. 4 PLC                                                                     | Ireland      |
| Hipototta NO. 4 FTC                                                                     | Portugal     |
| Hipototta NO. 5 PLC                                                                     | Ireland      |
| Hipototta NO. 5 FTC                                                                     | Portugal     |
| Operações de Securitização geridas pela GAMMA, STC                                      | Portugal     |
| Atlantes Mortgage 1 PLC                                                                 | Ireland      |
| Atlantes Mortgage 1 FTC                                                                 | Portugal     |

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| Name of the related entity                                                        | Headquarters   |
|-----------------------------------------------------------------------------------|----------------|
| <b>Companies that directly or indirectly are under common control by the Bank</b> |                |
| 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         |
| Consulteam - Consultores de Gestão, Lda                                           | Portugal       |
| Financeira El Corte Inglés, Portugal, S.F.C., S.A.                                | Portugal       |
| Santander Global Operation, S.A.                                                  | Spain          |
| Gesban Servicios Administrativos Globais                                          | Spain          |
| Ibérica de Compras Corporativas                                                   | Spain          |
| Inbond Inversiones 2014, S.L.                                                     | Spain          |
| Open Bank Santander Consumer S.A.                                                 | Spain          |
| Popular Gestao de Ativos                                                          | Portugal       |
| Popular Seguros - Companhia de Seguros S.A.                                       | Portugal       |
| Portal Universia Portugal, Prestação de Serviços de Informática, S.A.             | Portugal       |
| Santander Consumer Services, 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                                              | USA            |
| Santander Consumer Bank AG                                                        | Germany        |
| Santander Consumer Finance S.A.                                                   | Spain          |
| Santander Consumer, EFC, S.A.                                                     | Spain          |
| Santander Global Thechnology, S.L.                                                | Spain          |
| Santander Investment Securities, Inc                                              | USA            |
| Santander Investment, S.A.                                                        | Espanha        |
| 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 |
| Santander Global Facilities, SL                                                   | USA            |
| UCI Mediação de Seguros, Unipessoal Lda.                                          | Portugal       |
| Union de Créditos Inmobiliários, SA                                               | Spain          |

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As at June 30, 2020 and December 31, 2019, the balances and transactions maintained during these periods with related parties were as follows:

|                                                                          | 30-06-2020                                              |                                                          |                                                                |
|--------------------------------------------------------------------------|---------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------------|
|                                                                          | Companies that directly or indirectly control the Group | Companies that are significantly influenced by the Group | Companies under direct or indirect common control by the Group |
| <b>Assets:</b>                                                           |                                                         |                                                          |                                                                |
| Balances due from banks                                                  | 31,786                                                  | -                                                        | 905                                                            |
| Financial assets held for trading                                        | 263,055                                                 | -                                                        | 15,396                                                         |
| Loans and advances to credit institutions                                | 772,688                                                 | -                                                        | -                                                              |
| Credit granted and other balances receivable at amortized cost           | 17,545                                                  | 50,353                                                   | 4,245                                                          |
| Hedging derivatives                                                      | 860                                                     | -                                                        | 8,240                                                          |
| Investment in associated companies                                       | -                                                       | 57,020                                                   | -                                                              |
| Current Tax Assets                                                       | 3                                                       | -                                                        | -                                                              |
| Other assets                                                             | 7                                                       | 3,195                                                    | 15,026                                                         |
| <b>Liabilities:</b>                                                      |                                                         |                                                          |                                                                |
| Financial liabilities held for trading                                   | 974,980                                                 | -                                                        | 14,804                                                         |
| Resources from other credit institutions                                 | 292,812                                                 | -                                                        | 3,323                                                          |
| Resources from customers and other debts                                 | 41,494                                                  | 19,015                                                   | 505,682                                                        |
| Debt securities                                                          | 78,562                                                  | -                                                        | 8,511                                                          |
| Hedging derivatives                                                      | 98,779                                                  | -                                                        | -                                                              |
| Subordinated liabilities                                                 | 335,033                                                 | -                                                        | 4,296                                                          |
| Current tax liabilities                                                  | 155,583                                                 | -                                                        | -                                                              |
| Other liabilities                                                        | 4,095                                                   | -                                                        | 17,896                                                         |
| <b>Costs:</b>                                                            |                                                         |                                                          |                                                                |
| Interest charge                                                          | 115,135                                                 | -                                                        | 1,696                                                          |
| Charges with services and commissions                                    | 793                                                     | -                                                        | 849                                                            |
| Results from assets and liabilities at fair value through profit or loss | 404,386                                                 | -                                                        | 108,177                                                        |
| General administrative costs                                             | 4,266                                                   | -                                                        | 21,746                                                         |
| <b>Income:</b>                                                           |                                                         |                                                          |                                                                |
| Interest income                                                          | 107,043                                                 | 137                                                      | 40                                                             |
| Income from services and commissions                                     | 174                                                     | 174                                                      | 51,723                                                         |
| Results from assets and liabilities at fair value through profit or loss | 358,050                                                 | -                                                        | 118,938                                                        |
| Results from foreign exchange revaluation                                | 11,524                                                  | -                                                        | -                                                              |
| Result from associates                                                   | -                                                       | 751                                                      | -                                                              |
| Other operating results                                                  | -                                                       | -                                                        | 123                                                            |
| <b>Off balance sheet items:</b>                                          |                                                         |                                                          |                                                                |
| Guarantees provided and other contingent liabilities                     | 46,732                                                  | 22                                                       | 203,927                                                        |
| Guarantees received                                                      | 1                                                       | -                                                        | 162                                                            |
| Commitments to third parties                                             | 114,170                                                 | 40                                                       | 91,620                                                         |
| Currency operations and derivatives                                      | 27,768,205                                              | -                                                        | 474,259                                                        |
| Liabilities for services rendered                                        | 3,552,349                                               | -                                                        | 7,102,149                                                      |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020  
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|                                                                          | Entities that<br>directly or indirectly<br>control the Group | Entities that are<br>significantly influenced<br>by the Group | Entities under<br>direct or indirect<br>common control<br>by the Group |
|--------------------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------|------------------------------------------------------------------------|
| <b>Assets:</b>                                                           |                                                              |                                                               |                                                                        |
| Balances due from banks                                                  | 54,959                                                       | -                                                             | 1,115                                                                  |
| Financial assets held for trading                                        | 250,471                                                      | -                                                             | 12,497                                                                 |
| Loans and advances to credit institutions                                | 578,742                                                      | 54                                                            | 1                                                                      |
| Credit granted and other balances receivable at amortized cost           | 5,418                                                        | 55,659                                                        | 98,885                                                                 |
| Hedging derivatives                                                      | 2,322                                                        | -                                                             | -                                                                      |
| Investment in associated companies                                       | -                                                            | 59,240                                                        | -                                                                      |
| Current Tax Assets                                                       | 3                                                            | -                                                             | 18,199                                                                 |
| Other assets                                                             | 87                                                           | -                                                             | -                                                                      |
| <b>Liabilities:</b>                                                      |                                                              |                                                               |                                                                        |
| Financial liabilities held for trading                                   | 1,064,339                                                    | -                                                             | 20,280                                                                 |
| Resources from other credit institutions                                 | 717,174                                                      | -                                                             | 4,422                                                                  |
| Resources of customers and other debts                                   | 100,788                                                      | 17,811                                                        | 654,923                                                                |
| Debt securities                                                          | 46,576                                                       | -                                                             | 8,382                                                                  |
| Hedging derivatives                                                      | 55,620                                                       | -                                                             | -                                                                      |
| Subordinated liabilities                                                 | 335,033                                                      | -                                                             | 4,295                                                                  |
| Current tax liabilities                                                  | 85,981                                                       | -                                                             | -                                                                      |
| Other liabilities                                                        | 7,422                                                        | -                                                             | 10,828                                                                 |
| <b>Costs:</b>                                                            |                                                              |                                                               |                                                                        |
| Interest charge                                                          | 284,759                                                      | -                                                             | 10,650                                                                 |
| Charges with services and commissions                                    | 3,570                                                        | -                                                             | 3,625                                                                  |
| Results from assets and liabilities at fair value through profit or loss | 783,908                                                      | -                                                             | 166,055                                                                |
| Results from foreign exchange revaluation                                | 2,649                                                        | -                                                             | -                                                                      |
| General administrative costs                                             | 7,157                                                        | -                                                             | 34,607                                                                 |
| Other operating results                                                  |                                                              |                                                               |                                                                        |
| <b>Income:</b>                                                           |                                                              |                                                               |                                                                        |
| Interest income                                                          | 262,746                                                      | 390                                                           | 234                                                                    |
| Income from services and commissions                                     | 358                                                          | 286                                                           | 123,162                                                                |
| Results from assets and liabilities at fair value through profit or loss | 710,439                                                      | -                                                             | 157,072                                                                |
| Results from foreign exchange revaluation                                | -                                                            | -                                                             | 15                                                                     |
| Result from associates                                                   | -                                                            | 2,546                                                         | -                                                                      |
| Other operating results                                                  | -                                                            | -                                                             | 339                                                                    |
| <b>Off balance sheet items:</b>                                          |                                                              |                                                               |                                                                        |
| Guarantees provided and other contingent liabilities                     | 48,037                                                       | 22                                                            | 189,198                                                                |
| Guarantees received                                                      | 1                                                            | -                                                             | 162                                                                    |
| Commitments to third parties                                             | 114,170                                                      | 514                                                           | 103,172                                                                |
| Currency operations and derivatives                                      | 26,522,471                                                   | -                                                             | 482,186                                                                |
| Responsibilities for services rendered                                   | 3,596,890                                                    | -                                                             | 5,822,454                                                              |

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

## **GOVERNING BODIES**

### **Board of Directors**

As at June 30, 2020 and December 31, 2019, advances or loans granted to members of the governing bodies, considered key management personnel of the Bank, amounted to €588k and €735k, respectively. As at June 30, 2020 and December 31, 2019, fixed and variable remuneration totalled €2,731k and €5,953k, respectively.

With regard to post-retirement benefits, the members of the Board of Directors who have an employment tie with the Bank are included in the pension plan of the collective bargaining agreement for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3(j).

The General Meeting of Bank shareholders 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 be executive members (executive committee) of the Bank's Board of Directors in line with what had previously been defined in the former Totta Regulation. Members of the Board of Directors whose length of service is at least fifteen consecutive or interpolated years will be entitled to a pension supplement amounting to 80% of their gross annual salary. For terms of office less than fifteen years, the amount of the retirement pension supplement will be determined by the remuneration committee. For these persons, it is currently determined that the retirement pension supplement shall be 65% of the annual gross salary, for terms of office equal to or greater than ten years and 75% of the annual gross salary, for terms of office equal to or greater than twelve years. This defined-benefit pension plan is a supplementary plan and is dependent on the General Social Security Regime.

As at June 30, 2020 and December 31, 2019, liabilities with this plan amounted to €14,234k and €14,154k, respectively, and were covered by a provision of the same amount carried under "Provisions for pensions and other charges" (Note 19). The total number of beneficiaries of the Regulation was four in 2019 and six in 2018, and during 2019 two beneficiaries exercised the option for remission and one beneficiary exercised the right to payment of the supplementary pension.

With regard to termination of employment benefits, as provided for in the Companies Code, whenever, by decision of BST, the term of office of a member of the governing ends early, it 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.

