

Annual Report 2022



Banco Santander Totta, S. A.

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BALANCE SHEET AND RESULTS (million euro)

	Dec-22	Dec-21	Var.
Total Net Assets	55,778	56,167	-0.7%
Loans and advances to customers (net)	42,365	42,404	-0.1%
Customers' Resources	46,332	47,438	-2.3%
Total shareholders' equity	3,608	4,251	-15.1%
Net Interest Income	779.3	728.7	+7.0%
Net Fees and Other Income	485.0	441.8	+9.8%
Operating Income	1,361.5	1,317.5	+3.3%
Net Operating Income	841.2	757.9	+11.0%
Income before taxes and non-controlling interests*	853.8	403.1	+111.8%
Consolidated net income attributable to the shareholders of BST	586.6	270.5	+116.8%

RATIOS

	Dec-22	Dec-21	Var.
ROE	13.8%	6.6%	+7.2 p.p.
ROA	1.1%	0.5%	+0.6 p.p.
Efficiency ratio	36.3%	40.8%	-4.5 p.p.
CET I ratio*	15.8%	26.4%	-10.6 p.p.
Tier I* ratio	18.3%	26.4%	-8.1 p.p.
Capital* ratio	20.8%	29.0%	-8.2 p.p.
Non-Performing Exposure Ratio	2.0%	2.3%	-0.3 p.p.
Non-Performing Exposure coverage ratio	87.0%	81.0%	+6.0 p.p.
Cost of credit	(0.03%)	0.17%	-0.20 p.p.
Loans-to-deposits ratio (transformation ratio)	108.5%	108.8%	-0.3 p.p.

RATING

	Dec-22	Dec-21
FitchRatings	A-	BBB+
Moody's	Baa2	Baa2
Standard & Poor's	BBB+	BBB
DBRS	A	A

Other Data

	Dec-22	Dec-21	Var.
Employees**	4,614	4,776	-162
Employees in Portugal**	4,605	4,764	-159
Branches	383	393	-10
Total Branches and Corporate Centers in Portugal	381	390	-9

* Fully implemented with results net of payout

** Headcount criteria

Message from the Chairman of the Board of Directors



We started 2022 with the prospect of it being a year of recovery, after two years of pandemic. Unfortunately, Russia's invasion of Ukraine brought further instability, plus an energy and inflationary crisis. The challenges made us more resilient, and Santander Portugal was able to demonstrate its solidity, without ever giving up on its mission of contributing to the development of people and companies.

We continued to show results achieved in the right way, focused on serving our customers, on generating value for shareholders, on being a great school and a great Bank to work for, but always with a focus on giving back to society. Operating costs dropped by 8.3%, the efficiency ratio stood at 36.3%, and the CET1 ratio reached 15.8%, well above the required level. This shows soundness and effective cost control. Net interest income amounted to € 779.3 million, corresponding to a 7.0% growth, compared to the same period in 2021.

The North American Magazine Global Finance awarded the title of "Best Bank in Portugal" to Santander, within the scope of "The World's Best Banks 2022," while the World Finance magazine distinguished Santander as the "Best Retail Bank in Portugal" in its "World Finance Banking Awards 2022," acknowledging the importance of innovation and digital transformation, and rewarding banks that are working with a greater purpose and empowering their customers.

One of the key factors for the Bank's soundness and results is its strong risk management culture. By being demanding, serious, and transparent, we increase our customers' and our shareholders' trust, which is our greatest asset.

The Santander Portugal Foundation pursued its mission of promoting a fairer, more inclusive society, using mainly education as a lever for the social and economic transformation that we want in Portuguese society. In Portugal, since 2019, the Bank has already helped almost 500 thousand people financially.

Nowadays, acting responsibly and sustainably towards the environment, society, and stakeholders is more than just a choice, it is part of Santander's culture. We took part in the main green finance operations carried out in Portugal, we integrated the ESG indices into our activity, and we were distinguished as the "Bank of the Year in Financial Inclusion" by The Banker magazine.

I would like to end off with a word to Santander's employees — undoubtedly the driving force behind the Bank's success. Only with a focused, dedicated team, such as Santander's, was it possible to achieve the goals we set ourselves for 2022, and to keep standing by the side of the Portuguese economy and society.

José Carlos Sítima

Message from the Chief Executive Officer



The year of 2022 was a year of major challenges. Challenges that, once again, put us to the test, but that allowed us to grow and help others grow. When, at the beginning of the year, we were preparing to enter a stage of aftermath of the pandemic, we were struck by the invasion of Ukraine by Russia, which changed the expected economic and social course of things, and brought us increased responsibilities, namely towards our customers, employees, and shareholders.

We ended the year with very positive results — € 586.6 million —, unrivalled profitability, and a solid balance sheet, which put us in a reference position for keeping up with the quality of our support to the Portuguese economy and families. Something that is only possible with the dedication of the Bank's teams, which make of Santander a strong, profitable institution, capable of ensuring the provision of an excellent service to all our customers.

These results have allowed us to act on three main vectors, to mitigate the difficulties that have arisen as a result of the difficult context we are facing: supporting our employees; contributing to a fairer, more inclusive society; and also, on the relationship model that we want to have with our customers.

For our employees, we have launched a set of measures to help mitigate the effects of the cost of living, such as the extraordinary, supplementary payment of € 750 in October, or the upward revision of the minimum wage to € 1,400 per month, the latter already implemented in 2023.

The year of 2022 was also the first year of the Santander Portugal Foundation, and, especially in such a demanding period, we must acknowledge the work carried out so far. The Foundation's mission is to transform the lives of people and companies, promoting education for all generations. And that is what it is already doing. Last year, it invested more than € 5 million in the community, and awarded 5,000 grants. It also took part in several innovative educational projects, which aim to generate more development and accelerate social mobility.

On a social level, given the context of the humanitarian crisis, we have developed several initiatives to help the Ukrainian people and the refugees who came to Portugal. I would just like to highlight an unprecedented initiative by the Santander Portugal Foundation, in partnership with the Parish of Campo Grande, in which we brought 178 Ukrainians, with family ties in our country, from Poland. We created a hotline in Ukrainian; we raised funds and launched — through the Foundation — 500 scholarships of Portuguese language for Ukrainian refugees, just to name a few of the initiatives that we have carried out.

As far as the third vector, so that the relationship with our customers can be more immediate and functional, we are setting up a new relationship model, and our results are already a reflection of this. Thus, we remained focused on innovation, on simplifying processes, on automating tasks to reduce bureaucracy, and on creating products and services that are 100% digital. At our branches, we kept improving their technological capabilities and support areas; we installed new self-banking machines equipped with more advanced technology, with the advantage of being available 24/7. Digital customers continued to grow, now representing 62% of the main bank's customer base.

I would also like to highlight the role the Bank is playing in the transition to a greener, more sustainable economy. In 2022, Santander carried out the first Green Confirming operation in Portugal and took a leading role on two main fronts: financing the energy transition of the Portuguese economy and providing financial advice on M&A and Equity Capital Market transactions.

In the third quarter, we launched a new branding campaign entitled "We are the choices we make," which says a lot about who we are, and what we want to achieve. We have chosen to be by the side of our customers, of our employees, and we have chosen to promote inclusive, sustainable growth in Portugal, supporting society in education, in social well-being, and in the green transition.

We are proud of the work we have done, and we will keep pursuing our path, growing and supporting the economy, people, and companies.

Pedro Castro e Almeida

Corporate Culture, Awards, Distinctions and Other Relevant Facts in 2022

Santander Portugal



Santander Portugal is a reference bank in the Portuguese financial system, whose mission is to contribute to the development of people and companies. Serving more than 1.7 million active customers, Santander's Vision is to be the best open platform for financial services, acting responsibly, and earning the trust of its employees, customers, shareholders, and of society as a whole.

The Bank has been focusing on digitization, simplification of processes, and innovation, offering a closer, more personalized service to its customers, in order to provide them with the best possible experience. As a result of this commitment, there has been a strong investment in technology, with major impacts on process improvement. In 2022, more than 1 million documents were digitally signed (compared to 200,000 two years ago); new completely paperless support processes were created; and more capabilities for remote management with customers have been launched.

The investment in self-banking machines has continued, in order to offer customers a 24/7 self-service cashier service. Altogether, there are now 48 Virtual Teller Machines (VTMs) that allow deposits and withdrawals of banknotes, coins and cheques, among other operations.

Santander has also invested heavily in innovative products and services, such as the various digital payment solutions it has launched, which allow customers to pay for their purchases by using any mobile device around the world. In addition to Apple Pay and to the FitBit and Garmin devices, Santander customers can now use Google Pay to make their payments. Another outstanding solution was the launch of a 100% online account, to facilitate the day-to-day management of small businesses.

This transformation has contributed to the growth of digital customers, which now exceeds 1 million and 115 thousand, more than 62% of active customers. Those using the mobile App have also been growing — almost 20% more than in the same period last year — now reaching 800,000.

On the other hand, the Bank is committed to building a greener economy, and, to that end, it is helping its customers make sustainable choices and in their transition to a net zero business model. In this context, in 2022, Santander took a leading role in financing the energy transition of the Portuguese economy.

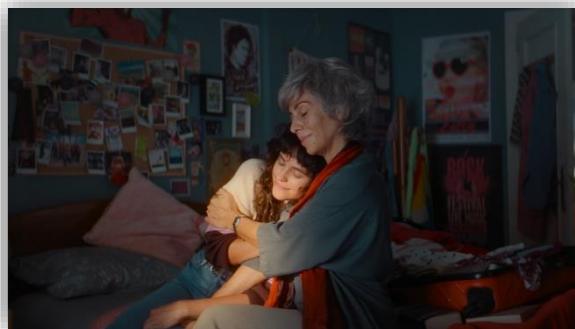
On a social level, the ability to have an impact on Society was largely reinforced by the creation of the Santander Portugal Foundation, with the mission of transforming the lives of people and companies. The purpose is to invest in the future of Portugal, supporting the education of all generations and promoting social mobility towards a more developed, fairer, more inclusive, sustainable society.

Thus, several programs were launched, and more than 5,000 scholarships were awarded in the country, with the aim of providing both university students and the adult population in general with a set of relevant skills for their personal and professional development.

Santander Brand

In September 2022, the Bank reinforced its **Mission of being by the side of all those who want to prosper and contribute to a better future, with a fairer, more inclusive society**, through a new campaign. This film marks the beginning of a new narrative for the brand, which, like each and every one of us, is also the product of the choices it makes, namely for each of its customers, for the community, and for the Planet.

Under the topic **"We are the choices we make,"** the creative concept is based on the idea that life is made of choices, and progress is the result of the choices we make. And, in the face of uncertainty and adversity, we can choose to stand still or to move forward. It also illustrates the role that the Brand wants to play in people's lives: whatever their choices, Santander will be there to move forward with them. Whether helping customers realize their dreams and projects; or helping companies grow and transform their businesses; or supporting the community for the greater good in education and social well-being.



Campaign — We are the choices we make

Awards, Distinctions and Other Relevant Facts in 2022



Best Bank in Portugal

Santander was distinguished as the **"Best Bank in Portugal"** by the North American magazine *Global Finance*, within the scope of the *"World's Best Banks 2022."* This publication emphasizes that it distinguished *"the institutions that best knew how to respond to the needs of their customers in difficult markets, and achieved the best results, while also establishing the foundations of success for the future."*

Santander was distinguished as the **Best Retail Bank in Portugal** by *World Finance* magazine, within the scope of the *World Finance Banking Awards 2022.*

Best Retail Bank in Portugal



Five Star Award

Santander was considered by Portuguese consumers as the **most relevant brand in the Large Banks and Mortgage Loans** categories in the 2022 edition of the Five Star Award.

Santander was distinguished by *Global Finance* magazine, for the second consecutive year, as the **"Best Bank for SMEs in Portugal,"** within the scope of the *"SME Bank Awards 2023."* This award, which is in its second edition, distinguishes the financial institutions that best respond to the needs of SMEs in their markets, acknowledging the support provided and the quality of the services offered.

Best Bank for SMEs in Portugal





Best Trade Finance Bank in Portugal

Santander was distinguished by **Euromoney** magazine as the “**Best Trade Finance Bank**” in Portugal, coming first in the “**Market leader**” and “**Best Service**” categories.”

Santander was elected the **Most Responsible Bank – ESG** in Portugal, taking the first position in the sector in the Merco ESG 2021 ranking.

Most Responsible Bank — ESG in Portugal



Best Private Banking in Portugal

Santander's **Private Banking** was once again distinguished by **Euromoney** magazine as the “**Best in Portugal**.” It is the 11th consecutive time that this publication awards the “**Best Private Banking Services Overall**” award to Santander's Private Banking.



It received a similar award from **Global Finance** magazine, which, for the eighth consecutive time, distinguished the advantages of the specialized advisory model and the unique value proposition that the Bank offers its customers.

Other Awards and Distinctions



Best Bank in the Bloomberg 2022 Gender Equality Index

Santander achieved the highest score in the financial sector and ranked second in the **Bloomberg Gender Equality Index (GEI)** for 2022

Euromoney distinguished Santander as the “**Best Bank in the World in Financial Inclusion**” for the second consecutive year, within the scope of its **Awards for Excellence 2022**, in recognition for Santander's programmes in Latin America, Europe, and the USA for the financial empowerment of individuals and entrepreneurs.

Best Bank in Financial Inclusion



Santander was named **"Bank of the Year in Financial Inclusion"** by *The Banker* magazine, which distinguished the Bank's proactive efforts to ensure a responsible, sustainable path to growth, through its commitment to "providing large scale services to financially excluded communities and small businesses with its 'Finances for All' initiative, a comprehensive set of services that combines digitisation and financial education."

Best Bank in Financial Inclusion



"Best Bank in Corporate Responsibility" in Central and Eastern Europe — Euromoney

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

Santander was considered by *Euromoney* as the **"Best Bank" in Western Europe,** in recognition of the support that it keeps providing to its customers in the region. The magazine distinguished Santander's work to support the development of about two million SMEs in Western Europe with the award **"Best Bank for SMEs"** in the region.

Best Bank in Western Europe/Best Bank for SMEs in Western Europe — Euromoney



Highlights

- ➔ The North American magazine *Global Finance* awarded the title of **"Best Bank in Portugal"** to Santander, within the scope of *"The World's Best Banks 2022,"* while the magazine *World Finance* chose Santander as the **"Best Retail Bank"** in Portugal in the *"World Finance Banking Awards 2022."*
- ➔ The magazine *Euromoney* chose, for the third consecutive year, Santander as the **"Best Trade Finance Bank"** in Portugal, winning in the categories of "Market Leader" and "Best Service." The same publication also distinguished Santander's **Private Banking** in the *"The World's Best Private Banks Awards 2022,"* which award institutions with the best private banking service worldwide. *Private Banking* received a similar distinction from the *Global Finance* magazine, which, for the eighth consecutive year, considered Santander's Private Banking as the best in the country.
- ➔ In early 2022, the Bank received the **Five Star Award** in the "Large Banks" and "Mortgage Credit categories."
- ➔ At global level, the publications *The Banker* and *Euromoney* distinguished Santander for its initiatives in **Financial Inclusion.**

External Recognition

In 2022, Santander was distinguished as the **"Best Bank in Portugal"** by the North American magazine *Global Finance*, within the scope of the *"World's Best Banks 2022."* Santander was also distinguished as the **"Best Retail Bank"** in Portugal by *World Finance* magazine, in the *"World Finance Banking Awards 2022."* Santander was considered by Portuguese consumers as the most relevant brand in the Large Banks and Mortgage Loans categories in the 2022 edition of the **Five Star Award**.

In the **Companies** area, *Euromoney* once again distinguished Santander as the **"Best Trade Finance Bank in Portugal,"** having won in the **"Market Leader"** and **"Best Service"** categories. For its part, *Global Finance* distinguished Santander, for the second consecutive year, as the **"Best Bank for SMEs in Portugal,"** within the scope of the *"SME Bank Awards 2023."*

Santander's **Private Banking** was once again distinguished by *Euromoney* magazine as the **"Best in Portugal."** It is the 11th consecutive time that this publication awards the **"Best Private Banking Services Overall"** award to Santander's Private Banking. At the end of the year, *Global Finance* made a similar distinction, by considering it the best in the country, recognizing the advantages of the specialized advisory model, and the unique value proposition that the Bank offers its customers.

The Bank was distinguished, for the 3rd consecutive year, at the *Euronext Lisbon Awards*, in which it won in the **Settlement & Custody** category. This category distinguishes the Financial Intermediary that carried out the largest number of share and bond issuances registered with Interbolsa (and not admitted to trading), weighted by the respective amounts.

In the **Social Responsibility** field, Santander was elected the **Most Responsible Bank – ESG** in Portugal, taking the first position in the sector in the Merco ESG 2021 ranking.

Santander was also distinguished by *Euromoney* as the **"Best Bank in Corporate Responsibility"** in **Central and Eastern Europe** in its *"Awards for Excellence 2022,"* in recognition of the Bank's contribution to the humanitarian response to the war in Ukraine.

On the other hand, Santander was distinguished by *Euromoney* as the **"Best Bank" in Western Europe**, in recognition of the support that it continues to provide to its customers in the region. This magazine distinguished Santander's work to support the development of about two million SMEs in Western Europe with the award **"Best Bank for SMEs"** in the region.

In terms of **financial literacy**, *Euromoney* distinguished Santander as the **"Best Bank in the World in Financial Inclusion"** for the second consecutive year, within the scope of its *Awards for Excellence 2022*, in recognition of Santander's programmes in Latin America, Europe, and the USA for the financial empowerment of individuals and entrepreneurs. Likewise, *The Banker* magazine also distinguished Santander as the **"Bank of the Year in Financial Inclusion"** for the Bank's proactive efforts to ensure a responsible, sustainable path to growth, through its commitment to "providing large scale services to financially excluded communities and small businesses with its 'Finances for All' initiative, a comprehensive set of services that combines digitisation and financial education."

Santander achieved the highest score in the financial sector and ranked second in the **2022 Bloomberg Gender Equality Index (GEI)**, which distinguishes excellence and commitment to equality, and positions the Bank as one of the most advanced companies in the world in this field.

Other Relevant Facts in 2022

Support to Ukraine

Together with the Parish of Campo Grande, Santander organized the **arrival of 178 Ukrainian refugees** with family ties to Portugal, an initiative that had the support of 28 volunteers from the Bank.

On the other hand, a Fund was created in favour of the **Red Cross** to support humanitarian efforts in Ukraine, which received contributions from more than 1,340 employees, with the Bank doubling the amount raised, thus achieving a total of € 68,000.

Additionally, the **Santander Portugal Foundation**, the EDP Foundations in Portugal and Spain, and the *Escuela Superior de Música Reina Sofía – Albéniz Foundation* (ESMRS) joined hands to organize a **solidarity concert in support of UNICEF's work in Ukraine**. A fundraiser was also promoted, in which the amount of each individual contribution was doubled by the *EDP Foundation Spain*, and by the Santander Portugal Foundation.

The Bank also developed **other support measures**, such as the fee exemption on the minimum banking services account for a period of 12 months for Ukrainian citizens who came to Portugal and opened an account with Santander Portugal until the end of 2022, plus the exemption — until the end of the year — of all fees for transfers allowed to/from Ukraine.

A **customer support hotline in Ukrainian language** was also made available to support people who do not speak Portuguese and were thus in a position to communicate with the Bank and explain their needs.

❖ Santander Laboratory helps people make the best decisions in the field of Health

Santander promoted an experiment on Health, with the aim of helping people make more rational decisions regarding their present and future health, called the Santander Laboratory.

❖ Santander Dojo: the new lifelong learning platform

To invest in talent, Santander launched "Dojo," a new lifelong learning platform where employees manage their own training.



Campaign — Creation of the Santander Dojo

❖ Senior Superline

Santander launched a specific hotline — the Senior Superline — for non-digital customers aged over 70, which will cover around 195,000 customers.

❖ First Sustainable Confirming solution in Portugal

Santander launched the first Sustainable Confirming solution in Portugal, establishing a partnership with SONAE and EcoVadis.

❖ New branding campaign

In September, the Bank launched a new branding campaign, under the motto "We are the choices we make".

❖ EIB and Santander support SMEs in Portugal

EIB and Santander signed an agreement to support SMEs and Mid-Caps in Portugal with € 820 million.



Campaign — We are the choices we make

❖ Employee Support

Aware of the impact of rising inflation and energy costs on its Employees' household budget, Santander decided to approve a set of financial support measures to help minimize such impact, as for instance, the extraordinary, supplementary payment, in October, of €750 to Employees earning up to € 30,000/year; The possibility of all Employees anticipating up to 50% of their Christmas allowance in 2023; increasing the ACT credit limit to € 200,000; and expanding the access to family responsible company measures (EFR) to Employees with an Actual Monthly Salary of less than € 2,500.

❖ Inclusive Community Forum

Santander renewed its commitment to the *Inclusive Community Forum* (ICF), a partnership that has facilitated the integration of several Employees in Santander, and the implementation of best practices of inclusion at the Bank.

❖ The most inspiring companies in the country

In November, the most outstanding companies and personalities in the country were known, during the delivery of the Portugal Inspiring Award.

❖ Santander delivers 1,000 diplomas to PME Líder 2021

One thousand companies received the status of PME Líder 2021 in four events that took place in Lisbon, Coimbra, Funchal, and Porto.

❖ MindAlliance Portugal

Santander is a founding member of *MindAlliance Portugal*, a non-profit organization whose purpose is to promote a corporate culture that places the mental health of its Employees as a strategic priority for companies in Portugal, through awareness raising initiatives and training to its leaders.

❖ First fund with social investment goals

Santander Asset Management launched the *Santander Prosperity Fund*, its first fund with social investment goals, in collaboration with (RED).

❖ A 100% digital business account

Santander launched an innovative solution on the market, allowing small businesses to have a 100% online account, thus making their day-to-day management much easier.

❖ Santander finances Casais to support its transition to a green economy

The Bank is financing the Casais Group for an amount exceeding € 9 million in what will be the first hybrid construction complex in the Iberian Peninsula, namely in Guimarães.

❖ Paying with Google Pay

Santander customers can now use *Google Pay* to make payments in a simpler, safer way, without having to carry a bank card or cash with them.

Customers and the Bank's Distribution Network

Evolution of the Branch Network

The year of 2022 was a year of consolidation and modernization of the Bank's branch network, after several years of branch mergers.

In terms of mergers, only 9 mergers were made this year, namely 4 in the North Network, 4 in the South Network, and 1 in the Madeira Island.

The Branch Network ended 2022 with 339 branches, to which 13 extensions should be added, in a total of 352 points of sale.

The 11 remote service centres (Santander Pronto) remain in operation, including *Próximo International*, dedicated to non-resident and foreign customers.

Teller and Self-banking Models

Cash transactions continued their downward trajectory. Digital media and cards are increasingly used as payment methods. Thus, the Bank has been optimizing its manual teller transaction models, namely by dividing its Branches into 4 types:

- 48 branches with traditional tellers;
- 250 branches with an advanced teller station (cash station at a commercial service point);
- 23 branches with corporate teller desks;
- 18 Branches without a teller.

The Corporate Teller Desk

Branches with corporate tellers are branches with equipment and employees specialized in cash transactions, especially dedicated to companies that deposit large amounts. In 2022, the network with this service model grew to 23 branches, as a result of the implementation of 3 new branches.

The Advanced Teller

In areas with less transactions, Santander started an advanced teller model in 2021, which was consolidated in 2022, consisting of providing manual teller services at commercial service points.

This optimization is being accompanied by a strong investment in Self banking (automatic areas), which allows all customers to make deposits 24/7.

In 2022, 85 new *Virtual Teller Machines* ("VTMs") were installed, ending the year with 117 branches with this type of equipment. VTMs allow customers to make deposits and withdrawals at the most convenient time for them, either in bank notes or coins. In 2023 we will keep installing new VTMs in most branches, allowing customers to use typical branch teller services over an extended period, and at their convenience.

Face-to-face customer service







With the aim of improving customer experience when they visit our branches, a decision was made in order to install an innovative customer service, by using passwords.

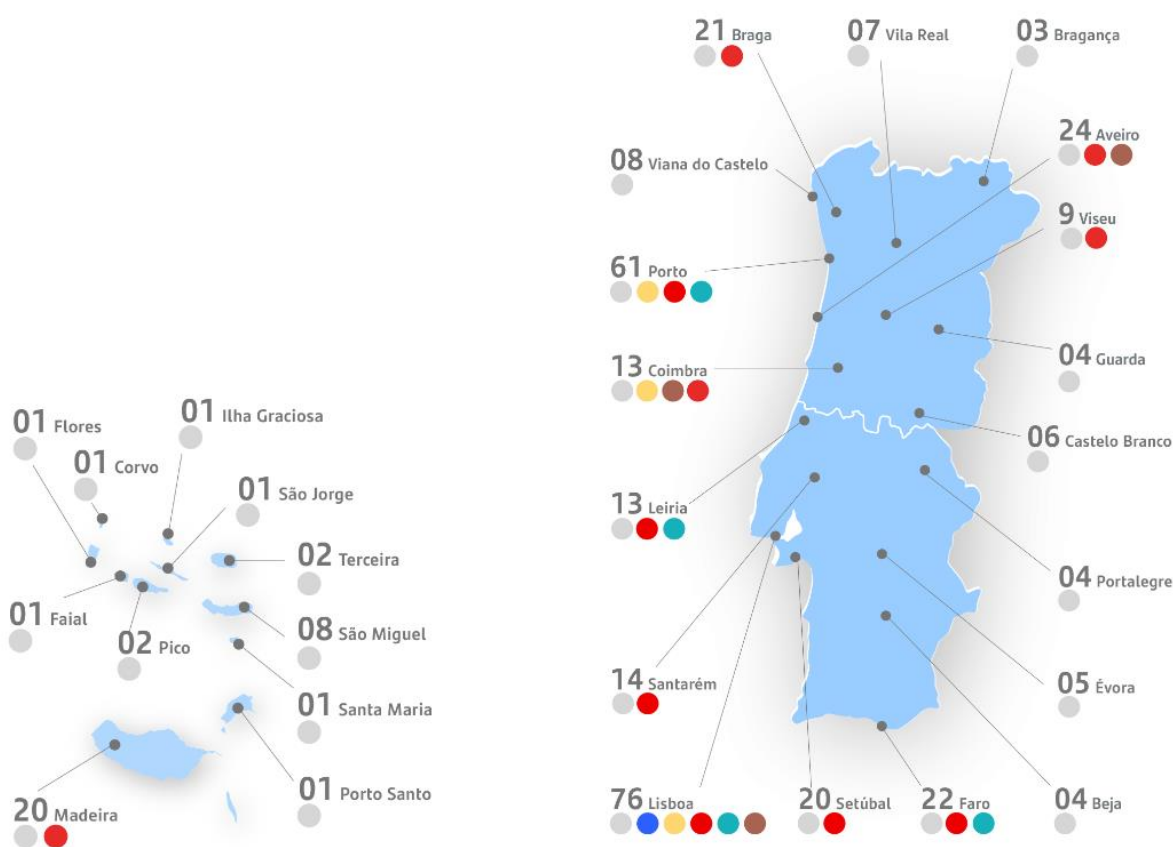
Santander currently has 104 branches with this type of equipment, and it is expected that, by 2023, this will be a solution for customer service and quality of service management at all branches in the network.

Remote Customer Service

In addition to the already consolidated *Santander Próximo* service model (a 100% remote service model), the Bank continued to implement new Select Hubs, a service model made up of teams of managers who manage Select customers remotely, but located within branch facilities, also enabling face-to-face service, subject to prior scheduling.

These teams are integrated into the branch's own team (in BackOffice), and this model is available in areas where there is a critical mass of eligible customers. There are currently 24 branches with Hub Select, with a further expansion planned for 2023.

 <p>Clássico</p>	<p>A Proven Branch – With the quality of service that our customers know so well.</p> <p>Based on a robust network – Present throughout the Mainland territory and also in the Islands.</p> <p>Combining simple and immediate – Providing an agile service for cash operations.</p>	 <p>Universitário</p>	<p>A Branch by your door – Located close to the main university campuses in the country.</p> <p>Accompanying students – Providing support, at a time when everything is new, including experience with Banks.</p> <p>Giving them the best commercial offers – From the easy opening of an account to the competitive conditions of the debit card.</p>
 <p>Money Club</p>	<p>A Branch facing the future – A University Kiosk located on the NOVA SBE Campus, in Carcavelos, of which we are a founding partner.</p> <p>Young, like them – To give the students all the services they need, within the Campus.</p> <p>Open to knowledge – In a sophisticated environment, where they can study and discuss ideas.</p>	 <p>Smart Red</p>	<p>A space with end-to-end technology – Equipped with touch screens that screen customers according to the purpose of their visit.</p> <p>With a strong focus on audio-visuals – Which work as a communication support in the interaction with customers.</p> <p>Easily accessible by everyone – With wide spaces and without physical barriers.</p>
 <p>Work Café</p>	<p>A coffee, at the Branch – Served in a large, modern space, with cafeteria service.</p> <p>For all those who visit us – Whether customers or the general public, that are looking for a pleasant space.</p> <p>Where ideas are served hot – In an inviting open space for studying, meeting and relaxing.</p>	 <p>Próximo</p>	<p>A Branch with a 100% digital service – With extended hours and service via email, phone or video call.</p> <p>But it hardly seems so – Because we provide all the services available at physical branches.</p> <p>Which is very close to customers – By assigning them a dedicated manager, with whom they can talk permanently.</p>



Commercial Structure Map

Responsible Banking

- Being responsible is the basis of trust, and only by acting in a **Simple, Personal and Fair** manner can Santander earn the trust of our customers and of all the stakeholders with whom we relate.



Ukraine Solidarity Concert



TEAMS donation

- The Bank seeks to ensure that, in the course of its current business, it **fosters the sustainable, inclusive** growth of society, reducing social and economic inequalities among the population, while, at the same time, **supporting the development of the communities** where it operates.

- Besides investing in the **community**, Santander also acts in the areas of **financial empowering, climate finance, and reduction of consumption and emissions**.



Ukraine Solidarity Concert









EPIS Scholarship Programme

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

Main areas of activity as part of the sustainability policy

- ➔ Being responsible is the basis of trust, and only by acting in a Simple, Personal and Fair manner can the Bank earn the trust of its customers, and of all its various stakeholders.
- ➔ The Bank seeks to ensure that, in the course of its current business, it fosters sustainable, inclusive growth in society, while reducing social and economic inequalities among the population, while, at the same time, supporting the development of the communities where it operates.
- ➔ Besides investing in the community, the Bank also acts in the areas of financial empowering, climate finance, and reduction of consumption and emissions.

Main areas of activity as part of the sustainability policy

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

Main Sustainable Development Goals (SDGs) where Santander's business and investment in the community has a higher impact.



Our skilled, committed teams allow us to respond to customer needs, help entrepreneurs create businesses and jobs, and strengthen local economies.



We fight climate change by reducing our own carbon footprint and our environmental impact, while helping our customers in the transition to a sustainable economy.



We promote transparency, the fight against corruption, and solid institutions for sustainable development. Our policies and codes of conduct, which regulate our activity and behaviour, guide our commitment towards a more responsible banking system.

Other Sustainable Development Goals (SDGs) on which Banco Santander also has an impact — Group approach



We are committed to reducing poverty, and to strengthening the well-being of the local economies where we operate. Our financial inclusion products and community investment services and programmes empower millions of people every year.



Through Santander Universities — a unique, pioneering programme in the world — we help Universities and students prosper, with a focus on education, entrepreneurship, and employment. Santander Scholarships are one of the largest scholarship programmes funded by the private sector.



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



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



We develop products and services for the most vulnerable in society, giving them access to financial services, and teaching them how to use them properly to manage their finances in the best possible way.



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



We are firmly committed to reducing our environmental footprint, by implementing energy efficiency plans and by promoting the use of renewable energies, as well as by offsetting the environmental impact of our internal operations.



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

Main Highlights in 2022

Banco Santander is committed to its mission of helping people and businesses prosper, supporting inclusive, sustainable growth. In the 2021 Responsible Banking Report, various priority action plans were defined for 2022 in **Environmental, Social and Governance matters**, which were implemented throughout the year.

In order to achieve the environmental goals that the Bank has set itself, various initiatives are still being developed to strengthen the capacity for carrying out environmentally friendly operations. In February, the Bank published the *Sustainable Finance Classification System* (SFCS). This document establishes the criteria for financing to be considered sustainable by Santander. Inspired by the European Taxonomy and by other international standards, the SFCS lays the groundwork that will enable Santander customers to support the transition to a low-carbon economy. In May, the first *ESG – ONE Europe Workshop* was held in Lisbon, which brought together key players from Santander's various geographies, with the aim of boosting the Bank's offer of sustainable value. An ESG training plan was also implemented, comprising both mandatory and optional modules. So far, 97% of our employees have already taken training on Introduction to Sustainability.

More than ever, **environmentally responsible financing solutions** have been created for Santander customers, helping them in their transition to a greener economy. € 200 million were allocated in commercial paper under the Sustainability-Linked Loans model, with varying financing conditions, according to the company's ESG performance. Additionally, a financing operation was carried out for *Onex Holdings*, in the amount of more than € 360 million, for the refinancing and acquisition of 5 wind farms from EDP Renewables, located in Portugal, with a total capacity of around 221MW. The Bank also led an operation with *MedWay ROSCO*, with an innovative project financing structure, which financed the acquisition of 16 electric locomotives and 113 intermodal wagons. Of the total investment of € 122 million, Banco Santander guaranteed 77 million, while the European Investment Bank ensured the remainder. The Bank also took part in green bond issuances in an amount exceeding € 900 million.

Banco Santander remained **carbon neutral regarding its own activity** by offsetting all its emissions. Additionally, 100% of the electricity consumed by Santander again came from renewable sources. It is also worth highlighting the maintenance of the biodegradable and recyclable cards initiative, as well as the non-use of unnecessary plastic in its buildings.

In 2022, the Bank also deepened the **integration of environmental, social and climate risks** in its daily management. We expanded the universe of companies, as well as the perimeter of new operations subject to ESCC (*Environmental, Social and Climate Change*) risk assessment, implemented new Environmental & Climate Risk Policies, and also trained teams of credit risk analysts on these topics, thus

maintaining an active promotion among all the different areas of the Bank, in terms of ESG topics.

On a **social level**, the ability to have an impact on Society was largely reinforced through the creation of the Santander Portugal Foundation, with the mission of transforming the lives of people and companies. The intention is for the Bank to invest in the future of Portugal, supporting the education of all generations and promoting social mobility towards a more developed, fairer, more inclusive, sustainable society.

In line with the objectives set out of promoting a more inclusive, fairer, sustainable society through Education, the Bank established and carried on with several partnerships, such as School 42, which seeks to develop programming skills in society, stimulating teamwork, problem solving, autonomy and resilience or the My Mentor project, a unique platform at national level, based on artificial intelligence, to stimulate the upskilling and reskilling of its users.

In line with its Mission within the Group, Santander also promoted **Financial Literacy initiatives**:

- ➔ In September, the book "Maria e o Segredo da Poupança" [Mary and the Savings Secret] was launched, to help younger people understand the basic concepts of how money and savings work.



Launching of the Book "Maria e o Segredo da Poupança"
[Mary and the Savings Secret]

- ➔ A financial literacy programme was also created, organised in sessions, for secondary school students, where the advantages and consequences of their financial choices are addressed, enabling the future generation to make financial decisions.

In terms of education, in line with the 3 axes of the Bank's patronage, **Education, Entrepreneurship and Employability**, **14 programmes were developed on the Santander Scholarships platform**, in addition to the multiple programmes developed by the Education Institutions themselves, which directly benefited more than 5,000 people. Among the various programmes, the following stand out among the most sought after in 2022: the

Santander Future Scholarships — a financial support scholarship awarded to more than 1,000 beneficiaries —, the Erasmus Scholarships, and the English and digital skills courses.