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

**Fair value**

The following table summarizes, for each group of financial assets and liabilities, their fair values with reference to June 30, 2020 and December 31, 2019:

| 30-06-2020                                                              |                   |                   |                   |                   |
|-------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                                         | Fair value        | Amortised cost    | Book value        | Fair value        |
| <b><u>Assets</u></b>                                                    |                   |                   |                   |                   |
| Cash and deposits at central banks                                      | -                 | 7,039,808         | 7,039,808         | 7,162,982         |
| Balances due from other banks                                           | -                 | 509,393           | 509,393           | 509,393           |
| Financial assets held for trading                                       | 995,936           | -                 | 995,936           | 995,936           |
| Financial assets mandatory at fair value through profit or loss         | 138,096           | -                 | 138,096           | 138,096           |
| Financial assets at fair value through other comprehensive income       | 7,646,565         | -                 | 7,646,565         | 7,646,565         |
| Financial assets at amortised cost                                      |                   |                   |                   |                   |
| Loans and advances to credit institutions                               | -                 | 17,306            | 17,306            | 17,303            |
| Credit granted and other balances receivable at amortized cost          | 3,155,616         | 36,004,211        | 39,159,827        | 39,358,981        |
| Hedging derivatives                                                     | 40,424            | -                 | 40,424            | 40,424            |
|                                                                         | <u>11,976,637</u> | <u>43,570,718</u> | <u>55,547,355</u> | <u>55,869,680</u> |
| <b><u>Liabilities</u></b>                                               |                   |                   |                   |                   |
| Financial liabilities held for trading                                  | 1,020,162         | -                 | 1,020,162         | 1,020,162         |
| Financial liabilities at amortised cost                                 |                   |                   |                   |                   |
| Resources from central banks                                            | -                 | 6,801,194         | 6,801,194         | 6,782,170         |
| Resources from other credit institutions                                | -                 | 3,025,529         | 3,025,529         | 3,032,024         |
| Resources from customers and other debts                                | 81,128            | 36,542,619        | 36,623,747        | 36,555,262        |
| Debt securities                                                         | 8,512             | 3,636,811         | 3,645,323         | 3,629,680         |
| Other financial liabilities                                             | -                 | 225,486           | 225,486           | 225,486           |
| Hedging derivatives                                                     | 499,920           | -                 | 499,920           | 499,920           |
|                                                                         | <u>1,609,722</u>  | <u>50,231,639</u> | <u>51,841,361</u> | <u>51,744,704</u> |
|                                                                         |                   |                   |                   |                   |
| 31-12-2019                                                              |                   |                   |                   |                   |
|                                                                         | Fair value        | Amortised cost    | Book value        | Fair value        |
| <b><u>Assets</u></b>                                                    |                   |                   |                   |                   |
| Cash and deposits at central banks                                      | -                 | 3,153,555         | 3,153,555         | 3,168,987         |
| Balances due from other banks                                           | -                 | 339,109           | 339,109           | 339,109           |
| Financial assets held for trading                                       | 1,085,927         | -                 | 1,085,927         | 1,085,927         |
| Other financial assets mandatory at fair value through profit or loss   | 144,998           | -                 | 144,998           | 144,998           |
| Other financial assets at fair value through other comprehensive income | -                 | -                 | -                 | 5,862,349         |
| Financial assets at amortised cost                                      |                   |                   |                   |                   |
| Loans and advances to credit institutions                               | -                 | 727,486           | 727,486           | 726,874           |
| Credit granted and other balances receivable at amortized cost          | 4,652,197         | 34,687,983        | 39,340,180        | 39,856,041        |
| Hedging derivatives                                                     | 56,246            | -                 | 56,246            | 56,246            |
|                                                                         | <u>5,939,368</u>  | <u>38,908,133</u> | <u>44,847,501</u> | <u>51,240,531</u> |
| <b><u>Liabilities</u></b>                                               |                   |                   |                   |                   |
| Financial liabilities held for trading                                  | 1,114,703         | -                 | 1,114,703         | 1,114,703         |
| Financial liabilities at amortised cost                                 |                   |                   |                   |                   |
| Resources from central banks                                            | -                 | 3,037,524         | 3,037,524         | 3,035,739         |
| Resources from other credit institutions                                | -                 | 3,195,996         | 3,195,996         | 3,199,609         |
| Resources from customers and other debts                                | 104,695           | 35,768,577        | 35,873,272        | 35,882,889        |
| Debt securities                                                         | 8,382             | 3,720,559         | 3,728,941         | 3,809,592         |
| Other financial liabilities                                             | -                 | 218,021           | 218,021           | 218,021           |
| Hedging derivatives                                                     | 393,831           | -                 | 393,831           | 393,831           |
|                                                                         | <u>1,621,611</u>  | <u>45,940,677</u> | <u>47,562,288</u> | <u>47,654,384</u> |



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The items credit extended and other receivables at amortised cost, customer resources and other loans and liabilities represented by securities include financial assets and liabilities in respect of which hedge accounting was applied and were considered to be measured at fair value, though they were only subject to value correction in relation to the risk hedged.

The following table summarizes, by valuation levels for each group of financial assets and liabilities, their fair values with reference to June 30, 2020 and December 31, 2019:

| 30-06-2020                                                              |                  |                   |                   |                   |
|-------------------------------------------------------------------------|------------------|-------------------|-------------------|-------------------|
|                                                                         | Level 1          | Level 2           | Level 3           | Total             |
| <b><u>Assets</u></b>                                                    |                  |                   |                   |                   |
| Cash and deposits at central banks                                      | -                | 7,162,982         | -                 | 7,162,982         |
| Balances due from other banks                                           | -                | 509,393           | -                 | 509,393           |
| Financial assets held for trading                                       | -                | 995,936           | -                 | 995,936           |
| Other financial assets mandatory at fair value through profit or loss   | 737              | -                 | 137,359           | 138,096           |
| Other financial assets at fair value through other comprehensive income | 2,400,629        | 5,240,327         | 5,609             | 7,646,565         |
| Financial assets at amortised cost                                      |                  |                   |                   |                   |
| Loans and advances to credit institutions                               | -                | 17,303            | -                 | 17,303            |
| Credit granted and other balances receivable at amortized cost          | -                | 3,814,005         | 35,544,976        | 39,358,981        |
| Hedging derivatives                                                     | -                | 40,424            | -                 | 40,424            |
|                                                                         | <u>2,401,366</u> | <u>17,780,370</u> | <u>35,687,944</u> | <u>55,869,680</u> |
| <b><u>Liabilities</u></b>                                               |                  |                   |                   |                   |
| Financial liabilities held for trading                                  | -                | 1,020,162         | -                 | 1,020,162         |
| Financial liabilities at amortised cost                                 |                  |                   |                   |                   |
| Resources from central banks                                            | -                | 6,782,170         | -                 | 6,782,170         |
| Resources from other credit institutions                                | -                | 2,132,024         | 900,000           | 3,032,024         |
| Resources from customers and other debts                                | -                | 12,643            | 36,542,619        | 36,555,262        |
| Debt securities                                                         | -                | 2,625,429         | 1,004,251         | 3,629,680         |
| Other financial liabilities                                             | -                | 225,486           | -                 | 225,486           |
| Hedging derivatives                                                     | -                | 499,920           | -                 | 499,920           |
|                                                                         | <u>-</u>         | <u>13,297,834</u> | <u>38,446,870</u> | <u>51,744,704</u> |

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| 31-12-2019                                                              |                  |                   |                   |                   |
|-------------------------------------------------------------------------|------------------|-------------------|-------------------|-------------------|
|                                                                         | Level 1          | Level 2           | Level 3           | Total             |
| <b><u>Assets</u></b>                                                    |                  |                   |                   |                   |
| Cash and deposits at central banks                                      | -                | 3,168,987         | -                 | 3,168,987         |
| Balances due from other banks                                           | -                | 339,109           | -                 | 339,109           |
| Financial assets held for trading                                       | -                | 1,085,927         | -                 | 1,085,927         |
| Other financial assets mandatory at fair value through profit or loss   | 754              | -                 | 144,244           | 144,998           |
| Other financial assets at fair value through other comprehensive income | 3,627,955        | 2,228,001         | 6,393             | 5,862,349         |
| Financial assets at amortised cost                                      |                  |                   |                   |                   |
| Loans and advances to credit institutions                               | -                | 726,874           | -                 | 726,874           |
| Credit granted and other balances receivable at amortized cost          | -                | 6,260,664         | 33,595,377        | 39,856,041        |
| Hedging derivatives                                                     | -                | 56,246            | -                 | 56,246            |
|                                                                         | <u>3,628,709</u> | <u>13,865,808</u> | <u>33,746,014</u> | <u>51,240,531</u> |
| <b><u>Liabilities</u></b>                                               |                  |                   |                   |                   |
| Financial liabilities held for trading                                  | -                | 1,114,703         | -                 | 1,114,703         |
| Financial liabilities at amortised cost                                 |                  |                   |                   |                   |
| Resources from central banks                                            | -                | 3,035,739         | -                 | 3,035,739         |
| Resources from other credit institutions                                | -                | 3,199,609         | -                 | 3,199,609         |
| Resources from customers and other debts                                | -                | 104,695           | 35,778,194        | 35,882,889        |
| Debt securities                                                         | -                | 2,630,495         | 1,179,097         | 3,809,592         |
| Other financial liabilities                                             | -                | 218,021           | -                 | 218,021           |
| Hedging derivatives                                                     | -                | 393,831           | -                 | 393,831           |
|                                                                         | <u>-</u>         | <u>10,697,093</u> | <u>36,957,291</u> | <u>47,654,384</u> |

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, some private debt, some investment funds and shares.
- Level 2 - Financial instruments recorded at fair value using prices traded on the market that are not active or for which it is necessary to use valuation models or techniques with inputs that can be observed in the market, either directly (such as prices) or indirect (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 all financial derivative instruments for hedging and trading. It should be noted that the internal valuation models used mainly correspond to models for updating future cash flows and valuation methodologies based on the "Black-Scholes" model for structured options and products. The models for updating future cash flows ("present value method") update future contractual flows using the interest rate curves of each currency observable in the market, plus the credit spread of the issuer or entity with a similar rating.

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For derivative financial instruments, the main valuation techniques are presented below:

| Derivative instrument         | Main valuation techniques                                         |
|-------------------------------|-------------------------------------------------------------------|
| Forwards                      | Present value model                                               |
| Interest rate swaps           | Present value model                                               |
| Currency swaps                | Present value model                                               |
| Equity swaps                  | Present value model                                               |
| Exchange rate options         | Black-Scholes model, Monte Carlo model                            |
| Contracts on prices (options) | Black-Scholes model, Heston model                                 |
| Interest rate options         | Black-Scholes model, Heath-Jarrow-Morton model                    |
| Options-other                 | Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model |
| Caps/Floors                   | Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model |

The Bank calculates the "Credit Value Adjustment" (CVA) and the "Debit Value Adjustment" (DVA) for hedged financial instruments from financial assets held for trading and hedging derivatives from the perspective of aggregate exposure by counterparty. It's the evolution of the joint exposure of all derivatives, with a given counterparty, through stochastic processes is simulated. This evolution is grouped into time frames that represent the expected positive and negative future exposures (Positive and Negative Expected Future Exposures). To these exposures is applied an expected loss factor and discount factor for the respective term. The CVA and DVA calculated for each counterparty then result from the sum of expected losses in each term.

Additionally, for the purposes of calculating Credit Value Adjustments and Debit Value Adjustments to derivative financial instruments, the following inputs were used:

- Counterparties with quoted credit default swaps - Quotes published in active markets;
- Counterparties without quoted credit default swaps;
- Quotes published in active markets for counterparties with similar risk; or
- Probability of default calculated taking into account the internal rating assigned to the client (see credit risk section of this annex) x loss given default (specific for project finance clients and 60% for other clients).
- Level 3 - The Bank classifies financial instruments at this level, which are measured using internal models with some inputs that do not correspond to observable market data. In this category, were classified, namely, securities not quoted in active markets for which the Bank uses extrapolations of market data.

To calculate the fair value of financial instruments recorded at amortized cost, the valuation methods used where the valuation techniques, namely through updating future cash flows.