In terms of Entrepreneurship, the Santander X Local Award was launched for the first time in Portugal, **with the aim of acknowledging entrepreneurial projects of a university nature and Start-ups**. Six projects were awarded, three in each of the *Launch* and *Accelerate* categories. This edition highlighted the aspect of sustainability present in all projects, as well as team diversity. The presence of SantanderX at the WebSummit boosted the application of Portuguese Start-ups to corporate programmes, and the entry into the SantanderX100 network — a Start-ups community supported by Santander.

Additionally, **Santander established innovative agreements to promote lifelong education:**

- ➔ In November, together with the Catholic *Lisbon School of Business & Economics* and Galp, it launched the *Yunus Social Innovation Centre*, the first social innovation centre in Portugal linked to the network of economist and Nobel Peace Prize winner *Muhammad Yunus*.
- ➔ It established a partnership with IST-ID, allowing the creation of a "Técnico" [Technical Higher Education Institute] research unit at the Creative Hub of Beato, which develops its activity in the area of person-machine interaction.

And it **continues to promote a more inclusive society** by supporting integration projects:

- ➔ It renewed its support for the *Café Joyeux Portugal* project, which opened its first outlet in Lisbon in 2021, to promote the employability of people with Intellectual and Developmental Disabilities (IDD).

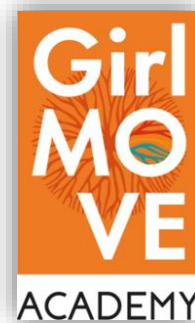


Joyeux Portugal Project

- ➔ It also renewed its support to the Portuguese Association of Asperger's Syndrome (APSA) through the promotion of the social and professional integration of people with Asperger's syndrome.

- ➔ The protocol with the *Salvador Association* was maintained, to continue supporting the employability of people with motor disabilities. This programme includes vocational guidance, training sessions for developing specific skills, searching job offers, as well as organizing recruitment meetings and accompanying employers during the recruitment processes.
- ➔ Santander kept its support to the EPIS scholarship programme, which support needy students during their journey in Secondary and Higher Education, redirecting support to professional integration scholarships aimed at students with special needs.

Once again, it supported the *Girl MOVE Academy* programme, which is committed to promoting teaching and education among the female population, and training new generations of women to lead the cultural transformation and empowerment of young Mozambicans.



Girl MOVE Academy programme

Once again it became a patron of the *Orquestra Sem Fronteiras* [Orchestra Without Borders], an association designed to support and retain young talent in the innermost regions of Portugal and Spain, preventing the abandonment of music teaching, while rewarding academic merit.

Again, together with the *Sara Carreira Association*, it **maintained its support to children and young people with financial difficulties**, helping them progress throughout their educational path, by awarding 21 scholarships. Also in this area, it renewed its support to the *Academia do Johnson*, a project for young people in deprived areas of Lisbon, contributing to the promotion of citizenship and education, while fighting against juvenile delinquency.

To involve employees in promoting a fairer society, a new edition of *Donation Teams* was launched, an award in which employees choose the social or environmental projects that Santander will support with a total of € 78,000.

To support Ukrainian customers, a hotline in Ukrainian language was created; fees were exempted for international transfers to and from Ukraine until March 2023; as well as fee exemption for basic accounts (minimum services) for 12 months.

In order to ensure that all refugees in Portugal have access to basic banking services, such as a Current Account and a Debit Card, the account opening procedure was made easier, allowing any customer, with a Visa issued by the Portuguese State under the Request for Temporary Protection, to open a current account.

In the current context of humanitarian crisis, Banco Santander and the Santander Portugal Foundation committed themselves to **supporting the victims of the war in Ukraine**, namely by launching a package of measures that included the creation of a fund that received donations from more than 1,340 employees. Santander doubled the amount raised with the campaign, reaching a total amount of € 68 thousand, which were donated to the Portuguese Red Cross to support humanitarian efforts in Ukraine.

In an unprecedented initiative, which began in March 2022, Santander Portugal joined forces with the Parish of Campo Grande and arranged to bring 178 Ukrainian refugees, with family ties to Portugal, from Poland. The initiative had the support of 28 Santander Volunteers, namely, 10 employees present at the airport, 14 employees from the commercial network who helped direct Ukrainian families to their relatives, from North to South of the country, and 4 backup employees who ensured all the logistic aspects.

Other measures were also implemented, such as **the granting of 500 Portuguese language scholarships for refugees from Ukraine**, aimed at supporting the integration in Portugal of people impacted by the war. Additionally, the Santander Portugal Foundation joined forces with the EDP Foundation and the Escuela Superior de Música de Reina Sofia – Alberniz Foundation, to organize a solidarity concert whose funds benefitted UNICEF, to be used to support children's victims of war in Ukraine.

In December, the solidarity Christmas campaign entitled "Bring into the Christmas Basket" was launched, promoted by the Union of Portuguese Mercy Institutes, in partnership with Santander, which brought together employees and customers in a solidarity initiative with the purpose of creating Christmas baskets — with typical products of the Christmas season — to enrich the tables of those who need them most. In total, more than 1,200 baskets were delivered to needy families.

Providing a diverse, inclusive workplace that promotes the well-being of employees remains as a strategic priority for Santander. A diverse, inclusive team is absolutely critical for

cultural transformation and for fulfilling the Bank's strategy.

In this sense, Santander has defined some areas of action:

- ➔ Promotion of gender diversity;
- ➔ Employment programme for people with disabilities;
- ➔ Special attention to neurodiversity;
- ➔ Support for the creation of the *Embrace* community.

In terms of gender diversity, the Santander Group has defined various metrics such as women on the Board of Directors or in management positions, as well as **equal pay** for the same position between men and women. These indicators, including the equal pay gap and gender pay gap, are all monitored.

The employment programme for people with specific needs was **distinguished with a Gold Award** this year, in the Initiatives category of the Santander *D&I Awards*.

Within the scope of this programme, the Bank is working with various NGOs to identify candidates for existing vacancies (namely with the Salvador Association, with Value T, with the Portuguese Asperger Syndrome Association, and with recruitment companies), as well as to train and support managers and teams in preparing the inclusion of employees with specific needs. In this context, we highlight the special collaboration with Nova SBE's Inclusive Community Forum.

Within the scope of this programme, Santander Portugal already has **13 employees with specific needs among its staff, most of whom were hired over the last 5 years**. This year, the Bank also began some short-term programmes to support integration into the labour market.

Santander employees actively participated in internal initiatives, sharing their testimonies, for example, on Pride Day or on the International Day of People with Disabilities. The Bank also seeks to encourage the involvement of leaders in order to be more inclusive, namely by promoting the consolidation of a diverse, inclusive culture at Santander.

Business Environment

International Economy

The global context in 2022 was extremely complex, marked by the invasion of Ukraine by Russia, on February 24, and the subsequent war, which amplified the disruptive effects on supply arising from the faster recovery process of global demand in the post-pandemic period.

The shock waves caused by the outbreak of the war in Ukraine, materialized the second supply shock wave since 2020, after the pandemic, and was propagated through several channels: (i) new disruptions in global logistics and value chains, by taking Ukraine and Russia out of the trade flows; and (ii) a sharp rise in the prices of commodities and energy, resulting from Europe's energy dependency.

The continued "Covid zero" policy by China in 2022, culminated in a significant acceleration of inflation, to record figures in more than three decades, which, in turn, caused a double effect: (i) a tough intervention by central banks, with a faster and greater rise in reference interest rates; and (ii) a deterioration in the purchasing power of families, with an impact on their current expenditure, in addition to increased energy and raw material costs for companies.

Consequently, from the second quarter onwards, there was a deterioration in the confidence levels of economic agents, materialized in a progressive slowdown of economic activity, and a downward revision of growth prospects for 2022, and, in particular, for 2023.

The International Monetary Fund progressively revised its economic growth projections downwards throughout the year, especially for 2023.

Despite the deterioration in expectations, the growth dynamics observed in 2022 proved to be less adverse than initially expected, thus prolonging the post-pandemic recovery, greatly leveraged by tourist activity, which revived much faster than expected. Actually, in 2022, most economies recovered the activity levels observed at the end of 2019, before the pandemic.

Throughout the year, most economies eased the restrictions associated with controlling the pandemic, as the incidence of Covid declined. At the end of the year, China put an end to its "Covid zero" strategy.

In the January 2023 update of its "World Economic Outlook," the International Monetary Fund slightly revised its economic forecasts upwards for 2023, incorporating the fact that the main economies avoided a contraction of their economic activity at the end of 2022, although continuing to anticipate a slowdown compared to the growth rates recorded in 2022.

World Economic Growth

	2021	2022E	2023P
World	6.2	3.4	2.9
Advanced Economies	5.4	2.7	1.2
USA	5.9	2.0	1.4
Euro Area	5.3	3.5	0.7
United Kingdom	7.6	4.1	-0.6
Japan	2.1	1.4	1.8
Developing Countries	6.7	3.9	4.0
Africa	4.7	3.8	3.8
Asia	7.4	4.3	5.3
China	8.4	3.0	5.2
Central and Eastern Europe	6.9	0.7	1.5
Middle East	4.5	5.3	3.2
Latin America	7.0	3.9	1.8
Brazil	5.0	3.1	1.2

Source: IMF (January 2023)

Thus, the IMF estimates that the world economy grew by 3.4% in 2022, which reflects an upward revision of 0.2 p.p. compared to the October 2022 estimate, which was common, both to the advanced economies (2.7% growth), and to emerging markets (3.9%).

In the USA, GDP grew by 2.0%, on an annual average, although with a particularly weak first half, with the economy going through a technical recession. In the second half of the year, economic activity recovered, despite the fact that the Federal Reserve accelerated the pace of reference interest rates increases.

The technical recession was due to one-off factors, resulting from a strong increase in imports in Q1, and lower stocks in Q2. Throughout the year, private consumption remained resilient, mainly supported by low levels of unemployment and high wage increases, which contributed to transmitting the high increases in energy prices to other classes of services, reinforcing the inflationary dynamics.

The unemployment rate remained quite low throughout the year, below 4%, despite the sharp rise in reference interest rates. Although in a moderate way, the economy maintained sustained paces of job creation, which in turn translated into relatively high wage growth.

As a result, inflation went up quite sharply throughout the year, with an average annual variation of 8.0%, the highest since 1981, with the material contribution of core inflation at 6.1% (which excludes food and energy).

The Federal Reserve reacted by accelerating the pace of reference interest rate increases, with two hikes in the main reference rate (*Fed funds*) by 0.75%, also the strongest pace since 1994; after which it moderated the pace to 0.5%, and, in 2023, to 0.25%. In 2022, the Fed funds rate thus rose by 4.5 p.p. compared to the end of 2021, up to 4.75% at the end of the

year, the greatest rise since the early 1980s.

In China, the “Covid zero” policy maintained by the authorities, with total population lockdowns in large cities, translated into a sharp slowdown in economic activity. GDP grew just by 3.0%, below the global average, recording the slowest pace in more than four decades.

In a context of significant deceleration of economic activity — added by latent tensions in the real estate market —, the emergence of clear social protest movements towards the end of the year in the largest cities, led the Chinese authorities to lift all the restrictions they had implemented to control the pandemic, which, in the long term, should contribute to normalizing the logistic chains.

In Japan, economic activity only grew by 1.4% in 2022, with volatile intra-annual dynamics, with two negative quarters. The inflationary scenario also affected the economy, with consumer prices growing by 2.5% in 2022, the highest pace in three decades, reversing the trajectory of recent years, in which the economy was testing deflationary scenarios. The Bank of Japan also reacted, not changing the reference interest rates, but by reviewing its asset acquisition policy.

In the United Kingdom, economic activity also slowed down, with GDP growing by 4.1% in 2022, leveraged by the post-pandemic recovery. With a more volatile political framework — the Government leadership changed twice in a short period of time —, with the expansionary fiscal policy of the brief government of Liz Truss resulting in her resignation and leading the new Government to adopt a plan oriented towards the control of public accounts, whose effects will be felt mainly in 2023. In 2022, the impacts of Brexit were also quite visible, with the resulting bureaucratic burden making trade with the European Union — which continues to be the country's main trading partner — more difficult.

In the United Kingdom, inflation was also a concern, with consumer prices rising by 9.1%, on an annual average, as a result of rising commodity and energy prices, associated with low levels of unemployment, which required an equally tough intervention by the Bank of England, by raising rates by 3.75 p.p., to 4.0%, already considering the rise of February 2023.

The economy in the Euro Area followed the global trend, with a progressive slowdown throughout the year, materialized in an annual growth of 3.5%. However, GDP only grew by 0.1% quarter-on-quarter in Q4, although avoiding a contraction in the last months of the year.

The Euro Area was the region most directly impacted by the war in Ukraine, considering its greater interconnections with the two countries in conflict, the integration of their value chains, and, in particular, the energy dependence on Russia, with regard to oil and natural gas. Europe, in particular Germany and other Central European countries, had to quickly find alternative sources of energy, in a context of sharp price surges. By the end of the year, dependence on Russia had been cleared.

Private consumption remained quite dynamic in the Euro Area, in a context of full employment, which, in turn, contributed to the negotiation of progressive wage increases, which, although moderate, partially mitigated the effects of higher inflation rates.

In 2022, inflation in the Euro Area accelerated at a quite fast pace, up to 8.4% on an annual average, the highest rate in three decades. Its rapid evolution and its contagion — although only partially on wages, in turn materialized in the accelerated core inflation to 4.2%, on an annual average — led the European Central Bank to accelerate the normalization of its monetary policy, namely by raising the rate of refinancing to 3.0% and the deposit rate to 2.5% in February 2023, that is, a 3.0 p.p. increase compared to the end-2021.

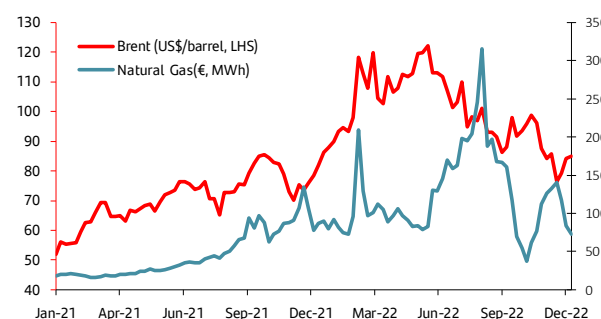
The labour market remained quite dynamic, and the unemployment rate dropped below 7% — a record low for the region — helping to partially mitigate the effects of inflation on households' purchasing power. But it also generated an increase in negotiated wages, which reinforced the need for surveillance by the ECB, in order to control the potential emergence of second-round effects.

2022	GDP	Inflation
Euro Area	3.5	8.4
Germany	1.8	8.7
France	2.6	5.9
Spain	5.5	8.3
Italy	3.9	8.7

Source: EC (February 2023)

The year of 2022 was undoubtedly marked by Russia's aggression against Ukraine, bringing, once again, an explicit war into Europe, and giving rise to a second supply shock, at a time when the world economy had not yet fully recovered from the pandemic.

**Brent crude oil (US\$/Barrel) and
Natural Gas (€, MWh)**



Source: Bloomberg

As mentioned above, energy and commodity prices rose sharply, with oil prices rising to their highest since 2014, with natural gas recording absolute maximums in Europe, and with other non-energy raw materials prolonging the dynamic of high prices already started in 2021.

On the other hand, despite the clear overall improvement in health indicators within the context of the pandemic, it only occurred in a more visible way from the summer onwards. As a result, for a significant part of the year, the disruptions in global logistics chains remained, not least because China maintained, throughout the year, its "Covid zero" policy.

The combination of all these factors (rising energy prices, disruptions in logistic chains, and the resilience of economic activity in a context of full employment), resulted in sharp price surges — recording three-decade historical peaks — with second-round effects, as a result of the wage increases.

The **central banks of the main developed economies** reinforced their focus on controlling inflation, with the quick reversal of their expansionist monetary policy, which had been pursued in recent years.

Consequently, they implemented the fastest and most significant rise in reference interest rates since the beginning of the 1980s (in terms of the accumulated rise over the 12-month horizon).

As already mentioned, at the beginning of the year the **US Federal Reserve** had signalled that reference interest rates would rise throughout the year, and it started the process in March. As of July, as a result of the highest rise in inflation, it accelerated the pace of rate hikes, with two rises of 0.75% — something that had not occurred since 1994. In 2023, it moderated the pace, to rises of 0.25%, but since the beginning of 2022, the interest rate rose by 4.5 p.p., up to 4.75%, the highest rate since 2007.

Additionally, the Federal Reserve began the tapering process at a programmed monthly pace of US\$95 billion, by not replacing the maturities of assets on the balance sheet with new acquisitions. The Federal Reserve balance sheet had peaked at approximately \$9 trillion in the first half of 2022.

In March 2022, the **European Central Bank** informed that it would start the progressive normalization of its monetary policy, in a staged manner: it would start off by ending the Pandemic Emergency Programme of asset acquisition (PEPP), at the end of the first quarter; it would subsequently conclude the Asset Purchase Programme (APP) in October 2022, and only after these two stages would it start to raise the reference interest rates.

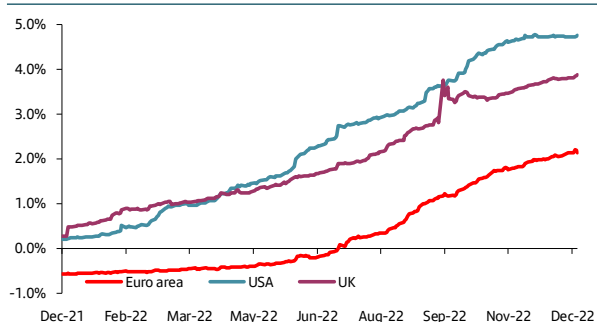
However, the faster acceleration of inflation, which reached a maximum of 8.9% in July (with some countries already reaching double-digit inflation), led the ECB to also accelerate the pace of rate hikes, having raised the reference interest rate in July by 0.5%, putting the refinancing rate at 0.5% and the deposit rate

at 0%, thus ending a long period of negative interest rates — which had begun in 2014. In June, the ECB had signalled a rate rise of 0.25%, but it had to act on the basis of the inflationary dynamics, trying to avoid the materialization of second-round effects.

At the February 2023 meeting, the ECB discussed the way in which the reduction of assets acquired under the asset purchase programme (APP) would be processed, a process that would start from March 2023, at an average pace of € 15 billion per month until the end of Q2 2023, with the subsequent rates being dependent on the evolution of economic and financial conditions.

The upward trajectory of short-term interest rates — to the highest levels since 2008 — was characterized by a consistent dynamic, relatively immune to the various less positive economic data that were released, rather reflecting the consistency of the message conveyed by central banks.

3-Months Interest Rates



Source: Bloomberg

Whilst the evolution of **long-term interest rates** followed a differentiated dynamic, with greater intra-annual volatility, associated with the perception of risks to economic activity and the possibility that central banks could reverse their monetary policy, at the end of 2023 or during the year 2024, a situation that is quite clear in the strong negative slope of the yield curve. Thus, although the trend was upward, several corrections were made throughout 2022, which were later reversed. In 2022, the German 10-year yield rose by 2.7 p.p., starting from negative levels at the beginning of the year, while the American yield rose by 2.3 p.p.

10 Year Bond Yields

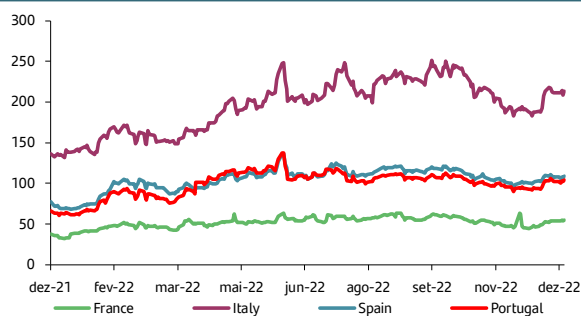


Source: Bloomberg

Sovereign interest rate differentials rose over the course of 2022, accompanying the rise in yields, but also reflecting a slight deterioration in the assessment of risk perception, associated with the war in Ukraine. This dynamic, which was common to the entire Euro Area, impacted the periphery more and, in particular, Italy, whose spread vis-à-vis Germany, for the 10-year term, worsened by more than 1 p.p. between the end of 2021 and the end of the first half of 2022, surpassing 250 b.p.

Considering the risks of emergence of a scenario of instability in the financial markets, in July, the ECB announced the creation of the **"Transmission Protection Instrument (TPI)"**, under which it could intervene in the public debt markets, to combat "disorderly, unwanted market dynamics" that would result in a deterioration of a country's financing conditions not justified by its economic fundamentals, and that would thus jeopardize the transmission of its monetary policy. The programme depends on very specific conditions, but it made it possible to halt the ongoing worsening of spreads.

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



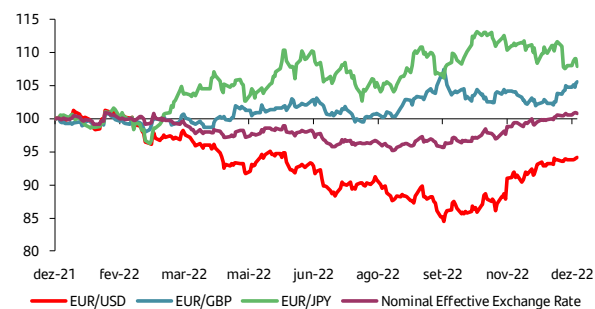
Source: Bloomberg

In **Portugal**, the **10-year yield** recorded an upward trend throughout the year, in line with the above-described trend. Yield rose by 3.1 p.p. throughout the year, to 3.6%, at the end of 2022, resulting in a worsening of the spread against the German yield for the 10-year term by 37 b.p., to 104 b.p. The highest spread level, in 2022, was observed in mid-June, in a generalized movement at European level, having exceeded 136 b.p. (also the highest level since the beginning of the pandemic, in 2020). The subsequent "intervention" of the ECB, with the announcement of the TPI, allowed for a correction, with the narrowing of spreads until the end of the year.

In the **foreign exchange market**, the most striking dynamic in 2022 was the evolution of the Euro against the Dollar, which was characterized by a continued depreciation, even driving its value below parity in August — which had not occurred since 2002. This situation prevailed in the markets until November, despite the fact that the ECB was raising the reference interest rates more aggressively. After November, the Euro would appreciate, up to 1.1 Dollars, later consolidating above 1.05 Dollars.

The Pound Sterling and the Japanese Yen, for their part, recorded an even stronger depreciation against the Dollar, as a result of which the Euro also appreciated against these currencies. Despite the significant depreciation of the Euro against the Dollar (13% in 2022), the effective exchange rate of the Euro appreciated by 0.9%, as a result of the positive behaviour of 5.6% against the Pound, and 7.9% against the Yen.

Key Foreign Exchange Rates (Dec-2021 = 100)



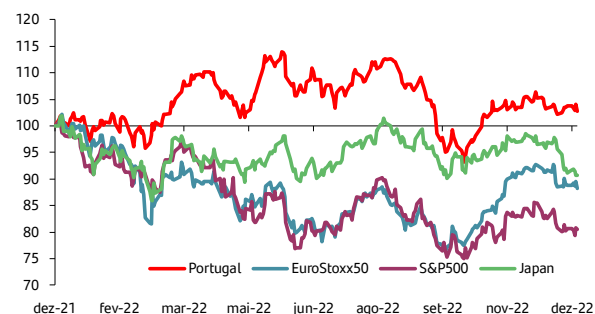
Source: BCE

In terms of the exchange rate against the US dollar, the **Pound Sterling** returned to the low levels since the mid-1980s, already close to parity, although correcting at the end of the year, to 0.83 p. per Dollar. The **Japanese yen**, for its part, returned to the low levels of 1990, as it quoted above 150 Yen per Dollar in October, later also correcting, to close 2022 at 130 Yen.

Equity markets were penalized by the inflationary context and the consequent rise in reference interest rates throughout 2022. The devaluation trend was already underway when Russia invaded Ukraine, which led to a greater correction, out of aversion to risk, in a context of high uncertainty.

Throughout the year, volatility was high, mostly due to the evolution of expectations regarding the future action of central banks on reference interest rates. Signals by the main central banks that inflation risks remain high and, therefore, materialize in higher interest rates for a longer period of time, dominated the equity markets, which recorded a pronounced devaluation of the main indices (Euro Stoxx: -11.7%; S&P500: -19.4%).

Equity Markets (Dec-2021 = 100)



Source: Bloomberg

Portugal was an exception, with PSI rising by 2.8%, benefiting from the weight of companies in the energy sector. The biggest increase was Galp Energy (+55.4%), followed by Greenvolt (+25.6%), which also benefited from greater capital increase on the stock market. EDP Renewables, for its part, recorded a depreciation of 5.7%.

Gold was also characterized by some volatility, not fully fulfilling its role as a safe haven asset in a context of high inflation, although closing the year at over USD 1,840 per ounce. However, it recorded a significant depreciation during the summer, trading below USD 1,700, a trend that reversed towards the end of the year, when inflationary pressures once again dominated the spotlight.

Portuguese Economy

In 2022, economic activity grew by 6.7%, in a clear context of post-pandemic recovery, benefiting from base effects related to lockdowns in 2021 (the carry over effect⁷ for 2022 was 3.9%), of which the strong quarter-on-quarter growth in Q1 was an example (+2.4%).

The progressive improvement in the health situation associated with the Covid19 pandemic allowed the authorities to lift most restrictions on activity during the summer, which also contributed to the revival of economic activity.

However, the pace of growth was relatively moderate, averaging 0.3% in the second, third and fourth quarters, as the effects of the war in Ukraine, high inflation, and rising reference interest rates by the ECB were transmitted to the economy.

It should be noted that in Q4 2022, the economy grew by 0.3% quarter-on-quarter (3.2% year-on-year), benefiting from the pace of private consumption and investment growth, partially offset by the contribution of net exports. Despite the slowdown compared to the previous quarter, the economy showed considerable resilience, in line with the main European economies, avoiding a contraction at the end of the year.

All expenditure components contributed positively to growth, both domestic demand and external demand, in a dynamic where the post-pandemic recovery made a major contribution.

Macroeconomic Data

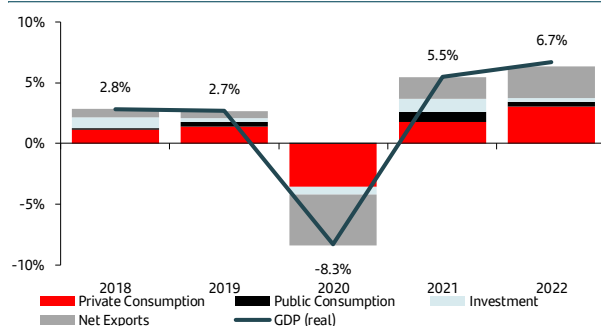
	2021	2022E	2023P
GDP	5.5	6.7	0.4
Private Consumption	4.7	5.7	1.1
Public Consumption	4.6	2.4	0.5
Investment	10.1	2.7	1.2
Exports	13.4	16.7	0.9
Imports	13.2	11.0	2.2
Inflation (average)	1.3	7.8	5.1
Unemployment	6.6	6.0	7.0
Fiscal Balance (% GDP)	-2.9	-0.6	-0.9
Public Debt (% GDP)	125.5	113.8	110.7
Current Account Balance (% GDP)	0.5	-0.3	0.0

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

In terms of **domestic demand**, the lifting of restrictions associated with the pandemic allowed an acceleration of private consumption, while the contribution of **public consumption**, on the other hand, was smaller, due to the reduction in expenses associated with the pandemic, since in the two previous years there had been a high volume of expenditure on health materials.

Contributions to GDP Growth

(YoY)



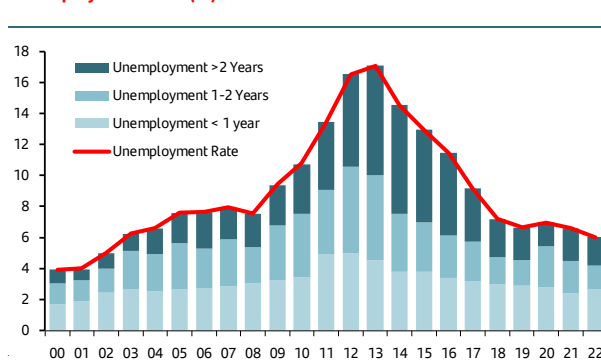
Source: INE

Private consumption grew by 5.7% in 2022, supported by the reopening of the economy, prolonging the recovery that had started in 2021, especially in terms of discretionary spending on non-essential goods and services. In this context, one should highlight the recovery of tourism by residents, which surpassed the previous peaks of 2019.

The composition of household expenditure underwent a very significant change, as expenditure on food dropped, compared to the peak observed during the lockdown, due to people returning to face-to-face work, in contrast to the increase in expenditure on durable goods, on the one hand, and in non-food goods and services, on the other.

The labour market proved to be quite dynamic, characterized by low levels of unemployment, reflecting an economy operating at full employment. Indeed, the unemployment rate remained below 7%, but without generating very significant wage increases.

Unemployment Rate (%)



Source: INE

⁷ Cumulative annual GDP growth in 2022, assuming that it would remain constant, throughout the year, at the level of 4Q 2021

Consumer prices accelerated rapidly, with inflation reaching 7.8% on annual average (the highest level since the early 1990s), generating higher expenditure growth, at current prices, compared to income growth, with a consequent drop in the household savings rate to 5.7% in Q3 (a four-quarter moving average), returning to pre-pandemic levels.

Investment also recovered, with an annual growth of 2.7%, but with different dynamics between the different components throughout the year. Investment in transport equipment, starting from high levels in 2019, has not yet fully recovered, unlike other types of capital expenditure. As far as construction, there was already a moderation in the second half of 2022, which contrasts with the behaviour observed during the pandemic period, in which construction had been one of the few activities that did not stop.

It should also be noted that this behaviour of the construction sector, is in line, on the one hand, with the slow pace of construction of new dwellings, which remain at historically low levels, and, on the other hand, with the delay in implementing the Recovery and Resilience Programme (RRP), whose payments (in mid-February 2023) did not reach 9% of the total financial envelope.

Exports of goods and services grew by 16.7% in 2022, with a sustained recovery of services, benefiting from the recovery in tourism. Although the number of non-resident guests had not yet recovered the previous peak recorded in 2019, the sector managed to adjust prices upwards, repositioning the activity levels, thus recording a maximum in terms of income. The context of war in Europe also favoured the attractiveness of the national offer, with the sector still benefiting from the growth of visitors from the USA (powered by the appreciation of the Dollar against the Euro).

Exports of goods also grew in a sustained manner, reaching a new historic high. The normalization of global value chains allowed the recovery of activity in the automotive sector. But all sectors, in general, recorded an increase in the volume of sales abroad. The ongoing war in Ukraine also allowed Portuguese companies to replace the offer of other competitors in certain sectors, namely those that were not dependent on logistic chains impacted by the conflict.

Imports of goods grew, albeit more moderately than in 2021 (11.0% vs 13.4%, respectively), with the price effect translating into a moderation in volume purchases.

Price effects, stemming from the energy and commodity price surges, had an important impact on the **goods account**, which, combined with a growth in the volume of purchases abroad, contributed to a deterioration of the deficit to 11% of GDP. This effect was offset by the strong recovery in the **services account**, associated with the revival of tourism.

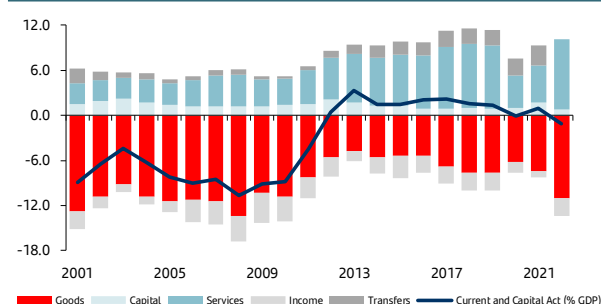
The **capital account**, which mainly reflects European funds, remained in surplus, although below that observed in 2021,

when the 1st large transfer of funds associated with the RRP took place.

In turn, the balance of the **income account** worsened the deficit, reflecting the impact of higher interest rates — which increased throughout the year — on the payment of interest on public and private debt abroad, starting from very low interest rate levels in the previous year.

As a result, the **current and capital balance** recorded a deficit of around 0.3% of GDP.

Current and Capital Account (% GDP)

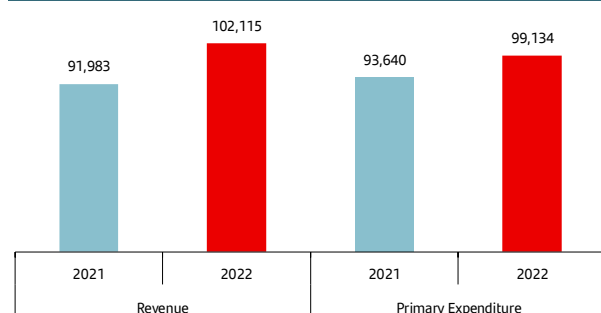


Source: Banco de Portugal, INE

Public finances benefited from the **strong nominal growth of economic activity** in 2022 (nominal GDP grew by 10.9%). The budget balance recorded a deficit smaller than estimated (0.6% of GDP, compared to the budget target of a deficit of 1.9%), benefiting from a higher growth in tax revenue. In terms of direct taxes, corporate income tax revenue stands out (+43.9% year-on-year), due to the recovery of companies' margins. In terms of indirect taxes, it is worth highlighting the VAT (+18.8% compared to 2021).

Expenditure grew, below revenue, as a result of the relative control over staff expenditures (the payroll grew by just 3.0%, with wage increases of 0.9%, and the remainder resulting from the unfreezing of careers). Debt service charges decreased, despite the rise in market interest rates, because the impact of this change was concentrated in the second half of the year, and because the Treasury Bonds that matured had a coupon rate higher than the market yields observed in 2022.

Current Revenue and Primary Expenditure (€ mn)



Source: Ministério das Finanças

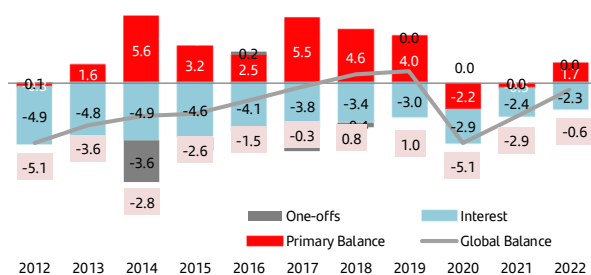
Within the framework of the Treasury financing plan, in 2022, emphasis should be given to the strong influx of private savings towards Savings Certificates, which recorded net subscriptions of more than € 7 billion, benefiting from a higher remuneration, which is associated with the 3-month Euribor interest rate.

However, part of these funds came from the maturity of other Treasury retail savings products, such as Treasury Certificates and floating-rate Treasury bonds (OTRV), thus generating net funding of one billion euros. The rest of the financing took place with market instruments, with an emphasis on Treasury bonds (OTs). These issuances continued to contribute to maintaining the average maturity of public debt, while, at the same time, reducing its average cost (by 0.1 p.p. compared to 2021, to 1.8%).

In relative terms, public debt was further reduced, benefiting from the higher nominal GDP growth. At the end of 2022, public debt reached 113.8% of GDP, translating into a reduction of almost 12 p.p. compared to 2021, and the lowest public debt ratio since 2010. This reduction is quite important, especially when the ECB has already mentioned its intention to progressively reduce its public debt portfolio, acquired under the various quantitative easing programmes carried out over the last decade.

The **overall debt ratio** of the Portuguese economy was close to 300% of GDP (-26 p.p. compared to 2021), with the business private sector standing at 122% (-9 p.p.) and households at 64% of GDP (-4 p.p.), clearly below the levels observed in the period prior to the 2011-14 economic and financial adjustment programme.

Fiscal Balance (% GDP)



Source: Ministério das Finanças

The **Portuguese banking sector** recorded slower credit growth, in a clearer dynamic in the second half of the year, while deposits kept growing, although also progressively more slowly in the second half of the year.