The main assumptions used in determining fair value, by type of financial instrument, were as follows:

- The future cash flows from applications and funds from credit institutions were discounted using interest rate curves for the monetary market;

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- For the purposes of discounting future flows from the customer loan portfolio, the fair value of the credit granted was determined taking into account the average spread of production carried out in the last quarter of the year;
- For customer demand deposits, it was considered that the fair value was equal to the balance sheet value. For time deposits, the average rates of deposits contracted in the last quarter of the year were used, taking into account the different types;
- In the case of liabilities represented by securities, future cash flows were discounted based on the market conditions required for similar issues at the end of the year;
- In the case of subordinated liabilities, to discount future cash flows, market interest rates applied to similar issues were considered.

In the period ended June 30, 2020 and in 2019, the movement in financial instruments classified in Level 3 was as follows:

|                                   | Financial assets<br>held for trading | Other financial assets<br>mandatory at fair value<br>through profit or loss | Other financial assets<br>mandatory at fair value<br>through comprehensive income | Available-for-sale<br>financial assets | Total       |
|-----------------------------------|--------------------------------------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------|-------------|
| December 31, 2018                 | 3,379                                | 166,375                                                                     | 10,562                                                                            | 35,457,030                             | 35,637,346  |
| Acquisitions                      | -                                    | 127                                                                         | 4,309                                                                             | -                                      | 4,436       |
| Sales                             | (3,379)                              | -                                                                           | (10,852)                                                                          | -                                      | (14,231)    |
| Reimbursements                    | -                                    | (17,636)                                                                    | (774)                                                                             | -                                      | (18,410)    |
| Reclassifications                 | -                                    | -                                                                           | 3,100                                                                             | (1,572,562)                            | (1,569,462) |
| Changes in fair value             | -                                    | (4,622)                                                                     | 137                                                                               | -                                      | (4,485)     |
| Origination net of depreciation   | -                                    | -                                                                           | -                                                                                 | (476,196)                              | (476,196)   |
| Impairment recognized in the year | -                                    | -                                                                           | (89)                                                                              | 187,105                                | 187,016     |
| December 31, 2019                 | -                                    | 144,244                                                                     | 6,393                                                                             | 33,595,377                             | 33,746,014  |
| Acquisitions                      | -                                    | 265                                                                         | 2,738                                                                             | -                                      | 3,003       |
| Sales                             | -                                    | (43)                                                                        | (3,342)                                                                           | -                                      | (3,385)     |
| Reimbursements                    | -                                    | (6,594)                                                                     | (331)                                                                             | -                                      | (6,925)     |
| Changes in fair value             | -                                    | (513)                                                                       | 79                                                                                | -                                      | (434)       |
| Origination net of depreciation   | -                                    | -                                                                           | -                                                                                 | 2,046,552                              | 2,046,552   |
| Impairment recognized in the year | -                                    | -                                                                           | 72                                                                                | (96,953)                               | (96,881)    |
| June 30, 2020                     | -                                    | 137,359                                                                     | 5,609                                                                             | 35,544,976                             | 35,687,944  |

The interest rate curves for the most representative terms and currencies used in the valuation of financial instruments were as follows:

|           | 30-06-2020 |       | 31-12-2019 |       |
|-----------|------------|-------|------------|-------|
|           | EUR        | USD   | EUR        | USD   |
| Overnight | -0.15%     | 0.31% | -0.34%     | 2.09% |
| 1 month   | -0.15%     | 0.31% | -0.34%     | 2.09% |
| 3 months  | -0.24%     | 0.30% | -0.33%     | 1.91% |
| 6 months  | -0.31%     | 0.28% | -0.33%     | 1.82% |
| 9 months  | -0.33%     | 0.28% | -0.32%     | 1.78% |
| 1 year    | -0.35%     | 0.26% | -0.32%     | 1.75% |
| 3 years   | -0.40%     | 0.22% | -0.24%     | 1.67% |
| 5 years   | -0.36%     | 0.31% | -0.11%     | 1.71% |
| 7 years   | -0.30%     | 0.44% | 0.02%      | 1.78% |
| 10 years  | -0.19%     | 0.61% | 0.21%      | 1.88% |

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Hedge accounting

As of June 30, 2020 and December 31, 2019, hedge derivatives and financial instruments designated as hedged items, presented the following detail:

|                                                                         | 30-06-2020    |                         |                        |            |                    |            |
|-------------------------------------------------------------------------|---------------|-------------------------|------------------------|------------|--------------------|------------|
|                                                                         | Hedged item   |                         |                        |            | Hedging instrument |            |
|                                                                         | Nominal value | Net value of impairment | Fair value adjustments | Book value | Nominal Value      | Fair Value |
| Fair value hedge                                                        |               |                         |                        |            |                    |            |
| Credit granted and other balances receivable at amortized cost          | 3,084,518     | 3,097,902               | 57,714                 | 3,155,616  | 3,092,224          | (87,304)   |
| Other financial assets at fair value through other comprehensive income | 3,880,000     | 3,898,942               | 388,926                | 4,287,868  | 3,880,000          | (389,972)  |
| Resources from customers and other debts                                | (80,325)      | (80,658)                | (470)                  | (81,128)   | 79,116             | 595        |
| Debt securities                                                         | (8,227)       | (8,277)                 | (235)                  | (8,512)    | 8,227              | 254        |
| Cash flow hedge                                                         |               |                         |                        |            |                    |            |
| Other financial assets at fair value through other comprehensive income | 1,354,500     | 1,354,500               | -                      | 1,354,500  | 1,508,874          | (22,633)   |
| Credit granted and other balances receivable at amortized cost          | 5,000,000     | 5,000,000               | -                      | 5,000,000  | 5,000,000          | 39,564     |
|                                                                         | 13,230,466    | 13,262,409              | 445,935                | 13,708,344 | 13,568,441         | (459,496)  |

|                                                                         | 31-12-2019    |                         |                        |            |                    |            |
|-------------------------------------------------------------------------|---------------|-------------------------|------------------------|------------|--------------------|------------|
|                                                                         | Hedged item   |                         |                        |            | Hedging instrument |            |
|                                                                         | Nominal value | Net value of impairment | Fair value adjustments | Book value | Nominal Value      | Fair Value |
| Fair value hedge:                                                       |               |                         |                        |            |                    |            |
| Credit granted and other balances receivable at amortized cost          | 4,423,905     | 4,433,058               | 219,139                | 4,652,197  | 4,423,419          | (243,098)  |
| Other financial assets at fair value through other comprehensive income | 2,080,000     | 2,129,252               | 48,352                 | 2,177,604  | 2,080,000          | (49,905)   |
| Resources from customers and other debts                                | (103,979)     | (104,325)               | (369)                  | (104,694)  | 102,172            | 368        |
| Debt securities                                                         | (8,227)       | (8,230)                 | (152)                  | (8,382)    | 8,227              | 124        |
| Cash flow hedge                                                         |               |                         |                        |            |                    |            |
| Other financial assets at fair value through other comprehensive income | 2,466,500     | 2,466,500               | -                      | 2,466,500  | 2,793,196          | (97,869)   |
| Credit granted and other balances receivable at amortized cost          | 9,000,000     | 9,000,000               | -                      | 9,000,000  | 9,000,000          | 52,795     |
|                                                                         | 17,858,199    | 17,916,255              | 266,970                | 18,183,225 | 18,407,014         | (337,585)  |

Cash flow coverage

The expected periods for the occurrence of cash flows that will affect the results for the period present the following detail:

|                     | 30-06-2020     |                           |                         |                   |              |        |
|---------------------|----------------|---------------------------|-------------------------|-------------------|--------------|--------|
|                     | Up to 3 months | From 3 months to 6 months | From 6 months to 1 year | From 1 to 3 years | Over 3 years | Total  |
| Interest rate swaps | 4,589          | 13,895                    | 6,846                   | 13,234            | -            | 39,564 |

|                     | 31-12-2019     |                           |                         |                   |              |        |
|---------------------|----------------|---------------------------|-------------------------|-------------------|--------------|--------|
|                     | Up to 3 months | From 3 months to 6 months | From 6 months to 1 year | From 1 to 3 years | Over 3 years | Total  |
| Interest rate swaps | 5,957          | 13,049                    | 17,604                  | 16,185            | -            | 52,795 |

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The gains and losses recognized in the income statements for the six-month period ended June 30, 2020 and in fiscal year 2019, with fair value hedging operations, presented the following detail:

|                                                                | 30-06-2020       |                       |            | 31-12-2019     |                       |          |
|----------------------------------------------------------------|------------------|-----------------------|------------|----------------|-----------------------|----------|
|                                                                | Hedged<br>item   | Hedging<br>instrument | Net        | Hedged<br>item | Hedging<br>instrument | Net      |
| Credit granted and other balances receivable at amortized cost | 161,572          | (161,425)             | 147        | 171,977        | (171,977)             | -        |
| Financial assets at fair value                                 |                  |                       |            |                |                       |          |
| through other comprehensive income                             | (340,574)        | 340,574               | -          | 43,859         | (43,859)              | -        |
| Resources from customers and other debts                       | 100              | (100)                 | -          | 2,030          | (2,030)               | -        |
| Debt securities                                                | 83               | (83)                  | -          | (152)          | 152                   | -        |
|                                                                | <u>(178,819)</u> | <u>178,966</u>        | <u>147</u> | <u>217,714</u> | <u>(217,714)</u>      | <u>-</u> |

## **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 and within every area of activity.

Credit-risk management is carried out by an independent body, the Risks Area, which is responsible in particular for managing the special customer monitoring system, for the segmentation of the credit risk in the light of the characteristics of the customers and of the products, and for the scoring systems (applicable to mortgage-loan and consumer-credit operations, credit cards and business) and the rating 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, contracting repos, securities lending and derivative instruments. Given the high complexity and volume of transactions, as well as the requirements of adequate control of the consolidated risks in certain customer segments, the control perimeter is defined in keeping with the segments at issue.

Control of these risks is performed on a daily basis in accordance with an integrated system that allows registration of the approved limits and real-time updating of positions, and provides information on the availability of limits and aggregate exposure, also in real time, for the various products and maturities. The system also allows transverse control (at different levels) of the concentration of risks by groups of customers/counterparties.

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

For specific customer segments (namely global corporate clients) emphasis is given to the implementation of economic-capital limits, incorporating in the quantitative control the variables associated with the creditworthiness of each counterparty.

Risk analyses for customers or economic groups where the Bank has an exposure of more than €500,000 are performed by risk analysts who monitor the customers and are 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, is underlain by the degree of risk inherent to the customer and a default probability at one year that the Bank monitors and calibrates on a constant and regular basis.

In concrete terms, the rating is determined by the analysis of the following factors to which are assigned a rating from 1.0 (minimum) to 9.3 (maximum), in accordance with the following weighting:

| <u>Department</u>      | <u>Weighting</u> |
|------------------------|------------------|
| . 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;

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As of June 30, 2020 and December 31, 2019, the maximum exposure to credit risk and the respective balance sheet value of financial instruments presented the following detail:

|                                                                   | 30-06-2020        |                   | 31-12-2019        |                   |
|-------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                                                   | Book value        | Maximum exposure  | Book value        | Maximum exposure  |
| Cash and deposits at central banks                                | 7,039,808         | 7,039,808         | 3,153,555         | 3,153,555         |
| Balances due from other banks                                     | 509,393           | 509,393           | 339,109           | 339,109           |
| Financial assets held for trading                                 | 995,936           | 995,936           | 1,085,927         | 1,085,927         |
| Financial assets mandatory at fair value through profit or loss   | 138,096           | 138,096           | 144,998           | 144,998           |
| Financial assets at fair value through other comprehensive income | 7,646,565         | 7,646,565         | 5,862,349         | 5,862,349         |
| Loans and advances to credit institutions                         | 17,306            | 17,306            | 727,486           | 727,486           |
| Credit granted and other balances receivable at amortized cost    | 39,159,827        | 45,429,223        | 39,340,180        | 45,507,138        |
| Hedging derivatives                                               | 40,424            | 40,424            | 56,246            | 56,246            |
| Investment in associated companies                                | 57,020            | 57,020            | 59,240            | 59,240            |
|                                                                   | <u>55,604,375</u> | <u>61,873,771</u> | <u>50,769,090</u> | <u>56,936,048</u> |
| Guarantees provided                                               | <u>1,973,295</u>  | <u>1,973,295</u>  | <u>1,951,212</u>  | <u>1,951,212</u>  |

The maximum exposure in "Credit granted and other balances receivable at amortized cost" at 30 June 2020, included 626,618 thousand euros and 5,642,778 thousand euros referring to irrevocable credit lines and revocable credit lines, respectively (1,000,630 thousand euros and 5,166,328 thousand euros at 31 December 2019, respectively) (Note 25).

In accordance with the requirements defined in Bank of Portugal Instruction No. 4/2018, the Bank started to publish "non-performing exposures" (Non Performing Exposures) and "deferred exposures" (Forborne exposures).

In this sense, on June 30, 2020 and December 31, 2019, the productive and non-productive exhibitions present the following detail:

|                                   | 30-06-2020        |                    |          | 31-12-2019        |                  |          |
|-----------------------------------|-------------------|--------------------|----------|-------------------|------------------|----------|
|                                   | Book value        | Impairment         | Coverage | Book value        | Impairment       | Coverage |
| Performing exposures              | 38,624,805        | (198,793)          | 0.5%     | 38,639,331        | (137,381)        | 0.4%     |
| Non-performing exposures          |                   |                    |          |                   |                  |          |
| . Loans represented by securities | -                 | -                  | 0.0%     | -                 | -                | 0.0%     |
| . Households                      | 460,678           | (249,348)          | 54.1%    | 477,921           | (195,016)        | 40.8%    |
| . Corporates                      | 1,092,776         | (570,291)          | 52.2%    | 1,144,407         | (589,082)        | 51.5%    |
|                                   | <u>1,553,454</u>  | <u>(819,639)</u>   |          | <u>1,622,328</u>  | <u>(784,098)</u> |          |
|                                   | <u>40,178,259</u> | <u>(1,018,432)</u> |          | <u>40,261,659</u> | <u>(921,479)</u> |          |



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As of June 30, 2020 and December 31, 2019, the degree of coverage of non-performing exposures by collateral was as follows:

|                                   | 30-06-2020       |                |          | 31-12-2019       |                |          |
|-----------------------------------|------------------|----------------|----------|------------------|----------------|----------|
|                                   | Book value       | Collateral     | Coverage | Book value       | Collateral     | Coverage |
| Non-performing exposures          |                  |                |          |                  |                |          |
| . Loans represented by securities | -                | -              | -        | -                | -              | -        |
| . Households                      | 460,678          | 171,295        | 37.2%    | 477,921          | 243,917        | 51.0%    |
| . Corporates                      | 1,092,776        | 336,007        | 30.7%    | 1,144,407        | 363,235        | 31.7%    |
|                                   | <u>1,553,454</u> | <u>507,302</u> |          | <u>1,622,328</u> | <u>607,152</u> |          |

### 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, 2019 and December 31, 2019 the breakdown of forborne exposures was as follows:

|                          | 30-06-2020       |                  |          | 31-12-2019       |                  |          |
|--------------------------|------------------|------------------|----------|------------------|------------------|----------|
|                          | Book value       | Impairment       | Coverage | Book value       | Impairment       | Coverage |
| Performing exposures     | 503,426          | (21,396)         | 4.3%     | 568,508          | (25,098)         | 4.4%     |
| Non-performing exposures |                  |                  |          |                  |                  |          |
| . Households             | 285,223          | (116,701)        | 40.9%    | 304,344          | (123,671)        | 40.6%    |
| . Corporates             | 822,065          | (427,004)        | 51.9%    | 830,634          | (439,479)        | 52.9%    |
|                          | <u>1,107,288</u> | <u>(543,705)</u> |          | <u>1,134,978</u> | <u>(563,150)</u> |          |
|                          | <u>1,610,714</u> | <u>(565,101)</u> |          | <u>1,703,486</u> | <u>(588,248)</u> |          |

### LIQUIDITY RISK

The balance sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury, Commercial, Marketing and International areas. Committee meetings are held monthly and at them the balance-sheet risks are analysed and strategic options decided.

For the ALM area the following balance-sheet management limits are defined:

- Limits intended to control the interest-rate risk, in particular, the sensitivity of the net interest margin (NIM) and the sensitivity of the market value of equities (MVE) to unexpected interest-rate variations; and

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- 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 minimization 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, 2020 and December 31, 2019, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their maturities, was as follows:

|                                                                   | 30-06-2020        |                  |                         |                   |                   |                   |                |                   |
|-------------------------------------------------------------------|-------------------|------------------|-------------------------|-------------------|-------------------|-------------------|----------------|-------------------|
|                                                                   | On demand         | Up to 3 months   | From 3 months to 1 year | From 1 to 3 years | From 3 to 5 years | Over 5 years      | Undetermined   | Derivatives       |
| <b>Assets</b>                                                     |                   |                  |                         |                   |                   |                   |                |                   |
| Cash and deposits at central banks                                | 264,427           | -                | -                       | -                 | 6,775,381         | -                 | -              | -                 |
| Balances due from other banks                                     | 509,393           | -                | -                       | -                 | -                 | -                 | -              | -                 |
| Financial assets held for trading                                 | -                 | -                | -                       | -                 | -                 | -                 | -              | 995,936           |
| Financial assets mandatory at fair value through profit or loss   | -                 | -                | -                       | -                 | -                 | -                 | 138,096        | -                 |
| Financial assets at fair value through other comprehensive income | 2                 | 160,027          | 1,376,801               | 290,388           | 290,391           | 5,496,511         | 72,580         | -                 |
| Loans and advances to credit institutions                         | -                 | 2,669            | 1,592                   | -                 | -                 | 14,083            | -              | -                 |
| Credit granted and other balances receivable at amortized cost    | 532,175           | 1,861,582        | 5,177,502               | 10,105,701        | 7,048,406         | 18,765,204        | -              | -                 |
| Hedging derivatives                                               | -                 | -                | -                       | -                 | -                 | -                 | -              | 40,424            |
| Investments in associates                                         | -                 | -                | -                       | -                 | -                 | -                 | 57,020         | -                 |
|                                                                   | <u>1,305,997</u>  | <u>2,024,278</u> | <u>6,555,895</u>        | <u>10,396,089</u> | <u>14,114,178</u> | <u>24,275,798</u> | <u>267,696</u> | <u>1,036,360</u>  |
|                                                                   |                   |                  |                         |                   |                   |                   |                | <u>59,976,291</u> |
| <b>Liabilities</b>                                                |                   |                  |                         |                   |                   |                   |                |                   |
| Financial liabilities held for trading                            | -                 | -                | -                       | -                 | -                 | -                 | -              | 1,020,162         |
| Resources from central banks                                      | 1,855             | -                | -                       | 6,701,146         | -                 | -                 | -              | -                 |
| Resources from other credit institutions                          | 577,608           | 841,456          | 508,912                 | 600,720           | 350,000           | 150,000           | -              | -                 |
| Resources from customers and other debts                          | 21,058,822        | 5,721,612        | 6,396,229               | 1,962,864         | 1,446,161         | 68,680            | -              | -                 |
| Debt securities                                                   | -                 | 49,336           | 867,530                 | 287,717           | 1,225,202         | 1,599,455         | -              | -                 |
| Hedging derivatives                                               | -                 | -                | -                       | -                 | -                 | -                 | -              | 499,920           |
|                                                                   | <u>21,638,285</u> | <u>6,612,404</u> | <u>7,772,671</u>        | <u>9,552,447</u>  | <u>3,021,363</u>  | <u>1,818,135</u>  | <u>-</u>       | <u>1,520,082</u>  |
|                                                                   |                   |                  |                         |                   |                   |                   |                | <u>51,935,387</u> |
|                                                                   | 31-12-2018        |                  |                         |                   |                   |                   |                |                   |
|                                                                   | On demand         | Up to 3 months   | From 3 months to 1 year | From 1 to 3 years | From 3 to 5 years | Over 5 years      | Undetermined   | Derivatives       |
| <b>Assets</b>                                                     |                   |                  |                         |                   |                   |                   |                |                   |
| Cash and deposits at central banks                                | 354,664           | -                | -                       | -                 | 2,798,891         | -                 | -              | -                 |
| Balances due from other banks                                     | 339,109           | -                | -                       | -                 | -                 | -                 | -              | -                 |
| Financial assets held for trading                                 | -                 | -                | -                       | -                 | -                 | -                 | -              | 1,085,927         |
| Other financial assets mandatory                                  | -                 | -                | -                       | -                 | -                 | -                 | 144,998        | -                 |
| Other financial assets at fair value                              | 427,295           | 614,073          | 1,298,752               | 444,759           | 141,742           | 2,531,428         | 73,183         | -                 |
| Loans and advances to credit institutions                         | -                 | (817)            | (2,470)                 | 704,012           | (710)             | 21,065            | -              | -                 |
| Credit granted and other balances receivable at amortized cost    | 667,025           | 2,258,718        | 4,610,173               | 8,709,243         | 5,787,266         | 22,705,267        | -              | -                 |
| Hedging derivatives                                               | -                 | -                | -                       | -                 | -                 | -                 | -              | 56,246            |
| Investments in associates                                         | -                 | -                | -                       | -                 | -                 | -                 | 59,240         | -                 |
|                                                                   | <u>1,788,093</u>  | <u>2,871,974</u> | <u>5,906,455</u>        | <u>9,858,014</u>  | <u>8,727,189</u>  | <u>25,257,760</u> | <u>277,421</u> | <u>1,142,173</u>  |
|                                                                   |                   |                  |                         |                   |                   |                   |                | <u>55,829,079</u> |
| <b>Liabilities</b>                                                |                   |                  |                         |                   |                   |                   |                |                   |
| Financial liabilities held for trading                            | -                 | -                | -                       | -                 | -                 | -                 | -              | 1,114,703         |
| Resources of central banks                                        | 4,522             | -                | 2,406,429               | 618,686           | -                 | -                 | -              | -                 |
| Resources of other credit institutions                            | 1,110,449         | 818,069          | 116,443                 | 552,801           | 299,892           | 300,000           | -              | -                 |
| Resources of customers and other debts                            | 18,024,379        | 6,815,393        | 7,190,489               | 2,493,161         | 1,428,846         | 56,111            | -              | -                 |
| Debt securities                                                   | -                 | 28,846           | 872,483                 | 286,477           | 1,318,338         | 2,150,509         | -              | -                 |
| Other liabilities                                                 | -                 | -                | -                       | -                 | -                 | -                 | -              | -                 |
| Hedging derivatives                                               | -                 | -                | -                       | -                 | -                 | -                 | -              | 393,831           |
|                                                                   | <u>19,139,350</u> | <u>7,662,308</u> | <u>10,585,844</u>       | <u>3,951,125</u>  | <u>3,047,076</u>  | <u>2,506,620</u>  | <u>-</u>       | <u>1,508,534</u>  |
|                                                                   |                   |                  |                         |                   |                   |                   |                | <u>48,400,857</u> |

Determination of the projected cash flow from financial instruments was based on principles and assumptions used by the Bank in management and control of liquidity arising from its business, namely:

- The projected cash flows of variable-remuneration assets and liabilities associated with the interest rate curve are calculated considering the forward interest rate curve;
- Financial instruments classified as "non-structural" were considered to be payable "on demand", with the exception of equity instruments carried as Other financial assets at fair value through other comprehensive income, which were considered as having indeterminate maturity. Non-structural financial assets and liabilities correspond to assets not subject to interest-rate variations (cash, deposits at credit institutions and equity instruments classified as other financial assets at fair value through other comprehensive income), other financial assets mandatorily at fair value through profit or loss and trading assets and liabilities, whose management is based on control of the exposure to market risk. In this connection, the Bank considers the fair value of the trading assets and liabilities as the transactional value payable on demand;
- Operations relating to credit lines without defined maturity or periodically renewable, including bank overdrafts and current account credit facilities, were considered as having an average maturity of 25 months;
- For the subordinated liabilities the date on which the Bank may make early redemption of the bonds that make up this heading was considered;
- The projected flows relating to current accounts have been considered as payable on demand.