Indeed, credit to the private sector grew by just 1.6% in 2022, supported by a 2.8% growth in mortgage credit. Loans to companies began to decline in the last quarter of the year, in the context of rising interest rates. At the end of the year, it actually recorded a contraction of 0.2% compared to the stock available at the end of 2021.

In terms of customer funds, deposits grew by 6.2% in 2022, almost across all sectors. In terms of Individuals, the more volatile context in the financial markets resulted in a reduction of investments in mutual funds and financial insurance.

Despite this context of high uncertainty and adverse risks, credit quality did not deteriorate, with the NPL ratio standing at 3.2% at the end of Q3 (-0.5 p.p. compared to the end of 2021), with an impairment coverage of 53.6%.

In terms of return on assets, there was a recovery compared to 2021 (+0.2 p.p., to 0.7%), while the return on equity increased to 8.3% (+2.9 p.p. compared to the end of 2021).

The resilience of the Portuguese economy, added by the good budget execution, led the risk rating agencies to improve Portugal's rating by one notch, to BBB+ by S&P and Fitch, and to A (low) by DBRS. Moody's had already revised Portugal's rating in 2021 to Baa2.

Note: Text written with information available until February 28, 2023.

Main Risks and Uncertainties for 2023

The year of 2022 was indelibly marked by Russia's invasion of Ukraine and the subsequent war, which is still ongoing. Its shock waves — materialized in a second supply shock on the world economy — had significant effects on energy and on other raw materials. The sharp rise in the prices of these goods, in the first half of 2022, increased the inflationary effects that were already underway, as mentioned in the assessment of the main risks and uncertainties for 2022, contributing to a stronger, faster rise in reference interest rates by the main central banks.

Therefore, the main risks and uncertainties for 2023 for Santander's activity in Portugal remain, to a large extent, associated with the same factors identified last year: (i) the ongoing war in Ukraine; (ii) the higher inflation rate; and (iii) the pursuit of tight monetary policies by central banks.

The war is taking place at the current date (February 28, 2023), with no signs of moderation, and the risk of escalation cannot be ruled out. Despite the significant reduction in energy dependence, among other issues, vis-à-vis Russia, materialized in a drop in energy prices, disruptions in global logistic chains still continue, including in terms of food products. Even some of the effects may be felt more strongly in the future, due to it being impossible to fully engage in agriculture in Ukraine. Therefore, there are risks arising from this issue, should the conflict worsen, namely with the deterioration of economic agents' confidence, or due to new pressure on the prices of food raw materials.

Inflation in developed economies reached three-decade highs in 2022, and the deceleration has proved to be more gradual than initially expected, even with the strongest tightening of monetary policy. Indeed, the effects of lower energy prices on inflation were partially offset by the rise in the prices of goods and services excluding food and energy — the so-called “core inflation.” Part of this resistance against price decline was due to higher wage increases, boosted by the situation of full employment experienced in most economies, which, in turn, can be transmitted, either partially or completely, to end consumers through the rise in sales prices.

This slower decline in inflation resulted in the main central banks maintaining a strong focus on controlling the inflation rate. In meetings held in 2023, and in subsequent interventions by their managers, central banks, including the ECB, signalled that, as a result of latent risks, rates could rise further and remain high for a longer period of time.

The full effect of higher interest rates on credit, in particular on mortgage loans, should be felt during the first half of the year, taking into account the periodicity of the resetting of the index, and considering that the most significant rises occurred from July 2022. Therefore, households and companies will still face an additional worsening of their financing costs, in a context of still high prices for energy, raw materials and food, which pose negative risks to economic activity, whether in terms of private consumption, or in terms of investment and employment.

If companies pass on their higher costs to consumer prices, there will be additional pressure on household purchasing power, in addition to the accelerating inflation, which will be the focus of the ECB, in order to contribute to a moderation in consumption. If they fail to do so, corporate profit margins will be negatively impacted, potentially leading to a moderation in investment and a reassessment of employment.

In Portugal, wage increases have only partially offset the higher inflation, thus resulting in a deterioration of household purchasing power, which has already had effects on activity in real terms. In Portugal, private consumption has already contracted, in real terms, on a quarter-on-quarter basis, namely in Q4 2022; and, in January 2023, deflated retail sales contracted by 1.8% year-on-year. In the labour market, the deterioration in employment has not yet been visible, although unemployment has increased due to the growing active population. Employment will be the key variable in terms of the dynamics of credit quality, as it ultimately is the determining factor of the ability of families to maintain debt service in the context of higher interest rates.

Overall, the current combination of risk factors translates into the maintenance of a scenario of high uncertainty, with negative risks for global economic activity, but whose full impacts are yet difficult to measure.

Therefore, Santander Portugal will carry out its activity in a complex context, with risks of lower volume growth — both in terms of credit and deposits —, with high interest rates, requiring constant monitoring of credit quality, and an adequate policy of capital allocation in active operations.

Outlook for 2023

As mentioned in the chapter “Main risks and uncertainties for 2023,” the evolution of Santander's activity in Portugal will depend on how the Portuguese economy will be impacted by the factors mentioned therein.

In addition to the **uncertainty related to the ongoing war in Ukraine**, economic agents, in particular households and companies, will continue to be impacted by high prices and rising interest rates, contributing to a scenario of moderate economic growth, especially in the first months of the year.

In this context of uncertainty, Santander Portugal maintains its focus on implementing its already defined strategic lines, including, obviously, supporting families and companies, with the adoption of appropriate measures on its part, to lessen the effects on income and the ability to comply with service debt.

The risks to economic activity are, as mentioned, skewed downwards, with prospects for more moderate growth in the first half of the year, in line with the slowdown already observed at the end of 2022. Therefore, business volumes, both in terms of credit and deposits, may also be characterized by more moderate growth, compared to what has been observed over the last two years. The lower pace of economic activity may be reflected in a lower demand for credit, while the rising interest rates may boost the use of deposits to repay debt in advance or, at household level, to cover higher costs with food, energy, and housing.

This context may have implications on the Bank's profitability. Lower credit volumes will have an impact on net interest income, as well as on bank fees, combined with the progressive transmission of higher reference interest rates to the remuneration of liabilities. On the cost side, the context of **high inflation** puts pressure on overheads, while, in terms of staff costs, the Bank has already implemented a set of measures aimed at mitigating the adverse effects of inflation. Additionally, the global context continues to require monitoring of customers' credit quality, with potential impact on impairments, taking into account the market scenario for the evolution of interest rates.

Nevertheless, the Bank remains focused on its strategy, maintaining a **strong transformational momentum**, oriented towards improving customer experience and satisfaction, with emphasis on i) continued optimization and simplification of processes and procedures, with improvements in the commercial model and transactionality in the branch network, in full conjunction with digital channels; ii) simplification and continuous adaptation of the commercial offer to our customers' needs; iii) organic growth, particularly in segments where adequate remuneration is obtained on allocated capital; iv) strict control of credit quality; and v) maintaining a solid capital and liquidity position, in line with regulatory requirements.

Santander Portugal will also remain focused on being a **Responsible Bank, boosting society's sustainable and inclusive growth**, reducing social and economic inequalities among populations, while, at the same time, supporting the development of the communities where it operates, with a special focus on financing the climate transition. In this regard, the Bank already has a prominent position in the national market, through the financing of renewable energies, and through the provision of sustainable financial products and services.

Business Areas

Individuals

In the **Individuals** segment, it is worth highlighting the new account opening procedure, with a fully online, self-service version, plus a new, simpler, faster version also at the counter.

The results of commercial activity in this segment were in line with the goals we set for the year, with the exception of investment products, due to the instability of the financial markets.

In this segment, special mention should be made to Mortgage Loans, in which production grew by 15%, with market shares above 23%. Consumer Credit and other purposes also grew in 2022, with a growth above 50% in new production compared to 2021, with an important contribution from the digital transformation of existing contracting processes.

The NPS (Net Promoter Score), is also worthy of note. This index measures the level of Customer satisfaction, and Santander Portugal was ranked 2nd in NPS in Portugal, on average, throughout the year.

In 2022, the Protection Insurance activity was focused on increasing the level of customer protection in all dimensions of their day-to-day activities (Global Protection).

Regarding Autonomous Insurance, Viva Mais Health Insurance was launched on the App, and online journeys were optimized with the inclusion of differentiating features (for example, pre-quotation and contracting with a single click), which contributed to an increase, in more than 40%, of self-service sales. At the same time, a Health engagement initiative was launched, reinforcing the association of the Santander brand with Health Insurance solutions. Alongside, in the Companies segment, important advances were made with the availability of new offers, namely the Car Insurance and the Workers' Compensation Insurance, including a campaign to activate Corporate Insurance with preferential conditions.

With regard to credit-linked insurance, emphasis should be given to the improved credit days with insurance in context, and the improved follow-up of all new credit operations with insurance. Additionally, a portfolio view was made available for consultation by self-service customers, on NetBanco and on the App.

Finally, it is worth mentioning the focus on improving Customer Experience, which remained a priority, both in customer interactions (transactional NPS) and in portfolio management (relational NPS).

Businesses, Companies and Institutional

One of Santander's main goals — in the current more complex economic context — was to manage the impact of the crisis caused by the pandemic, plus inflationary pressures, plus rising energy costs, boosted by the war in Ukraine, on its customers, intending to be the trusted partner of Companies in their process of recovery and transformation.

Throughout 2022, the Bank sought to respond to social sustainability challenges with a focus on the risks of climate change, contributing to its mitigation, betting on offering photovoltaic solutions, which allow companies to reduce energy costs, contributing to environmental sustainability, and supporting urban projects with innovative components focused on optimizing energy resources.

Supporting public and private investment projects under European Funds remained as a priority for the Bank. Partnerships were signed with consultants specializing in financial, tax, and technical efficiency consultancy in the various sectors, with the objective of supporting customers through all the steps of their investment projects, from the analysis, evaluation, and study of the business potential, to functional optimization of projects, and monitoring their implementation. On the public website, on the page dedicated to European Funds, Santander continues to offer all the relevant, updated information that allows our customers to have access to the various programmes, investment schedules, and active application notices in an organized manner, and where the EIF facilities have taken on a special relevance.

In 2022, Tourism, Agriculture, Social Economy, and Health took on a prominent role in the national economy, being equally strategic for Santander. In Tourism, the Bank was strongly committed to providing solutions aimed at supporting innovation and digital transformation, as well as climate sustainability. In Agriculture, specific credit facilities were made available, as well as the development and implementation of actions aligned with environmental sustainability. In the Social Sector, the effort to invest in requalification and increasing the capacity of the various social responses is underway, in an effort shared between Public Administrations, Social Sector Entities and Banks, embodied in the Peers Program or specific notices integrated in the RRP.

In the Institutional Banking cluster, Santander maintains its strong commitment to supporting Customers in this segment, both in terms of public entities, by maintaining a strong presence in the Autonomous Regions, Municipalities and Municipal Companies, as well as in terms of entities in which the State holds stakes.

Aware of the huge challenges faced by Portuguese companies,

Santander Portugal provides its customers with support mechanisms for developing their businesses and for improving competitiveness, which are an important step towards generating more wealth, more employment, and contributing to the recovery and growth of the Portuguese economy. Proof of this is the recent protocol signed with the European Investment Bank (EIB) which will help support SMEs and Mid-Caps in Portugal, with a credit facility of € 820 million.

In addition, there is a set of facilities, already in force, with the European Investment Fund (EIF) and with Banco Português de Fomento/National Mutual Guarantee System, whose guaranteed benefits are transferred to customers, through advantageous market conditions, allowing financing to reach a greater number of companies, under the most favourable conditions possible.

In the **International Business** area, Santander Portugal maintains a solid market share in most *Trade Finance* operations, an unequivocal sign of customer confidence in the Bank's professional structure, and in its strength and credibility in international markets. Support was given to our customers, in the current context of a general increase in energy and raw material prices and transport costs, through the origination of business and the structuring of more complex operations with national importers and exporters.

The *International Desk* kept supporting the internationalization of Portuguese companies, as well as favouring the opening of foreign company accounts in Portugal, namely by organizing and participating in various events.

Santander provides an online *Trade Club Alliance* platform, which provides information on customers, suppliers or distributors abroad, in addition to macroeconomic data, exchange rates, or even the possibility of simulating the total costs associated with export operations.

Wealth Management and Insurance

The year of 2022 was extremely complex for the *Wealth Management* areas, conditioned by the outbreak of a war in Europe, by the strong pace of inflation, and by the corresponding changes in monetary policy by the main central banks. Actually, the war in Ukraine had a huge impact on energy prices, which, added to the uncertainty of the war context itself, and even to production and logistic issues, raised inflation to three-decade highs, above 6% in the US and above 8% in Europe.

This context negatively affected all asset classes, with very negative performances throughout the year. Most European equity indices ended 2022 with losses above 12% and, in the North American market, the S&P index recorded losses close to 20%. In parallel with the sharp rise in interest rates, both for the Euro and the US Dollar, the global bond markets performed quite negatively. All these factors resulted in losses in most

asset portfolios under management.

Despite the adverse environment for most of Santander's *Private Banking* business indicators in Portugal, there was a 2% growth in business volume, and a 6% growth in balance sheet resources, as well as a 2% growth in funds and insurance and in discretionary mandates (without market effect).

The strong growth of the *Private Banking* customer base is another quite positive note, with a very strong dynamic, based on a continued external prospecting activity, and on a great collaboration and support from the Bank's branch network and corporate centres.

In recognition for its excellent service and customer care, at the beginning of 2022, Santander Portugal's *Private Banking* was distinguished as the best *Private Banking* operating in Portugal for the 8th consecutive year, according to the *Global Finance* magazine. These distinctions acknowledge and reinforce the quality of our teams and the investment solutions provided by Santander's *Private Banking* and encourage us to keep up with the continuous development, and improvement of customer service and of our value proposition.

In terms of investment funds, the greater instability of the markets had an impact on commercial activity, with the funds marketed by the Bank recording net redemptions of € 116 million and the portfolio converged to € 3,623 million of assets under management.

Retirement solutions constituted a very important focus of commercial activity, oriented towards the promotion of programmed delivery plans adjusted to the individual reality of each customer. Santander maintains a relevant position in this segment, with a share close to 20% in retirement risk products.

In the Financial Insurance area, the private banking segment showed greater dynamics through *Unit Linked* products specific to the segment. The insurance portfolio closed close to € 3,647 million in assets under management, and with net redemptions worth of € 171 million, of which € 106 million corresponded to maturities.

Throughout the year, the Bank developed various initiatives aimed at strengthening the customer value proposition. Indeed, the Bank adopted a commercial model that incorporates our customers' Sustainability preferences, with more than half of the offer being converted in this direction. At the same time, the Bank launched a new Retirement product, namely the "Santander Aforro PPR," and a new share fund, the "Santander Prosperity," aimed at improving society's well-being, while the brand of a *Unit Linked* anchor was also changed to *Private*.

Finally, it is worth highlighting various proximity sessions held in most regions, involving our main customers and the respective account managers. These initiatives were aimed at explaining the performance of financial products to our customers, in an extremely interactive way.

Corporate and Investment Banking

The year of 2022 proved to be particularly challenging, with very relevant macroeconomic changes, with the outbreak of the war following from the invasion of Ukraine by Russia, which resulted in constant fluctuations in the prices of energy and commodities, acceleration of inflation, interest rate hikes, and greater volatility in the exchange rate of the Euro against the US Dollar.

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

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

CIB's credit portfolio recorded a 5.5% reduction year-on-year, justified by the programmed reduction of some operations.

In the **Global Debt Financing** area, 2022 was marked by the Bank's leadership in the main renewable energy financing operations in Portugal, with emphasis on Santander having secured the total financing of € 362 million for the acquisition of a portfolio of wind farms by Onex Holdings from EDP. Additionally, the Bank also supported Geneng — from the Total Eren Group — by refinancing the entire debt of its main renewable energy portfolio. At the end of the year, Santander advised and financed Finerge in an operation worth more than € 2.3 billion, refinancing its entire debt and funding its future growth plan. This operation also stands out for its innovative amortization structure, more adaptable to the challenges currently facing the energy sector, and it won the European "*Renewables Deal of the Year*" award by PFI magazine. Part of the debt associated with these operations, which together amounted to about € 3 billion, was subsequently placed with other credit institutions.

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

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

During this period, several relevant financing operations were also concluded in a wide range of sectors, with emphasis on

several financing operations in the real estate sector, and in the infrastructures and industrial sector.

In terms of **Debt Capital Markets**, the *Global Debt Financing* area maintained its leadership position in the Portuguese market, namely by participating in the placement of € 3 billion of 10-year debt for the Portuguese Republic, and in placing two 5-year *Green Bonds* for EDP, worth € 500 million and USD 500 million, and in carrying out a liability management for Brisa Concessões Rodoviárias, S. A.

In 2022, the **Corporate Finance** area developed an intense activity in Mergers & Acquisitions and in the Equity Capital Markets, of which it is worth highlighting the successful completion of the following financial advisory operations:

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

In the **Markets** area, particularly in the *Corporate and Commercial Banking* area, there was a sharp growth in activity, based on the effort to be closer to customers and on the suitability of the solutions offered in a context of extreme volatility in most financial markets, materialized in the drop of the Euro against the US Dollar — which had not occurred for two decades —, in the devaluation by more than 16% of the main global bond index, and in the sharp rise of reference interest rates.

In the **Foreign Exchange** segment, there was a significant increase in the number of operations, in the volume traded, and in the number of customers operating with the Bank. In this regard, it is worth mentioning the success of the digitisation strategy followed by the Bank, embodied in the exchange platform available on NetBanco, thus maintaining, in 2022, the very expressive growth trend of recent years.

In the **Interest Rate** segment, the versatility of solutions offered by the Bank were critical to the year's results, with emphasis on the number of fixed rate operations carried out, especially in the first half of the year, which are currently quite relevant in the management of many Companies' cash-flow.

It is also worth mentioning the involvement in differentiated operations, in the role of hedging coordinator, in financing originated with the aim of subsequent partial placement with other financial institutions.

In the **Structured Products** segment for retail, 5 products were placed, for an amount exceeding € 70 million, with the market

context allowing the development of more conservative structures, in particular guaranteed capital, in addition to the offer of investment products for *Private Banking*.

In the **Cash Trading**, area, the fact that 2022 was a historically negative year — with the *MSCI World Index* devaluing more than

19%, and the *Bloomberg Global Aggregate Index* (global bond market benchmark) devaluing more than 16% — weighed on investors' sentiment and in volumes traded, given that the bond market has not recorded a devaluation of more than two digits in line with the stock market for more than four decades.

Digital Development

In the POS Acquiring business, Santander focused, throughout the year, on making the POS stock profitable, namely by activating payment terminals that were inactive and by cancelling others that were not at the merchants' service.

In the second half of the year, one of the focuses was the sale of the POS business to Getnet — a Santander Group company. In this way, the Santander Group is qualified in Portugal to offer the acceptance of the main card payment methods to all its customers, as well as innovative services within the scope of the acquiring activity.

Getnet Europe, Entidad de Pago, S.L.U is a Santander Group company that provides an innovative payment platform to improve the day-to-day management of businesses. It also offers solutions to all types of businesses, also providing access to multichannel payments, both physical and digital, in several countries, always with the most advanced security and anti-fraud technology.

A new software was developed during the year for managing Rental Safes. Actually, a complete overhaul was carried out, thus promoting easier, more effective business management, and transforming all tasks associated with openings, closures, migrations or break-ins much simpler for the entire branch network. Additionally, the price list was simplified, and the entire range of Rental Safes was repaired.

Santander's ATM service is a critical service, aimed at serving the majority of the population, not only those connected to the Bank, but also within the banking community, ensuring access to the main services anywhere in the country. Thus, efforts were made to maintain capillarity throughout the entire national territory, while reinforcing the service in the busiest areas. Within the same context, investment was rationalized by withdrawing machines that were not much used, and by replacing others that were obsolete in order to ensure smooth operation of the entire ATM stock.

Business Support Areas

Customer Experience

The world is running at a fast pace of change. The banking industry continues to be transformed by technology, resulting in new solutions and in rising expectations, from customers who demand greater speed, customisation, and availability. In addition, the role of banks in society is changing, with impacts in several areas, such as diversity or sustainability.

The changes the Bank is facing are quite big, but so are Santander's ambitions. One of the new pillars of the Bank's culture is "Think Customer". This is an essential pillar to drive the Bank towards a future that is increasingly customer focused. Taking care of the relationship with customers is one of Santander's priorities, in order to gain their trust and loyalty.

In 2022, the Customer Experience Program was renewed, based on 6 fronts to positively impact customer experience: Culture, Customer Care, Digital Channels, Network & Contact Centre, Everyday Banking, and Products.,

Among the various initiatives, the following stand out:

- ➔ Implementation of a single workflow & ticketing platform for customer requests ("Resolve"), thus improving customer response times;
- ➔ Launching of the "Senior Superline," with a personalised service for customers over 70 years of age, with no pre-recorded messages, without a time limit, with the aim of clarifying all doubts and providing support in day-to-day banking operations;
- ➔ Creation of differentiating moments for using the account and the card, such as by launching campaigns that reward use or through the provision of new advantages and discounts.
- ➔ Continuous commitment to digitisation and simplification of product journeys, such as improving the home loan simulation journey, or the new omnichannel digital journey for purchasing a home insurance.
- ➔ The new App that was made available to all Santander customers, with enhanced usability features (e.g., introduction of new shortcuts, new menu interface, etc.)
- ➔ Creation of a resolution channel specializing in contacts for solve pending issues with detractor customers, as a result of their answers to satisfaction surveys sent by the Bank.

Customer Voice

In terms of Customer Voice, 2022 was a year of consolidation of the model we had defined, as well as for the systematic collection of insights that in 2022 fed the aforementioned fronts of action.

In terms of positioning vis-à-vis the competition in the customer satisfaction indicator NPS (Net Promoter Score), Santander ended 2022 in 2nd position in the corporate benchmark study. This study is carried out in all of the Group's geographies, by an external, independent entity. In the study, the Bank leads in 13 attributes, with emphasis on the following:

- ➔ "Strong and Solid"
- ➔ "Innovative and Modern"
- ➔ "Social Responsibility"
- ➔ "Satisfaction with the Account Manager"
- ➔ "Satisfaction with Telephone Banking"

The result achieved this year fulfils the goal set for 2022 (being in the Top 3) and paves the way for an even more ambitious year of 2023.

One of the main examples of the application of Customer Voice insights was related to the setting of priorities for new developments for the Santander App. Thus, there was a very positive evolution in satisfaction indicators, which exceeded the figures recorded in the previous App, reaching the 2nd position in this attribute in the corporate benchmark study.

With regard to the Mystery Shopper programme, in 2022 the scope of evaluation was expanded. In addition to evaluating the experience of prospects, this year's programme also covered the experience of a Bank customer, enabling the collection of important insights on the quality of service, and identifying opportunities for improving customer experience when interacting with the branch network.

Service Design & Research

In 2022, research and design thinking activities with customers and internal stakeholders were continued, among which the following stand out:

- Usability tests related to navigability on channels, homebanking (companies and individuals), and the App, covering various functionalities, including queries or updating data, taking out mortgage loans, or testing new services designed in previous years, as is the case of debit instalments, a new feature for splitting payments by using debit cards;
- Creation of a new service model for the under aged segment, investigating and exploring the needs, the communication channels most used, and the relationship with the bank, as well as assessing the financial management expectations and concepts, in order to develop a solution for attracting and retaining this universe;
- Conducting internal research on the various commercial profiles in order to align and adjust the commercial communication model, and thus optimize and streamline access to information by employees, ensuring a clearer, more transparent relationship with customers.
- Definition of personas for the segment of residents abroad, in order to build a service model for this customer profile;
- Co-creation of a new service concept for customers with savings and investment products, including through the definition of relevant personas, and by designing customer journeys and the associated service model;

- Analysis of the profile, needs and account opening experience of foreign customers, identifying a set of improvement initiatives ranging from product improvement, definition of procedures, and internal communication, to the creation of content and materials for external communication.

User Experience

In line with its strategy of digitizing and simplifying procedures, the Bank has been making significant progress in defining and setting up its *Design System*. Aligned with best usability and accessibility practices, *Design System* is made up of visual and technological guidelines. It provides documents and components that ensure the development of consistent experiences across platforms, maintaining brand identity and reducing users' cognitive load, thus allowing for a more fluid experience.

Customer Ombudsman

As part of its commitment of being customer focused, and in accordance with the most demanding customer protection practices, in January this year the Bank created the position of the **Customer Ombudsman**, following the model of the ombudsman, the main inspiration for this position in the institutions that adopt it.

Thus, the main role of the **Customer Ombudsman at the Bank is to protect and promote the rights, interests, and expectations of its customers**, ensuring, through informal means, the full satisfaction and regularity of their relations with the Bank, and the latter's dignity before the general public, also contributing as a "Customer Voice" to the Bank's activity.

The existence of the Customer Ombudsman and its responsibilities are duly signed and disclosed, including publicly on the Bank's website, deserving a positive note for the process of acculturation of the organization and customers developed throughout the year to understand and enhance this innovative figure.

Based on customer dissatisfaction and opportunities for improvement, 65 specific recommendations were made to improve the provision, offer, and exercise of the activity, which were taken into account by the Bank's competent areas.

Due to its uniqueness, it is also worth mentioning the starting of the "Take, Be, and Bring" Programme, under which the Ombudsman and his advisors intend to visit all of the Bank's business units to: (i) convey the Bank's values, initiatives, and proposals regarding its identity, and its commitment to being a "Service bank at the service of its customers; (ii) get to know the specificities and concrete reality of each market, business unit, and of its employees and customers; (iii) be the bearers of messages shared within the framework of the speak up logic.

In 2022, 109 branches were visited under this programme.

The Customer Ombudsman, appointed by the Executive Committee for this first mandate, was António Terra da Motta, Executive Director, lawyer, and senior staff member of the Bank since 1996, who previously held the position of head of the Legal Advice area, and later as head of the Customer Experience.

Technology and Operations

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

The IT strategic programme continued in 2022, boosted by enablers implemented in 2021, namely with days devoted to the Cloud and to the transformation of information systems.

Customers have new features in digital channels and in the Call Centre service, with optimized streams and user experience, adapted to individual needs. In customer service through the commercial network, new capabilities were also offered through platforms such as customer onboarding and insurance

In terms of Infrastructure (*Service Management*), the main focus was on monitoring the Bank's systems, in order to anticipate corrective actions, and thus avoid any impacts on the service. In terms of technological modernization, the SD project is underway, with a view to improving resilience and the level of service in the communications component for Branches and Buildings. Support for the Bank's ATMs was also strengthened, in order to minimize the impact on customer service.

Exiting a pandemic context, and entering a scenario of conflict in Ukraine, of uncertain duration, brought new challenges to the **Cybersecurity Area**, namely in monitoring and managing cyber risks associated with a war context, with a strong impact on the European economies. In terms of business development, this was particularly reflected in reinforcing information security in the supply chain, with more robust control, including the prevention of events associated with ransomware. Namely by supporting customers and civil society in general, by promoting a safer Internet browsing environment by extending the training components on the Bank's public website, in which we highlight a Cybersecurity course available to the general public. With a

focus on the degree of customer satisfaction, and in order to strengthen customer experience, namely in terms of external fraud, proximity procedures were implemented, as well as faster monitoring procedures for managing alerts on risk operations.

The **Operations** area continued its progress, with a set of automation and process reengineering initiatives, enabling the integration of transactions, easier execution, and operational simplification, both in Operations and in the Commercial Network. Sustainability and digitisation criteria are a critical focus, and the digital strategy aimed at Operations increased its implementation pace with the main goal of simplifying processes and procedures, and reducing the consumption of physical documents in the task workflow (leveraging the adoption of digital tools), thus helping to speed up process execution and reduce costs, by reducing paper consumption and the amount of space used for physical archives.

As a result, the second half of the year was guided by the evolution of operations, by the quality of service provided to customers, and by the improvement of execution times (SLA - Service Level Agreements), with the commitment of improving the NPS of Santander customers and improving user experience.

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

The Operations area continues to focus on improving processes and procedures, with a broad view thereof, and on improving interaction with customers, according to a continuous improvement approach, taking into account the feedback received from the commercial area, through the plan of visits that have been made to Branches, and from the evaluation of the NPS.

People Management

The year of 2022 was marked by returning to the office (post-pandemic period), by the implementation of new ways of working, and by the adoption of new staff management tools, namely the **Workday**, and of new lifelong learning tools, namely the **Dojo**.

The Bank's transformation process into an open financial services platform was accelerated, namely by valuing skills in our employees that reflect the needs of the future — more digital, more creative, in constant change, and with greater



adaptability.

The Bank is in constant transformation, in order to be able to keep earning and maintaining the trust of its customers, and to be an institution in which employees are proud to work.

It also keeps progressing and developing its work in a more responsible, sustainable way, focusing on its mission — to

contribute to the development of people and companies — always in a simple, personal, and fair way.

The year of 2022 also represented the opportunity to take part in the Bank's simplification and transformation into a digital platform, to work with inspiring professionals who care about people's professional and personal growth, and to participate in building a better institution to work for.

Within the scope of the Bank's transformation process, employees and customers were heard, and corporate behaviour was updated to respond to the evolution of the market and society; the transformation was accelerated, and more customers were attracted. The other pillars of the *Santander Way* — launched 6 years ago — the Bank's Mission Statement, Vision, Risk Culture (*Risk Pro*), and the "Simple, Personal and Fair" way of doing things — have not changed.

In March 2022, T.E.A.M.S. — the set of new corporate behaviours — was launched in the Santander world, keeping the Bank's purpose unchanged: to help people and companies prosper; the Santander Vision: to be the largest open platform for financial services; and its Values — Simple | Personal | Fair.

Each of the letters that make up the word T.E.A.M.S. represents a certain behaviour, to make it easy to learn by heart, reinforcing the strategy of thinking about the customer, the importance of teamwork, the need to embrace change, to act swiftly, and to speak openly.

→ **Think Customer**

I take care of the relationship with our customers and do my best to earn their trust and loyalty.

→ **Embrace Change**

I face new challenges and look for new ways of doing things as an opportunity to grow.

→ **Act Now**

I take initiative responsibly and do things in a simple manner.

→ **Move Together**

I promote collaboration and work with my colleagues to achieve common goals.

→ **Speak Up**

I express my ideas with respect and without fear. I feel comfortable giving and receiving feedback.

The launching and communication of T.E.A.M.S. also contributed to a better understanding of the *Santander Way*, by better identifying the Group's and the Bank's culture, which would always be highlighted and included in all communications by the Staff Management area.

The Bank believes that, in this way, the results of the Bank and of its employees, the quality of customer service, the delivery of shareholder value, and the support we provide to society will be carried out in a responsible, sustainable manner.

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

For some years now, Santander has had the corporate goal of being the best institution to work for in the various geographies where it operates, and, for this reason, it has been consolidating the work done in previous years, notably by improving processes and procedures that simplify employee experience, streamlining and expanding the package of measures that are put at their disposal.

In 2022, the Bank was certified as a *Great Place to Work*, also maintaining the "EFR" status — Excellence as a Family Responsible Company, awarded by the *Mais Família* association in 2020.

In order to consolidate one of the T.E.A.M.S. behaviours, namely *SpeakUp*, for promoting an open, trusting environment, by providing improvement initiatives, *Your Voice* was launched, which is the evolution of the Global Commitment Survey, with some new features:

- Faster and easier, the questionnaire is filled out on a platform (*Peakon*) added to *Workday*;
- Listen more continuously, (at various points in time, and not just once a year), allowing us to be closer to the teams and to act swiftly in an environment in constant change. This year we will have three survey moments: March — April, June — July, and September — October;
- Improving managers and employees experience, through the quick and practical visualization of results and better insights.

This new model helps identify and monitor topics such as commitment, flexibility, collaboration, diversity and inclusion, T.E.A.M.S. behaviours, and other relevant topics.

The results were the following:

	Aggregate participation	Engagement	NPS
Portugal	89%	7.8/10	36

These results were possible thanks to the more than 80 measures available to Employees, which meet the objective of being a family-friendly, good institution to work for.

In addition to existing measures, as part of the strategy of being a digital Bank, and considering the new ways of working, **laptop computers and mobile phones (including packages of data) were made given to all Bank employees.**

With the aim of being a family-friendly institution, the Bank carried out the following initiatives:

- Dissemination on Social Media of the group #ThePlaceToBeYourself – stressing that, at Santander, Diversity and Inclusion are a strategic priority for attracting, developing, and retaining the best professionals.
- Santander launched "Useful tips for you": useful information for employees, as well as on the facilities available in the Central Service buildings, both in Lisbon and Porto.
- Conducted the questionnaire "We want to know about you | EFR - family-friendly company" — to collect structured, segmented information from employees about their needs and expectations in terms of work-life balance, as well as to know their opinions and evaluations on the existing work-life balance measures.
- Changed the *Dress Code* to a suit without a tie, contributing to the reinforcement of a more modern, closer culture, adapted to society, thus creating a more comfortable work environment, while maintaining the ethics and rigor the Bank is used to.
- Santander promoted solidarity initiatives with Ukraine (donations and "The Santander Family brings together Ukrainian Families") — fostering a culture of solidarity, mutual support, teamwork, and volunteer service.
- In an unprecedented initiative, Santander Portugal teamed up with the Parish of Campo Grande and mobilized itself to bring nearly 180 Ukrainian refugees from Poland who had ties with Portugal, either through family members or friends.
- Several volunteers from the Bank were involved in this initiative. They not only picked up the refugees at the airport, but also welcomed them throughout the country at the buses that took them and delivered them to the host families.
- Collection of 1,352 employee donations, totalling € 34.000.
- Thirty years working for the Bank — 3 ceremonies were held (two in Lisbon and another one in Porto) for delivering more than 500 watches to employees who completed 30 years at the Bank, in 2021. Plus, about 300 Employees who completed 30 years at the Bank in 2022.
- Provided internships to family members and friends of employees – "An experience for those who want experience":
 - Opening of 100 summer internships in the commercial area/branches.
 - Applications made through bank employees via forms.
- Participated in several forums for sharing best management practices within the scope of Family-Responsible Companies and support to work-life balance. It disclosed other measures under Family-Responsible Companies, on enriching networking, and for promoting this certification.
- Santander also shared its testimony of the importance of being a Family-Responsible company at the 70th ACEGE Congress, in May 2022.

In the 1st half of the year, the Bank carried out antigen tests for COVID19 at the Santander Centre facilities, and extended the psychological support line to any case, not just within the context of COVID19.

In October, while following the evolution of the economic situation in the world and in the country, with natural concern, and aware of the impact that the higher inflation and the cost of energy would have on the family budget of many of its employees, the Bank approved several financial support measures to help minimize that impact.

It chose to focus its support on employees with the lowest salary, through the payment of a single amount instead of a percentage, so that the support could be more relevant.

Therefore, it launched the following measures:

- Extraordinary, supplementary payment of € 750 to employees with income up to € 30,000/year (VME: actual monthly salary x 14 months);
- Possibility of all Employees anticipating up to 50% of the Christmas subsidy in 2023;
- Increase the Collective Labour Agreement credit limit to € 200,000 (new loans);

- Extended the access to EFR (Family Responsible Company) measures to Employees with VME \leq € 2,500, with highlight to the co-payment of the social transportation pass in 50%, and the support for tuition fees worth € 310/year per child or stepchild.

BeHealthy Programme

Santander has a corporate programme that aims to position the Bank as the healthiest institution in the world. This programme is called *BeHealthy*, and aims to promote and create healthy lifestyle habits for employees based on 4 pillars of development:

- *Know Your Numbers*: offers tools that allow employees to understand certain health indicators, set improvement goals, and prevent health risks;
- *Eat*: raise awareness of the benefits of eating healthily and combating excess weight;
- *Be Balanced*: help manage balance at work, promoting ways to improve output, in particular through Mindfulness;
- *Move*: promote physical exercise and fitness at work. Monitor progress and inspire a healthy lifestyle.