### **MARKET RISK**

Market risk generally consists of the potential variation of the value of a financial instrument due to unexpected changes of market variables such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard method applied for the 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 in order to include the more recent events that condition the risk levels assumed.

The calculated VaR is a daily estimate of the maximum potential loss under normal market conditions (individually by portfolios/business areas, and for the whole of the positions, within the assumptions defined in the construction of the model.

At the same time other measures are implemented that allow additional monitoring of the market risk. For unusual market conditions scenarios are analysed (Stress Testing), which consists of defining extreme scenarios for the behaviour of different financial variables and obtaining their potential impact on profit or loss. In short, the scenario analysis seeks to identify the potential risk under extreme market conditions and in the fringes of probability of occurrence not covered by the VaR.

In parallel, there is daily monitoring of the positions, and an exhaustive control is performed of the changes that occur in the portfolios, in order to detect the possible impacts that may exist for their correction. The daily preparation of the profit and loss account is intended to identify the impact of variations in financial variables or of the alteration of the composition of the portfolios.

The 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 underlying price (delta and gamma), volatility (vega) and time (theta).

Quantitative limits are used for the trading portfolios, which are classified in 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 effective losses or to protect levels of results already achieved during the period (Loss Triggers and Stop Losses).

With regard to the structural interest-rate risk, it is measured through modelling the asset and liability positions sensitive to interest-rate variations in accordance with their indexing and re-appraisal structure. This model allows the measurement and control of the risks originating directly from the movement of the income curve, particularly their impact on net interest income and on the 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 endeavour to identify the potential risk under extreme market conditions. In parallel, ratios are estimated on the current items of the balance sheet that act as indicators of structural and short-term liquidity requirements.

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### **INTEREST RATE RISK**

As at June 30, 2020 and December 31, 2019 the breakdown of financial instruments by exposure to the interest-rate risk was as follows:

| 30-06-2020                                                        |                   |                   |                  |                  |                   |
|-------------------------------------------------------------------|-------------------|-------------------|------------------|------------------|-------------------|
|                                                                   | Exposure to       |                   | Non              |                  | Total             |
|                                                                   | Fixed rate        | Floating rate     | remunerated      | Derivatives      |                   |
| <b><u>Assets</u></b>                                              |                   |                   |                  |                  |                   |
| Cash and deposits at central banks                                | -                 | 6,775,381         | 264,427          | -                | 7,039,808         |
| Balances due from other banks                                     | -                 | -                 | 509,393          | -                | 509,393           |
| Financial assets held for trading                                 | -                 | -                 | -                | 995,936          | 995,936           |
| Financial assets mandatory at fair value through profit or loss   | -                 | -                 | 138,096          | -                | 138,096           |
| Financial assets at fair value through other comprehensive income | 6,231,874         | -                 | 1,414,691        | -                | 7,646,565         |
| Loans and advances to credit institutions                         | 2                 | 17,304            | -                | -                | 17,306            |
| Credit granted and other balances receivable at amortized cost    | 6,443,590         | 31,996,004        | 720,233          | -                | 39,159,827        |
| Hedging derivatives                                               | -                 | -                 | -                | 40,424           | 40,424            |
|                                                                   | <u>12,675,466</u> | <u>38,788,689</u> | <u>3,046,840</u> | <u>1,036,360</u> | <u>55,547,355</u> |
| <b><u>Liabilities</u></b>                                         |                   |                   |                  |                  |                   |
| Financial liabilities held for trading                            | -                 | -                 | -                | 1,020,162        | 1,020,162         |
| Resources from central banks                                      | -                 | 6,800,000         | 1,194            | -                | 6,801,194         |
| Resources from other credit institutions                          | 192,808           | 2,831,784         | 937              | -                | 3,025,529         |
| Resources from customers and other debts                          | 15,711,160        | 20,902,184        | 10,403           | -                | 36,623,747        |
| Debt securities                                                   | 2,765,826         | 939,146           | (59,649)         | -                | 3,645,323         |
| Other financial liabilities                                       | -                 | -                 | 225,486          | -                | 225,486           |
| Hedging derivatives                                               | -                 | -                 | -                | 499,920          | 499,920           |
|                                                                   | <u>18,669,794</u> | <u>31,473,114</u> | <u>178,371</u>   | <u>1,520,082</u> | <u>51,841,361</u> |
|                                                                   |                   |                   |                  |                  |                   |
| 31-12-2019                                                        |                   |                   |                  |                  |                   |
|                                                                   | Exposure to       |                   | Non              |                  | Total             |
|                                                                   | Fixed rate        | Floating rate     | remunerated      | Derivatives      |                   |
| <b><u>Assets</u></b>                                              |                   |                   |                  |                  |                   |
| Cash and deposits at central banks                                | -                 | 2,798,891         | 354,664          | -                | 3,153,555         |
| Balances due from other banks                                     | -                 | -                 | 339,109          | -                | 339,109           |
| Financial assets held for trading                                 | -                 | -                 | -                | 1,085,927        | 1,085,927         |
| Other financial assets mandatory                                  | -                 | -                 | 144,998          | -                | 144,998           |
| Other financial assets at fair value                              | 4,993,081         | -                 | 869,268          | -                | 5,862,349         |
| Loans and advances to credit institutions                         | -                 | 727,444           | 42               | -                | 727,486           |
| Credit granted and other balances receivable at amortized cost    | 8,319,687         | 30,900,954        | 119,539          | -                | 39,340,180        |
| Hedging derivatives                                               | -                 | -                 | -                | 56,246           | 56,246            |
|                                                                   | <u>13,312,768</u> | <u>34,427,289</u> | <u>1,827,620</u> | <u>1,142,173</u> | <u>50,709,850</u> |
| <b><u>Liabilities</u></b>                                         |                   |                   |                  |                  |                   |
| Financial liabilities held for trading                            | -                 | -                 | -                | 1,114,703        | 1,114,703         |
| Resources of central banks                                        | 3,079,382         | -                 | (41,858)         | -                | 3,037,524         |
| Resources of other credit institutions                            | 227,251           | 2,968,234         | 511              | -                | 3,195,996         |
| Resources of customers and other debts                            | 17,841,369        | 18,019,114        | 12,789           | -                | 35,873,272        |
| Debt securities                                                   | 2,765,826         | 1,032,620         | (69,505)         | -                | 3,728,941         |
| Other liabilities                                                 | -                 | -                 | 218,021          | -                | 218,021           |
| Hedging derivatives                                               | -                 | -                 | -                | 393,831          | 393,831           |
|                                                                   | <u>23,913,828</u> | <u>22,019,968</u> | <u>119,958</u>   | <u>1,508,534</u> | <u>47,562,288</u> |

#### Financial Instruments – non-trading

The method of calculation of the sensitivity of the asset value involves simulation of the change in the market value of the assets and liabilities, based on 100 basis point (bp) shifts of the forward interest-rate curve. This method uses the following parameters and assumptions:

- All assets and liabilities sensitive to interest-rate fluctuations are identified, that is, those whose value and respective contribution to net interest income may change due to changes in market rates;
- Assets and liabilities are grouped into homogeneous aggregates according to their exposure to the interest-rate risk;
- For each transaction (contract) the future flows properly distributed by repricing dates (variable rate) or maturity date (fixed rate) are calculated;
- For each aggregate defined above the transactions are grouped by repricing/maturity dates;
- The time intervals intended to measure the interest-rate gap are defined;
- For each aggregate, the cash flows are grouped on the basis of the intervals created;
- For each product considered sensitive but has no defined maturity distribution parameters are estimated in keeping with previously-studied behaviour models; and
- For each interval the total flows of assets and liabilities and, by difference between them, the interest-rate risk gap of each interval are calculated.

The interest-rate gap allows an approximation of the sensitivity of the asset value and of the net interest income in the light of market-rate variations. This approach uses the following assumptions:

- The volumes are always maintained in the balance sheet and are renewed automatically;
- It assumes parallel variations in the interest-rate curve, not considering the possibility of specific movements for different periods of the interest-rate curve; and
- It does not consider the different elasticities between the various products.

From the perspective of variation of the asset value, interest-rate increases entail a decrease of value in the intervals with positive gaps and an increase of value in the negative gaps. Interest-rate reductions have an opposite effect.

#### *General assumptions of this Interest-rate sensitivity analysis*

- Balance-sheet Evolution – a static balance sheet is assumed, according to which the amounts of contracts that do not have a fixed maturity date or their renewal is presumed, are replaced with new transactions of the same amount, so that the balance-sheet balances remain constant during the period under analysis;

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- Maturities and repricing – the real maturities and repricing of the transactions are considered. Assets and liabilities whose contribution to net interest income and whose carrying amount does not alter with the interest-rate variations are considered non-sensitive;
- Indices – the indices defined contractually are considered and the spot curve of the date of analysis with the underlying forward curve is used for the simulation; and
- Characteristics of New Business (term, repricing, volumes, spread, index, etc.) – the conditions entered in the budget for each product are used. When these characteristics begin to lie outside the market for certain products, the average conditions applied during the previous month or the new commercial guidelines for each of the products at issue are used.

As at June 30, 2020 and December 31, 2019, the sensitivity of the 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:

|                                                                   | 30-06-2020              |                         | 31-12-2019              |                         |
|-------------------------------------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|                                                                   | + 100 bp's<br>variation | - 100 bp's<br>variation | + 100 bp's<br>variation | - 100 bp's<br>variation |
| <b><u>Assets</u></b>                                              |                         |                         |                         |                         |
| Cash and deposits at central banks                                | (2,020)                 | 135,240                 | (207)                   | 91,492                  |
| Financial assets at fair value through other comprehensive income | (183,636)               | 85,439                  | (190,829)               | 150,794                 |
| Loans and advances to credit institutions                         | (1)                     | 2                       | (94)                    | 2,207                   |
| Credit granted and other balances receivable at amortized cost    | (1,002,561)             | 665,135                 | (948,191)               | 951,589                 |
|                                                                   | <u>(1,188,218)</u>      | <u>885,816</u>          | <u>(1,139,321)</u>      | <u>1,196,082</u>        |
| Hedging derivatives                                               | <u>329,269</u>          | <u>(227,985)</u>        | <u>276,455</u>          | <u>(363,242)</u>        |
| <b><u>Liabilities</u></b>                                         |                         |                         |                         |                         |
| Resources from central banks                                      | (158)                   | 71,732                  | (19,139)                | 8,281                   |
| Resources from other credit institutions                          | (9,982)                 | 12,404                  | (4,861)                 | 16,808                  |
| Resources from customers and other debts                          | (1,151,006)             | 535,760                 | (987,540)               | 714,077                 |
| Debt securities                                                   | (157,058)               | 92,927                  | (166,593)               | 157,667                 |
| Other financial liabilities                                       | (27,362)                | 18,031                  | (39,113)                | 34,309                  |
|                                                                   | <u>(1,345,566)</u>      | <u>730,854</u>          | <u>(1,217,246)</u>      | <u>931,142</u>          |

**Financial Instruments – trading**

The basic parameters for calculation of the VaR applicable in general are, besides the calculation method itself, as follows:

- Time horizon: The time period for which potential losses of a portfolio are calculated for the measurement of the (daily) VaR is 1 day.
- Confidence level: both the VaR (potential loss) and the VaE (potential gain) are determined with a confidence level of 99% (1% and 99% percentiles, respectively, of the losses and gains)

distribution). For purposes of contrast analysis a VaR and a VaE will also be calculated at a confidence level of 95% (5% and 95% percentiles, respectively).