In April 2022, a week was dedicated to activating Employee Well-Being — “Be Healthy Week” — with various activities that encourage healthy living habits:

- Gymnastics at work
- Parental Coaching
- Become vegetarian
- Healthy recipes
- Blood glucose and cholesterol screening
- Anxiety and stress
- Quit smoking programme – a protocol with EasyWay
- Improve your sleep

Professional Development

The Bank’s talent strategy focuses on attracting and retaining talent.

The *Strategy Workforce Planning* exercises help understand the current skills base and future needs (aligned with the business strategy) to create lines of action.

Santander’s transformation is driven by its continuous learning approach. The Bank’s programmes help Employees acquire new

skills, increase performance and productivity, and become better professionals.

There is also a concern to improve the leadership skills of its team managers, as their role is decisive for the performance of the entire organization. It is worth highlighting some of the talent development programmes, namely

- **Talent assessment** to assess potential and support the professional growth of Employees with greater potential.
- **Young Leaders**: The 2021/2022 edition of the YL programme was concluded. It involved 185 emerging leaders with remarkable knowledge in the digital and innovation fields, advocates of our Simple, Personal and Fair (SPF) culture. Portugal had 10 participants, of which 2 were ranked in the top 15 of the best potential.
- **Elevate** — is the new global learning ecosystem for top management. It is a hybrid experience in *Executive Education* that includes activities led by international experts to strengthen Santander’s leadership through life-long learning and collaboration towards a common culture.
- **Global BeTech! Programme** — A programme for STEM talent, creating a brand with a market-leading proposal, flexible work, DE&I, agile work, etc. This programme also includes a development component with sessions in several of the Group’s countries. Santander Portugal had two participants in this programme.

Corporate mobility

Santander’s *Global Careers Strategy* encompasses simple, transparent mobility strategies, aligned with the business and the needs of employees:

- **Global Job Posting** offers employees the opportunity to apply to work in one’s own country or in other countries, areas, and companies within the Santander Group.
- **Santander World** has been one of the flagship talent programmes of the Santander Group since 2008. It has been supporting the development of more than 2,000 Employees who have participated in strategic projects in other countries over a period of 3 to 6 months.

Due to travel restrictions caused by the pandemic, the Santander World programme was redesigned so that participants can work virtually on international projects, in order to promote the development of their careers under these new circumstances.

- **Swap Programme** a specific mobility programme named *Swap* was created and implemented, which included exchanging participants from similar areas between countries.

Throughout the year, a new edition of Santander World / Swap was held, in which 4 Portuguese employees participated in projects in Spain and Mexico on topics such as: Private Banking Commercial Model; Diversity and Inclusion; Digital.

Santander Portugal also received 3 participants from Chile and Spain, in projects provided by our locations.

→ Expatriations and Permanent Movements

Diversity and Inclusion

Offering a diverse, inclusive workplace that promotes the well-being of employees remains as a strategic priority for Santander. A diverse, inclusive team is absolutely critical for cultural transformation and for fulfilling the Bank's strategy.

In this sense, Santander has defined some areas of action:

- Promotion of gender diversity.
- Employment programme for people with disabilities.
- Special attention to neurodiversity.
- Support the creation of the *Embrace* community.

In terms of gender diversity, the Santander Group has defined various metrics such as Women on the Board of Directors or in management positions, as well as equal pay for the same position between men and women. We monitor these indicators, including the equal pay gap and the gender pay gap.

The employment programme for people with specific needs was distinguished with a Gold Award this year, in the Initiatives category of the Santander *D&I Awards*.

Within the scope of this programme, we are working with various NGOs to identify candidates for existing vacancies (namely with the Salvador Association, with Value T, with the Portuguese Asperger Syndrome Association, and with recruitment companies), as well as to train and support managers and teams in preparing the inclusion of employees with specific needs. In this context, we highlight the special collaboration with Nova SBE's Inclusive Community Forum

Within the scope of this programme, Santander Portugal already has 13 employees with specific needs on its staff, the majority hired in the last 5 years. This year we also started some short-term programmes to support integration into the labour market.

The *Santander Women Network Platform / Portugal* was launched, to give greater visibility to women and achieve equal opportunities between men and women.

Santander employees actively participate in internal initiatives, sharing their testimonies, for example, on Pride Day or on the International Day of People with Disabilities. The Bank also seeks to encourage the involvement of leaders in order for them

to be more inclusive, namely by promoting the consolidation of a diverse, inclusive culture at Santander.



DE&I Award 2022

Training and Development

Santander's objective, as far as training and development, is to be a continuous learning institution, which materializes in the provision of tools that allow Employees to keep up to date, thus contributing to the relevance of the company as a whole.

In 2022, 193,673 hours of training were imparted to 4,653 Employees, which amounts to an average of 41.6 training hours per capita.

Leadership

The focus on leadership development has been, for many years, a strategic line of action, since team management, development and follow-up have an impact on individual performance and on the organization as a whole.

Thus, a corporate programme — *Elevate* — has been running. This programme intends to prepare managers for the future of leadership and for managing the company. This programme not only encourages networking between leaders from different countries, but also puts these officers in touch with different topics that may broaden their horizons and contribute to a better prepared leadership.

The topics covered range from technical and technological subjects, to themes related to soft skills.

Webinars

Webinars gained attraction within the context of the pandemic, starting to be used as a work tool and even for internal training. They have thus been used for training on products, on new technological tools, and for sharing best practices.

In 2022, the following were made available to employees:

- **Webinars on technical and business topics**, such as insurance products, leasing, specific products for companies, agricultural products, new cash operations, just to give a few examples.
- **And for personal development**: webinars on topics as diverse as Metaverse, creative writing, innovation and transformation, effective communication, and inspiring leadership.

DOJO

Santander and the People Management area invest in talent, the most important asset for the Bank's future. Thus, in line with the Group's strategy, the focus is on renewing the way people learn, adapting its methodologies to the best practices in the market.

In 2022, the new training, lifelong learning platform — Dojo — was extended to all employees.

Only by developing the ability of employees to learn and reinvent themselves will it be possible to respond to changing customer needs, and also to the modernization and digitization of the sector and the market.

Dojo follows new trends and includes more than 90,000 training contents, so that everyone can develop the necessary skills to make Santander the best open platform for financial services.

This digital platform brings together the best practices in the self-consumption, customised training market, and is available 24/7, with formats that adapt to different ways of learning — podcasts, videos, interactive e-learning, book summaries, papers.

Dojo is also a platform connected to content from all countries where Santander operates, and with world-renowned suppliers, and counts on AI to return personalized results, in accordance with each employee's preferences. All this is only possible thanks to the technological resources invested.

Onboarding Programme

In order to transform Santander into a closer, more digital Bank, there is a value offer with advantages for candidates, with attractive communication, used internally for Employees and also for external candidates.

In Portugal, a new onboarding experience was created — with a new image and greater impact, so that new Employees remember the moment of joining Santander as a special moment: one of learning, challenging, but also of fun.

A slogan **Hi RED** - *Recent Employee Day* was created with a fun communication concept. An email was also sent to all managers explaining the new concept, so that they would recognize and welcome their **Reds**.

Hi!

Hello!

A greeting, enthusiastic, welcoming exclamation

RED

Recent Employee Day/Days

An acronym for new employees on onboarding days

Hi! RED

Logo: Greeting expression **Hi RED!** meaning *Hired!*

It also has an alternative reading:
Greeting someone who is now Santander (*Red is our colour*).

"Today is RED day"

Onboarding day for new employees

"Inês is RED"

She is a new employee on an onboarding day

Economic and Financial Information

Consolidated Business

At the end of 2022, Banco Santander Totta recorded a net profit of € 586.6 million, 116.8% more than the € 270.5 million achieved in the same period of the previous year, which incorporated extraordinary expenditures in the amount of € 164.5 million (net of taxes), related to the transformation plan, with the optimization of the branch network, and investments in processes and technology.

This evolution led to an increase of 7.2 p.p. in Return on Equity (ROE), from 6.6% in December 2021, up to 13.8% in December 2022. The efficiency ratio reached 36.3%, 4.5 p.p. below the 40.8% recorded at the end of the previous year.

Loans and advances to customers (gross) totalled € 43.3 billion, down by 0.3% year-on-year. Loans to individuals increased by 5.2%, with the mortgage loan portfolio growing by 5.5%, reflecting the good momentum in the production of new mortgage loans, where the Bank has a market share of 23.1%, while credit to companies dropped by 4.6%.

The Non-Performing Exposure ratio stood at 2.0%, decreasing by 0.3 p.p., compared to the 2.3% recorded in December 2021, with a provisions coverage of 87.0% (6.0 p.p. more than in the same period last year).

Customer resources amounted to € 46.3 billion, down by 2.3% compared to the same period of the previous year, with the stabilization of deposits (0.3% more year-on-year), and the reduction of 14.3 % of off-balance sheet resources, as a result of the adverse context in financial markets.

The Liquidity Coverage Ratio (LCR), calculated in accordance with the CRD IV rules, stood at 126.4%, thus meeting the regulatory requirement on the fully-implemented basis.

The *Common Equity Tier 1* ratio (fully implemented) reached 15.8%, showing a decrease of 10.6 p.p. compared to the same period last year, related to the decision of the Board of Directors of Santander Portugal to distribute dividends in 2022, once the recommendation of the European Central Bank (ECB/2020/19), of March 27, 2020, regarding shareholder remuneration has been lifted.

The MREL ratio stood at 24.9% (fully implemented), above the

17.9% requirement (including CBR combined equity requirement of 2.5% of TREA), required from January 1, 2022.

The liquidity reserve stood at € 15.9 billion at the end of 2022.

The funding obtained from the European Central Bank, in the amount of € 4.2 billion, entirely relates to the third series of targeted longer-term refinancing operations — TLTRO III.

Long-term financing also includes € 2.0 billion of mortgage bonds, € 0.65 billion of *Senior Non-Preferred* issuances, € 1.1 billion of securitizations, € 0.2 billion of *Credit Linked Notes*, and € 0.3 billion of subordinated issuances.

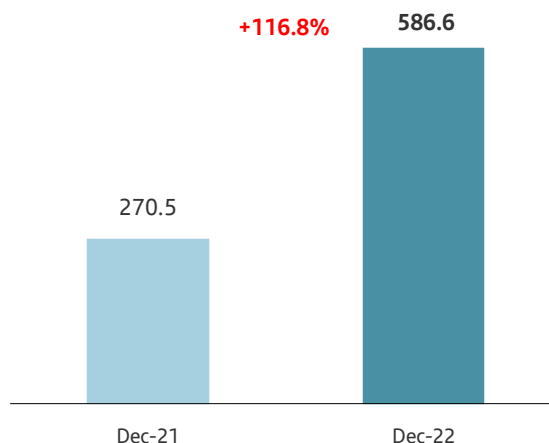
Short-term funding, through repurchase agreements, totalled € 2.1 billion at the end of 2022.

Santander Portugal has the best financial ratings in the sector. Banco Santander Totta's current long-term debt ratings compared to those of the Portuguese Republic are as follows: Fitch – A- (Portugal – BBB+); Moody's – Baa2 (Portugal – Baa2); S&P – BBB+ (Portugal – BBB+); and DBRS – A (Portugal – A low).

CONSOLIDATED NET INCOME

ATTRIBUTABLE TO THE SHAREHOLDERS OF BST

million euro



CONSOLIDATED INCOME STATEMENTS (million euro)

	Dec-22	Dec-21	Var.
Net interest income	779.3	728.7	+7.0%
Income from equity instruments	3.8	1.5	+148.9%
Results from associated companies	5.1	4.2	+21.5%
Net fees	475.6	432.1	+10.1%
Other operating results	9.4	9.6	-2.5%
Commercial revenue	1,273.2	1,176.2	+8.3%
Gain/losses on financial assets	88.3	141.3	-37.5%
Operating income	1,361.5	1,317.5	+3.3%
Operating costs	(433.4)	(472.6)	-8.3%
Staff Expenses	(261.0)	(279.4)	-6.6%
Other Administrative Expenses	(172.4)	(193.2)	-10.8%
Cash contributions to resolution funds and deposit guarantee schemes	(41.7)	(37.7)	+10.6%
Depreciation	(45.3)	(49.3)	-8.1%
Net operating Income	841.2	757.9	+11.0%
Impairment, net provisions and other results	12.6	(354.8)	-103.6%
Income before taxes and non-controlling interests	853.8	403.1	+111.8%
Taxes	(267.2)	(132.6)	+101.5%
Income after taxes and before non-controlling interests	586.6	270.5	+116.8%
Non-controlling interests	0.0	0.0	-
Consolidated net income attributable to the shareholders of BST	586.6	270.5	+116.8%

At the end of 2022, net interest income stood at € 779.3 million, up by 7.0%, compared to € 728.7 million generated in the same period of 2021, as a result of the rise in interest rates, due to the monetary policy implemented by the European Central Bank, despite the maintenance of the competitive environment, which put downward pressure on credit spreads.

Result from associated companies reached € 5.1 million, growing by 21.5%, compared to the € 4.2 million observed in the same period of the previous year.

Net fees reached € 475.6 million, up by 10.1%, compared to the € 432.1 million recorded a year earlier, mainly supported by fees from means of payment, by the higher volume of transactions, insurance, by the strategic focus on the distribution of independent risk insurance, with emphasis on the offer of car insurance for individuals and companies, of credit, by the commercial dynamics of the new mortgage credit offer, and of accounts, through the offer of package accounts with a set of

associated services.

Other operating income stood at € 9.4 million, 2.5% below the € 9.6 million in the same period last year.

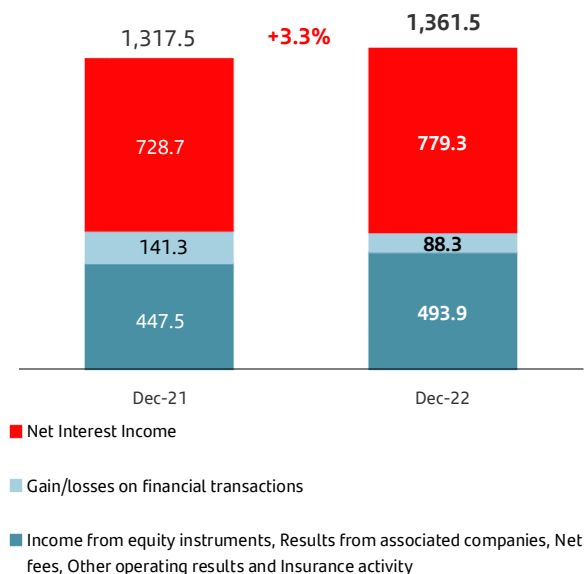
Commercial revenue reached € 1.273 billion, up by 8.3% from the € 1.176 billion recorded in the same period of 2021, driven by the favourable evolution of net interest income and net fees.

Income from financial operations stood at € 88.3 million, down by 37.5% compared to € 141.3 million achieved a year earlier, which were influenced by the results generated in the management of the public debt securities portfolio.

Net income from banking activities totalled € 1.362 billion, representing a year-on-year growth of 3.3%, compared to € 1.318 billion euros at the end of 2021, due to the favourable evolution of commercial revenue, which offset the lower gain/losses on financial assets.

OPERATING INCOME

million euro



Operating costs stood at € 478.7 million, at the end of 2022, down by 8.3%, compared to € 521.9 million recorded in the same period in 2021.

In 2021, the Bank implemented an operational and commercial transformation plan in order to have a controlled cost base, in a more competitive and digital context, through an investment in organizational simplification, in the development of new IT platforms and in the automation of processes and procedures, with the aim of improving the quality of service provided.

Staff expenses reached € 261.0 million, decreasing by 6.6%, compared to € 279.4 million in the previous year.

Other administrative expenses amounted to € 172.4 million, 10.8% less, compared to € 193.2 million in the same period last year.

Depreciation stood at € 45.3 million, down by 8.1% compared to the € 49.3 million in the end of 2021.

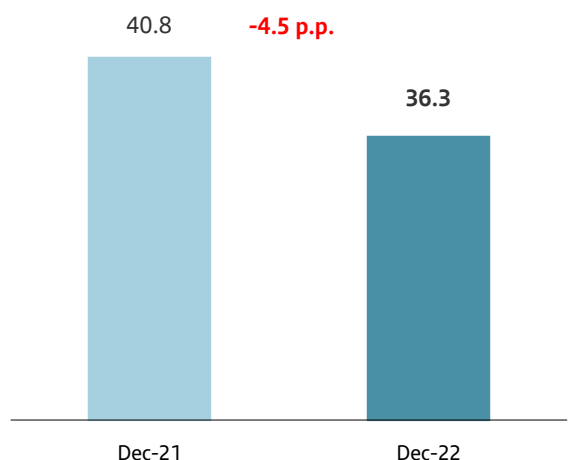
In the operating costs structure, staff expenses account for 55% of the total, followed by other administrative expenses at 36%, and depreciations at 9%.

OPERATING COSTS (million euro)	Dec-22	Dec-21	Var.
Staff Expenses	(261.0)	(279.4)	-6.6%
Other Administrative Expenses	(172.4)	(193.2)	-10.8%
Depreciation	(45.3)	(49.3)	-8.1%
Operating costs	(478.7)	(521.9)	-8.3%
Efficiency ratio	36.3%	40.8%	-4.5 p.p.

At the end of 2022, the efficiency ratio stood at 36.3%, down by 4.5 p.p., compared to 40.8% recorded in the same period of the previous year, reflecting the 3.3% increase in net income from banking activities, and the 8.3% reduction in operating costs.

EFFICIENCY RATIO

%



The cost of cash contributions to resolution funds and deposit guarantee schemes reached € 41.7 million, 10.6% more than the cost of € 37.7 million recorded in the same period last year.

Net operating income reached € 841.2 million, up by 11.0% compared to € 757.9 million generated in the previous year.

Impairment, net provisions and other results recorded a gain of € 12.6 million, up by 12.6%, compared to the cost of € 354.8 million in the same period of the previous year.

Net provisions amount to a gain of € 3.8 million compared to expenses worth € 243.4 million in 2021, which included an extraordinary provision of € 235.0 million, for the Bank's transformation plan, with the optimization of the branch network and investment in processes, digitisation, and technology.

Net impairment of financial assets at amortized cost totalled a gain of € 12.0 million at the end of 2022, an improvement over the € 73.5 million spent a year earlier, translating the economic momentum, with a stable unemployment rate, which mitigated the effect of the rise in interest rates and the consequent increase in credit cost, with no relevant impact on the quality of the credit portfolio, allowing for the partial reversal of impairment charges.

Net impairment of non-financial assets amounted to a gain of € 12.9 million, compared with expenses of € 16.8 million in the same period last year.

Regulatory costs, with the Banking Sector Contribution and the Solidarity Contribution, in the amount of € 35.9 million, increased by 2.3%, compared to the € 35.1 million paid last year.

Income from non-current assets held for sale amounted to € 19.8 million, 41.6% more than the € 14.0 million generated a year earlier, influenced by the non-recurring effect of property sales.

Income before taxes and non-controlling interests amounted to € 853.8 million, showing a growth of 111.8%, compared to € 403.1 million observed in 2021.

Taxes stood at € 267.2 million at the end of 2022, compared to the € 132.6 million recorded a year earlier.

At the end of 2022, the consolidated net income for the year attributable to the shareholders of BST amounted to € 586.6 million, 116.8% more than the € 270.5 million generated in 2021.

Balance Sheet and Business

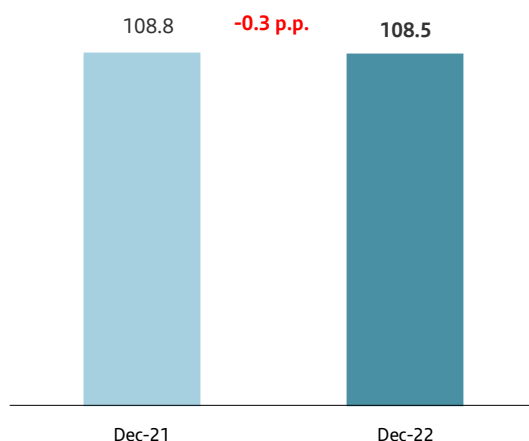
At the end of 2022, the business volume amounted to € 89.6 billion, less 1.3% compared to the € 90.9 billion in the same period in 2021, as a result of a 0.3% drop in credit and a 2.3% increase in customer resources.

BUSINESS VOLUME (million euro)	Dec-22	Dec-21	Var.
Business Volume	89,635	90,854	-1.3%
Loans and advances to customers (gross)	43,303	43,416	-0.3%
Customers' Resources	46,332	47,438	-2.3%

The transformation ratio, measured by the ratio of credit to deposits, stood at 108.5% at the end of 2022, 0.3 p.p. less than in the same period last year.

LOAN-TO-DEPOSIT RATIO (Transformation ratio)

%



At the end of 2022, the customer loan portfolio (gross) reached € 43.3 billion, 0.3% less than in the same period in the previous year, reflecting the favourable evolution of the production of mortgage loans, materialized in a market share of 23.1%, mitigated by the decrease in loans to companies.

LOANS (million euro)	Dec-22	Dec-21	Var.
Loans and advances to customers (gross)	43,303	43,416	-0.3%
<i>of which</i>			
Loans to individuals	25,290	24,035	+5.2%
<i>of which</i>			
Mortgage	23,117	21,921	+5.5%
Consumer	1,820	1,716	+6.0%
Loans to corporates	15,421	16,159	-4.6%

Note: Loans to corporates include credits to institutional and public administrations

Loans to individuals totalled € 25.3 billion, a y-o-y increase of 5.2% compared to the € 24.0 billion last year.

Housing loans, amounting to € 23.1 billion, grew by 5.5%, year on year. Notwithstanding the progressive rise in interest rates,

as a result of the changes in the European Central Bank's monetary policy, housing loans recorded a strong production with a market share above 23.1%.

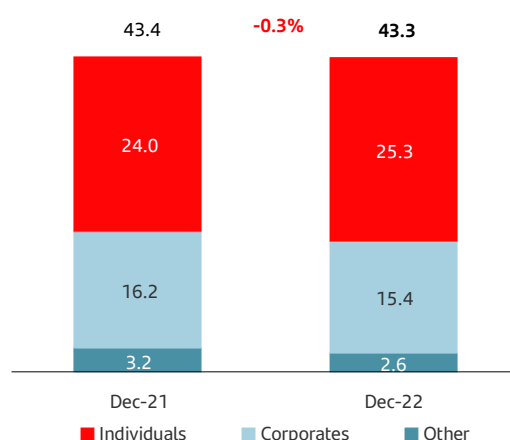
Consumer credit stood at € 1.8 billion, 6.0% more than in the previous year, reflecting higher expenditures, in the context of the recovery of economic activity and the contribution of the digital transformation of existing hiring processes.

Loans to companies amounted to € 15.4 billion, down by 4.6% year-on-year, as a result of various scheduled maturities for larger companies, and the postponement of investment decisions, due to the uncertain economic context and rising inflation, which led the European Central Bank to implement a progressively tighter monetary policy, by raising reference interest rates and reducing excess liquidity.

Reference should be made to Santander Portugal's support to companies, with emphasis to the protocol established with the European Investment Bank for a new credit facility in the amount of € 820 million, aimed at small and medium-sized companies and Mid-Caps; and support for public and private investment projects within the scope of the European Funds, with a set of credit facilities in force, namely with the European Investment Fund and with Banco Português de Fomento / National Mutual Guarantee System, whose guarantee benefits are transferred to customers, through advantageous market conditions.

LOANS AND ADVANCES TO CUSTOMERS (GROSS)

million euro



The *Non-Performing Exposure (NPE)* ratio, calculated in accordance with the EBA definition (in relation to balance sheet exposures), stood at 2.0% in December 2022, 0.3 p.p. less when compared to the 2.3% at the end of the previous year. The interest rates rise, which led to increased financing costs for households and companies, and which may affect the ability to

comply with debt service, did not have a relevant impact on the quality of the loan portfolio. Impairment coverage reached 87.0% in 2022 (81.0% in 2021).

Cost of credit stood at 0.03%, 0.20 p.p. less than the 0.17% recorded in the same period last year.

CREDIT RISK RATIOS

	Dec-22	Dec-21	Var.
Non-performing exposure Ratio	2.0%	2.3%	-0.3 p.p.
Non Performing Exposure coverage ratio	87.0%	81.0%	+6.0 p.p.
Cost of credit	(0.03%)	0.17%	-0.20 p.p.

At the end of 2022, customer resources totalled €46.3 billion, down by 2.3% compared to the same period in 2021, through the stabilization of deposits (up by 0.3%) and the reduction off-balance sheet resources (14.3% less), penalized by the high inflation rate in the second half of 2022, the rise in interest rates, and the evolution of financial markets.

RESOURCES (million euro)	Dec-22	Dec-21	Var.
Customers' resources	46,332	47,438	-2.3%
On-balance sheet resources	39,062	38,959	+0.3%
Deposits	39,062	38,959	+0.3%
Off-balance sheet resources	7,270	8,479	-14.3%
Investment funds marketed by the Bank	3,623	4,340	-16.5%
Insurance and other resources marketed by the Bank	3,647	4,139	-11.9%

Deposits amounted to € 39.1 billion, reflecting a stabilization compared to €39.0 billion in the same period last year (0.3% more).

Off-balance sheet customer funds stood at € 7.3 billion, down by 14.3%, compared to € 8.5 billion at the end of last year.

Investment funds managed or marketed by the Bank, in the amount of € 3.6 billion, dropped by 16.5%, compared to € 4.3 billion in the previous year. Insurance and other resources, in the amount of € 3.6 billion dropped by 11.9%, compared to € 4.1 billion in the same period last year.

This evolution took place in a context of inflationary pressures, of changes in the monetary policy of the central banks with rising reference interest rates, of losses of most equity indices, and of devaluation of bond indices, of volatility in the Euro exchange rate against the US Dollar, which affected investor confidence and the negative performance of most portfolios of assets under management, with a reduction in the marketing of financial products.

Solvency Ratios

At the end of 2022, the *Common Equity Tier 1* (CET 1) ratio, calculated in accordance with CRR/CDR IV rules, stood at 15.8% (fully implemented), representing a reduction of 10.6 pp, compared to the 26.4% recorded in the previous year, related to the decision of the Board of Directors of Santander Portugal to distribute dividends in 2022, given the lifting of the recommendation of the European Central Bank (ECB/2020/19), of March 27, 2020, on shareholder compensation.

This Bank's solvency reflects the ability for generating organic capital, and the management of risk weighted assets.

The Bank has a very high capitalization, above the minimum requirements demanded by the European Central Bank. In 2022, CET 1 stood at 7.0%, Tier 1 at 8.5%, and Total at 10.5% (fully implemented).

At the end of 2022, the 24.9% MREL ratio (Minimum Requirement for Own Funds and Eligible Liabilities) stood above the fully implemented requirement of 17.8%, required from January 1, 2022 (including the CBR combined equity requirement of 2.5% of TREA).

CAPITAL (million euro)	Dec-22	Dec-21	Var.
Common Equity Tier 1	2,508	3,797	-34.0%
Tier 1 Capital	2,908	3,797	-23.4%
Total Capital	3,295	4,178	-21.1%
Risk Weighted Assets (RWA)	15,867	14,408	+10.1%
CET 1 ratio	15.8%	26.4%	-10.6 p.p.
Tier 1 ratio	18.3%	26.4%	-8.1 p.p.
Total Capital Ratio	20.8%	29.0%	-8.2 p.p.

Relevant Facts After the End of the Fiscal Year

There were no relevant facts after the end of the fiscal year

Risk Management

Risk Management and Monitoring Model

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

A. Risk Principles and Culture

Risk management and monitoring principles are mandatory and applicable at all times. They take into account regulatory requirements and best market practices. These principles are as follows:

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

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

B. Risk Identification and Management

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

- ➔ **Credit risk** : is the risk of financial loss resulting from non-compliance or deterioration of the credit quality of a given customer or counterpart, to whom the Bank has granted credit directly or for whom it took on a contractual obligation;
- ➔ **Market Risk** : it is the risk incurred as a result of the effects that changes in market factors, interest rates, exchange rates, variable income and commodities, among others, may have on income or capital;
- ➔ **Liquidity risk** : is the risk the Bank incurs if it does not have enough liquid financial resources to meet its obligations on the due date, or if it can only obtain them at a high cost;
- ➔ **Structural Risk** : is the risk of changes in the value or margin creation of banking book assets or liabilities as a result of changes in market factors and in the behaviour of the balance sheet. It also includes risks associated with insurance and pensions, and the risk of the Bank not having sufficient capital, either in quantity or quality, to fulfil its internal business goals, regulatory requirements or market expectations;
- ➔ **Operational Risk** : is defined as the risk of loss due to the inadequacy or failure of internal processes, personnel and systems, or due to external events, including legal risk, compliance risk and conduct risk defined in the Corporate Compliance and Conduct Framework;
- ➔ **Financial crime risk**: The risk resulting from actions or the use of the Group's means, products and services in activities of a criminal or illegal nature. These activities include, but are not limited to, money laundering, financing of terrorism, violation of international sanctions programmes, corruption, bribery, and tax evasion;
- ➔ **Model Risk** : is the risk of loss resulting from wrong forecasts, which lead the Bank to adopt measures that are not the most appropriate, or from the inappropriate use of a model;
- ➔ **Reputational Risk** : is the risk of immediate or potential negative economic impacts for the Bank due to damages on the perception of the Bank's image by employees, customers, shareholders / investors and society in general;

→ **Strategic Risk** : is the risk of loss or damage resulting from strategic decisions or from their poor implementation, which have an impact on the medium and long term positioning of the main stakeholders, or that result from an inability to adapt to external developments.

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

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

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

C. Risk Governance

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

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

Defence lines

At the Bank we follow a three-pronged model to ensure effective risk management and control:

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

While each of the three lines of defence has a separate organizational structure and a certain degree of independence, they must collaborate whenever necessary to ensure that business goals are met. The Risk, Compliance and Conduct, and

Internal Audit areas have direct access to the Board of Directors and to its Committees.

First line of defence: Risk Management

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

The first line of defence is responsible for the following:

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

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

Second Line of Defence: Risk Monitoring and Supervision

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

The second line of defence is responsible for:

- Overseeing risk management, as carried out by the first line of defence;
- Checking compliance with established policies and limits, and assessing whether the business remains within the risk appetite;
- Questioning business proposals and issuing an opinion on them. It shall provide top management and business units

with the necessary elements to understand the risks involved in different businesses and activities;

- ➔ Providing a consolidated view of risk exposure, including the risk profile;
- ➔ Providing detailed material risk assessments and closely monitor emerging risks;
- ➔ Defining the metrics that should be used in measuring risk, and reviewing and challenging the risk appetite and the lower limits proposed by the first line of defence;
- ➔ Checking that there are adequate policies and procedures to manage the business within the defined risk appetite.

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

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

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

Third Line of Defence: Risk Assurance

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

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

Risk Committee Structure

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

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

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

➔ Executive Risk Committee (ERC)

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

Chair: Chief Executive Officer (CEO).

➔ Risk Control Committee (RCC)

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

Chair: Chief Risk Officer (CRO)

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

D. Management Processes and Tools

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

Risk Appetite and Limit Structure

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

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

Business Model and Risk Appetite Fundamentals

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

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

General Principles of Risk Appetite

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

- **Responsibility of the Board and Top Management.** The Board of Directors is the ultimate responsible for defining the Bank's risk appetite, as well as for monitoring compliance therewith.
- **Enterprise wide risk, comparing and questioning the risk profile.** The risk appetite must consider all significant

risks, facilitating an aggregated view of the risk profile through the use of quantitative metrics and qualitative indicators.

- **Forward-looking view.** Risk appetite should consider the desirable risk profile in the short and medium term, taking into account both the most likely circumstances, and the adverse or stress scenarios).
- **Linked to strategic and business planning.** Risk appetite is a fundamental component of strategic and business planning, and it is integrated into management through its translation into management policies and limits, as well as through the participation of all lines of defence in key appetite processes.
- **Common principles and a common risk language for the entire organization.** The risk appetite of the various units, including that of the Bank, is in line with the Group's risk appetite.
- **Periodic review, comparison and adaptation to best practices and regulatory requirements.** Follow-up and control mechanisms to maintain the risk profile, and thus adopt the necessary corrective and mitigating measures in case of non-compliance.

Limit, follow-up and monitoring structure

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

1. *Income Volatility:*
 - Maximum loss that the Bank is willing to take on, in the face of a chronic stress scenario;
2. *Solvency:*
 - Minimum capital position that the Bank is prepared to take on, in a chronic stress scenario;
 - Maximum leverage level that the Bank is willing to take on, in a chronic stress scenario.
3. *Liquidity:*
 - Minimum structural liquidity position;
 - Minimum liquidity horizons that the Bank is willing to take on, in the face of various chronic stress scenarios;
 - Minimum liquidity coverage position.
4. *Concentration:*
 - Concentration by individual client;
 - Concentration on non-investment grade counterparties
 - Concentration on large exposures

5. Non-Financial Risk

- Qualitative indicators on non-financial risk:
 - Fraud
 - Technology
 - Security and cyber risk
 - Litigation
 - Miscellaneous
- Maximum operational risk losses.
- Maximum risk profile.

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

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

Risk Profile Assessment (RPA)

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

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

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

Scenario analysis

Another fundamental instrument used by the Bank to ensure robust risk management and monitoring is the analysis of the possible impacts arising from different scenarios related to the

environment in which the Bank operates. These scenarios are expressed both in terms of macroeconomic variables, as well as through other variables that impact the Bank's risk profile.

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

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

Risk Management in 2022

Introduction

For Banco Santander Portugal, quality risk management constitutes a fundamental axis of action, in keeping with the corporate policy of the Group to which it belongs.

Prudence in risk management, combined with the use of advanced management techniques, was a decisive factor in 2022 to face the effects arising from the Ukraine-Russia war, the increase in the Euribor in all maturities and in the inflation rate, which reached very high levels, and by the continued demand from the financial markets.

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

Credit Risk — Main Business Vectors

The year of 2022 was marked by the outbreak of the Ukraine-Russia war, by the increase in the Euribor in all terms, and by an inflation that reached very high levels.

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

Periodic analyses also continued to be carried out on the sectors of activity that require the most attention, in particular those with the greatest impact from the consequences of the Ukraine-Russia war and the rise in energy costs and production processes due to inflation, based on:

1. **Sectoral framework** : a brief sectorial analysis based on the collection of information available from various official information sources;

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

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

For customers (individuals and small companies), whose credit decision is made mainly through decision models considered "automatic", the effects of inflation and of the rise in interest rates are being monitored, and mitigation measures are being implemented against increases in credit risk, in order to ensure the credit quality of portfolios and the sustainability of the Bank's balance sheet. The analyses and monitoring of behavioural metrics in these customers were strengthened in order to detect in advance any possible deterioration in their real payment capacity.

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

- Maintaining the principle of segmentation in the processing of credit risk, differentiating the approach to risks in the light with the characteristics of customers and of their products.
- Maintaining the strictness of the admission criteria and, consequently, of the quality of Risk admitted in each segment, with a view to preserving the good quality of the loan portfolio.
- In terms of Portfolioed Risks, the policy of proximity to customers was reinforced, in order to anticipate their credit needs, to review their credit facilities, and foretell possible problems in their repayment ability.
- Timely action and customers' credit quality level allowed non-performing loans and credit at risk to be kept under control, at acceptable levels.
- Continuous development of improvements in admission processes, in order to respond to customer requests in a swifter, more effective way.
- The recurrence of customer monitoring and review

meetings was maintained, which is the Bank's usual practice, and which is included in its internal policies, for the early detection of loan-portfolio alerts;

- In Standardized (or Non-Incorporated) Risks, aiming at the continuous improvement and efficiency of the admission process, and bearing in mind the objective of portfolio quality, the Bank updated its automatic decision models, namely the implementation of new models of admission scoring in the Private and Corporate segments, and of a new decision engine, plus the adjustment of behavioural scoring in the Business segment.
- Also, in the matter of Standardised Risks, the focus continued to be centred on ensuring portfolio quality, acting on Non-Performing Exposure (NPE) and Overdue Loans, while seeking to anticipate the deterioration of the credit quality of the credit portfolio.
- To this end, the defined admission strategies were maintained in the Bank's decision-making systems, as was the use of behavioural systems for the identification of preventative and roll-over measures to be offered to its customers.
- In terms of Corporate Risk Management, the permanent focus on knowledge and monitoring of the loan portfolio was maintained, with a view to strictly control its risk, seeking to provide adequate and timely management information, in order to allow measures to be taken with a view to proper management of the Bank's Risks.
- Attention was also maintained regarding the Bank's in-house models, almost all of which have already been recognised (by Regulators) as advanced (IRB) models for the calculation of the equity requirement, as well as their increasing inclusion in management.