- Exponential decrease factor: Allows exponential weighting of the amount of the variations in market factors over time, giving less weight to observations more distant in time. The exponential decrease factor applied is determined periodically by Market Risk.
- The VaR values used correspond to the highest of those calculated with the decrease factor in force and those calculated using uniform weighting;
- Calculation currency: In the process of calculating the VaR all positions are valued in euros, which guarantees that the risk-free currency is the local currency. However, VaR values are reported in US dollars (USD) in order to allow the aggregation of different units; and
- Market data time window: A 2-year time window is used, or at least 520 data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile gives equal weighting to the set of 520 observations considered. The Weighted Percentile VaR gives a significantly higher weighting to the more recent observations in relation to the reference date of the analysis.

Historical simulation consists of using the historical variations as the distribution model of possible variations in the risk factors. For this reason, the chosen period is sufficiently long and significant for all interactions between the market factors, its volatilities and the correlations among them, to be duly mirrored in the historical period selected.

On the other hand, the complete revaluation of the portfolio requires a valuation of each of the instruments, using the respective mathematical expression to obtain the market value of each individual position. In using forms of revaluation, non-linear effects implicit in certain financial products as a result of changes in market factors are calculated and collected on the values of the VaR.

As at June 30, 2020 and December 31, 2019, the VaR associated with the interest-rate risk corresponded to:

|                            | 30-06-2020 | 31-12-2019 |
|----------------------------|------------|------------|
| VaR Percentil 99%          | (1)        | -          |
| VaR Weighted Percentil 99% | (1)        | -          |

### Exchange-rate Risk

The profile defined for the exchange-risk is quite conservative and is embodied in the hedging policy used. Its implementation is the responsibility of the Treasury Area, so the risks involved are not very relevant, and it is implemented primarily through the use of currency swaps. Risk limits are stipulated for the exchange-rate risk that are controlled by the Market Risks area.



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As at June 30, 2020 and December 31, 2019, the detail of the financial instruments by currency was as follows:

|                                                                   | 30-06-2020        |                  |                  |                   |
|-------------------------------------------------------------------|-------------------|------------------|------------------|-------------------|
|                                                                   | Euros             | US Dollars       | Other currencies | Total             |
| <b><u>Assets</u></b>                                              |                   |                  |                  |                   |
| Cash and deposits at central banks                                | 7,019,293         | 7,149            | 13,366           | 7,039,808         |
| Balances due from other banks                                     | 97,873            | 213,955          | 197,565          | 509,393           |
| Financial assets held for trading                                 | 994,502           | 781              | 653              | 995,936           |
| Financial assets mandatory at fair value through profit or loss   | 138,096           | -                | -                | 138,096           |
| Financial assets at fair value through other comprehensive income | 7,646,565         | -                | -                | 7,646,565         |
| Loans and advances to credit institutions                         | 17,305            |                  | 1                | 17,306            |
| Credit granted and other balances receivable at amortized cost    | 38,426,186        | 700,263          | 33,378           | 39,159,827        |
| Hedging derivatives                                               | 40,150            | 274              | -                | 40,424            |
| Investments in associates                                         | 57,020            | -                | -                | 57,020            |
|                                                                   | <u>54,436,990</u> | <u>922,422</u>   | <u>244,963</u>   | <u>55,604,375</u> |
| <b><u>Liabilities</u></b>                                         |                   |                  |                  |                   |
| Financial liabilities held for trading                            | 1,018,706         | 801              | 655              | 1,020,162         |
| Resources from central banks                                      | 6,801,194         | -                | -                | 6,801,194         |
| Resources from other credit institutions                          | 2,888,882         | 135,938          | 709              | 3,025,529         |
| Resources from customers and other debts                          | 34,992,353        | 1,389,686        | 241,708          | 36,623,747        |
| Debt securities                                                   | 3,645,323         | -                | -                | 3,645,323         |
| Other financial liabilities                                       | 225,486           | -                | -                | 225,486           |
| Hedging derivatives                                               | 480,142           | 19,303           | 475              | 499,920           |
|                                                                   | <u>50,052,086</u> | <u>1,545,728</u> | <u>243,547</u>   | <u>51,841,361</u> |
|                                                                   |                   |                  |                  |                   |
|                                                                   | 31-12-2019        |                  |                  |                   |
|                                                                   | Euros             | US Dollars       | Other currencies | Total             |
| <b><u>Assets</u></b>                                              |                   |                  |                  |                   |
| Cash and deposits at central banks                                | 3,141,857         | 4,191            | 7,507            | 3,153,555         |
| Balances due from other banks                                     | 125,572           | 75,536           | 138,001          | 339,109           |
| Financial assets held for trading                                 | 1,083,105         | 2,570            | 252              | 1,085,927         |
| Financial assets mandatory at fair value through profit or loss   | 144,998           | -                | -                | 144,998           |
| Financial assets at fair value through other comprehensive income | 5,862,292         | 57               | -                | 5,862,349         |
| Loans and advances to credit institutions                         | 727,474           | -                | 12               | 727,486           |
| Credit granted and other balances receivable at amortized cost    | 38,871,306        | 436,817          | 32,057           | 39,340,180        |
| Hedging derivatives                                               | 55,168            | 1,078            | -                | 56,246            |
| Investments in associates                                         | 59,240            | -                | -                | 59,240            |
|                                                                   | <u>50,071,012</u> | <u>520,249</u>   | <u>177,829</u>   | <u>50,769,090</u> |
| <b><u>Liabilities</u></b>                                         |                   |                  |                  |                   |
| Financial liabilities held for trading                            | 1,111,881         | 2,570            | 252              | 1,114,703         |
| Resources from central banks                                      | 3,037,524         | -                | -                | 3,037,524         |
| Resources from other credit institutions                          | 3,008,714         | 186,486          | 796              | 3,195,996         |
| Resources from customers and other debts                          | 34,152,470        | 1,471,381        | 249,421          | 35,873,272        |
| Debt securities                                                   | 3,728,941         | -                | -                | 3,728,941         |
| Other financial liabilities                                       | 218,021           | -                | -                | 218,021           |
| Hedging derivatives                                               | 390,861           | 2,749            | 221              | 393,831           |
|                                                                   | <u>45,648,412</u> | <u>1,663,186</u> | <u>250,690</u>   | <u>47,562,288</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020  
(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2020 and December 31, 2019, the VaR associated with the exchange-rate risk corresponded to:

|                            | 30-06-2020 | 31-12-2019 |
|----------------------------|------------|------------|
| VaR Percentil 99%          | (6)        | (3)        |
| VaR Weighted Percentil 99% | (4)        | (2)        |

### Asset price risk

#### Financial Instruments – trading

As at June 30, 2020 and December 31, 2019, 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.

## 40. CAPITAL MANAGEMENT

The Bank seeks a high financial solidity based on the maintenance of a capital adequacy ratio - the relationship between Eligible Equity Funds and risk-weighted assets. The policy for the distribution of results is conditioned by the maintenance of capital levels that allow the Group to sustain the development of its operations within its risk policy.

The Bank uses the mixed method for credit risk, namely the advanced method (IRB) for most credit segments and the standard method for manual operations, Banif portfolio and BAPOP portfolio. The Bank uses the standard method for calculating market risk. In June 2012, the Bank started using the standard method for the purpose of determining operational risk requirements, having used the basic indicator method until then.

As of January 1, 2014, it started reporting capital ratios in accordance with the new regulatory framework of BIS III, which, although it provides for a phasing in period, is more demanding for the core capital ratio (or Common Equity Tier I, CET1), in particular through additional deductions and higher weights in the computation of exposures.

On June 28, 2019, the Bank operationalized the first synthetic securitization operation originated by the Bank. The operation is based on a portfolio of Corporates, SMEs, City Councils and ENI's in the amount of € 2.4Bn, in relation to which the Bank buys protection corresponding to a mezzanine tranche with a 1% attachment point and an 8.5% detachment point. The € 181.3Mn mezzanine tranche was fully bonded to foreign institutional investors, in the form of a CLN with a premium of 8.7%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT JUNE 30, 2020  
(Expressed in thousands of euros, except where otherwise stated)

The following table summarizes the composition of the Bank's regulatory capital and prudential ratios on June 30, 2020 and December 31, 2019 (both in BIS III - Phasing In):

Amounts in million Euro

|                                                                      | jun 2020 | dec 2019 |
|----------------------------------------------------------------------|----------|----------|
| <b>A - BASE OWN FUNDS (TIER I)</b>                                   | 3,595    | 2,858    |
| Share Capital (includes additional instruments eligible as Tier I)   | 1,541    | 1,541    |
| Reserves and Retained earnings (excluding Non-controlling interests) | 2,198    | 1,606    |
| Non-controlling interests                                            | -        | -        |
| Deduction to base own funds                                          | (144)    | (290)    |
| <b>B - LEVEL 2 OWN FUNDS (TIER II)</b>                               | 405      | 408      |
| Perpetual subordinated liabilities                                   | 347      | 347      |
| Eligible Non-controlling interests                                   | -        | -        |
| Other elements/deductions to complementary own funds                 | 58       | 61       |
| <b>C - DEDUCTIONS TO OWN FUNDS</b>                                   | -        | -        |
| <b>D - TOTAL OWN FUNDS (A+B+C)</b>                                   | 3,999    | 3,266    |
| <b>E - ASSETS WEIGHTED BY RISK</b>                                   | 17,627   | 18,681   |
| <b>Ratios</b>                                                        |          |          |
| <b>TIER I (A/E)</b>                                                  | 20.4%    | 15.3%    |
| CORE CAPITAL (CET1)                                                  | 20.4%    | 15.3%    |
| <b>TIER II (B/E)</b>                                                 | 2.3%     | 2.2%     |
| <b>CAPITAL ADEQUACY RATIO (D/E)</b>                                  | 22.7%    | 17.5%    |
| <b>LEVERAGE</b>                                                      | 5.9%     | 4.7%     |

#### 41. RESOLUTION FUND

The Resolution Fund is a legal person under public law with administrative and financial autonomy, established by Decree-Law 31-A/2012 of February 10, which is governed by the General Credit Institutions and Financial Companies Regime ("RGICSF") and by its regulation, the mission of which is to provide financial support for the 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 implementation of such measures.

The Bank, like the majority of the financial institutions operating in Portugal, is one of the institutions taking part in the resolution fund, making contributions resulting from the application of a rate set annually by the Bank of Portugal essentially on the basis of the amount of their liabilities. In 2020, the periodic contribution made by the Bank amounted to €12,875k, based on a contribution rate of 0.048%.

#### Resolution measure applied to Banco Espírito Santo, SA

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, SA ("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, SA ("Novo Banco") created especially for the purpose.

To pay up the Novo Banco share capital the Resolution Fund, as sole shareholder, provided €4,900 million, of which €365 million corresponded to own financial resources. A loan was also granted by a banking syndicate to the Resolution Fund in the amount of €635 million, with the participation of each credit institution weighted in the light of several factors, including the respective dimension. The remainder (€3,900 million) consisted of a repayable loan granted by the Portuguese State.

Following the implementation of the said 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 evaluation conducted to estimate the credit recovery level for each class of creditors in a hypothetical scenario of a process of normal insolvency of BES on August 3, 2014. Under applicable law, if it is found that creditors whose credits have not been transferred to Novo Banco entail a larger loss than would hypothetically be the case if BES had entered into liquidation at a moment immediately preceding that of the application of the 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 was completed on October 17, 2017, by injection, by the new shareholder of €750 million, which will be followed a new inflow of share capital in the amount of €250 million, to be implemented over a period of up to three years. This operation put an end to Novo Banco's status as a transition bank, the Lone Star Fund having acquired 75% of the Novo Banco share capital and the Resolution Fund the remaining 25%, albeit without voting rights.