Credit Risk

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

The organisation of the credit-risk function at Santander Portugal is specialised according to customer typology, throughout the entire risk-management process, between portfolioed customers (customised or personalised treatment), and non-portfolioed customers (standardised or under mass-treatment).

Portfolioed customers are those that, fundamentally due to their level of risk, are assigned a risk analyst. This group includes Wholesale Banking companies, Financial Institutions, and some of the Retail Banking companies. The assessment of

these customers' risk is performed by the risk analyst, supplemented with decision-support tools based on in-house risk-assessment models.

Standardised Customers are those that do not have a risk analyst specifically assigned to monitor them. This group includes Individual customers, Individual Entrepreneurs, and non-portfolioed Retail Banking companies. Assessment of these risks is based on in-house valuation and automatic decision-making models, complemented by specialised risk-analyst teams whenever required.

Risk measurement metrics and tools

1. Rating / Scoring Tools

Banco Santander uses its own in-house solvency ratings and scorings for the various customer segments, in order to measure the credit quality of a customer or transaction, each rating or scoring corresponding to a likelihood of default.

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

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

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

For the standardised-risk portfolios, both of Individual customers and of not-portfolioed Businesses, scoring tools and decision-making models are implemented, which automatically assign an assessment/decision of the transactions presented. These decision tools can be complemented with a behavioural scoring model — an instrument that allows greater predictability of the risks assumed, and that are used for commercial initiatives.

2. Credit risk parameters

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

In addition to the valuation performed on the customer, the quantitative risk analysis considers other aspects such as the term of the operation, the type of product, and the existing guarantees. What is thus taken into account is not just the probability that the customer may not fulfil its contractual obligations (PD), but the amount of default (Exposure at Default, or EAD), as well as the percentage of the EAD that may not be recovered (Loss Given Default, or LGD) are also estimated.

These are the factors (PD, LGD and EAD) that constitute the main credit-risk parameters, and which, taken together, enable the calculation of the expected and unexpected loss.

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

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

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

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

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

Credit-risk Cycle

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

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

1. Planning and establishing limits

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

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

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

In terms of standardised risks, the planning and limit setting process is undertaken by means of joint preparation, by the Risk and Commercial areas, of Strategic Commercial Plans (SCPs), 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 to.

2. Study of the risk, deciding on the transaction, and monitoring and control

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

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

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

3. Irregularities and Recoveries Management

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

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

Recoveries activity is structured in keeping with the commercial segmentation of customers: Individuals & Businesses, Corporate, with specific management models. The management of recoveries, so segmented, also respects the different management stages: preventive management, management of irregularities, 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.

Preventive management and management of irregularities of Individuals & Businesses customers aims to provide the Bank with a massive, anticipatory management capacity of customers not in the portfolio, carried out through strategies and processes in an omnichannel environment (communication channels differentiated according to the type of customer), constituting a sophisticated approach, which helps anticipate and improve the speed of response to cash difficulties of customers who have such issues.

Counterparty risk

Counterparty risk, latent in contracts entered into in financial markets — organised or over-the counter (OTC) markets — consists of the possibility of counterparties not complying with the contracted terms, and subsequent occurrence of financial losses for the institution.

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

These risks are monitored through an integrated system that allows approved limits to be recorded and provides information as to their availability for the various products and maturities. The same system also allows transverse control over the concentration of risks by certain groups of customers/counterparts.

The risk in derivative positions, called Credit Risk Equivalent (CRE), is calculated as the combination of the Present Value of each contract (or Current Replacement Cost) with the respective Potential Risk, a component that reflects an estimate of the maximum amount expected until its maturity, depending on the volatilities of the underlying market factors and on the contracted flow structure.

In 2022, the current exposure of operations on interest rate indexes (Euribor) increased slightly, reflecting the evolution of medium and long-term market rates. With regard to exposure to Financial Groups, the hedging operations for structural interest rate risk increased, with LCH Clearnet as clearing house. The amount of exposure of derivatives with Financial Groups grew slightly due to the increased risk coefficient of long-term interest-rate operations due to the adjustment of the calculation methodology and to the contracting of new Spread Lock and mortgage hedging operations.

Market, structural and liquidity risk

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

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

It includes the risks of trading activity and structural risks, both affected by the movements of the markets.

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

Trading Market Risk Control

Activities subject to market risk

The risks of trading activities arise from financial service activities for customers with non-complex instruments, focusing on hedging of exchange-rate and interest-rate risks.

Transactions with customers are hedged with the market, so as to ensure a residual exposure to this type of risk.

Methodologies

The methodology applied in 2022 by Santander Portugal for the negotiation activity is the Value at Risk (VaR). The historic simulation methodology is used as the basis, with a 99% confidence level and a one-day time horizon; statistical adjustments were applied that allow swift and effective inclusion of the most recent events that condition the risk levels that were considered.

Additionally, Stress Testing is also used, which consists of defining the behavioural scenarios of various 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 assessed periodically through a backtesting analysis. Backtesting is a comparative analysis between the calculations of the Value at Risk (VaR) and the daily "clean" results (clean P&L — result associated with the revaluation of the closing portfolios of the previous day at the closing prices of the next day), where the occasional/episodic deviations of the results found, compared to the estimated measurements, are analysed.

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

Limits

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

Limits to protect the volume of potential future losses. Examples of this type of limits include limits for VaR, on sensitivity measures (BPV and Greeks) or on equivalent positions;

Limits intended to protect/accommodate the volume of actual losses or to protect income levels already achieved during the period. This type of limits aims to generate alerts on positions that are generating losses (loss triggers), allowing decisions to be taken before the maximum loss limit is reached (stop loss), from which point it will be considered that the losses have reached an unacceptable level and the positions will be closed immediately.

Quantitative analysis of the VaR during the year

The VaR remained at very low levels, standing at € 12.7 k on December 31, 2022

Control of the Balance-Sheet Structural Risk

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

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

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

Methodologies

Interest rate risk in the consolidated balance sheet is measured through modelling the items in assets and liabilities that are sensitive to interest-rate variations in accordance with their indexing and re-appraisal structure. This model allows the measurement and control of risks 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).

Operational Risk

Definition and objectives

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

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

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

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

Liquidity risk is measured and monitored through the modelling of present and future flows of payments and receipts, as well as by conducting stress tests that seek to identify potential risk under extreme market conditions.

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

The Liquidity Coverage Ratio (LCR) calculated in accordance with ECB rules stood at 126.40% on Dec. 31, 2021.

Limits

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

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

Management Model

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

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

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

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

The second line of defence comprises the area that controls Operational Risk, and it is responsible, on the one hand, for supervising the actual control of operational risk in its various aspects, and, on the other, for assessing whether it is managed

as defined, and whether it complies with the tolerance levels established for the purpose. The second line of defence is an independent function, and it complements the first line management and control functions.

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

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

- ➔ Identification of the operational risk involved in all the Bank's activities, products, processes and systems.
- ➔ Definition of the operational risk profile, by measuring metrics and indicators by area and time horizon, and by establishing tolerance limits and risk appetite.
- ➔ Drawing up and monitoring the operational risk budget.
- ➔ Promoting the involvement and integration of all employees in the operational risk culture by conducting training in the matter of operational risk.
- ➔ Measuring and assessing operational risk in an objective, continuous, consistent manner, based on regulatory and other requirements (Basel, Bank of Portugal, among others).
- ➔ Continuously and systematically monitoring the sources of exposure to risk and implementing the respective control mechanisms to minimize possible losses.
- ➔ Establishing mitigation measures and actions that reduce and mitigate operational risk.
- ➔ Making periodic operational risk presentations and reports and disclosing them to the various management and supervision bodies (internal and external).

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

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

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

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

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

Qualitative analysis helps to assess various aspects related with the risk profile. The instruments used are mostly the following:

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

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

Nevertheless, the principle is one of standardisation, and, therefore, the models are perfectly aligned with the tools and with the operational-risk management instruments previously mentioned.

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

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

The Bank has implemented an advanced operational-risk management programme, with the main objectives of involving all employees and management bodies in monitoring and mitigating operational risk. The implementation and disclosure

of Santander Portugal's risk culture enable a more efficient evaluation and monitoring of operational risk and simplify decision-making by the business areas and Management.

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

Compliance and Reputational Risk

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

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

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

Without prejudice to all other aspects arising from what has been exposed, the internal regulatory framework on Compliance Risk and Reputation Risk cover, namely, the instruments identified in the list below, which are referred to by their particular impact in the prevention and management of the risks in question.

Compliance Risk policies and instruments

- ➔ Corporate values that translate into concrete "behaviour," which govern the conduct of all employees;
- ➔ Compliance Policy;
- ➔ Policies on the Prevention of Money Laundering and Financing of Terrorism;
- ➔ Codes of conduct (with three dimensions: general; relationship with customers; relating to and for the stock market);
- ➔ Marketing and Product Follow-up Policies and Procedures;
- ➔ Policy for the Prevention, Communication, and Remediation of Conflicts of Interest;
- ➔ Personal Data Protection and Processing Policy;
- ➔ Employee training policy, which includes mandatory

regulatory, as well as additional, training;

- ➔ Corruption Protection and Corporate Defence Policies (Santander has a Corporate Corruption Prevention Policy, including, among others: i) A whistleblowing channel (Open Channel), through which any employee can confidentially and anonymously report possible breaches of the Codes of Conduct and/or of the Corruption Prevention Policy, and ii) other possible irregularities);
- ➔ Monitoring and follow-up of new regulations;
- ➔ Liaison with the supervisory authorities, and follow-up of actions undertaken by them.

Reputational Risk Policies

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

Apart from Compliance Risk and Reputation Risk, the Bank also has a separate Universities and Responsible Banking area, which is responsible for monitoring other policies, such as the General Sustainability Policy and the Human Rights Policy.

In this context, the Environmental, Social and Climate Change Risk Management Policy should also be highlighted, followed in the Risk Area, which brought together the previous social and environmental sectoral policies (energy, mines and mining sector, and soft commodities), defining the principles and criteria of the Santander Group for the identification, assessment, monitoring and management of environmental and social risks and of other activities related to climate change.

The two foundations and essential objectives of the Compliance function (embodied in the Bank's Compliance and Conduct area) are, on the one hand, the prevention, follow-up and control of compliance risks as an autonomous object, albeit inserted in the broader context of the Bank's activity and, on the other hand, the detection, mitigation and overcoming of any non-compliance.

Without prejudice to the existence of a stabilized institutional and governance framework, and a significant set of risk



management activities carried out on a recurring basis, the activity of the Compliance and Conduct area is adjusted to the regulatory environment, to the expectations of supervisors, and to the evolution of the Bank's risk profile, according to the activity actually carried out at each point in time, which is all the more relevant as it is certain that there is a permanent high dynamics in these matters which, naturally, also ends up having an impact on the exercise of the function.

For this purpose, an Activity Plan is drawn up and approved annually, incorporating tasks defined as a result of a number of sources, which include risk self-assessment processes by the Compliance and Conduct Area (with emphasis on the annual corporate exercise of self-assessment called Compliance Capabilities Methodology), the annual risk self-assessment exercises by the various 1st line of defence areas (Risk Control Self-Assessment), the activities resulting from the specialized function in identifying and analysing new regulations with an impact on Bank activity ("regulatory radar"), the aspects resulting from determinations and recommendations issued by

supervisory entities and/or internal and external auditors, any alerts associated with defined metrics in terms of risk appetite, the risk management activities based on relevant information obtained from any other internal and external sources, and the activities arising from the improvement/enhancement of existing processes and systems (continuous improvement).

In this context, there are activities that can take the form of communication or awareness raising initiatives, creation of working groups for implementing regulations, development of internal governance measures (including the approval and revision of regulations), implementation of improvements in terms of data management and reporting, process improvement, implementation of controls and/or development of other risk management procedures.

In general terms, the function's strategy was focused on improving the management of relevant risks and strengthening the Risk Culture.

Proposal for the Appropriation of Net Income

The Net Income for the Year, in individual terms regarding the year of 2022, was € 603,684,562.58 (six hundred and three million, six hundred and eighty-four thousand, five hundred and sixty-two euros and fifty-eight cents), and the Consolidated Net Profit for 2022 was € 586,558,771 (five hundred eighty-six million, five hundred fifty-eight thousand, seven hundred seventy-one euros).

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

- Legal Reserve : € 60,368,456.26 (sixty million, three hundred and sixty-eight thousand, four hundred and fifty-six euros and twenty-six cents);
- Distribution of Dividends : € 508,000,000 (five hundred and eight million euros);
- Retained Earnings : € 35,316,106.31 (thirty-five million, three hundred and sixteen thousand, one hundred and six euros and thirty-one cents).

Lisbon, March 28, 2023

THE BOARD OF DIRECTORS

Complementary Information

Prevention of Money Laundering

Financial Crime Compliance (FCC)

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

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

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

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

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

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

The Chief Compliance Officer is responsible, in particular, for coordinating the FCC area and for assessing the situations submitted to him by the Head of Regulatory Compliance.

The Analysis and Resolution Committee is responsible, namely for:

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

In 2022, the following reports were made to Supervisors:

- i. An AML/CFT Report, as determined by Bank of Portugal Instruction No. 5/2019;
- ii. The Report provided for in Article 18.1 of CMVM Regulation No. 2/2020 concerning AML/CFT."

Shareholder Structure

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

Treasury shares

In keeping with the resolution passed by the Annual General Meeting held on May 4, 2022, Banco Santander Totta, S. A., may directly or through a dependent company, acquire treasury shares as well as sell those purchased up to the limit and under the other conditions set by law.

On December 31, 2022, Banco Santander Totta S. A., held 423,060 treasury shares corresponding to 0.034% of its Share Capital. Throughout the year of 2022, Banco Santander Totta S. A. purchased 6,028 treasury shares, corresponding to 0.0004% of its Share Capital, closing the year with a total of 429,088 treasury shares.

TRANSACTION WITH OWN SHARES - 2022

Santander Totta SGPS, S.A.	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31/12/2021	117,049,943	0.02	2,528,626	0.059%
Purchases	3,883,629	0.02	81,659	0.002%
Disposals	-	-	-	-
31/12/2022	120,933,572	0.02	2,610,285	0.061%

Movement of shares and bonds of the members of the Governing Bodies of Banco Santander Totta, S. A.

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

	Entity	Position at 31/Dec/2021	Transactions in 2022	Position at 31/Dec/2022
José Carlos Brito Sítima	Banco Santander, SA	155,231	25.02.2022 - shares deposit (corporate allocation): 2,194 - 3.31€	157,425
Pedro Aires Coruche Castro e Almeida	Banco Santander, SA	156,176	25.02.2022 - shares deposit (corporate allocation): 64,719 - 3.31€	220,895
Amílcar da Silva Lourenço	Banco Santander, SA	25,643	25.02.2022 - shares deposit (corporate allocation): 21,132 - 3.31€	46,775
Ana Isabel Abranches Pereira de Carvalho Morais	-	-	-	-
Andreu Plaza Lopez	Banco Santander, SA	266,488	-	266,488
Cristina Alvarez Alvarez	Banco Santander, SA	15,266	15.02.2022 - shares purchase: 526 - 3.32€ 15.02.2022 - shares purchase: 2,571 - 3.32€ 15.02.2022 - shares purchase: 3,243 - 3.32€ 16.02.2022 - withdrawal of pledge of shares: 2,662 16.02.2022 - withdrawal of pledge of shares: 544 16.02.2022 - withdrawal of pledge of shares: 15,107	39,919
Daniel Abel Monteiro Palhares Traça	-	-	-	-
João Pedro Cabral Tavares	-	-	-	-
Inês Oom Ferreira de Sousa	Banco Santander, SA	61,439	25.02.2022 - shares deposit (corporate allocation): 23,009 - 3.31€	84,448
Isabel Maria deLucena Vasconcelos Cruz de Almeida Mota	-	-	-	-
Isabel Cristina da Silva Guerreiro	Banco Santander, SA	39,622	25.02.2022 - shares deposit (corporate allocation): 32,918 - 3.31€ 06.06.2022 - sale: 20,000 - 3.01€ 03.02.2022 - sale: 5,000 - 3.25€ 03.02.2022 - sale: 5,000 - 3.30€ 03.02.2022 - sale: 5,000 - 3.20€ 04.02.2022 - sale: 7,500 - 3.30€ 04.02.2022 - sale: 5,000 - 3.30€ 07.02.2022 - sale: 7,500 - 3.29€ 07.02.2022 - sale: 10,000 - 3.27€ 07.02.2022 - sale: 10,000 - 3.26€ 09.02.2022 - sale: 10,000 - 3.41€ 10.02.2022 - sale: 10,000 - 3.46€ 25.02.2022 - shares deposit (corporate allocation): 52,993 - 3.31€	52,540
Manuel António Amaral Franco Preto	Banco Santander, SA	233,963		211,956
Manuel de Olazábal y Albuquerque	-	0	-	-
Miguel Belo de Carvalho	Banco Santander, SA	47,547	25.02.2022 - shares deposit (corporate allocation): 41,359 - 3.31€	88,906
Remédios Ruiz Maciá	Banco Santander, SA	106,620	15.02.2022 - shares deposit (corporate allocation): 24,411 - 3.31€ 04.05.2022 - sale: 20,000 - 2.84€	112,031
Ricardo Lopes da Costa Jorge	Banco Santander, SA	0	25.02.2022 - shares deposit (corporate allocation): 9,089 - 3.31€	9,089



Positions held by the members of the Governing Bodies of Banco Santander Totta, S. A.

Other Positions of Note		
	Within the consolidation perimeter	Outside the consolidation perimeter
José Carlos Brito Sítima	Santander Totta SGPS (Chairman of the Board of Directors NE)	Câmara Comércio Luso Espanhola (NE Board Member on behalf of Banco Santander Totta, SA)
Pedro Aires Coruche Castro e Almeida	Santander Totta SGPS (Deputy-Chairman of the Board of Directors; Chairman of the ExCo CEO) Fundação Santander Portugal Chairman of the Board of Trustees	ACEGE - Associação Cristã de Empresários e Gestores (Strategy Council Memeber); Centro Paroquial São Francisco de Paula (NE Director); ISEG - Lisbon School of Economics & Management, Universidade de Lisboa (Advisory Council Member); Fundação Alfredo de Sousa (Board of Trustees Member); Associação Portuguesa de Bancos (Board Member on behalf of Banco Santander Totta, SA); The Trilateral Commission (European Group Member)
Amílcar da Silva Lourenço	-	COTEC Portugal - Associação Empresarial para a Inovação (Member of the General Council on behalf of Banco Santander Totta, SA)
Ana Isabel Abranches Pereira de Carvalho Morais	-	ISEG - Lisbon School of Economics & Management, Universidade de Lisboa (Associate Dean); EPAL, Empresa Portuguesa das Águas Livres (Chairwoman of the Supervisory Board); Águas do Vale do Tejo, S.A. (Chairwoman of the Supervisory Board)
Cristina Alvarez Alvarez	Banco Santander SA Head of T&O Europe e España	Open Bank, SA (NE Board Member, on behalf of Banco Santander SA); Santander Global Technology and Operations, SL (NE Board Member); AEDAS HOMES, SA (NE Board Member and Chairwomen of the Technology, Innovation and Cybersecurity Commission)
Daniel Abel Monteiro Palhares Traça	-	Casa de Investimentos- Gestão de Património e Fundos de Investimento – SGOIC, SA (Chairman General Meeting); Educa Holdco, SL (NE Board Member)
Isabel Cristina da Silva Guerreiro	Banco Santander SA Head of Retail & Digital Europe	Santander Bank Polska, S.A. (NE Supervisory Board Member)
João Pedro Cabral Tavares	Fundação Santander Portugal (NE Board Member)	ACEGE - Associação Cristã de Empresários e Gestores (NE Chairman of the Board of Directors); IES - Social Business School (NE Chairman of the Board of Directors); Fundação Gaudium Magnum - Maria e João Cortez de Lobão (NE Board Member)
Manuel António Amaral Franco Preto	Santander Totta SGPS, SA (Executive Board Member) Taxagest - Sociedade Gestora de Participações Sociais, S.A. (Chairman of the Board of Directors)	-
Manuel Maria de Olazábal Albuquerque	-	Fulham Consulting S.L. (Manager)
Maria Manuela Machado Farelo Ataíde Marques	-	Católica Lisbon School of Business & Economics, Catholic University of Portugal (Assistant Professor); Gerefinança - Consultores de Gestão, Lda (Manager Partner); European Money Markets Institute (NE Board Member Supervisory and Risk Board Member)
Miguel Belo de Carvalho	Santander Totta SGPS, SA (Executive Board Member) Fundação Santander Portugal (NE Board Member)	Fundação Económicas - Fundação Para o Desenvolvimento das Ciências Económicas, Financeiras e Empresariais (NE Board Member, on behalf of Banco Santander Totta, SA); Universidade Lusíada - Faculdade de Ciências da Economia e da Empresa (Advisory Council Member)
Remedios Ruiz Maciá	Banco Santander SA Global Head EWRM	UCI SA (NE Board Member, on behalf of banco Santander, SA); UCI SA (EFC) (NE Board Member); Tresmares Capital Corporate SL (NE Board Member, on behalf of Banco Santander, SA); Deva Capital Holding Company, SL (NE Board Member); Deva Capital Management Company, SL (NE Board Member); Servicios de Cobranza, Recuperación y Seguimiento, SA de CV (SECORSE) (NE Alternate Board Member, on behalf of Deva Capital Servicer Company, S.L.U); Cobranza Amigable SAPI de CV (NE Alternate Board Member)
Ricardo Lopes da Costa Jorge	-	Católica Lisbon School of Business & Economics, Universidade Católica Portuguesa (Invited professor); SIBS SGPS, SA (NE Board Member, on behalf of Banco Santander Totta, SA); SIBS Forward Payment, Solutions, SA (NE Board Member, on behalf of Banco Santander Totta, SA)

Alternative Performance Indicators

A set of Alternative Performance Indicators (API) used in the Management Report is presented herein, 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 business volume dynamics. Most of these indicators are derived from the financial information disclosed in accordance with the accounting standards in force (IFRS information), but others are calculated using management information (MIS information), not directly relatable to the IFRS information. Similarly, some indicators might be calculated by correcting non-recurrent movements, aiming to translate the underlying dynamics of the Bank's business, profitability and efficiency.

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

Net interest income

"Interest income" less "Interest expenses", as presented in the Statement of Profit or Loss.

Income from equity instruments

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

Results from Associates

"Share of the profit or loss of investments in subsidiaries, joint ventures and associates, accounted for by using the equity method", as presented in the Statement of Profit or Loss.

Net fees

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

Other Operating Results

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

Commercial Revenue

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

Gain/losses on financial assets

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

Net income from banking activities

"Commercial Revenue" plus "Gain/losses on financial assets".

Operating Costs

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

Net Operating Income

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

Impairment, net provisions and other results

Sum of "Provisions or reversal of provisions" plus "Impairments or reversal of impairments of financial assets not measured at fair value through profit or loss", plus "Impairments or reversal of impairments of non-financial assets", plus "Other profit or loss, net", plus "Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations", as presented in the Statement of Profit or Loss.

Income Before Taxes and Non-controlling Interests

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

Taxes

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

Income after taxes and before non-controlling interests

"Income before taxes and non-controlling interests" less "Taxes".

Non-Controlling Interests

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

Consolidated Net Income Attributable to BST Shareholders

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

Efficiency Ratio

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

Loans / Deposits Ratio (Transformation Ratio)

Calculated in accordance with Bank of Portugal Instruction 6/2018.

Business Volume

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

Loans and advances to customers (gross)

Corresponds to the sum of the following balance sheet items: "Financial assets at fair value through other comprehensive income – Loans and advances", plus "Financial assets at amortized cost – debt securities", plus "Financial assets at amortized cost – Loans and advances", excluding "Other balances receivable", "Loans and advances – Credit institutions", as set out in Note 9 of the Chapter "Notes to the Consolidated Financial Statements", and in Note 8 of the Chapter "Notes to the Separate Financial Statements". Amounts before impairments.

Net loans and advances to customers (net)

Customer loans (gross), net of impairments. Impairments correspond to the sum of "Impairments for debt securities", plus "Impairments for loans and advances - customers and other balances receivable", as set out in note 9 of the chapter "Notes to the Consolidated Financial Statements", and in note 8 of the chapter "Notes to the Separate Financial Statements", deducted from the impairment relating to "Other balances receivable".

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 "Impairments or reversal of impairments of financial assets not measured at fair value through profit or loss - Financial assets carried at amortized cost" (from the Statement of Profit or Loss) and the average of "Loans and advances to customers (gross)" (from the balance sheet).

Non-performing Exposure Coverage Ratio

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

Deposits

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

note 15 (in the chapter of the Notes to the Separate Financial Statements)

Off-balance sheet resources

Sum of "Investment funds managed or sold by the Bank", plus "Insurance and other resources", whose information is obtained through Santander Asset Management and/or the Management Information System (MIS).

Balance sheet resources

Corresponds to "Deposits", as defined in this section.

Customer's Resources

Sum of "Balance sheet resources" plus "Off-balance sheet resources".

Liquidity Coverage Ratio (LCR)

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

Return on Equity (RoE)

Ratio between "Consolidated Net Income Attributable to BST Shareholders" and "Total Equity" at the beginning of the period

Return on Assets (RoA)

Ratio between "Consolidated income for the year attributable to BST shareholders" and "Total Assets."

Table of non-financial indicators

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

Corporate Governance Report

I - Introduction

With this Corporate Governance Report for the year 2022, the Bank complies with the duty to provide annual information on the corporate governance structure and practices in accordance with Article 70.2 sub-paragraph b) of the Commercial Companies Code (CCC), and Article 245-A of the Securities Code (CdVM).

In preparing this report, the various regulations and guidelines of the competent regulatory and supervisory entities were also taken into account.

It should be noted that, during the financial year of 2022, and regarding its corporate governance and internal control model, Banco Santander Totta S. A., observed and complied with the procedures imposed by Bank of Portugal Notice No. 3/2020, of July 15, and with the revised guidelines (EBA/GL/2021/05) of the *European Banking Authority (EBA)* regarding their application.

II – Shareholder Structure

As of the date of this Report, the Bank's Share Capital amounts to € 1,391,779,674, corresponding to one billion, three hundred and ninety-one million, seven hundred and seventy-nine thousand, six hundred and seventy-four common shares, with a par value of one euro.

The Bank's Share Capital is 99.848% held by Santander Totta SGPS, S. A., which is directly controlled by Banco Santander, S. A., which holds a 99.85% stake.

Of the remaining Share Capital of the Bank, 1.049% belongs to the company Taxagest – Sociedade Gestora de Participações Sociais, S. A., a company also under the direct or indirect full control of the companies Santander Totta, SGPS, S. A. and Banco Santander, S. A.

Of the remaining capital, 0.039% is spread over several shareholders, and 0.031% corresponds to treasury shares of Banco Santander Totta, S. A.

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

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

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

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

Under statutory terms, each share is awarded one vote.

In order for shareholders to have the right to take part in the Annual General Meeting they must prove to the Chairman of the Board of the General Meeting, up to 10 days before the scheduled date, the registration or deposit of shares in financial intermediaries by the fifteenth day prior to the date of the Annual General Meeting.

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

Within the scope of the normal performance of banking business, in its various components, there are, however, contracts that give the counterparty the right to resolve them in the event of a change in the Bank's share control, in line with the common practice in banking business.

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

The indication of the number of shares and bonds held by members of the management and supervisory bodies is included in the "Complementary Information" chapter of the Management Report.

III. Governing Bodies

The Company is organically structured in the manner provided for in Article 278(1) sub-paragraph a) of the Commercial Companies Code (CCC).

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

Under the terms of the Law, the supervision of the Company is also the responsibility of a Statutory Auditor or of an Audit Firm, as resolved by the Annual General Meeting.

The members of the Board of the General Meeting, the Board of Directors, the Audit Committee, as well as the Statutory Auditor, are appointed by the General Meeting, and their terms of office last for three years, with the possibility of being re-elected one or more times

There is also a Remuneration Committee appointed by the General Meeting.

The Board of Directors and the Audit Committee are responsible — within the scope of their respective powers —, for promoting the existence, within the Institution, of an organizational culture based on high ethical standards, exercising their respective supervisory and control functions within the framework of the guidelines of the European Banking Authority (EBA), and within the framework of the provisions set forth in Bank of Portugal Notice No. 3/2020.

The Board of Directors and the Audit Committee — within the scope of their powers —, are responsible for ensuring that the Bank's organizational culture and its governance and internal control systems are adequate and effective, with the objective of reasonably guaranteeing the orderly, efficient conduct of the Bank's business, namely, regarding the implementation of a set of strategies, policies, processes, systems and procedures, and the institution's sustainability in the medium and long term, and the prudent conduction of its activity.

Within the scope of their respective powers, the Board of Directors and the Audit Committee are also responsible for ensuring the implementation and maintenance of an environment of adequate control, compliance with the objectives established in the strategic planning, and adequate risk identification, evaluation, monitoring and control, as well as the existence of complete, relevant, reliable and timely financial and non-financial information.

Within the scope of their respective powers, the Board of Directors and the Audit Committee are also responsible for ensuring the adoption of sound accounting procedures, compliance with the legislation, regulations and guidelines applicable to the Institution's activity, issued by the competent authorities, compliance with the Institution's own internal rules and regulations, as well as with the professional and ethical rules and practices, and with the rules of conduct and of relationships with the Institution's customers.

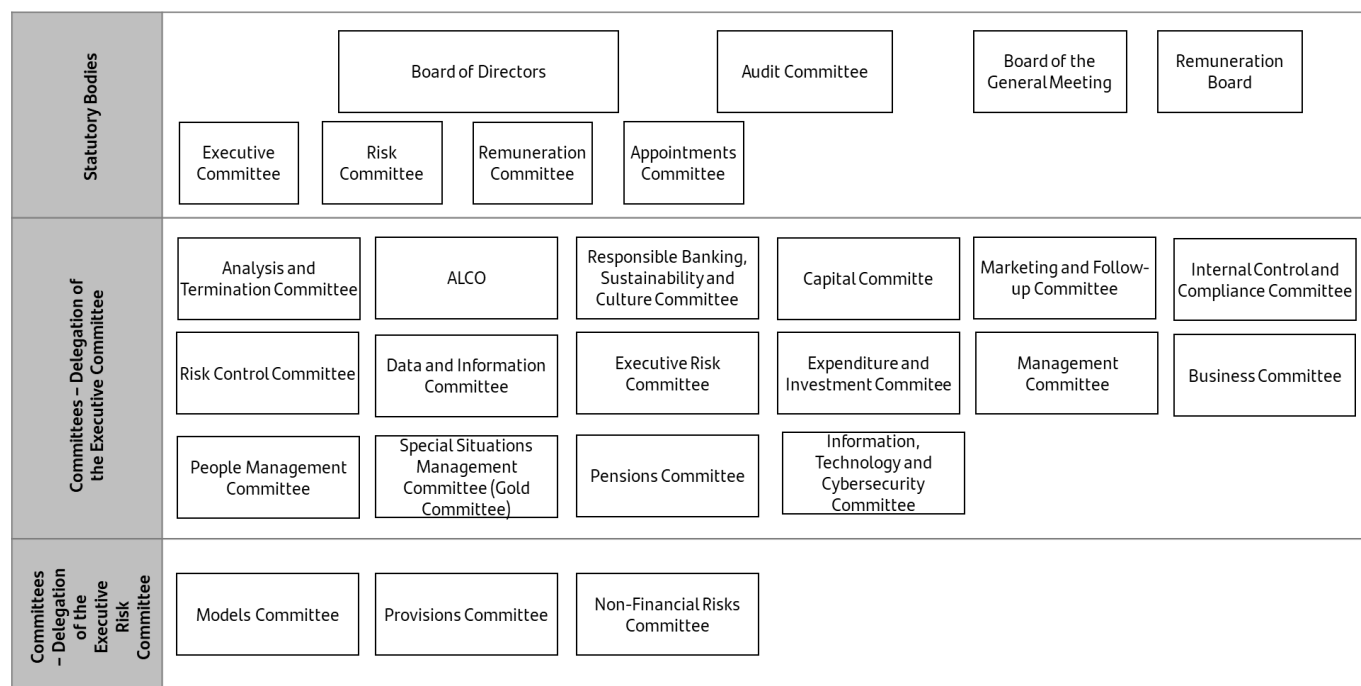
Minutes are drawn up from the meetings of the Governing Bodies and of the various Committees, which help identify its participants in an adequate manner, including its Secretary, as well as adequately understand the matters dealt with therein, the resolutions adopted, any recommendations made, or matters that need to be followed up in future meetings.

The members of the management and supervisory body are permanently subject to the requirements of adequacy, suitability, aptitude, experience, availability, independence, and professional qualifications for carrying out the positions that are defined by applicable rules, submitting to the periodic evaluation rules, either individual or collective, that may be defined by the Company.

The organizational structure of the **Bank's Governance Model** in 2022 was as follows:

The Board of Directors delegated part of its powers to an Executive Committee, to which it delegated the Bank's day-to-day management, and to three other specialized committees with the essential function of permanently monitoring specific matters, namely, the Risk Committee, the Remunerations Committee, and the Appointments Committee.

The Executive Committee appointed several Committees and Sub-Committees to assist it in its day-to-day management.



During the financial year of 2022, the composition of the governing bodies of the Bank was as follows:

BOARD OF THE GENERAL MEETING

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

BOARD OF DIRECTORS

Chair:	José Carlos Brito Sítima
Deputy-Chair:	Pedro Aires Coruche Castro e Almeida
Members:	Amílcar da Silva Lourenço
	Ana Isabel Abranches Pereira de Carvalho Morais
	Cristina Alvarez Alvarez
	Daniel Abel Monteiro Palhares Traça
	Isabel Cristina da Silva Guerreiro
	João Pedro Cabral Tavares
	Manuel António Amaral Franco Preto
	Manuel Maria de Olazábal Albuquerque ⁽¹⁾
	Maria Manuela Machado Costa Farelo Ataíde Marques
	Miguel Belo de Carvalho
	Remedios Ruiz Macia
	Ricardo Lopes da Costa Jorge

AUDIT COMMITTEE

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

STATUTORY AUDITOR

PricewaterhouseCoopers & Associados, SROC, LDA., represented by
José Manuel Henriques Bernardo

⁽¹⁾ *Lead Independent Director*

EXECUTIVE COMMITTEE

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

RISK COMMITTEE

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

REMUNERATION COMMITTEE

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

APPOINTMENTS COMMITTEE

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

REMUNERATION BOARD

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

COMPANY SECRETARY

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

General Meeting

Pursuant to Article 12 of the Bank's Articles of Association, the Board of the General Meeting is made up of a Chairman, a Deputy-Chairman, and a Secretary.

All its members were elected by the Annual General Meeting held on November 23, 2021, for the 2022/2024 term, thus fulfilling the first year of their current term.

Under the statutory terms, each share corresponds to one vote, and any shareholder may participate in the General Meeting directly or through a representative. Reference is made here to point II.

Voting by correspondence or sending the information details referred to in Article 288(4) of the CCC by email, is not permitted.

Resolutions are taken by majority vote of the shareholders present or represented at the General Meeting, whenever the law does not require a greater number.