On February 26, 2018, the European Commission released the non-confidential version of the decision approving the State aid underlying the Novo Banco sale process, which includes a contingent capitalisation mechanism, under which the Resolution Fund may be called upon to inject capital in the event of occurrence of certain conditions relating to the performance of a restricted set of Novo Banco's assets and to the evolution of the bank's capital levels.

This mechanism is triggered each year on the basis of Novo Banco's annual accounts certified by the respective auditor, and there is a possibility of intra-annual determinations only in the event of default, by Novo Banco, of the prudential requirements. For the purpose of this mechanism, consideration is given to the asset valuation differences (positive or negative) compared to their carrying amounts, net of impairment, as at June 30, 2016 (around €7.9 billion according to information provided by Novo Banco). Thus, economic losses or gains are considered, resulting, for example, from the sale of assets or restructuring of loans, as are impairments, or their reversal, recorded at Novo Banco in accordance with the accounting rules, as well as the financing costs associated with maintaining the assets in the Novo Banco balance sheet.

Under that mechanism, to date, the Resolution Fund made a payment of €2,978 million to Novo Banco in respect of the 2017 to 2019 accounts, having used for the purpose its own financial resources resulting from the contributions paid up, directly or indirectly, by the banking sector, complemented by a State loan of €2,130 million within the scope of the framework agreement between the Portuguese State and the Resolution Fund.

This mechanism will be in force until December 31, 2025 (which may be extended until December 31, 2026) and is limited to an absolute maximum of €3,890 million.

Resolution measure applied to Banif – Banco Internacional do Funchal, SA

On December 19, 2015, the Bank of Portugal decided to declare that Banif - Banco Internacional do Funchal, SA ("Banif") was "at risk of or was in a situation of insolvency" and began a process of urgent resolution of the institution in the form of partial or total sale of its business, which came about with the sale on December 20, 2015, to Banco Santander Totta SA ("Santander Totta") of the rights and obligations constituting assets, liabilities, off-balance sheet items and assets under Banif management, for €150 million.

The greater part of the assets that were not sold was transferred to an asset-management vehicle called Oitante, SA ("Oitante"), created specifically for the purpose, which has the Resolution Fund as its sole shareholder. Oitante issued bonds representing the debt, in the amount of €746 million, a guarantee having been provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation involved a public support estimated at €2,255 million which aimed to cover future contingencies, of which €489 million was financed by the Resolution Fund and €1,766 million directly by the Portuguese State.

On July 21, 2016, the Resolution Fund made a payment to the State in the amount of €136 million by way of partial early repayment of the resolution measure applied to Banif, allowing the amount owed to fall from €489 million to €353 million.

To date the findings are not yet known of the independent evaluation exercise conducted to estimate the credit recovery level for each class of creditors in the hypothetical scenario of normal insolvency proceedings of Banif as of December 20, 2015. As mentioned above for BES, if it is found that creditors entail a larger loss than would hypothetically be the case if Banif had entered into liquidation at a moment immediately preceding that of the application of the resolution measure, those creditors would be entitled to receive the difference from the Resolution Fund.

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 the Novo Banco that have to be neutralised by the Resolution Fund;
- lawsuits against the Resolution Fund;
- guarantee given to bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- contingent capitalisation mechanism associated with the process of sale of Novo Banco to Lone Star.

In order to preserve financial stability by promoting the conditions that lend predictability and stability to the contribution effort for the Resolution Fund, the Portuguese government reached an agreement with the European Commission to alter the conditions of the loans granted by the Portuguese State and by the participating banks to the Resolution Fund. To this end, an addendum to the Resolution Fund funding agreements was formalised, which introduced a number of amendments to the repayment plans, remuneration rates and other terms and conditions associated with these loans so that they are suited to the Resolution Fund's ability to fulfil its obligations in full on the basis of its regular revenues, that is, without a need for the banks participating in the Resolution Fund to be charged special contributions or any other type of extraordinary contribution.

According to the announcement of the Resolution Fund of March 31, 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, on the basis of a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund considered that full payment of its liabilities is assured, as well as the respective remuneration, with no need for recourse to special contributions or any other type of extraordinary contributions on the part of the banking sector.

Notwithstanding the possibility provided for in applicable legislation governing the collection of special contributions, given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate, in which the Bank is included, the public announcements made by the Resolution Fund and the Office of the Minister of Finance state that this possibility will not be used, these financial statements reflect the Board of Directors' expectation that no special contributions or any other type of extraordinary contributions will be required of the Bank to finance the Resolution Fund.

Any significant changes regarding this matter may have relevant implications for the Bank's financial statements.

#### 42. COMPETITION AUTHORITY

In 2012 administrative-offence proceedings were instituted by the Competition Authority ("AdC"), for alleged signs of infringement of article 9 of Law 19/2012, of May 8 (Competition Act).

Within the scope of these proceedings search and seizure measures were carried out at the premises of the Bank and other credit institutions on March 6, 2013, and indiscriminate documentation was seized to determine possible evidence of infringement of the aforesaid legal precept.

On June 3, 2015, the Bank, like other 14 credit institutions, was notified of the statement of objections issued by the AdC regarding the administrative-offence under appraisal (Case No. PRC 9/2012), accused of taking part in an exchange of certain commercially sensitive information between competitors.

On September 9, 2019, the Competition Authority issued the final decision, essentially maintaining the theory presented in the 2015 statement of objections, namely the presumption of anti-competitive conduct based on the exchange of information between competitors on Mortgage Loans, Consumer

Credit and Loans to Companies. Banco Santander Totta was sentenced to a fine of €35 million, plus a fine of €650k applied to BAPOP.

The fine imposed, which could amount to a maximum equivalent to 10% of the annual turnover of the infringing company in the year next before the decision, came to be applied for an amount corresponding to about 2.02% of that indicator (considering not only the penalty imposed on the Bank, but also on BAPOP).

Nevertheless, on October 21, 2019, the Bank judicially challenged the final decision of the Competition Authority, the case now pending before the Competition, Regulation and Supervision Court.

In line with what has been its position throughout the process, the Bank strongly refutes all the arguments underlying the decision of the Competition Authority, and its judicial challenges through the Competition, Regulation and Supervision Court has been supported, in particular, by the opinion of eminent professors of law, attesting to the absence of any unlawful conduct by the institution.

The Bank will now await the judgement and subsequent decision on the judicial challenge presented and will not waive the exercise of all the legal and judicial faculties ensuring the protection of its interests.

Taking the foregoing into consideration, the Bank's Board of Directors is convinced that probabilities of the Bank not being ordered to pay a fine are greater than being so ordered, and therefore no provision for this process has been recorded in the financial statements as at June 30, 2020.

#### 43. SUBSEQUENT EVENTS

On the date of approval of these consolidated financial statements by the Bank's Board of Directors, there was no event subsequent to June 30, 2020, the reference date of these financial statements, which requires adjustments or modifications of the amounts of assets and liabilities under the terms of IAS 10 – Events after the reporting period.

#### 44. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on September 22, 2020.

#### 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 AS AT 30 JUNE 30, 2020

(Amounts expressed in thousand euros)

| Securities issued                                              | Currency | Amount issued |                            |                               | Accrual | Value adjustment<br>from hedge<br>operations | Total<br>Consolidated<br>Balance sheet | Interest<br>rate | Issue<br>date     | Maturity<br>date   | Index                                                                                                           |
|----------------------------------------------------------------|----------|---------------|----------------------------|-------------------------------|---------|----------------------------------------------|----------------------------------------|------------------|-------------------|--------------------|-----------------------------------------------------------------------------------------------------------------|
|                                                                |          | Total         | Subscribed<br>by the Group | Consolidated<br>Balance sheet |         |                                              |                                        |                  |                   |                    |                                                                                                                 |
| Structured bonds                                               |          |               |                            |                               |         |                                              |                                        |                  |                   |                    |                                                                                                                 |
| OB.BST INDEX LINKED NOTES 2024 23/12/2024                      | EUR      | 8,227         | -                          | 8,227                         | 50      | 235                                          | 8,512                                  | Floating         | December 20, 2019 | December 23, 2024  | Index basket                                                                                                    |
| Total                                                          |          | 8,227         | -                          | 8,227                         | 50      | 235                                          | 8,512                                  |                  |                   |                    |                                                                                                                 |
| Covered Bonds                                                  |          |               |                            |                               |         |                                              |                                        |                  |                   |                    |                                                                                                                 |
| Hipotecária XIV                                                | EUR      | 750,000       | 750,000                    | -                             | (302)   | -                                            | (302)                                  | 0.754%           | March 04, 2015    | March 04, 2022     | Fixed interest rate                                                                                             |
| Hipotecária XV                                                 | EUR      | 750,000       | -                          | 750,000                       | 4,215   | -                                            | 754,215                                | 0.875%           | October 27, 2015  | October 27, 2020   | Fixed interest rate                                                                                             |
| Hipotecária XVI                                                | EUR      | 200,000       | 200,000                    | -                             | (40)    | -                                            | (40)                                   | 0.842%           | February 24, 2016 | February 24, 2022  | Fixed interest rate                                                                                             |
| Hipotecária XVII                                               | EUR      | 750,000       | 750,000                    | -                             | (348)   | -                                            | (348)                                  | 0.902%           | April 15, 2016    | April 15, 2023     | Fixed interest rate                                                                                             |
| Hipotecária XVIII                                              | EUR      | 750,000       | 750,000                    | -                             | (605)   | -                                            | (605)                                  | 0.652%           | July 26, 2016     | July 26, 2023      | Fixed interest rate                                                                                             |
| Hipotecárias XX - 1ª                                           | EUR      | 750,000       | 750,000                    | -                             | (1,223) | -                                            | (1,223)                                | 1.201%           | December 07, 2017 | December 07, 2027  | Fixed interest rate                                                                                             |
| Hipotecárias XXI                                               | EUR      | 1,000,000     | 1,000,000                  | -                             | (1,426) | -                                            | (1,426)                                | 1.481%           | April 10, 2017    | April 10, 2027     | Fixed interest rate                                                                                             |
| Hipotecárias XXII                                              | EUR      | 1,000,000     | -                          | 1,000,000                     | (5,026) | -                                            | 994,974                                | 0.875%           | April 25, 2017    | April 25, 2024     | Fixed interest rate                                                                                             |
| Hipotecárias XXIII                                             | EUR      | 1,000,000     | -                          | 1,000,000                     | (644)   | -                                            | 999,356                                | 1.250%           | July 05, 2019     | July 05, 2029      | Fixed interest rate                                                                                             |
| Hipotecária XXIV                                               | EUR      | 1,100,000     | 1,100,000                  | -                             | (2,225) | -                                            | (2,225)                                | 0.412%           | July 05, 2019     | July 05, 2029      | Fixed interest rate                                                                                             |
| Hipotecárias XXV                                               | EUR      | 750,000       | 750,000                    | -                             | (756)   | -                                            | (756)                                  | 0.51%            | March 27, 2020    | March 27, 2025     | Fixed interest rate                                                                                             |
| Total                                                          |          | 8,800,000     | 6,050,000                  | 2,750,000                     | (8,380) | -                                            | 2,741,620                              |                  |                   |                    |                                                                                                                 |
| Bonds issued on securitization operations from mortgage credit |          |               |                            |                               |         |                                              |                                        |                  |                   |                    |                                                                                                                 |
| Hipototta 4 - Classe A - Notes                                 | EUR      | 463,069       | 338,870                    | 124,199                       | (410)   | -                                            | 123,789                                | Floating         | December 09, 2005 | December 30, 2048  | Euribor 3m+0.12% (up to early redemption date in December 2014); Euribor 3m+0.24% (After early redemption date) |
| Hipototta 4 - Classe B - Notes                                 | EUR      | 16,847        | 16,847                     | -                             | -       | -                                            | -                                      | Floating         | December 09, 2005 | December 30, 2048  | Euribor 3m+0.19% (up to early redemption date in December 2014); Euribor 3m+0.40% (After early redemption date) |
| Hipototta 4 - Classe C - Notes                                 | EUR      | 53,205        | 53,205                     | -                             | -       | -                                            | -                                      | Floating         | December 09, 2005 | December 30, 2048  | Euribor 3m+0.29% (up to early redemption date in December 2014); Euribor 3m+0.58% (After early redemption date) |
| Hipototta 4 - Classe D - Notes                                 | EUR      | 7,000         | 7,000                      | -                             | -       | -                                            | -                                      | Floating         | December 09, 2005 | December 30, 2048  | Residual return generated by securitized portfolio                                                              |
| Hipototta 5 - Classe A2 - Notes                                | EUR      | 420,320       | 339,794                    | 80,526                        | (130)   | -                                            | 80,396                                 | Floating         | March 22, 2007    | February 28, 2060  | Euribor 3m+0.13% (up to early redemption date in February 2014); Euribor 3m+0.26% (After early redemption date) |
| Hipototta 5 - Classe B - Notes                                 | EUR      | 26,000        | 26,000                     | -                             | -       | -                                            | -                                      | Floating         | March 22, 2007    | February 28, 2060  | Euribor 3m+0.17% (up to early redemption date in February 2014); Euribor 3m+0.34% (After early redemption date) |
| Hipototta 5 - Classe C - Notes                                 | EUR      | 24,000        | 24,000                     | -                             | -       | -                                            | -                                      | Floating         | March 16, 2007    | February 28, 2060  | Euribor 3m+0.24% (up to early redemption date in February 2014); Euribor 3m+0.48% (After early redemption date) |
| Hipototta 5 - Classe D - Notes                                 | EUR      | 26,000        | 26,000                     | -                             | -       | -                                            | -                                      | Floating         | March 22, 2007    | February 28, 2060  | Euribor 3m+0.50% (up to early redemption date in February 2014); Euribor 3m+1.00% (After early redemption date) |
| Hipototta 5 - Classe E - Notes                                 | EUR      | 31,000        | 31,000                     | -                             | -       | -                                            | -                                      | Floating         | March 22, 2007    | February 28, 2060  | Euribor 3m+1.75% (up to early redemption date in February 2014); Euribor 3m+3.50% (After early redemption date) |
| Hipototta 5 - Classe F - Notes                                 | EUR      | 6,000         | 6,000                      | -                             | -       | -                                            | -                                      | Floating         | March 22, 2007    | February 28, 2060  | Residual return generated by securitized portfolio                                                              |
| Azor Mortgages 1 - Classe B                                    | EUR      | 14,382        | 10,522                     | 3,861                         | 263     | -                                            | 4,124                                  | Floating         | November 25, 2004 | September 20, 2047 | Euribor 3m+0.76%                                                                                                |
| Azor Mortgages 1 - Classe C                                    | EUR      | 9,000         | 2,500                      | 6,500                         | 345     | -                                            | 6,845                                  | Floating         | November 25, 2004 | September 20, 2047 | Euribor 3m+1.75%                                                                                                |
| Azor Mortgages 1 - Classe D                                    | EUR      | 10,000        | 10,000                     | -                             | -       | -                                            | -                                      | Floating         | November 25, 2004 | September 20, 2047 | Rendimento residual gerado pela carteira titularizada                                                           |



BANCO SANTANDER TOTTA S.A.DEBT SECURITIES AS AT 30 JUNE 30, 2020(Amounts expressed in thousand euros)

| Securities issued              | Currency | Amount issued     |                            |                               | Accrual         | Value adjustment<br>from hedge<br>operations | Total<br>Consolidated<br>Balance sheet | Interest<br>rate | Issue<br>date     | Maturity<br>date   | Index                                              |
|--------------------------------|----------|-------------------|----------------------------|-------------------------------|-----------------|----------------------------------------------|----------------------------------------|------------------|-------------------|--------------------|----------------------------------------------------|
|                                |          | Total             | Subscribed<br>by the Group | Consolidated<br>Balance sheet |                 |                                              |                                        |                  |                   |                    |                                                    |
| Azor Mortgages 2 - Classe A    | EUR      | 79,503            | 79,503                     | -                             | -               | -                                            | -                                      | Floating         | July 24, 2008     | December 14, 2065  | Euribor 3m+0.30%                                   |
| Azor Mortgages 2 - Classe B    | EUR      | 43,080            | 43,080                     | -                             | -               | -                                            | -                                      | Floating         | July 24, 2008     | December 14, 2065  | Euribor 3m+0.8%                                    |
| Azor Mortgages 2 - Classe C    | EUR      | 6,750             | 6,750                      | -                             | -               | -                                            | -                                      | Floating         | July 24, 2008     | December 14, 2065  | Residual return generated by securitized portfolio |
| Atlantes Mortgage 2 - Classe A | EUR      | 104,977           | -                          | 104,977                       | (13,590)        | -                                            | 91,387                                 | Floating         | March 05, 2008    | September 18, 2060 | Euribor 3m+0.33%                                   |
| Atlantes Mortgage 2 - Classe B | EUR      | 13,069            | 13,069                     | -                             | -               | -                                            | -                                      | Floating         | March 05, 2008    | September 18, 2060 | Euribor 3m+0.95%                                   |
| Atlantes Mortgage 2 - Classe C | EUR      | 5,327             | 5,327                      | -                             | -               | -                                            | -                                      | Floating         | March 05, 2008    | September 18, 2060 | Euribor 3m+1.65%                                   |
| Atlantes Mortgage 2 - Classe D | EUR      | 10,983            | 10,983                     | -                             | -               | -                                            | -                                      | Floating         | March 05, 2008    | September 18, 2060 | Residual return generated by securitized portfolio |
| Atlantes Mortgage 3 - Classe A | EUR      | 181,640           | 56,611                     | 125,029                       | (9,825)         | -                                            | 115,204                                | Floating         | October 30, 2008  | August 20, 2061    | Euribor 3m+0.20%                                   |
| Atlantes Mortgage 3 - Classe B | EUR      | 26,049            | 26,049                     | -                             | -               | -                                            | -                                      | Floating         | October 30, 2008  | August 20, 2061    | Euribor 3m+0.50%                                   |
| Atlantes Mortgage 3 - Classe C | EUR      | 46,026            | 46,026                     | -                             | -               | -                                            | -                                      | Floating         | October 30, 2008  | August 20, 2061    | Residual return generated by securitized portfolio |
| Atlantes Mortgage 4 - Classe A | EUR      | 204,196           | -                          | 204,196                       | (28,096)        | -                                            | 176,100                                | Floating         | February 16, 2009 | December 30, 2064  | Euribor 3m+0.15%                                   |
| Atlantes Mortgage 4 - Classe B | EUR      | 22,487            | 22,487                     | -                             | -               | -                                            | -                                      | Floating         | February 16, 2009 | December 30, 2064  | Euribor 3m+0.30%                                   |
| Atlantes Mortgage 4 - Classe C | EUR      | 62,053            | 62,053                     | -                             | -               | -                                            | -                                      | Floating         | February 16, 2009 | December 30, 2064  | Residual return generated by securitized portfolio |
| Atlantes Mortgage 5 - Classe A | EUR      | 164,628           | 164,628                    | -                             | -               | -                                            | -                                      | Floating         | December 21, 2009 | November 23, 2068  | Euribor 3m+0.15%                                   |
| Atlantes Mortgage 5 - Classe B | EUR      | 30,395            | 30,395                     | -                             | -               | -                                            | -                                      | Floating         | December 21, 2009 | November 23, 2068  | Euribor 3m+0.30%                                   |
| Atlantes Mortgage 5 - Classe C | EUR      | 52,538            | 52,538                     | -                             | -               | -                                            | -                                      | Floating         | December 21, 2009 | November 23, 2068  | Residual return generated by securitized portfolio |
| Hipototta n°13 Classe A        | EUR      | 1,107,754         | 1,107,754                  | -                             | -               | -                                            | -                                      | Floating         | January 09, 2018  | October 23, 2072   | Euribor 3m+0.60%                                   |
| Hipototta n°13 Classe B        | EUR      | 484,000           | 484,000                    | -                             | -               | -                                            | -                                      | Floating         | January 09, 2018  | October 23, 2072   | Euribor 3m+1%                                      |
| Hipototta n°13 Classe C        | EUR      | 49,737            | 49,737                     | -                             | -               | -                                            | -                                      | Floating         | January 09, 2018  | October 23, 2072   | Residual return generated by securitized portfolio |
| Hipototta n°13 Classe D        | EUR      | 0.001             | 0.001                      | -                             | -               | -                                            | -                                      | Floating         | January 09, 2018  | October 23, 2072   |                                                    |
| Atlantes Mortgage 7 - Classe A | EUR      | 130,161           | 130,161                    | -                             | -               | -                                            | -                                      | Floating         | November 19, 2010 | August 23, 2066    | Euribor 3m+0.15%                                   |
| Atlantes Mortgage 7 - Classe B | EUR      | 24,188            | 24,188                     | -                             | -               | -                                            | -                                      | Floating         | November 19, 2010 | August 23, 2066    | Euribor 3m+0.30%                                   |
| Atlantes Mortgage 7 - Classe C | EUR      | 50,329            | 50,329                     | -                             | -               | -                                            | -                                      | Floating         | November 19, 2010 | August 23, 2066    | Residual return generated by securitized portfolio |
| Total                          |          | <b>4,006,694</b>  | <b>3,357,406</b>           | <b>649,288</b>                | <b>(51,443)</b> | <b>-</b>                                     | <b>597,845</b>                         |                  |                   |                    |                                                    |
|                                |          | <b>12,814,921</b> | <b>9,407,406</b>           | <b>3,407,515</b>              | <b>(59,773)</b> | <b>235</b>                                   | <b>3,347,977</b>                       |                  |                   |                    |                                                    |

BANCO SANTANDER TOTTA, S.A.

## OTHER SUBORDINATED LIABILITIES AS AT JUNE 30, 2020

(Amounts expressed in thousand euros)

| Securities issued                             | Currency | Amount issued  |                            | Consolidated<br>Balance sheet | Accruals   | Total      | Interest rate | Maturity  | Early repayment as from |
|-----------------------------------------------|----------|----------------|----------------------------|-------------------------------|------------|------------|---------------|-----------|-------------------------|
|                                               |          | Total          | Subscribed<br>by the Group |                               |            |            |               |           |                         |
| Obrigações Perpétuas Subordinadas 2000        | EUR      | 284,315        | 13,868                     | 270,447                       | 104        | 104        | 1.519%        | Perpetual | June 22, 2010           |
| Obrigações Perpétuas Subordinadas BSP 2001    | EUR      | 54,359         | 50,084                     | 4,275                         | 20         | 20         | 1.39%         | Perpetual | February 23, 2011       |
| Obrigações Perpétuas Subordinadas CPP 2001    | EUR      | 172,833        | 159,016                    | 13,817                        | 65         | 65         | 1.39%         | Perpetual | February 23, 2011       |
| MC Factor 2008                                | EUR      | 2,993          | 2,394                      | 599                           | 0          | 0          | 2.22%         | Perpetual | -                       |
| BANCO SANTANDER TOTTA BOND SA 7.5% 06/10/2026 | EUR      | 7,599          | -                          | 7,599                         | 136        | 136        | 7.50%         | Perpetual | October 6, 2026         |
|                                               |          | <b>522,099</b> | <b>225,362</b>             | <b>296,737</b>                | <b>326</b> | <b>326</b> |               |           |                         |