On February 28, 2022, the Bank's General Meeting convened, in which the distribution of retained earnings was approved, in the amount of €502,855,000 (five hundred and two million, eight hundred and fifty-five thousand euros).

On May 04, 2022, the Bank's Annual General Shareholders Meeting was held. At this meeting, the management report, the balance sheet, and the separate and consolidated accounts for the financial year of 2021, including the corporate governance report and the non-financial statement were approved (Responsible Banking Report).

The proposal for appropriation of results for that same year was also approved, in the amount of € 303,342,559.00 euros (three hundred and three million, three hundred and forty-two thousand, five hundred and fifty-nine euros), as follows:

- Legal Reserve: € 30,334,255.90 (thirty million, three hundred and thirty-four thousand, two hundred and fifty-five Euros and ninety cents);
- Distribution of Dividends: € 273,008,303.10 (two hundred and seventy-three million, eight thousand, three hundred and three Euros and ten cents).

The following were approved: (i) the declaration on the remuneration policy for the members of the management and supervisory bodies, pursuant to Article 115-C (4) of the Legal Framework for Credit Institutions and Financial Companies (RGICSF); (ii) the level of the variable component of the total remuneration, pursuant to Article 115-F (4) sub-paragraph a) of the RGICSF, and (iii) the internal policy for selection and assessment of adequacy, pursuant to Article 30-A of the RGICSF.

And the proposals related to (i) acquisition of own shares, (ii) acquisition and disposal of own bonds, increase of the company's share capital, (iii) reuse of ancillary capital contributions in the capital increase, and a partial amendment of the Articles of Association were approved, in order to reflect the new social capital,

The meeting was held in person, with the possibility of Shareholders taking part in the General Meeting by telematic means, while ensuring the security and confidentiality of all communications.

Board of Directors

The Bank's Board of Directors is the highest decision-making body, except in matters reserved for shareholders at the Annual General Meeting.

The members of the Board of Directors are elected by the Annual General Meeting.

Before submitting any names to be elected for the governing bodies by the Annual General Meeting, the Bank carries out an individual and collective assessment of the candidates for the Board of Directors and prepares the proposal that is submitted to the electing Annual General Meeting, with all the necessary documentation for assessing the adequacy of the profile, as well as the knowledge and professional experience of each candidate.

The Board of Directors is responsible for managing and representing the Bank, and for carrying out all the acts deemed as necessary or convenient for pursuing the activities included in its corporate purpose.

No powers are conferred on the Board of Directors to decide on increases of the Company's share capital.

There are no special rules regarding the appointment and replacement of Directors, as well as regarding changes in the Articles of Association, and thus the General Law shall apply to these matters.

Pursuant to the Bank's Articles of Association, the Board of Directors is composed of a minimum of three and a maximum of 15 members, who may be re-elected one or more times.

All the members of the Board of Directors, in office in the financial year of 2022, were elected by the Annual General Meeting held on November 23, 2021, for the 2022/2024 term of office, and the regulatory authorities issued the no objections statement for beginning their term, on May 03, 2022.

The Company Secretary and the Alternate Secretary were appointed by the Board of Directors on May 4, 2022 and are thus fulfilling the mandate for the 2022/2024 period.

In accordance with the best governance practices, as well as in accordance with the rules and regulations and governance model of the Santander Group, the Board of Directors has implemented a governance structure that allows it to ensure the effective fulfilment of its responsibilities:

- A non-executive Chairman of the Board of Directors and a Chairman of the Executive Committee | CEO, ensuring that their roles are clearly segregated and complementary.
- A lead independent director responsible for the effective coordination of non-executive Directors, and for ensuring that the discussions and resolutions adopted by the Board of Directors are supported by accurate and complete information and decision proposals.
- A structure of Board Committees that, as described in more detail in this section, support the Board in all main areas and responsibilities, namely: (i) oversight functions and significant decision-making, through the Audit Committee, the Appointments Committee, and the Remunerations Committee (ii) supervision of risks, regulation and compliance through the Risk Committee, and (iii) in managing the Bank, through the Executive Committee;
- A Company Secretary, to support the Board, its Committees, and the Chair.

In 2022, the Bank's Board of Directors was comprised of fourteen members, eight non-executive (57%), and six executive (43%) members.

Excluding the Executive Directors, five members of the Board of Directors, out of eight, are independent, representing 63% of non-executive directors and 36% of the total Board of Directors.

In 2022, the Board of Directors included five female members, representing 36% of the total of 14 members, and the Chairman of the Audit Committee — the Bank's supervisory body — is a woman, thus the Bank fulfils the gender balance requirements and criteria regarding the composition of its Board of Directors

The Bank considers that the composition of its Board of Directors is adequate, balanced, ensures its diversity, and strengthens its skills, efficiency and quality in decision-making.

On May 4, 2022, the Board of Directors delegated the daily management of the Bank and the implementation of its strategy to an Executive Committee and to the respective management team, therefore, its activity is mostly focused on general supervision and on matters that it cannot delegate either under the terms of the Law, of the Articles of Association of the Bank, and of its Internal Regulations.

And under the terms of Article 407 of the Commercial Companies Code, and of Article 17 of the Bank's Articles of Association, it has also appointed three other specialized committees to permanently monitor specific matters: the Risk Committee, the Remunerations Committee, and the Appointments Committee. Each Committee has its own Regulation, approved by the Board of Directors.

The Board of Directors and the Audit Committee are responsible — within the scope of their respective powers —, for promoting the existence, within the Institution, of an organizational culture based on high ethical standards, exercising their respective supervisory and control functions, within the framework of the guidelines from the European Banking Authority (EBA), and within the framework of the provisions set forth in Bank of Portugal Notice No. 3/2020, of July 15, 2020.

Pursuant to the provisions of Article 6.4 of the Board of Directors' Internal Regulation, the Board has kept the following matters for itself:

- Approval of the Bank's business strategy and objectives;
- Approval of budgets and medium-term financial planning instruments;
- Expansion of the Bank's business to new geographies or markets;
- Approval of Self-Assessment of Capital Adequacy or Internal Liquidity processes;

- Approval of significant transactions that may imply changes to the Bank's capital structure (strategic investments, mergers and acquisitions, sale of relevant assets, etc.);
- Approval of proposals for capital increases or issuance of any values convertible into shares;
- Approval of accountability documents, including draft management reports and annual accounts or prospects related to public distribution offers;
- Approval of the dividend policy;
- Significant changes to accounting practices or policies, which do not follow from legal or regulatory changes;
- Approval of external communications (to regulators or supervisory entities) on matters reserved to the Board that have been the subject of a specific resolution by this body;
- Co-optation of Directors;
- Evaluation and identification of the respective needs in terms of composition and organization;
- Approval of rules on adequacy assessment of the members of the Board of Directors and of the Audit Committee;
- Individual and collective assessment of the members of the Board of Directors and of the Audit Committee;
- Approval of a succession plan;
- Appointment, designation and removal of the following senior managers or others that may be specifically mentioned by the GSGM, under the terms thereof, which also involve the participation of Grupo Santander structures: CEO (Chief Executive Officer or Chairman of the Executive Committee), CRO (Chief Risk Officer or Head for the Risk area), CCO (Chief Compliance Officer or Head for the Compliance area), CAE (Chief Audit Executive or Head of Internal Audit), CFO (Chief Financial Officer or financial head) and the Controller;
- Approval and supervision of the implementation of the succession plan for senior managers;
- Approval of the terms and conditions for the provision of work and remuneration of senior management;
- Resolutions on risk appetite, risk culture, and framing of risk, which shall inform the different structure units, through regular communications on the Bank's level of risk tolerance;
- Monitoring the Bank's degree of adherence to risk appetite, risk policies and limits;
- Approval and supervision of internal control policies;
- Approval and supervision of the internal control system, and of the risk, compliance and information systems, as well as of the respective reports;
- Approval of reports and documents required by the regulations of regulatory or supervisory entities, namely those relating to business continuity or to any recovery or resolution measure;
- Approval and amendments to the Codes of Conduct;
- Monitor the implementation of laws, regulations and administrative provisions required to comply with AML/CFT policies and procedures;
- Supervise the implementation of the Governance Model of the Santander Group;
- Implementation of the Bank's corporate values and culture;
- Adherence to corporate frameworks;
- Approval of the main corporate policies, including in any case the approval of the social responsibility and sustainability policies, as well as policies regarding donations and sponsorship, and donations of a political nature, when applicable, or supervising the development of the Responsible Banking Agenda;
- Approval of transactions with related parties, when the applicable regulation attributes this competence reserved to the Board of Directors, and the management and arbitration of appeals related to conflicts of interest;
- Approval of the Recovery Plan;

- Approval of the Internal Audit Plan.

By decision taken at a meeting of the Bank's Board of Directors on December 10, 2019, it was decided to assign the administrative and operational reporting of the head of Internal Audit (CAE) to the Chairman of the Board of Directors.

Although the Board meetings follow a schedule defined annually (the Forward Looking Agenda – FLA), on dates approved at the end of each calendar year or on the beginning of the calendar year to which it relates, or at the first meeting of each term, new topics can be added to the agenda, and extraordinary meetings can be called, in accordance with its Regulation.

The members of the Board of Directors receive the relevant documents for each meeting sufficiently in advance, through secure, electronic means, which help them prepare the meetings in an effective way.

The Board of Directors meets at least six times a year, and whenever called by the respective Chairman, by two Directors or by the Audit Committee.

During the financial year of 2022, it met thirteen times. The Company Secretary acted as the secretary of all such meetings. The minutes of all these meetings were duly prepared, approved and signed.

The composition, positions and qualifications of the Members of the Board of Directors at the end of the year to which this Report refers are the following:

Board of Directors	Body and Position	Capacity
José Carlos Brito Sítima	Board of Directors - Chairman	Non-Executive Not independent
Pedro Aires Coruche Castro e Almeida	Board of Directors - Vice-Chairman Executive Committee - Chairman	Executive Not independent
Amílcar da Silva Lourenço	Board of Directors - Member Executive Committee - Member	Executive Not independent
Ana Isabel Abranches Pereira de Carvalho Morais	Board of Directors - Member Audit Committee - Chairman Appointments Committee - Member	Non-Executive Independent
Cristina Alvarez Alvarez	Board of Directors - Member Appointments Committee - Member	Non-Executive Not independent
Daniel Abel Monteiro Palhares Traça	Board of Directors - Member Audit Committee - Member Risk Committee - Member Remunerations Committee - Member Appointments Committee - Chairman	Non-Executive Independent
Isabel Cristina da Silva Guerreiro	Board of Directors - Member Executive Committee - Member	Non-Executive Not independent
João Pedro Cabral Tavares	Board of Directors - Member Audit Committee - Member Risk Committee - Member Remunerations Committee - Chairman Appointments Committee - Member	Non-Executive Independent
Manuel Maria de Olazábal Albuquerque	Board of Directors - Member Audit Committee - Member Risk Committee - Chairman Remunerations Committee - Member Appointments Committee - Member	Non-Executive Independent
Maria Manuela Machado Farelo Ataíde Marques	Board of Directors - Member Audit Committee - Member Risk Committee - Member Remunerations Committee - Member	Non-Executive Independent
Manuel António Amaral Franco Preto	Board of Directors - Member Executive Committee - Vice-Chairman	Executive Not independent
Miguel Belo de Carvalho	Board of Directors - Member Executive Committee - Member	Executive Not independent
Remédios Ruiz Maciá	Board of Directors - Member Risk Committee - Member Remunerations Committee - Member	Non-Executive Not independent
Ricardo Lopes da Costa Jorge	Board of Directors - Member Executive Committee - Member	Executive Not independent

In May 2022, the Board of Directors updated its regulations to review the operating rules of its meetings, and in November 2022 it updated the list of matters reserved for it.

The Regulation of the Board of Directors is available on the Bank's intranet and website at:

<https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade>

Audit Committee

The Audit Committee is a key body of the Bank's government, responsible, among other aspects, for supervising the integrity of financial reporting and internal controls, for the effectiveness of the Internal Audit function, and for the relationships with the external auditor.

The Audit Committee is composed of non-executive, independent members of the Board of Directors, with a minimum of three and a maximum of five members, one of whom is its Chairman.

The members of the Audit Committee are appointed for three-year terms, and may be re-elected.

All members of the Committee must qualify as independent and, altogether, have knowledge and experience in the areas of accounting, auditing or risk management, in addition to the fact that everyone must be able to spend sufficient time and effort to fulfil their obligations.

The members of the Bank's Audit Committee were elected by the Annual General Assembly held on November 23, 2021, for the 2022/2024 term, thus fulfilling the first year of their current term.

During the financial year of 2022, the Audit Committee was made up of 5 members, a Chairlady and four members.

As the Bank's supervisory body, it is awarded the powers provided for in Article 423-F of the CCC, in Article 18 of the Articles of Association, and in its own Regulation.

The Audit Committee is responsible for, among other aspects:

- a) Monitoring and supervising the Bank's management;
- b) Monitoring compliance with the legal and corporate rules that govern the Bank's activity;
- c) Monitoring and supervising the process of preparation and disclosure of financial information, including the regularity and accuracy of accounting books, records and documents, as well as for submitting recommendations to ensure their reliability;
- d) Checking whether the accounting policies and valuation criteria adopted by the Bank lead to a correct assessment of assets and results;
- e) Supervising and monitoring the effectiveness of activities within the scope of organizational culture and government and internal control systems, in conjunction with internal control functions, regularly reviewing and monitoring the risk information reports prepared by the Chief Risk Officer (CRO), the follow-up reports on Compliance activity, as prepared by the CCO, the internal audit plan and its execution, as prepared by the CAE;
- f) Receiving reports on irregularities submitted by shareholders, Bank employees and others, and carrying out the respective monitoring;
- g) Supervising the activity of the Statutory Auditor (ROC) related to auditing the Bank's accounting documents, and supervising the independence of the Statutory Auditor, namely in the provision of additional services.

Pursuant to Article 4 of the Audit Committee Regulations, the Chairman must annually report to the Board of Directors on the various activities carried out by the Committee and the expenses it incurs.

Likewise, the Audit Committee must inform the Board of Directors of the relevant accounting changes and their effects, and on the conclusions and recommendations obtained from the internal audit function, including any recommendations related to the scarcity of resources allocated to certain functions.

The Audit Committee is also responsible for reviewing, along with the Board of Directors and/or the Executive Committee, any relevant matters related to compliance of the Bank's activity and business with the applicable legal, regulatory and statutory provisions, as well as with the instructions, recommendations, and guidelines issued by the competent authorities.

The Audit Committee meets regularly with the External Auditors, with the Chief Audit Officer (CAE), the Chief Risk Officer (CRO), the Chief Compliance Officer (CCO), and with the Controller (the head of Accounting). Without prejudice to the administrative and hierarchical reporting to the Chairman of the Board of Directors, the CAE functionally reports to the Audit Committee.

In the financial year of 2022, the Audit Committee had the following composition:

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

The main activities of the Audit Committee in 2022 were the following:

Monitoring the management and evolution of the Bank's business	<p>The Audit Committee monitored the management, operations and evolution of the Bank's business over the reference period, during its meetings; through attendance of Board meetings; by accessing all documents produced by the Board and by the Committees to which the Board has delegated its powers; by accessing quarterly and annual information on the Bank's activity and results as well as other relevant documents; and through the contacts maintained with the Bank's responsible officers, having obtained all the clarifications requested.</p>
	<p>It also monitored the following topics: variable remuneration of control functions; response letter to the European Central Bank on the Identification and Measurement of Credit Risk within the context of COVID-19; climate change and trends in non-financial information; models; stress scenarios used by the Bank in each financial year.</p>
Monitoring and inspecting the preparation and disclosure process of financial information	<p>It monitored, on a quarterly basis, the process of preparing and disclosing the Bank's financial information, having obtained the necessary clarifications from the Accounting and Management Control Area. This department also presented the management report and accounts for the year ended on December 31, 2021, while the Committee also assessed the Legal Certification of Accounts, and the Additional Report presented by the Statutory Auditor.</p>
	<p>A status report on accounting and financial management matters was regularly submitted, including: analysis of the credit portfolio and credit impairment, namely the classification of credits by stages and the impact of the pandemic; analysis of moratoria and recoveries; deficiencies detected in the internal financial control system and in the accounting system, and status of implementation of the respective corrective measures; disclosure duties and prudential reporting; analysis of the main management judgments and estimates, namely those relating to deferred taxes and pension funds.</p>
	<p>It analysed the Bank's liquidity, capital and efficiency ratios.</p>
Supervised the effectiveness of activities within the scope of the Bank's organizational culture, governance, and internal control systems,	<p>It monitored the effectiveness of the internal control system. It reviewed the self-assessment report, including the reports of the risk management, compliance and internal audit functions, and the activity plans of the control functions, and issued its assessment, in accordance with Article 56.1 subparagraph c), of Notice No. 3/2020 of the Bank of Portugal.</p>

covering risk management and control, compliance, and internal audit.

It monitored the Risk Management activity, assessing the activity carried out by the CRO, namely that reflected in the reports on the evolution of the main risk indicators (the main indicators, Top Risks, risk profile, and risk appetite). The CISO (Chief Information Security Officer) also presented the investment plan and general cybersecurity governance, metrics, and general risk limits. The Audit Committee also took note of the results of the Assessment and Certification of Risks and Controls of the Internal Control Model.

It monitored the evolution of the Compliance area's activity, including the new products approved; the semi-annual compliance report; the transformation and strategy of the area devoted to the Prevention of Money Laundering and Financing of Terrorism (KYC, WLM, and ALM) — Follow-up of recommendations and determinations regarding sanctions (WLM); the summary of legal contingencies; the Related Party Transactions Policy, and the list of related parties and related party transactions (submitted every quarter); the Remuneration policy for credit intermediaries; the Policy for granting and restructuring credits to debtors or groups of debtors at increased risk; the Credit risk management policy — moratoria; and the social, environmental and climate risk management policy, and the updating of the regulatory risk tree.

It monitored the status of customer complaints on a quarterly basis (type and content of complaints, measures adopted to manage them, shortcomings identified in the internal control system).

It monitored the Internal Audit activity, in particular: it supervised the internal audit function, ensuring its independence and effectiveness; it was informed about the execution of the internal audit plan, allowing for an extensive control over the internal audit's recommendations; it was informed about the reports issued by internal audit, it assessed the conclusions of the audits carried out, and monitored the deadlines and the degree of compliance with the recommendations.

In terms of internal governance, the Audit Committee issued an opinion on the Related Parties Policy, prior to its submission to the Board of Directors; it was informed of the list of related parties and of the respective quarterly review, and issued a prior opinion on transactions with related parties; it issued an opinion prior to the subcontracting of operational tasks of internal control functions in Santander Group and external entities, activities resulting from the implementation of Bank of Portugal Notice No. 3/2020.

It was regularly informed of the most relevant correspondence exchanged between the Bank and the national and European supervisory entities, having asked the Executive Committee and the relevant Committees for clarifications deemed necessary. It also followed up on the progress reports on initiatives to mitigate shortcomings and discrepancies on the implementation of recommendations identified by supervisors.

Assessment and monitoring of the Statutory Auditor	It approved the Audit Plan submitted by PwC; it carried out a critical analysis of the procedures implemented by the auditors and the respective conclusions regarding the closure of accounts for the financial year of 2021, in accordance with the Portuguese Securities Market Commission (CMVM) Circular Letter to the supervisory bodies of entities of public interest, dated December 18, 2020; it carried out the annual monitoring of the professional performance of external auditors; it was informed about the status of the recommendations made by external audit and regulators; it reviewed the scope and approach of the internal control work for 2022, under Bank of Portugal Notice No. 3/2020.
	It approved the provision of additional services, other than auditing services, under the terms of paragraphs 10 and 11 of Article 77 of the Statute of Statutory Auditors, after prior verification of their suitability. In particular, it considered: (i) that the services in question could not be included in the list of prohibited services, and would not constitute a threat to the independence and objectivity of the Statutory Auditor, within the context of the statutory audit work; (ii) that the amounts of fees proposed did not exceed the limits of fees for services other than auditing legally provided for; (iii) that the services different from auditing contracted to PwC were justified by their experience in the development of similar works, and thus the conditions were met for such work to be provided with independence and objectivity.
	Pursuant to the Bank's Policy for selecting and appointing Statutory Auditors and Statutory Auditor Firms and for contracting other non-prohibited audit services, the Audit Committee monitored and endeavoured to assess the performance of the Bank's Statutory Auditor and to review its suitability, having come to the conclusion that the external auditors have the appropriate skills, knowledge and expertise, and that they fulfil what is proposed to them, adequately answering the questions addressed to them, without prejudice to the possibility of some improvement actions having to be undertaken.
Reporting of irregularities	It assessed the proper functioning of the irregularities reporting channel on a regular basis. The Audit Committee followed up on the complaints received. Detailed information on the complaints received and the respective processing are included in a specific report, in accordance with the provisions of Article 116-AA (7), of the Legal Framework for Credit Institutions and Financial Companies.
Implementation of Bank of Portugal Notice No. 3/2020	It monitored the implementation of Notice No. 3/2020 at the Bank.

The Audit Committee meets at least once every two months, and whenever the Chairman or any of the other members so requests.

During the financial year of 2022, it met eighteen times. For reasons arising from the pandemic situation, the meetings were held through telematic means.

The Bank's Internal Government served as the secretary for this Committee, and provided it with logistical and technical support. Minutes of all meetings were duly drafted, approved and signed.

The Regulation of the Audit Committee, updated in May 2022, is available on the Bank's intranet and website at:

<https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade>

Committees created within the Board of Directors

Executive Committee

Pursuant to Article 16 of the Articles of Association, the Board of Directors appointed an Executive Committee composed of six of its members and entrusted on it the management of the Bank, while safeguarding the powers that the Law or the Articles of Association keep for the Board of Directors, plus those that the Board of Directors reserves for its competence (those contained in the Regulations of the Board of Directors), and those that have been delegated to other committees (Risk, Remunerations, and Appointments Committees).

The Executive Committee meets weekly or whenever called by its Chairman, by two other members, or by the Chairman of the Board of Directors.

As part of its internal organization, the Executive Committee assigned certain matters (Portfolios) to each of its members.

In order to assist the Executive Committee, several Committees and subcommittees have been appointed, which, in addition to one or two Executive Directors, also include the Bank's first-line reporting officers on a permanent basis.

As of December 31, 2022, the distribution of Portfolios among the members of the Executive Committee was as follows:

Pedro Aires Coruche Castro e Almeida | CEO: Staff and Organization Management; General Secretariat; Compliance and Conduct²; Risk Management³; Support to the CEO and Public Relations; Institutional Communication; Responsible Banking and Universities; Customer Ombudsman⁴.

Manuel António Amaral Franco Preto | CFO: Procurement and Costs; Accounting and Management Control; Strategy, Financial Planning and Economic Research; Tax; Financial and Capital Management; Properties; Digital Performance; Wealth Management & Insurance; Buying a House; Remote Conversion; Protection.

Relationship with the Santander Totta Insurance Group, and with Santander Asset Management.

Miguel Belo de Carvalho: Northern Commercial Area; Southern and Islands Commercial Area; Private Banking; Corporate & Investment Banking; Commercial Management and Effectiveness.

Isabel Cristina da Silva Guerreiro: Customer Analytics and Strategy; Digital Transformation; Customer Service; Technology and Operations.

Amílcar Silva Lourenço: Multinational Companies; Large Companies North; Large Companies South; Irregular Credit; Recoveries and Divestments; Business Strategy; Specialized and Protocolled Credit; Promotion of Construction and IFRRU; International Business; Special Projects; Companies Transactional Business; Inspection; Security.

Responsible for Money Laundering Prevention issues.

Ricardo Lopes da Costa Jorge: Everyday Banking; Branding and Corporate Communication; Value Added Services; Santander Business.

Internal Audit reports administratively and operationally to the Chairman of the Board of Directors, while functionally, it reports to the Audit Committee and to the Santander Group.

Without prejudice to the distribution of Portfolios among the members of the Executive Committee, the Executive Committee jointly looks after the Bank's day-to-day management as assigned to it by the Board of Directors. Thus, the assignment of portfolios only implies the responsibility of monitoring each area indicated for the purposes of administrative, functional or hierarchical reporting, and does not imply delegating any specific powers for performing any management acts, which are decided within the Bank's own committees or by the Executive Committee or by the Board of Directors.

In order to assist the Executive Committee, several Committees and subcommittees have been appointed which, in addition to one or two directors, also include the Bank's first-line reporting officers.

The Chairman of the Executive Committee conducts the respective meetings, has a casting vote, and in addition to the responsibility for the respective areas of responsibility, he/she shall:

- Ensure that all information is provided to the other members of the Board of Directors regarding the activity and the

² Reports administratively and operationally to the CEO, and functionally to the Risk Committee and to the Santander Group

³ Reports administratively and operationally to the CEO, and functionally to the Risk Committee and to the Santander Group

⁴ Administrative and operational reporting, as it acts independently under the terms of the respective statute

resolutions of the Executive Committee;

- Ensure compliance with the limits of the delegation of powers, with the company's strategy, and with the duties of collaboration before the Chairman of the Board of Directors;
- Coordinate the activities of the Executive Committee, conducting the respective meetings and watching over the implementation of the resolutions.

During the financial year of 2022, the Executive Committee met 47 times and the Company Secretary served as its secretary. Minutes of all meetings were duly drafted, approved and signed.

The Regulation of the Executive Committee, updated in May 2022, is available on the Bank's intranet and website at:

<https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade>

Risk Committee

The Risk Committee is composed of non-executive members from the Board of Directors, with a minimum of three and a maximum of seven. The members of the Committee, including its Chairman, are appointed by the Board of Directors, the majority of whom must qualify as independent and must have relevant experience in matters related to risk management. Its Chairman will not take on the position of Chairman of the Board of Directors, or Chairman of any other committee. But all members will be able to join other Bank Committees, compatible with their position.

The *Chief Risk Officer* and the *Chief Compliance Officer* are present at all Risk Committee meetings, to which they report functionally, without prejudice to their administrative and operational reporting to the CEO.

Among the Risk Committee's competences, the following stand out: advising the Board of Directors on the Bank's general, current and future risk appetite and risk strategy; supporting and advising the Board of Directors on the definition and assessment of risk policies that impact the Bank; supporting and advising the Board of Directors in matters of Regulation and Supervision, by monitoring the statements or reports issued by supervisory entities, by reviewing the capital planning exercises, by participating in the approval and amendments to the Compliance policy, to the General Code of Conduct, to procedures related to the prevention of money laundering and the financing of terrorism and of other Models, Policies or Procedures, which must be approved by the Board of Directors.

The Committee, through its Chairman, shall submit periodic written reports on its activities to the Board of Directors.

The **main activities of the Risk Committee** in 2022 were the following:

Balance of activity of the Risk Area

Risk Appetite Declaration 2022

Executive Summary of Compliance

Quarterly monitoring of the status of the ongoing AML and CFT tactical and strategic plans

Remuneration policy incentives taking into account risk, capital, liquidity, and expectations regarding results (according to Article 115-L (3) sub-paragraph d) of the RGICSF)

Status of Regulatory Inspections (ECB, BoP)

SREP - Review and evaluation process by the supervisor

MREL (*Minimum Requirement for Own Funds and Liabilities*)

Variable remuneration of the control functions: CRO and CCO Performance Award

Analysis of the products and services offered to customers according to the Bank's business model and risk strategy.

Executive Summary of Risks - Analysis of the Concentration Risk

Strategic Plans Risk Area 2021/22

Activity plan of the Risk Management Function for 2022 (Notice No. 03/2020)

Technological Risk / Cybersecurity

Executive Risk Report

Risk Profile 2021

ESG Risk Management

BoP self-assessment report on Macroprudential

Russia/Ukraine crisis — our position

Portfolio profitability (RoRWA): 2021 — Budget 2022

IT Strategy: Technology Development Programme

Compliance activity plan for 2022 (Notice No. 03/2020)

Summary of the Reputational Risk management activity

Risk Regulations Status

Resource Analysis of the Risk Management Function

Objectives of the Chief Risk Officer

Capital Self-Assessment and Liquidity Self-Assessment Reports (ICAAP/ILAAP)

Balance of activity of the Compliance Area

Resource Analysis of the Compliance Function

Objectives of the Chief Compliance Officer

Regulatory update: overview and main trends

Internal Control — Follow-up of Recommendations

Gap Assessment ESG Expectations

Portfolio profitability profile

Status of Supplier Risk

Executive Summary of Risks

Status of the Risk Model

Update of Real Estate Appraisals — Quarterly Monitoring

Status of implementation of the General Data Protection Regulation

Status of Technological Obsolescence

Financial Stability Report — Bank of Portugal – Jun 2022

S27 Strategic Plan and Risk Challenge

Loan Portfolio Review (main topics and focus of attention)

Executive Summary of Risks — Status of the Impairment Model;

Status of collections and recoveries

Status of Operational Risk

Recovery Plan

Regulatory Radar

Presentation of major sources of complaints, and resolution measures

P25: Main Aspects and Risk Challenge

Social, Environmental and Climate Risk Management Policy

Stress Test Conclusions of the Climate Group

Executive Summary of Risks — Status of Strategic Risk Initiatives

Strategic Risk Report

Scenario Analysis of the Mortgage Portfolio

Regulation — Trends and Best Practices

Activity balance of the Responsible Banking area

Annual self-assessment report on organizational culture, governance, and internal control systems (Notice No. 03/2020)

Annual report on compliance matters (Art. 28 (1), subparagraphs o) and p) of BoP Notice No. 3/2020; Art. 115-A (6) RGICSF; Art. 1 (1) of the Portuguese Securities Market Commission (CMVM) Regulation No. 9/2020, and Art. 305 (2) of the Portuguese Securities Code (CdVM))

Report of the Head of the Risk Management function (Notice No. 03/2020)

P25 (3-year financial plan) and Risk Challenge
 Annual CRO assessment
 Annual CCO assessment
 Approval of the 2023 Risk Committee plan (Forward Looking Agenda 2023)

In 2022, the Risk Committee had the following composition:

Chair: Manuel Maria de Olazábal Albuquerque

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

The Risk Committee meets at least four times a year. In 2022 it met twelve times, during which meetings the Bank's Internal Government served as the secretary and provided the meetings with logistical and technical support. Minutes of all meetings were duly drafted, approved and signed.

The Regulation of the Risk Committee, updated in May 2022, is available on the Bank's intranet and website at:

<https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade>

Remunerations Committee

The Committee is composed of non-executive members of the Board of Directors, with a minimum of three and a maximum of seven. The members of the Committee, including its Chairman, are appointed by the Board of Directors, the majority of whom must qualify as independent and have professional experience and adequate knowledge for the performance of their duties, namely in remuneration, management, and risk control policies, with regard to the mechanism for aligning the remuneration structure with the Bank's risk and capital profile. All its members are allowed to belong to other Bank Committees, compatible with their position.

The Remunerations Committee is generally responsible for assessing the Bank's remuneration policy and practices. Among its competences, the following stand out: it is responsible for preparing decisions on remunerations that will be adopted by the competent bodies, namely with regard to the fixed and variable remunerations of the members of the management body and other identified employees; for providing support and advice on the design of the institution's remuneration policy, presenting proposals on its content; for ensuring the adequacy of the information provided to shareholders on remuneration policies and practices, namely in terms of a higher ratio; for directly supervising the remuneration of senior management positions.

The Committee, through its Chairman, shall submit periodic written reports on its activities to the Board of Directors.

The main activities of the Remunerations Committee in 2022 were the following:

- Presentation of the criteria and verification of compliance with the annual objectives that determined the Bonus Pool for 2021
- Presentation of the distribution matrix used, and the respective impacts of its application on the Bank's ratios
- Review of the 2021 Company Performance Award for members of the Identified Collective
- Approval of the 2022 Remunerations Committee Meetings Plan (Forward Looking Agenda 2022)
- Remuneration structure for senior management in independent control functions
- Annual review of the implementation of the Bank's remuneration policy
- Evaluation of the mechanisms that ensure the correct implementation of the remuneration system
- Annual review of the Remuneration Policies of Branches abroad
- Presentation of the Bonus Pool Structure – One Europe 2022

Approval of declarations and proposals to be submitted to the General Meeting regarding remunerations

Review of the remuneration amounts for Board members for the 2022/2024 term

Amounts paid as compensation for termination of employment contract to members of the Identified Collective

Approval of the Corporate Identified Collective Procedure

Annual Report of indicators of the remuneration policy and incentive systems for the Bank's sales force

Remuneration policy for the Bank's Directors and leading managers

Monitoring of the application of malus and clawback clauses

PagoNxt award regulation — approval

DTA regulation — approval

Directors & Officers (D&O) Insurance Policy

Annual CEO assessment

Salary Review of Member of the Management Body

Definition of the Identified Collective

In 2022, the Remunerations Committee had the following composition:

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

The Remunerations Committee meets at least four times a year. In 2022 it met seven times, in which meetings the Bank's Internal Government served as the secretary for this Committee, and provided it with logistical and technical support. Minutes of all meetings were duly drafted, approved and signed.

The Regulation of the Remunerations Committee, updated in May 2022, is available on the Bank's intranet and website at: <https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade>

Appointments Committee

The Committee is composed of non-executive members of the Board of Directors, with a minimum of three and a maximum of seven. The members of the Committee, including its Chairman, are appointed by the Board of Directors, the majority of whom must qualify as independent and have adequate knowledge to perform the duties of their position, namely in terms of the Bank's business and strategy, on selection and appointment processes, both internally and externally, as well as in the preparation of adequacy processes with the supervisor.

The Appointments Committee is generally responsible for periodically evaluating the members of the management and supervisory bodies, as well as their succession. Among its competences, the following stand out: identification and recommendation of candidates to carry out positions in the management and supervisory bodies and their respective Committees; setting a goal in terms of gender representation; periodically evaluate the structure, size, composition, and performance of the management bodies, at least annually; ensure that the members of the Board of Directors comply with the duties established in the laws and regulations that directly apply to them; advise the Board of Directors regarding matters of internal governance, assisting in the process of adapting the entity's internal governance systems.

The main activities of the Appointments Committee in 2022 were the following:

- Self-Assessment of the Board of Directors' Effectiveness
- Appointment of the Local Head of WM&I, of the Head of Legal, and of the Secretary General of the Bank
- Monitoring of individual training and induction plans for the Board of Directors
- Approval of the 2022 Meetings Plan (Forward Looking Agenda 2022)
- Group performance management policy
- Update of Corporate Policies
- Approval of the Internal Policy for Selecting and Assessing Adequacy
- Succession Plan
- Appointment of the control and support functions: CAE, Local Head of Marketing, and Local Head of Communications
- CEO's Annual Succession Plan
- Review of the Policy for selection, evaluation of suitability and succession of Directors of Banco Santander Totta, S. A.
- Monitoring the objective of gender representation, including the evolution of metrics related to the evolution of the underrepresented gender within the staff
- Follow-up of the induction and training plan for members of the Board of Directors

In 2022, the Appointments Committee had the following composition:

Chair: Daniel Abel Monteiro Palhares Traça

Members: Ana Isabel Abranches Pereira de Carvalho Morais

Cristina Alvarez Alvarez

João Pedro Cabral Tavares

Manuel Maria de Olazábal Albuquerque

The Appointments Committee meets at least four times a year. In 2022 it met six times, and the Bank's Internal Government served as the secretary for this Committee, and provided it with logistical and technical support. Minutes of all meetings were duly drafted, approved and signed.

The Regulation of the Appointments Committee, updated in May 2022, is available on the Bank's intranet and website at:

<https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade>

Committees of the Executive Committee

Committees are internal structures for the delegation of powers by the Executive Committee, which also approves their name, structure, composition, and powers.

There are several interdisciplinary Committees that monitor and control the entire activity of the institution at executive level:

➔ Analysis and Resolution Committee : whose responsibilities are the prevention of financial crimes, corporately designated as *Financial Crime Compliance* (FCC).

Chair: Amílcar Lourenço | Executive Director

➔ Assets and Liabilities Committee (ALCO Committee): its aim is to manage structural market and liquidity risk, establish contingency plans, promote hedging strategies, decide on strategic positions, in order to optimize the net interest income and return on equity.

Chairman: Pedro Castro e Almeida | CEO

- ➔ Responsible Banking, Sustainability and Culture Committee: ensures the integration of sustainability into the Bank's business model, defining and monitoring the strategic plans on social responsibility, in conjunction with the Group's corporate plans.
Chairman: Pedro Castro e Almeida | CEO
- ➔ Capital Committee: ensures the supervision, authorization and evaluation of all aspects related to the Bank's capital and solvency.
Chairman: Pedro Castro e Almeida | CEO
- ➔ Internal Control and Compliance Committee: its aim is to monitor and supervise Internal Control, Compliance and Risk Management policies, being responsible for compliance with the applicable laws and regulations, and with the rules, principles and objectives set by the Board, and to follow up on recommendations within the scope of Internal Control.
Chairman: Pedro Castro e Almeida | CEO
- ➔ Risk Control Committee: It is responsible for supervising and controlling risks, ensuring that they are managed according to the degree of risk appetite approved by the Board of Directors, while permanently ensuring a comprehensive view of the risks identified in the General Risk Framework, considering to this end, the identification and monitoring of current and future risks, and their impact on the risk profile of the Santander Portugal Group.
Chairman: Alfredo Fernandez | CRO
- ➔ Data and Information Committee: It is responsible for overseeing and ensuring the creation of business value through the responsible use of data and the strict management and governance of data, and for monitoring the quality of such data.
Chair: Isabel Guerreiro | Executive Director
- ➔ Management Committee: Its main objective is the general monitoring of the Bank's activity.
Chairman: Pedro Castro e Almeida | CEO
- ➔ Executive Risk Committee: It is the highest risk decision-making body, in accordance with the risk governance model approved by the Board of Directors.
Chairman: Pedro Castro e Almeida | CEO
- ➔ Staff Management Committee: its main objective is to implement the Bank's Staff Management strategy.
Chairman: Pedro Castro e Almeida | CEO
- ➔ Business Committee: Monitors the Bank's business
Chairman: Pedro Castro e Almeida | CEO
- ➔ Special Situations Management Committee (Gold Committee): Its main objectives are the management of Special Situations within the scope of assigned responsibilities, and providing support to the competent authorities in a Termination event.
Chairman: Pedro Castro e Almeida | CEO
- ➔ Models Committee: It is responsible for monitoring the model risk exposure and profile of the Santander Portugal Group, with a view to ensuring that it fits within the approved risk appetite. Its powers are delegated by the Executive Risk Committee.
Chairman: Pedro Castro e Almeida | CEO
- ➔ Pensions Committee: It monitors the Bank's responsibilities with retirement and survivors' pensions and the management of assets of associated funds, in accordance with the legislation applicable to the corporate pension policy.
Chairman: Pedro Castro e Almeida | CEO

- ➔ **Provisions Committee:** Its aim is to ensure that the financial statements reflect the best estimate of provisions for each closure of accounts, conducting the supervision and coordination of the actors involved in their calculation. Its powers are delegated by the Executive Risk Committee.

Chairman: Pedro Castro e Almeida | CEO

- ➔ **Non-Financial Risks Committee:** It is responsible for monitoring the operational risk exposure and profile at the Santander Portugal Group, with a view to ensuring that it fits within the approved risk appetite. Its powers are delegated by the Executive Risk Committee.

Chairman: Alfredo Fernandez | CRO

- ➔ **Information Technology and Cybersecurity Committee:** It assesses and / or approves IT strategy proposals; monitors the strategic IT plan; monitors cybersecurity risk and evaluates initiatives to mitigate risks.

Chair: Isabel Guerreiro | Executive Director

The Committees are made up of the members indicated in the regulation itself and may arrange to be represented. Each Committee has a Chairman who may likewise delegate his responsibilities to another member of the Committee. Members of the Executive Committee who do not belong to a specific Committee may participate in it on their own initiative whenever they deem it appropriate.

The periodicity is defined for each Committee in the regulation itself, without prejudice to the possibility that the President or any two members of each Committee may call extraordinary meetings. Committees can function validly as long as the majority of their members are present, while at least one member of the Executive Committee must always be present or duly represented.

Minutes are drawn up for all meetings, which are signed by the members and guests present, and by the other members present who have participated in the Committee in the part of the minutes in which they participated.

IV - Internal Control and Risk Management System

The Bank has implemented Notice No. 3/2020 and Instruction No. 18/2020 of the Bank of Portugal, and Regulation No. 9/2020 of the Securities Market Commission (CMVM), taking into account the requirements relating to the Risk Management System contained in those rules, and related to Internal Control, as well as those established by Directive No. 2013/36/EU, of June 26 2013 (CRD IV), which were transposed to the Legal Framework for Credit Institutions and Financial Companies, and the guidelines of the European Banking Authority (EBA) regarding their application.

Since 2006, the Bank, like the Group to which it belongs, has been complying with the requirements of the United States of America Sarbanes Oxley Act (the SOX Act), a rule that the Securities Exchange Commission (SEC) has made mandatory for entities listed on the New York Stock Exchange, and which is one of the most demanding in terms of requirements for an adequate and reliable Internal Control Model.

It should also be noted that the Bank is implementing the revised EBA Internal Governance guidelines (EBA/GL/2021/05).

An adequate Internal Control Model requires the complete documentation and regular updating of operational procedures, with a detailed description thereof from the beginning to the recording and accurate accounting, the identification of relevant risks associated with those procedures, and the identification of key mitigating control procedures. Periodic tests of effectiveness are carried out to identify failures in the Internal Control System, and to take the appropriate corrective measures, allowing the continued focus on the main objectives in this area.

The system implemented by the Bank is organized in such a way as to promote an appropriate control environment and a solid risk management system, and allows the continued focus on the main objectives in this area, namely:

- ➔ The existence of an adequate, effective organizational culture based on high ethical and conduct standards for its employees;
- ➔ The existence of an organizational structure that includes the Bank's governing bodies and respective committees, ensuring that it is defined in an integrated, objective, transparent, and understandable way;
- ➔ The definition of a long-term sustainable strategy for the Bank's activity, for its risk profile, and for the internal control system;
- ➔ The control of risks arising from the institution's activity, namely credit, market, interest rate, operational, liquidity, business financing model, and internal governance risks, as well as other risks, namely reputational and compliance risks;
- ➔ Ensure the existence and security of assets;

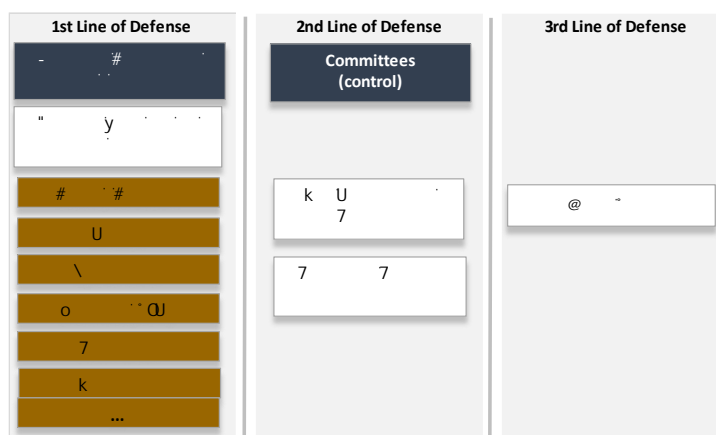
- ➔ Compliance with the prudential rules in force;
- ➔ The existence of complete, reliable, timely accounting and financial information, in particular with regard to its registration, conservation and availability;
- ➔ The provision of reliable, complete, timely financial information to supervisory authorities;
- ➔ The prudent and adequate valuation of assets and liabilities, namely for the purpose of setting up provisions;
- ➔ The adequacy of the operations carried out by the institution regarding other applicable legal, regulatory and statutory provisions, internal rules, guidelines of the governing bodies, rules and professional uses and ethics, and regarding other rules relevant to the institution;
- ➔ The adequacy of the remunerations policies.

The Board of Directors is responsible for promoting a risk management system, an internal control environment, and a risk culture which, more than complying with legal requirements for conducting its business, are essential to ensure effective management.

Policies and procedures are specifically defined and implemented with respect to all risks referred to in the aforementioned Bank of Portugal Notice.

Such policies and procedures are available and are easily accessible to all employees through their disclosure in a dedicated area of the Bank's Intranet system.

The Bank is organised based on **three lines of defence**, the first of which consists of the business and support areas responsible for managing, approving, following-up on, and properly reporting the risks generated. The second line consists of the internal control functions (Compliance and Risk Management), which, together with the governance model organisms dedicated to risk control and supervision, seek to ensure the monitoring and smooth functioning of the risk management system so that risk remains within the limits defined by the risk appetite. The third line consists of Internal Audit.



In accordance with this Governance Model, **top management** is the first guarantor of internal control, checking and monitoring its operation with metrics and controls, which they report to the Executive Committees. These Executive Committees have, as a rule, delegated powers from the EC or CER, and decisions are always collegial. The first heads of each business or control area also make periodic reports, usually on a monthly basis, to the EC.

In addition, several reports of aggregated information are prepared by departments of the **second line of defence**, which are monitored in various Control / Follow-up Committees. These Committees, in addition to being primarily responsible for the first line control areas, generally include the presence and intervention of one or more control functions (Compliance, Risk Management, and Internal Audit).

The Control/Monitoring Committees also monitor the recommendations made by all internal or external entities, even if they are recommendations for improvement. Thus, an important reinforcement of activity control is achieved, which greatly contributes to the internal control environment. The Risk Management and Compliance Functions closely monitor the activities, areas or projects they deem necessary with complete freedom of action.

Still within the scope of the second line of defence, reference should be made to the objective of seeking to test the material impact of adverse economic situations such as stress test exercises, self-assessment of internal capital (ICAAP), self-assessment of liquidity (ILAAP), and Liquidity Recovery or Contingency Plans, which seek to assess the Bank's resilience in terms of liquidity adequacy and capital sufficiency.

Internal audit activity is the **third line of defence**, which endowed with its own action plan and processes, checks the robustness of the systems and controls implemented, making suggestions for improvement and monitoring their implementation.

It is also worth considering the contribution of the remarks and recommendations emanating from external entities such as the External Auditors, Regulators and Supervisors in their inspection activities, which, on the one hand, contribute to strengthening internal control, and, on the other hand, certify the quality thereof.

Main players in the Risk Management and Internal Control System

Risk Management Function

The Risk Management Function (RMF) is cross-cutting to the entire Santander Totta Group.

The function is embodied in the so-called Risk Area, under the exclusive responsibility of the Chief Risk Officer (CRO).

As part of the second line of defence, under the exclusive responsibility of the Chief Risk Officer, the RMF has a structure unit responsible for the supervision and horizontal consolidation of all risks, plus units specialized in certain types of risk or processes, according to the required knowledge and technical skills, jointly constituting the so-called Risk Area of Santander Totta (hereinafter, the Risk Area).

The general mission of this function is the effective implementation of the risk management system, aiming to assess the relevance of the risks incurred and the degree of effectiveness of the measures adopted to control, mitigate and overcome them. EBA's Internal Government guidelines (EBA/GL/2021/05), in turn, reinforce and deepen in detail the main responsibilities of the Risk Management Function (RMF) and of its responsible head within the scope of the internal control functions. In addition, the Capital Requirements Regulation (CRR) 575/2013 (EU), the Capital Requirements Directive 2013/36/EU (CRDIV), and Directive 2014/59/EU constitute the basis of the legal framework for the activity of credit institutions and financial companies, and has been transposed to the Legal Framework for Credit Institutions and Financial Companies (RGICSF). More specifically, Article 115-M of the RGICSF determines the role of the Risk Management Function in ensuring the identification, assessment, and appropriate reporting of all material risks, in reporting the strategy and decisions regarding the management of material risks, and in the independence and exemption from conflicts of interest of the person responsible for the RMF.

The RMF was established and performs its duties with the highest level of independence, that is, without being directly responsible for any business function, or for first-line control or execution over the activities to be assessed.

It is independent and organically segregated from the activities it monitors and controls, and is endowed with sufficient status and authority to carry out its duties in an objective and independent way;

It has an activity plan prepared every year in January, which is approved by the Board of Directors at its February meeting, after receiving a prior opinion statement from the Audit Committee;

It has the appropriate human and material resources for the effective performance of its responsibilities. In Sep. 2022, it had 179 employees, of which 161 with higher education degrees, and 18 with secondary education, to which are made available, in particular through the DOJO platform, a set of optional training courses that allow employees in the Risk Area to broaden their skills.

In addition to the Committees that make up the governance model regarding risk management and control, the RMF also takes part in several committees of the internal governance model, of which the CRO is a permanent member, ensuring an independent analysis and/or validation of the matters, procedures, and proposals submitted.

The Chief Risk Officer (CRO) reports administratively and operationally to the CEO, while at a functional level it reports to the Risk Committee of the Board of Directors, namely to the CRO of the Santander Group.

This function was given the broadest powers in order to conduct its supervisory activity, which is based on the law and on the application of the following principles and duties:

- ➔ It has significant influence on decisions that affect the Bank's exposure to different Risks, being provided with sufficient internal recognition, authority, autonomous judgment, and independence from business activities. It takes part in key decision-making processes, providing a risk perspective and ensuring the existence of effective risk management processes;
- ➔ It has direct, independent access to the Risk Committee, to the Board of Directors, to the Audit Committee, and to the committees reporting to those bodies on its own initiative or on the initiative of any member of these bodies;
- ➔ It performs its functions in an independent, exclusive way, as part of Top Management, reporting directly to the CEO;
- ➔ It is the highest responsible entity for the risk management function, and for supervising the General Risk Framework;

- ➔ It was appointed by the Board of Directors on a proposal made by the Executive Committee and may only be removed with the prior approval of the Risk Committee. Its appointment or dismissal must be formally communicated to the supervisory authorities, indicating the respective reasons;
- ➔ It is the main interlocutor with the Santander Group and with third parties (including with supervisors and regulatory bodies) in terms of risks;
- ➔ It has access to all business lines and companies that could potentially give rise to material risks, including subcontracted functions, processes and activities, own facilities or those of service providers, goods and employees, information, accounting records, systems, computer files, and company data.

The CRO is responsible for:

- ➔ Promoting a prudent risk control and management environment that covers identified needs, and meets the requirements of internal and external regulations;
- ➔ Regularly informing the Board of Directors, the Risk Committee, and the Executive Committee on the risk profile, its evolution and future perspectives, as well as on the adequacy of the systems, policies, processes, models, and instruments used for managing and monitoring risk, immediately reporting any non-compliance, incidents or deficiencies;
- ➔ Ensuring that risk levels and business processes are consistent with the risk appetite, risk policies, and regulatory requirements, promoting the necessary measures to ensure effective management, and, where applicable, the mitigation of risks considered as inadequate;
- ➔ Promoting the dissemination of an adequate risk culture;
- ➔ Participating in planning processes, in establishing strategic objectives; and promoting the approval of a clear risk appetite, consistent with the long-term strategy and risk appetite of the Santander Group;
- ➔ Coordinating robust risk identification and assessment procedures;
- ➔ Providing top management with an integrated view of the risks taken up at any given moment.

According to the latest RMF report, dated November 2022:

- ➔ Based on the assessment presented in this report, the CRO, as the manager of the Risk Management Function, is convinced that the Risk Management Function (RMF) keeps performing its duties objectively and independently with regard to the functional areas subject to evaluation, with full autonomy and freedom. There are no situations or constraints that compromise it or that may possibly compromise it, and it has full access to all activities and to all the information required for the performance of its duties, and it also has direct access to the Management Body, in particular to the Risk Committee, and, whenever justified, to the Audit Committee.
- ➔ The CRO is also convinced that all potential material risk situations are duly monitored by the Risk Management Function, and properly documented and reported to the appropriate management levels, in order to enable the timely adoption of corrective measures, while the organization continues to have an environment of internal control favourable to the control and mitigation of risks.

Chief Risk Officer: Alfredo Fernandez Diez

Compliance Function

The Compliance function is embodied in the so-called Compliance and Conduct Area, under the sole responsibility of the Chief Compliance Officer (CCO).

The Compliance and Conduct area works independently on a permanent basis.

The independence of the Compliance Function involves four essential, distinct, but related elements:

- i. formal status at the institution;
- ii. existence of a head of compliance responsible for coordinating compliance risk management;
- iii. employees assigned to the compliance function must not be subject to possible conflicts of interest between the performance of their duties and any other responsibilities towards the Institution;
- iv. employees assigned to the compliance function must have unrestricted access to information and to any employees in order to be able to properly perform their duties.

The Compliance and Conduct Area reports directly to the Board of Directors and acts as a second line of defence, in monitoring, controlling and managing the risk of default, and has free access to all information and details that it requests or that it needs related to the Bank's activity, as well as to the institution's facilities and equipment.

The Chief Compliance Officer (CCO) reports administratively and operationally to the CEO, while functionally it reports to the Risk Committee of the Board of Directors, namely to the CCO of the Santander Group.

The area has 63 employees with a high degree of experience in the banking and financial sectors, and, more specifically, in the various areas of knowledge relevant to the management of compliance risks, who are exclusively assigned to the performance of duties assigned to the Compliance and Conduct area, therefore it is not subject to possible conflicts of interest between the performance of the function and any other responsibilities before the institution.

The Compliance and Conduct Area includes, within its core, an area specifically dedicated to the prevention of money laundering and the financing of terrorism, with dedicated staff with their own duties, and with an area specifically responsible for promoting and ensuring compliance with regulations regarding the protection and processing of personal data, under the direction of the Data Protection Officer (DPO).

The Bank has a General Code of Conduct, a specific Code of Conduct for the Stock Market, and a Code of Conduct for its Relationships with Clients, which establish the ethical principles and procedures that govern the actions of the relevant persons, and that, among other relevant aspects, favour the prevention and resolution of conflicts of interest. Compliance with the Code of Conduct for the Stock Market is specifically monitored by the Compliance and Conduct Area, which also supports and follows-up on the compliance with the General Code, whose control is, however, the responsibility of the Staff Management Area.

In addition to the provisions of the General Code in this regard, the Bank also has a Corruption Prevention Programme that reinforces the corporate commitment to an absolute rejection of any corrupt practices, involving the entire corporate organization in this regard.

In this context, specific duties are assigned to the Compliance and Conduct Area for monitoring and controlling the execution of the programme and the policies that support it.

Within the framework of the General Code of Conduct and the Corruption Prevention Programme, a Complaints Channel has been made available, freely accessible to all employees, which, duly guaranteeing the confidentiality of communications and any subsequent procedures, gives them the possibility and urges them to report irregular situations of which they become aware.

It is also worth mentioning, in this context, the interaction with the Customer Experience area — responsible for the follow-up and processing of customer complaints — in order to, on the one hand, monitor the evolution of any issues at this level, and, mainly, to scrutinize — starting from the type of complaints — any omissions or inappropriate practices that they may indicate, with a view to providing the appropriate adjustments or corrections by the Bank.

Policies and procedures for the marketing of products are approved and instituted, as well as the process and bodies responsible for the respective approval and follow-up, which aim, on the one hand, is to ensure the prior verification of all the necessary requirements for such marketing of products to function without legal, reputation, and compliance risks, and, on the other hand, to ensure the follow-up of incidents that may occur, assessing their meaning and, if applicable, introducing remediation measures that may be justified, which may include the suspension or termination of such marketing when circumstances so dictate or advise. In this context, the assessment and monitoring of the reputational risk inherent in the products or that may be generated during their lifetime by the occurrence of occasional issues that, in some way, affect them, or that project themselves relevantly in the relationship with customers, is of particular importance.

At another level, and with a view to ensuring its mission in a more efficient and effective manner, the Compliance and Conduct Area has promoted the institutionalization of specific compliance committees especially dedicated to the areas considered most sensitive, namely those more directly related to financial markets; that operate periodically — as a rule, on a monthly basis —; that help assess the established practices, check their conformity with the applicable legal and regulatory standards, keep the areas informed about the innovations that have occurred and ensure their execution, control the fulfilment of information and other applicable obligations;

identify any incidents; and, if applicable, consider and implement the appropriate measures to mitigate and prevent them. These Committees are directed and coordinated by the Compliance and Conduct Area, with the participation of those responsible for the areas involved.

On the other hand, both within and outside these Committees, the CCO keeps a regular relationship of articulation with all other control areas (Audit and Risk Management Function), in order to enhance the approach to, follow-up, and global control of risks, while it is a permanent member of the Bank's various governance committees whose objective is risk control, with emphasis on the Internal Control and Compliance Committee.

The activity carried out within the scope of the compliance function is documented in a specific annual report, namely, the "Annual Report on Compliance," the last of which dates from November 2022, and from which it is worth highlighting that the CCO is convinced that:

- ➔ The compliance control system established at the Bank is properly adjusted to its size and to the activity carried out and is in compliance with the applicable regulatory regime.
- ➔ Without prejudice, both in terms of relevant normative and regulatory activity, and in terms of the normal development and evolution of the Bank's activity, there is a dynamic that, naturally, also has an impact on the compliance function.
- ➔ Therefore, permanent attention to the possible need for adjustments is justified, always bearing in mind the concern to ensure compliance with the applicable legal rules and regulations, with regard to the organization and functioning of the Compliance and Conduct area.

Chief Compliance Officer: Pedro Boullosa Gonzalez.

Internal Audit Function

The internal audit function (IAF) is embodied in the so-called Internal Audit Area, under the sole responsibility of the Chief Audit Executive (CAE).

Internal Audit is the third line of defence, independent from the others and stems directly from the Board of Directors.

As an independent unit, it reports periodically to the Board of Directors, and has direct access to the Board whenever required, as well as to the Audit Committee, and attends to the information requirements it receives from it in the performance of its duties.

The Chief Audit Executive (CAE) is appointed by the Board, reports administratively and operationally to the Chairman of the Board of Directors and functionally to the Group's Audit Committee and to the CAE, while also keeping the CEO of the Bank regularly informed of all internal audit activities.

The CAE is given all the necessary powers to carry out its duties independently, with free access to all relevant information. In particular, it has open and independent access to "Diligent", a management support platform for the Bank's various Committees, where one can consult agendas, presentations, and minutes.

The Audit staff is distributed among the Credit Risk, Treasury and Market Risk, Operational and Compliance Risk, and Technological Risk areas, with all 39 employees having higher education degrees.

In order to carry out its mission and achieve the established objectives, the Internal Audit teams have complete, free and unrestricted access to all information, functions and activities, including subcontracted ones, both at own facilities as well as at those of service and goods providers, as well as to employees, information, accounting records, systems, computer files and data.

The Internal Audit's mission is to provide the Board of Directors and Senior Management with independent assurance on the quality and effectiveness of internal control processes, systems and procedures, risk management (current or emerging), and governance, thus contributing to the protection of the organization's value, its solvency and reputation. For this, Internal Audit assesses:

- ➔ The effectiveness and efficiency of the aforementioned processes, systems and procedures;
- ➔ Compliance with applicable supervisor regulations and requirements;
- ➔ Reliability and integrity of financial and operational information;
- ➔ Patrimonial integrity.

Internal Audit bases its action on the following principles:

- ➔ Independence, objectivity and impartiality: all opinions will be based upon an objective analysis of the facts, unchanged by influences, pressures or interests of any kind;
- ➔ Integrity, ethical behaviour and confidentiality of the information managed, and the conclusions obtained. Auditors' performance will be in accordance with the principles and rules of conduct established, both in the Group's codes of conduct and in the Internal Audit Code of Ethics, which must be known and accepted by all its members, upon signature thereof;
- ➔ Competence and professional qualification of auditors. To this end, their knowledge is continually updated;
- ➔ Quality of work, based on reasoned, documented and supported conclusions, namely by auditing evidence, carried out with standard criteria, using a common and appropriate methodology and work tools, and with due professional care;
- ➔ Creating value, making relevant and truthful reports, supporting the management of audited units in a spirit of collaboration and contribution from improvement measures;
- ➔ Adequate collaboration with the rest of the Group's existing controls and with external auditors and other providers involved in the organization, holding periodic meetings and sharing with them the results of the reviews carried out and the audit reports issued;
- ➔ Fluid relationship with supervisors: fluid relationship with supervisors, responding to their requests in a timely, formal way;
- ➔ Compliance with international standards, especially with the "International Standards for the Professional Practice of Internal Auditing" issued by the Institute of Internal Auditors, and with the principles established by the Basel International Bank of Payments in this matter.

The CAE is responsible for:

- ➔ Designing and implementing an appropriate methodology;
- ➔ Developing an Audit Plan based on an assessment of the Group's existing risks;
- ➔ Executing the various works included in the Audit Plan, adequately preparing and distributing the reports provided for in the plan;
- ➔ Communicating the conclusions of the various audits to the auditees, as well as the respective recommendations; and for defining a schedule for their implementation and follow-up to confirm their implementation;
- ➔ Assessing, with the appropriate regularity, the sufficiency of resources for the performance of its duties;
- ➔ Periodically communicating with the Audit Committee, namely on the development of the approved Audit Plan;
- ➔ Periodically and monthly reporting to the Chairman of the Board of Directors;
- ➔ Informing the Board of Directors on the work carried out by Internal Audit in accordance with its Plan;
- ➔ Reporting to the Governing Bodies the situations that, in its opinion, need special attention;
- ➔ Carrying out all those audits, special works, reports and other duties required by the Board of Directors or the Audit Committee;
- ➔ Confirming, with the Audit Committee, at least once a year, that the work is carried out in an independent manner, and that it is not compromised by any impediment that has affected the independence or objectivity of Internal Audit;
- ➔ Developing and maintaining a quality and continuous improvement programme, which covers all aspects of the Internal Audit activity;
- ➔ Developing and implementing a training plan for internal auditors.

The activity carried out within the scope of the audit function is documented in a specific report, published annually, called the "Internal Audit Function Report," which in 2022 was dated from December.

In accordance with Rule 111 of the International Standards for the professional practice of internal auditing and Notice No. 3/2020 of the Bank of Portugal, the CAE ratified, in December 2022, before the Board of Directors, that the Internal Audit acted, during the financial year of 2022, with total independence and objectivity in the development of its mission, without being affected by any circumstances.

Chief Audit Executive: Juan Ramón Jiménez

:

V – Websites for Consultation

Banco Santander Totta S. A. makes available on its webpage <https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade> all the essential information on the Bank's activity and general corporate information, such as the Bank's Articles of Association, the members of the governing bodies, the organizational structure of the Bank's Governance Model, the Regulations of the Board of Directors and of its Committees, the Representative for market relations, as well as all main policies.

The Bank has a broad, well detailed internal set of rules and regulations that establish clear rules, which are widely disseminated, and are permanently available to all employees on the Bank's Intranet portal.

Information on half-yearly and annual accounts is available at the following link: <https://www.santander.pt/institucional/investor-relations/santander-totta-sa/relatorios-e-contas>

VI - Transactions with Related Parties

The Bank has a Policy in place on Transactions with Related Parties, whose aim is to establish the rules and procedures to be observed by the Bank in transactions with related parties, including, but not limited to, credit operations, real estate transactions, and supply of goods and services, in order to ensure transparency in said transactions, as well as full compliance with applicable laws and regulations.

In preparing this Policy, the regulator guidelines and various legal provisions establishing rules and requirements aimed at preventing risks arising from certain types of relationships between the subjects of the transactions were duly considered. In particular, but not limited to, the EBA Guidelines on Internal Governance (EBA/GL/2017/11), of March 21, 2018, especially No. 103 and 114; Articles 85 ("Credit to members of the governing bodies"), 86 (Other operations"), and 109 ("Credit to qualified holders") of the Legal Framework for Credit Institutions and Financial Companies (RGICSF); Article 397 ("Business with society") of the Commercial Companies Code; and Notice No. 3/2020 of the Bank of Portugal, in particular Article 33.

The Group's policy for admitting, authorizing and monitoring financing operations of the directors and members of Banco Santander, S. A.'s senior management was also taken into account as a reference policy.

The Bank has duly implemented internal rules that operationalize this Policy on Transactions with Related Parties, and the people and entities that are part of the different types of Related Parties are duly identified and marked in the Bank's computer systems through a Related Parties record.

The Policy on Transactions with Related Parties is available on the Bank's website at: <https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade>

VII - Remuneration Policy for the Members of the Management and Supervisory Body

Bearing in mind its mission to contribute to the development of people and companies, the Santander Group adopts consistent remuneration practices that comply with applicable regulations in the jurisdictions where the Group operates. Remunerations are defined to promote a culture of high performance within the context of a responsible bank, in which people are rewarded and acknowledged for their performance, competence, and for the impact they have on the success of the Group and/or its Subsidiaries.

The remuneration practices of the Santander Group shall always be aligned with the interests of its shareholders, employees, customers, and society, and, in particular, they shall promote good conduct. The Group also ensures that the remuneration policies are consistent with adequate, effective risk management, and will not assign incentives that may contribute to exceeding the level of tolerated risk or that may endanger or limit the Group's ability to keep a solid capital base.

The Remunerations Committee submitted the following statement on the remuneration policy of the members of the respective management and supervisory bodies for approval by the Bank's Shareholders' General Meeting, held on May 04, 2022.

"DECLARATION ON THE REMUNERATION POLICY FOR MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODY OF BANCO SANTANDER TOTTA, S. A."

(The "Declaration")

The following statement on the remuneration policy of the members of the Management and Supervisory body of Banco Santander Totta, S. A. (the "Bank"), effective in 2022, is proposed to the General Meeting of shareholders for approval of the accounts for the financial year of 2021.

1. Framework

The Santander Group approved its remuneration policy addressed to all its employees (the "Policy"), which establishes the fundamental principles relating to the payment of remunerations, both fixed or variable (the unofficial translation into Portuguese of the Policy in its version in force constitutes Annex 1 of the Declaration, which is an integral part thereof for all purposes and intents).

In accordance with the Policy, the Santander Group adopts consistent remuneration practices that comply with the regulations applicable in the jurisdictions where it operates.

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

The remuneration practices of the Santander Group shall always be aligned with the interests of its shareholders, employees, customers and society, and, in particular, they shall promote good conduct. The Group also ensures that the remuneration policies are consistent with adequate and effective risk management and will not assign incentives that may contribute to exceeding the level of tolerated risk or that may endanger or limit the Group's ability to keep a solid capital base.

This Declaration elaborates on how the Policy fulfils the various requirements imposed by Portuguese law, proposing its formal approval to the Bank's shareholders.

2. Application of the Policy to the Bank

2.1. Remuneration of the Bank's corporate bodies

The corporate bodies of the Bank are the Annual General Meeting, the Board of Directors, and the Audit Committee:

- a) **Annual General Meeting.** Its Chairman earns a fixed remuneration, paid in the following terms: annual amount, paid 12 times a year.
- b) **Audit Committee.** Its members earn a fixed remuneration, paid in the following terms: annual amount, paid 12 times a year.
- c) **Board of Directors / non-executive members.** The non-executive members of the Board of Directors, who are not part of the Audit Committee, earn a fixed remuneration, paid in the following terms: annual amount, paid 12 times a year. In duly justified and legally admitted situations, the payment of an additional amount may be authorized by the competent bodies.

However, the non-executive directors who carry out management or other functions at Banco Santander S. A. or at other entities of the Santander Group, may or may not earn a remuneration for carrying out such positions at the Bank.

2.2. Remuneration of the Bank's Executive Directors

The members of the Executive Committee earn a fixed remuneration, paid 14 times a year, which is determined taking into account: the criteria used in the Santander Group, the Bank's results, performance assessment and market references, and is not expected to represent, in 2022, a share of less than 33% of the total remunerations.

A variable remuneration may be added to the fixed remuneration, defined in accordance with the Policy, and defined on an individual basis by the Remunerations Committee, after due consideration by the Remunerations Committee, and in compliance with the procedures provided for in the Policy.

2.2.1. Calculation of the Variable Remuneration

The variable remuneration of Executive Directors is determined based on a standard reference corresponding to the fulfilment of 100% of the established objectives, with a reference value being set every year for each member.

The final amount of the performance bonus and inherent variable remuneration will be determined at the beginning of the year following the performance of duties, on the basis of a reference value, and according to the actual fulfilment of the goals established in the framework of the pool available for that purpose, in the terms defined in the Policy, as set out in Annex 1, namely in Section 5.4.

The general objectives for the year 2022 are those set out in Annex 2, which are part of the Declaration for all due purposes.

The maximum ratio between the amount of all components of the variable remuneration of the members of the Executive Committee and the total amount of the fixed remuneration cannot exceed 200%.

2.2.2. Variable Remuneration — Composition and Regulation

The variable portion of the remuneration is subject to partial deferral of the respective payment, aiming at a balance between the short and the medium term.

- a) The variable remuneration is due 50% in cash and 50% in financial instruments (preferably shares or stock options of Banco Santander, or equivalent financial instruments or related instruments or convertible into shares, such as American Depositary Receipts (ADRs), with part paid in 2023 and part deferred in four or five years, subject to the following parameters:
 - a. 60% or 50% of that remuneration, depending on the applicable situation, will be paid in 2023, in cash and financial instruments;
 - b. The remainder will be paid annually, in four or five equal portions (as applicable), in cash and in financial instruments, subject to the conditions provided for.
- b) The assigned instruments do not benefit from any risk coverage agreement and are subject to a maintenance or retention condition for one year.
- c) In addition, the Board of Directors of the Santander Group has approved a corporate share retention policy, applicable to Santander Group's Executive Directors and to other Santander Group Directors (including, in Portugal, the Country Head), which will oblige the employees concerned to retain — after a given period has elapsed — ownership over a volume of Banco Santander shares defined in their own internal regulations, and currently determined as the equivalent of twice their net annual fixed remuneration.
- d) The deferred part of the variable remuneration, relating to the third, fourth and fifth years, if applicable, is subject — in addition to the malus and claw-back conditions — to the fulfilment of the Group's long-term objectives, the latter being applicable only to the CEO, in accordance with the general criteria applicable within the framework of the Santander Group, under which the value of the variable remuneration can only decrease (by reducing the payment in cash or in shares), as defined for the current year under the terms of Annex 3.
- e) Payment of the variable remuneration will comply with the deferral rules and the reduction (malus) or reversion (claw-back) mechanisms in force in the Policy, in order to comply with the legal and regulatory requirements, as well as observe the recommendations and guidelines issued by the competent supervisory bodies. The ability to reduce (malus), either totally or partially, the payment of deferred remuneration and whose payment is not yet an acquired right, as well as to retain in whole or in part variable remuneration whose payment constitutes an acquired right (claw-back), is limited to extremely significant, duly identified events, in which the persons concerned have had a direct participation in the identified events.

2.2.3. Identification of deferred and paid instalments of variable remuneration

For the financial year of 2017, the fifth part of the deferred variable remuneration remains to be paid, in cases where it is applicable.

For the financial year of 2018, the last third of the deferred variable remuneration was paid, and the fourth and fifth part of the deferred variable remuneration are yet to be paid.

Of the variable remuneration for 2019, one third and the fourth and fifth part (when applicable) of the deferred variable remuneration are yet to be paid.

Of the variable remuneration for 2020, two thirds and the fourth and fifth part (when applicable) of the deferred variable remuneration are yet to be paid.

Of the variable remuneration for 2021, the non-deferred portion was paid in 2022. The remaining payment is deferred for three years or five years, as applicable.

2.2.4. Digital Transformation Award — DTA

The financial sector is currently undergoing major changes. With the move towards the development of digital solutions, the Santander Group is taking steps to transform its culture, employees, and business in line with this new paradigm.

The objective of the Digital Award is to attract and retain talent that contributes to advance, accelerate and deepen the aforementioned digital transformation, which, simultaneously, will lead to the creation of long-term share value through the fulfilment of essential digital steps. With this programme, the Santander Group offers a remuneration element that is competitive with the remuneration systems offered by other market players competing in the area of digital talent.

The Award is subject to the fulfilment of certain objectives related to digital transformation, and, consequently, aims to foster the creation of long-term share value.

This Award will be implemented as 50% in Banco Santander shares and 50% in Banco Santander share options, based on the fair value of the share options when they are granted. It is aimed at certain members of the Identified Collective (excluding Banco Santander Directors, but may include Bank Directors), and at workers of the Santander Group who are not part of the Identified Collective, but whose activity is critical for the digital growth and transformation of the Santander Group. The respective Regulation is attached hereto as Annex 4, and it will be ensured that any amounts that may be allocated in this way to the Bank's Executive Directors will be considered as variable remuneration and included in all applicable information disclosure limits, procedures and duties.

2.2.5. Retirement

The Executive Directors who at the merger date were Directors of Banco Totta & Açores, benefit from an old age or disability complementary retirement plan, whose terms and conditions were set in accordance with the regulations approved by the Bank's General Meeting on May 30, 2007, and amended at the General Meeting of December 13, 2018, in accordance with the provisions of Article 25 (4) of the Bank's Articles of Association, and which adopts, globally, the provision contained in the regulation that was originally approved by the General Meeting of Banco Totta & Açores on October 30, 1989. The requirements of this plan are, namely, taking the position for given a minimum period, and the amount of the supplementary benefit varies according to the director's seniority.

The changes introduced at the General Meeting of December 13, 2018, specifically aimed at accepting the possibility of redemption of the amount of the supplementary pension in capital, granting the respective beneficiaries an option that will imply, whenever exercised, the neutralization for the Bank of the risk of changes in the global amount of the supplementary pension, definitively exonerating itself — and upon delivery of the accounting amounts related to the fulfilment of this pension — of any additional responsibilities vis-à-vis the beneficiaries who exercise this option.

In addition, the situation of Executive Directors who exercise the right to the old-age or disability pension supplement and subsequently perform other non-executive functions at the Bank has been clarified.

The Executive Directors with an employment agreement with the Bank, and notwithstanding the suspension of the aforementioned agreement, are covered by a supplementary retirement plan established by the Santander Group for all management staff, whose terms were approved by the respective Boards of Directors. Such resolutions do not award voting rights to the Directors who would benefit from such plan.

2.2.6. Other Regulations

Executive Directors also benefit from health insurance and from the benefits resulting from collective regulations applicable to workers, including being able to contract mortgage loans.

Executive Directors benefit from life insurance, whose covered capital is equivalent to twice the amount of the annual fixed remuneration of the holder in question.

No risk hedge mechanisms or the like may be used by the Executive Director or by the Bank in his/her favour. This rule is observed and must be confirmed annually by the same before the Group.

It is not expected that in 2022, any amounts will be paid to Executive Directors by other companies in a controlling or group relationship with the Bank.

3. Complementary Aspects

3.1. Policy Approval Procedures

The Policy was approved by the Santander Group, by adopting a set of national and international guidelines on the matter, and the Bank subsequently adopted the Policy on January 31, 2017, after making its presentation to the Bank's Remunerations Committee and to the Board of Directors and was successively updated since that date.

The Policy, in the terms in which it was approved, will be complemented by a set of additional guidelines, of an essentially interpretative nature.

The Bank's Remunerations Committee is currently composed of João Pedro Cabral Tavares (Chairman), Daniel Traça, Manuel Olazábal, Manuela Ataíde Marques and Remedios Ruiz (Members), with the majority of its members being qualified as independent, in accordance with the legally established criteria (João Pedro Cabral Tavares, Daniel Traça, Manuel Olazábal, and Manuela Ataíde Marques).

For its part, the Remunerations Board as provided for in the Commercial Companies Code, which determines the actual amounts of remuneration to be paid to all members of the corporate bodies, is composed of Jaime Pérez-Renovales and Alexandra Brandão, both senior officers of the Santander Group.

Mercer Portugal assisted the Bank (in 2017) as an external consultant, in the work of transposing the implementation of the Policy to the Bank.

3.2. Other Aspects

It is not foreseeable that in 2022 any indemnities will be paid for early termination of functions of any member of the corporate bodies.

The allocation of option plans is not foreseen in 2022, except for what is foreseen in item 2.2.2 above, regarding payment in financial instruments and for the Digital Award.

There are no non-pecuniary benefits or other forms of remuneration, other than those referred to in the Declaration.

4. Compliance with the rules and regulations on remuneration policy

The Bank's Policy is entirely in line with the principles inherent in the rules and regulations applicable in Portugal, based on simplicity, transparency, and adequacy to medium and long-term objectives.

In this way, the determination of the total remuneration, composed of fixed and variable portions, as well as the articulation of these two components, as explained in this Declaration and in the attached Policy, allow to conclude that, in general, the material rules contained in the Portuguese rules and regulations have been adopted.

The fact that the Bank is part of the Santander Group — which holds more than 99% of its share capital — implies the necessary consistence between the respective corporate policies, which, in turn, and taking into account the global nature of the Group, follow the international regulations in this matter.

The applicable regulation also determines that a review be carried out, at least annually, of the Bank's remuneration policy and to its implementation, in order to ensure that it is effectively applied, that remuneration payments are

appropriate, that the risk profile and long-term objectives of the institution are being adequately reflected, and that the policy is in accordance with the legislation and regulations in force, as well as with the applicable national and international principles and recommendations.

This annual review should also include an assessment of the remuneration practices of subsidiaries abroad and of off-shore

establishments, in particular on the respective effect on the institution's risk, capital, and liquidity management.

The mentioned assessment was carried out, in compliance with the applicable regulations, by the Bank's Remunerations Committee, with the units responsible for exercising control functions being actively involved, with no shortcomings being detected.

5. Information on the performance of the Remunerations Committee's duties

The members of the Remunerations Committee were elected at the General Meeting on December 13, 2018, with no objections from the Regulator for conducting their role as of January 2019.

The functions performed by the Committee correspond to those provided for in the respective internal regulation and include the formulation of informed and independent judgments on the remuneration policy and practices, as well as on the incentives created for the purposes of risk, capital, and liquidity management, while it is also responsible for the preparation of remuneration decisions.

Lisbon, March 29, 2022

The Remuneration Policy of the Members of the Management and Supervisory Bodies is available on the website: <https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade>.

VIII. Internal Policy for Selecting and Assessing Adequacy

The Board of Directors submitted to the approval of the Bank's General Shareholders Meeting held on May 04, 2022, the Internal Policy for Selecting and Assessing Adequacy, whose purpose is the establishment of procedures for the selection and assessment of suitability, professional qualification and experience, independence and availability (jointly known as "Adequacy") of the members of the Management and Supervisory bodies, and of other holders of essential functions for the daily development of the Bank's activity, as defined in the applicable regulations.

Under the terms of the applicable regulation, the Policy shall contain the identification of those responsible for adequacy assessment, the assessment procedures adopted, the required adequacy requirements, the rules on prevention, communication, and resolution of conflicts of interest, and the professional training means available.

The Internal Policy for Selecting and Assessing Adequacy is available on the Bank's website at: <https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade>

IX. Managers' Remuneration Policy

The Managers' Remuneration Policy is available on the Bank's website at: <https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade>

DECLARATION ON THE REMUNERATION POLICY FOR THE MANAGERS OF BANCO SANTANDER TOTTA, S. A., (the "Bank") (The "Declaration")

For the purposes of this Declaration, the workers who are part of any of the collectives specified below, and are not, simultaneously, members of the management body, are considered as Managers of the Bank and are designated as the "Identified Collective" or as the "Managers":

- a) Managers who are part of the Group known as "Faro," under the terms of the Santander Group's remuneration policy (the "Policy");
- b) Top management and those responsible for carrying out functions with responsibility for risk-taking on behalf of the Bank or its customers, with a material impact on the Bank's risk profile; and
- c) The responsible officers who exercise their professional activity within the scope of the control functions provided for in Bank

of Portugal Notice No. 3/2020, of June 29, currently responsible for the Audit Areas, General Risk Function of the Bank, and Compliance, as well as those responsible for other areas that are treated as control functions by the Santander Group. The updated identification of the functions included in the Identified Collective is contained in Annex 1 of the Declaration, which is an integral part thereof for all due purposes.

1. Framework

The Policy is addressed to all Santander Group employees, and it establishes the fundamental principles relating to the payment of remunerations, either fixed or variable (the unofficial translation into Portuguese of the Policy in its version in force constitutes Annex 2 of the Declaration, which is an integral part thereof for all purposes and intents).

The Policy is applicable to all branches of the Santander Group, including the Bank. The Board of Directors has formally adopted the Policy in its updated version in March 29, 2022.

In accordance with the Policy, the Santander Group adopts consistent remuneration practices that comply with the regulations applicable in the jurisdictions where it operates.

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

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

This Declaration provides information on the adequacy of the Policy to the different requirements placed by Portuguese law.

2. Application of the Policy to the Bank

Fixed Remuneration

- a) The fixed remuneration is paid 14 times a year;
- b) The fixed remuneration consists of the basic remuneration and some cash benefits that are attributed to all Bank employees, such as seniority payments or other subsidies, due under legal or contractual terms;
- c) The fixed remuneration is determined taking into account the criteria used in the Santander Group, the Bank's results, performance assessment, collective labour regulations, and market references, safeguarding the different specificities and dimensions;
- d) The fixed remuneration of the Identified Collective includes the limits that are set annually by the Executive Committee, and is not expected to represent, in 2022, a portion below 51% of the Total Remuneration.

2.1 Calculation of the Variable Remuneration

The variable remuneration is determined based on a standard reference corresponding to the fulfilment of 100% of the established goals, with a reference value being set every year for each member.

The final amount of the performance bonus and inherent variable remuneration will be determined at the beginning of the year following the performance of duties, on the basis of a reference value, and according to the actual fulfilment of the goals established in the framework of the pool available for that purpose, in the terms defined in the Policy as set out in Annex 2, namely in Section 5.4.

The general objectives for the year 2022 are those set out in Annex 3, which are part of the Declaration for all due purposes.

The maximum ratio between the value of all components of the variable remuneration and the total value of the fixed remuneration cannot exceed 200%.

With regard to Managers of Control Functions, the calculation of the variable remuneration complies with the following criteria: (i) individual evaluation of the employee, taking into account the specific objectives related to the functions performed, ensuring their objectivity and independence, and in line with the creation of long-term value or the maintenance of a solid capital base, and cannot, under any circumstances, be linked to specific objectives of the business functions or employees thereof whose activity they are in charge of controlling; (ii) overall performance of the Bank and of the economic group to which he/she belongs.

The maximum ratio between the value of all components of the variable remuneration and the total value of the fixed remuneration of the Managers of the Control Functions cannot exceed 100%.

The performance assessment of Managers — to be conducted annually — is carried out by the respective hierarchical superiors or directly by the Executive Directors with the respective portfolio, whenever there is a direct reporting relationship. Whenever such Managers are subject to a double reporting obligation, the assessment is also made by the Group head responsible for the area in question.

Without prejudice to the internal provisions regarding the setting of objectives and the annual evaluation of Managers of the Control Functions, the Remunerations Committee is responsible for evaluating the execution and compliance with the principles set out in this Policy.

2.2 Composition and regulation of the variable remuneration

The variable portion of the remuneration is subject to partial deferral of the respective payment, aiming at a balance between the short and the medium term.

- a) The variable remuneration is due 50% in cash and 50% in financial instruments (preferably shares or stock options of Banco Santander, or equivalent financial instruments or related instruments or convertible into shares, such as American Depositary Receipts (ADRs), with part paid in 2023 and part deferred in four or five years, subject to the following parameters:
 - i. 60% (or whatever is defined according to the applicable situation) of this remuneration will be paid in 2023, in cash and in financial instruments;
 - ii. The remainder will be paid annually, in four or five equal portions (as applicable), in cash and in financial instruments, subject to the conditions provided for. However, the Bank (through its competent bodies and in a logic of consistency within the Group) reserves the possibility of not applying such deferral when the amount of the total variable remuneration does not exceed € 50,000, and provided that such possibility is not prevented by applicable legal or regulatory determination.
- b) The assigned instruments do not benefit from any risk coverage agreement, and are subject to a maintenance or retention condition for one year.
- c) Payment of the variable remuneration will comply with the deferral rules and the reduction (malus) or reversion (claw-back) mechanisms in force in the Policy, in order to comply with the legal and regulatory requirements, as well as observe the recommendations and guidelines issued by the competent supervisory bodies. The ability to reduce (malus), either totally or partially, the payment of deferred remuneration and whose payment is not yet an acquired right, as well as to retain in whole or in part variable remuneration whose payment constitutes an acquired right (claw-back), is limited to extremely significant, duly identified events, in which the persons concerned have had a direct participation in the identified events.

2.3 Identification of deferred and paid instalments of the variable remuneration

For the year 2018, the last third of the deferred variable remuneration has been paid.

For the year 2019, one third of the deferred variable remuneration remains to be paid.

Of the variable remuneration for 2020, two thirds of the deferred variable remuneration remain to be paid.

Of the variable remuneration for 2021, the non-deferred portion was paid in 2022. The remaining payment is deferred for three years.

2.4 Digital Transformation Award — DTA

The financial sector is currently undergoing major changes. With the move towards the development of digital solutions, the Santander Group is taking steps to transform its culture, employees, and business in line with this new paradigm.

The objective of the Digital Award is to attract and retain talent that contributes to advance, accelerate and deepen the aforementioned digital transformation, which, simultaneously, will lead to the creation of long-term share value through the fulfilment of essential digital steps. With this programme, the Santander Group offers a remuneration element that is competitive with the remuneration systems offered by other market players competing in the area of digital talent.

The Award is subject to the fulfilment of certain objectives related to digital transformation, and, consequently, aims to foster the creation of long-term share value.

This Award will be implemented as 50% in Banco Santander shares and 50% in Banco Santander share options, based on the fair value of the share options when they are granted. It is aimed at certain members of the Identified Collective (excluding Banco Santander

Directors, but may include Bank Directors), and at workers of the Santander Group who are not part of the Identified Collective, but whose activity is critical for the digital growth and transformation of the Santander Group. The respective Regulation is attached hereto as Annex 4, and it will be ensured that any amounts that may be allocated in this way to the Bank's Executive Directors will be considered as variable remuneration and included in all applicable information disclosure limits, procedures and duties.

2.5 Benefits

The allocation of benefits is made in order to ensure compatibility with the Bank's business strategy, objectives, values, and long-term interests.

Without prejudice to allocations on a case-by-case basis and with a residual scope, resulting from measures taken in the past by primitive employers (Crédito Predial Português, Banco Totta & Açores, Banco Santander Portugal, and Banco Santander de Negócios Portugal), all Managers enjoy the following benefits:

- a) Supplementary health insurance to the Social-Medical Assistance Service (SAMS) provided for in the collective regulation of the banking sector;
- b) Personal accident insurance, as defined in the collective regulation of the banking sector.

Some workers benefit from life insurance, as a result of a contractual connection with the extinct Banco Santander Portugal or with Banco Santander Negócios Portugal.

Some workers benefit from a supplementary retirement plan, pursuant to the resolution of the Bank's Board of Directors of February 25, 2010.

There are no pension benefits attributed on a discretionary basis.

No risk hedge mechanisms or the like may be used by the Manager or by the Bank in his/her favour. This rule is observed and must be confirmed annually by the Manager before the Group.

3. Complementary Aspects

3.1. Policy Approval Procedures

The Policy was approved by the Santander Group, thus adopting a set of national and international guidelines on the matter, with the Bank, through its Remunerations Committee and Board of Directors, adhering to said Policy and respective updates.

The Policy, in the terms in which it was approved, will be complemented by a set of additional guidelines, of an essentially interpretative nature.

3.2. Other Aspects

The allocation of option plans is not foreseen in 2022, except for what is foreseen in item 2.2.2 above, regarding payment in financial instruments and for the Digital Award.

There are no non-pecuniary benefits or other forms of remuneration other than those referred to in the Declaration.

4. Compliance with the rules on remuneration policy defined by Banco de Portugal

The Bank's Policy is entirely in line with the principles inherent in the rules and regulations applicable in Portugal, based on simplicity, transparency, and adequacy to medium and long-term objectives.

In this way, the determination of the total remuneration, composed of fixed and variable portions, as well as the articulation of these two components, as explained in this Declaration and in the attached Policy, allow to conclude that, in general, the material rules contained in the Portuguese rules and regulations have been adopted.

The fact that the Bank is part of the Santander Group — which holds more than 99% of its share capital — implies the necessary consistence between the respective corporate policies, which, in turn, and taking into account the global nature of the Group, follow the international regulations in this matter.

The applicable regulations also determine that a review is carried out, at least annually, of the Bank's remuneration policy and of its implementation, in order to ensure that it is effectively applied, that remuneration payments are adequate, and that the profile risk and the institution's long-term objectives are being adequately reflected, and that the policy is in accordance with the legislation and



regulations in force, as well as with the applicable national and international principles and recommendations.

This annual review should also include an assessment of the remuneration practices of subsidiaries abroad and of off-shore establishments, in particular on the respective effect on the institution's risk, capital, and liquidity management.

The mentioned assessment was carried out, in compliance with the applicable regulations, by the Bank's Remunerations Committee, with the units responsible for exercising control functions being actively involved, with no shortcomings being detected.

Lisbon, June 24, 2022

Annex 1**Collective Identified**

EXECUTIVE DIRECTOR OF THE COMMERCIAL AREA - NORTH
 EXECUTIVE DIRECTOR OF THE COMMERCIAL AREA - SOUTH AND ISLANDS
 EXECUTIVE DIRECTOR OF ANALYTICS AND CUSTOMER STRATEGY
 EXECUTIVE DIRECTOR FOR RESPONSIBLE BANKING AND UNIVERSITIES
 EXECUTIVE DIRECTOR OF ACCOUNTING AND MANAGEMENT CONTROL
 EXECUTIVE DIRECTOR OF CORPORATE & INVESTMENT BANKING
 EXECUTIVE DIRECTOR FOR CUSTOMER SERVICE
 EXECUTIVE DIRECTOR FOR DIGITAL TRANSFORMATION
 EXECUTIVE DIRECTOR OF STRATEGY, FINANCIAL PLANNING AND ECONOMIC RESEARCH
 EXECUTIVE DIRECTOR OF PEOPLE MANAGEMENT AND ORGANIZATION
 EXECUTIVE DIRECTOR OF COMMERCIAL MANAGEMENT AND EFFECTIVENESS
 EXECUTIVE DIRECTOR OF FINANCIAL AND CAPITAL MANAGEMENT
 EXECUTIVE DIRECTOR OF OPERATIONS
 EXECUTIVE DIRECTOR OF PRIVATE BANKING
 EXECUTIVE DIRECTOR OF RECOVERIES AND DIVESTMENT
 EXECUTIVE DIRECTOR OF THE CORPORATE NETWORK - NORTH
 EXECUTIVE DIRECTOR OF THE CORPORATE NETWORK - SOUTH
 EXECUTIVE DIRECTOR OF INDIVIDUALS NETWORKS & BUSINESSES - NORTH
 EXECUTIVE DIRECTOR OF INDIVIDUALS AND BUSINESS NETWORKS - SOUTH AND ISLANDS
 EXECUTIVE DIRECTOR OF THE GENERAL SECRETARIAT
 EXECUTIVE DIRECTOR OF TECHNOLOGY & OPERATIONS
 EXECUTIVE DIRECTOR OF WEALTH MANAGEMENT & INSURANCE
 DIRECTOR OF PROCUREMENT AND COSTS
 DIRECTOR OF CYBERSECURITY
 DIRECTOR OF DATA
 DIRECTOR OF EVERYDAY BANKING
 DIRECTOR OF TAX
 DIRECTOR OF CONSTRUCTION PROMOTION AND IFRRU
 DIRECTOR OF LEGAL – CORPORATE
 DIRECTOR OF LEGAL – BUSINESS
 DIRECTOR OF BRAND AND CORPORATE COMMUNICATIONS
 DIRECTOR OF ORGANIZATION
 DIRECTOR OF SPECIAL PROJECTS
 DIRECTOR OF SERVICE DEVELOPMENT
 COM D COMPANIES OF LARGE SOUTH COMPANIES
 COM D COMPANIES OF LARGE NORTH COMPANIES
 COM D COMPANIES OF MULTINATIONAL COMPANIES
 HEAD OF ECONOMIC RESEARCH AND RELATIONS WITH INVEST.
 EXECUTIVE DIRECTOR OF INTERNAL AUDIT
 EXECUTIVE DIRECTOR OF COMPLIANCE AND CONDUCT
 FINANCIAL CRIME COMPLIANCE DIRECTOR (FCC)
 RESPONSIBLE FOR THE FINANCIAL CRIME COMPLIANCE (FCC)
 EXECUTIVE DIRECTOR OF RISK
 EXECUTIVE DIRECTOR OF CREDIT RISK
 DIRECTOR OF PORTFOLIO MANAGER
 ENTERPRISE RISK MANAGEMENT DIRECTOR
 DIRECTOR OF OPERATIONAL RISK
 DIRECTOR OF MARKET, CAP., MODEL & TECHNICAL RISK
 HEAD FOR METHODOLOGY AND CREDIT SYSTEMS
 HEAD OF COMMERCIAL BANKING RISKS

X – Remuneration and other benefits assigned to members of the Management and Supervisory bodies and to the Identified Collective

This information is provided to comply with the provisions of Article 450 paragraph h) of Regulation (EU) No. 575/2013, of the European Parliament and of the Council, of June 26, by reference to Article 47 of Bank of Portugal Notice no. 3/2020, of July 15 (Official Gazette, 2nd Series, of July 15, 2020), applied to the groups under Article 115-C (2) of the Legal Framework for Credit Institutions and Financial Companies (RGICSF).

As of December 31, 2022, the cumulative, actual amount of credit granted to members of the Board of Directors under Article 85 of the Legal Framework for Credit Institutions and Financial Companies was €1,110k, with the following breakdown:

(Thousand euro)

Name	Loans
Pedro Aires Coruche Castro e Almeida	328
Miguel Belo De Carvalho	44
Ricardo Lopes Da Costa Jorge	385
Amílcar Da Silva Lourenço	244
Daniel Abel Monteiro Palhares Traça	108
Total	1,110

The remunerations actually paid in 2022 to members of the Management and Supervisory bodies, to top management, to internal control functions, and to those responsible for significant business units (MRT), are detailed in the following table:

(thousand euro)

Total Remuneration Paid in 2022			
	Numbers of Members	Fixed Remuneration 2022	Variable Remuneration 2018-2021
Board of Directors	17	3,496	2,720
Top Management	27	3,047	2,730
Control Functions	3	622	319
Other functions	21	1,971	1,330

Deferred variable remuneration, to be paid in the coming years, and for the same groups, are those detailed in the following table:

Deferred Variable Remuneration			
	Number of Members	Pecuniary (thousand euro)	Shares (Number)
Board of Directors	17	1,019	334,765
Top Management	27	801	258,353
Control Functions	3	119	38,845
Other functions	21	324	104,568

The fixed remuneration, actually paid in 2022, to all the members of the Board of Directors and of the Audit Committee, amounted to € 3,548 thousand, and the variable remuneration, € 2,720 thousand.

Board of Directors

Name	Bonuses 2021 paid in 2022			Bonuses 2021 paid in 2022			Bonuses 2019 paid in 2022			Bonuses 2018 paid in 2022		
	Cash	Shares (#)	Inflation adjust.	Cash	Shares (#)	Inflation adjust.	Cash	Shares (#)	Inflation adjust.	Cash	Shares (#)	Inflation adjust.
Pedro Aires Coruche Castro e Almeida	261	84,085	1	30	11,173	1	37	10,191	1	47	3,680	
Amílcar da Silva Lourenço	80	25,612	0	8	2,917	0	17	4,541	0	9	2,051	
Inês Oom Ferreira de Sousa	84	27,062	0	8	2,917	1	20	5,450	0	27	2,066	
Isabel Cristina da Silva Guerreiro	144	46,392	0	11	3,973	1	20	5,450	0	9	672	
Manuel António Amaral Franco Preto	209	67,171	1	21	7,781	1	39	10,674	1	39	3,028	
Miguel Belo de Carvalho	153	49,137	0	13	4,977	1	22	5,904	0	16	3,645	
Ricardo Lopes da Costa Jorge	47	14,981	-	-	-	-	-	-	-	-	-	-
	976	314,440	2	91	33,738	4	155	42,210	2	146	15,142	

Other Benefits for Members of the Board of Directors

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 Shareholders' General Meeting of the Bank on May 30, 2007, approved the "Regulation on the supplementary awarding of an old-age or disability pension" to the executive members of the Board of Directors of the former "Totta" who became 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 Remunerations 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 Framework.

As at December 31, 2022, and 2021, liabilities with this plan amounted to € 10,260 k and € 14,124 k, respectively, and were covered by a provision in the same amount carried under "Provisions - Pensions and other post-employment defined-benefit obligations" (Note 17).

With regard to termination of employment benefits, as provided for in the Commercial Companies Code, whenever, by decision of the Bank, the term of office of a member of the governing bodies ends earlier, the Bank shall compensate the member of the governing body with the future remuneration to which he or she is entitled up until the end of his or her term of office.

Contract Terminations

In 2022 there were no payments of indemnities for early termination of office of members of the governing bodies.

Other Benefits for Managers

Leading Managers benefit from a health insurance, complementary to the Medical and Social Assistance Services (SAMS) provided for in the collective regulation of the banking sector, as well as from a personal accidents insurance, as defined in the collective regulation of the banking sector.

Some Leading Managers benefit from a life insurance, as a result of a contractual connection with the former Banco Santander Portugal or Banco Santander, S. A.

Some Leading Managers benefit from a supplementary retirement plan, under the terms of the Resolution of the Bank's Board of Directors of February 25, 2010.

REMUNERATION POLICY FOR 2022

The Remuneration policy in force for Banco Santander Totta's Managers and Directors was approved by the Board of Directors at the meeting of June 24, 2022.

REMUNERATION POLICY FOR 2023

The Remuneration policy for the Members of the Management and Supervisory Bodies of Banco Santander Totta for 2023, will be the subject of a resolution at the Annual General Meeting, in compliance with the applicable regulation.

Declaration to which Article 29-G (1) sub-paragraph c) of the Securities Code refers

Article 29-G (1) sub-paragraph c) of the Securities Code determines that each of the persons in charge of the company issue a declaration, the content of which is defined therein.

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

"I hereby declare under the terms and for the purposes provided for in Article 29-G (1) sub-paragraph c) of the Securities Code that, as far as I am aware of, the Management Report, the Annual Accounts, the Legal Certification of Accounts and other Santander Totta, S. A.'s accounting documents, all relating to the year 2022, were prepared in accordance with the applicable accounting standards, conveying a true and appropriate image of the assets and liabilities, of the financial situation and of the results of that company and of the companies included within its consolidation perimeter, and that the Management Report faithfully depicts the evolution of the business, performance, and position of that company and of the companies included within its consolidation perimeter, containing a description of the main risks and uncertainties faced by the company."

Board of Directors

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

Audit Committee Statement on Compliance of the Financial Information Presented

Article 29-G (1) sub-paragraph 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 Audit Committee of Banco Santander Totta, S. A., identified by name herein, have each signed the declaration transcribed hereunder:

"I hereby declare under the terms and for the purposes provided for in Article 29-G (1) sub-paragraph c) of the Securities Code that, as far as I am aware of, the Management Report, the Annual Accounts, the Legal Certification of Accounts and other Santander Totta, S. A.'s accounting documents, all relating to the year 2022, were prepared in accordance with the applicable accounting standards, conveying a true and appropriate image of the assets and liabilities, of the financial situation, and of results of that company and of the companies included within its consolidation perimeter, and that the Management Report faithfully depicts the evolution of the business, performance, and position of that company and of the companies included within its consolidation perimeter, containing a description of the main risks and uncertainties faced by the company."

Audit Committee

Chair: Ana Isabel Abranches Pereira de Carvalho Morais

Members: Daniel Abel Monteiro Palhares Traça
João Pedro Cabral Tavares
Manuel Maria de Olazabal y Albuquerque
Maria Manuela Machado Farelo Ataíde Marques

Consolidated Financial Statements

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2022 AND 2021

(Amounts expressed in thousands of Euros - tEuros)

	Notes	31-12-2022	31-12-2021
ASSETS			
Cash, cash balances at central banks and other demand deposits	5	8,407,985	8,711,389
Financial assets held for trading	6	498,103	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	7	31,020	99,167
Equity instruments		31,020	99,167
Financial assets at fair value through other comprehensive income	8	4,423,397	5,339,913
Equity instruments		149,097	72,520
Debt securities		2,005,745	2,288,091
Loans and advances		2,268,555	2,979,302
Financial assets at amortised cost	9	40,850,964	40,373,867
Debt securities		3,471,400	3,458,792
Loans and advances		37,379,564	36,915,075
Derivatives – Hedge accounting	10	601,827	7,447
Investments in subsidiaries, joint ventures and associates	11	41,468	38,161
Tangible assets	12	447,229	497,500
Investment property		179,211	213,731
Property, Plant and Equipment		268,018	283,769
Intangible assets	12	35,443	33,648
Tax assets	13	245,032	254,508
Other assets	14	151,961	148,336
Non-current assets and disposal groups classified as held for sale	15	43,749	74,911
TOTAL ASSETS		55,778,178	56,166,619
LIABILITIES			
Financial liabilities held for trading	6	508,057	605,331
Financial liabilities measured at amortised cost	16	50,663,555	49,988,573
Deposits		45,989,740	46,762,551
Debt securities issued		4,316,483	3,006,747
Other financial liabilities		357,332	219,275
Derivatives – Hedge accounting	10	183,771	294,108
Provisions	17	154,504	201,810
Commitments and guarantees given		49,705	51,178
Other provisions		104,799	150,632
Tax liabilities	13	273,996	344,847
Share capital repayable on demand	18	46,938	54,805
Other liabilities	19	339,297	426,256
TOTAL LIABILITIES		52,170,118	51,915,730
EQUITY			
Capital	20	1,391,780	1,256,723
Share premium	20	193,390	193,390
Equity instruments issued other than capital	20	400,000	135,000
Accumulated other comprehensive income	20	(283,453)	(139,544)
Items that will not be reclassified to profit or loss		(420,710)	(609,005)
Items that may be reclassified to profit or loss		137,257	469,461
Retained earnings	20	402,736	1,608,681
Other reserves	20	960,532	969,610
Treasury shares	20	(44,110)	(44,091)
Profit or loss attributable to owners of the parent	21	586,559	270,494
Minority interests [Non-controlling interests]	22	626	626
TOTAL EQUITY		3,608,060	4,250,889
TOTAL EQUITY AND TOTAL LIABILITIES		55,778,178	56,166,619

The accompanying notes form an integral part of the consolidated balance sheet for the year ended December 31, 2022.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Amounts expressed in thousands of Euros
- tEuros)

	Notes	31-12-2022	31-12-2021
Interest income	24	1,174,004	1,012,164
Interest expenses	24	(394,702)	(283,508)
NET INTEREST INCOME		779,302	728,656
Dividend income	25	3,825	1,537
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	26	5,140	4,231
Fee and commission income	27	576,208	533,691
Fee and commission expenses	27	(100,618)	(101,547)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	28	754	129,180
Gains or losses on financial assets and liabilities held for trading, net	28	9,732	(4,409)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	28	2,530	2,991
Gains or losses from hedge accounting, net	28	-	-
Exchange differences, net	28	19,959	13,505
Gains or losses on derecognition of investments in subsidiaries, joint ventures and associates, net		-	63
Gains or losses on derecognition of non-financial assets, net	29	55,312	(43)
Other operating income	30	17,644	19,612
Other operating expenses	30	(8,258)	(9,989)
TOTAL OPERATING INCOME, NET		1,361,530	1,317,478
Administrative expenses	31	(433,365)	(472,611)
Staff expenses		(260,952)	(279,418)
Other administrative expenses		(172,413)	(193,193)
Cash contributions to resolution funds and deposit guarantee schemes	32	(41,658)	(37,679)
Depreciation	12	(45,316)	(49,300)
Provisions or reversal of provisions	17	3,750	(243,411)
Commitments and guarantees given		1,473	6,288
Other provisions		2,277	(249,699)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	17	11,972	(73,523)
Financial assets at fair value through other comprehensive income		29	(38)
Financial assets at amortised cost		11,943	(73,485)
Impairment or reversal of impairment on non-financial assets	17	12,939	(16,777)
Other profit or loss, net	1.3 l)	(35,884)	(35,075)
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	33	19,831	14,006
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		853,799	403,108
Tax expense or income related to profit or loss from continuing operations	13	(267,240)	(132,614)
PROFIT OR LOSS FOR THE YEAR		586,559	270,494
Attributable to minority interest [non-controlling interests]		-	-
Attributable to owners of the parent	21	586,559	270,494

The accompanying notes form an integral part of the consolidated statement of profit or loss for the year ended December 31, 2022.

BANCO SANTANDER TOTTA, S.A.
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Amounts expressed in thousands of Euros - tEuros)

	Notes	31-12-2022		31-12-2021	
		Attributable to the shareholders of BST	Attributable to non-controlling interests	Attributable to the shareholders of BST	Attributable to non-controlling interests
Profit or loss for the year		586,559	-	270,494	-
Other comprehensive income	20	(142,849)	-	(130,920)	-
Items that will not be reclassified to profit or loss					
Actuarial gains or losses on defined benefit pension plans	20				
. Gross amount		112,715	-	49,918	-
. Tax effect		-	-	-	-
Fair value changes of equity instruments measured at fair value through other comprehensive income					
. Gross amount	8	76,337	-	(814)	-
. Tax effect		(1,338)	-	-	-
Share of other recognised income and expense of entities accounted for using the equity method					
. Gross amount		2,088	-	2,262	-
. Tax effect		(88)	-	59	-
Items that may be reclassified to profit or loss					
Cash flow hedges	20				
. Gross amount		(151,875)	-	43,623	-
. Tax effect		47,081	-	(13,523)	-
Debt instruments at fair value through other comprehensive income					
Valuation gains or losses taken to equity					
. Gross amount	8	(108,996)	-	(238,961)	-
. Tax effect		33,684	-	73,973	-
Loans and advances at fair value through other comprehensive income					
Valuation gains or losses taken to equity					
. Gross amount	8	(220,952)	-	(68,779)	-
. Tax effect		68,495	-	21,322	-
Total comprehensive income for the year		443,710	-	139,574	-

The accompanying notes form an integral part of the consolidated statement of other comprehensive income for the year ended December 31, 2022.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Amounts expressed in thousands of Euros - tEuros)

	Capital	Share premium account	Equity instruments issued other than capital	Accumulated other comprehensive income		Retained earnings	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Minority interests	Total
				Fair value	Taxes						
Balances as at December 31, 2020	1,256,723	193,390	135,000	79,919	(87,279)	951,973	1,367,315	(44,061)	257,749	627	4,111,356
Appropriation of profit or loss											
. Transfer to reserves (Note 20)	-	-	-	-	-	656,708	(398,959)	-	(257,749)	-	-
Acquisition of treasury shares (Note 20)	-	-	-	-	-	-	-	(30)	-	-	(30)
Sale of equity instruments at fair value through other comprehensive income	-	-	-	(1,499)	235	-	1,264	-	-	-	-
Other	-	-	-	-	-	-	(10)	-	-	(1)	(11)
Consolidated comprehensive income in 2021	-	-	-	(212,751)	81,831	-	-	-	270,494	-	139,574
Balances as at December 31, 2021	1,256,723	193,390	135,000	(134,331)	(5,213)	1,608,681	969,610	(44,091)	270,494	626	4,250,889
Appropriation of profit or loss											
. Transfer to reserves (Note 20)	-	-	-	-	-	300,574	(30,080)	-	(270,494)	-	-
. Distribution of dividends	-	-	-	-	-	(1,506,519)	-	-	-	-	(1,506,519)
Capital increase with re-use of ancillary capital contributions	135,057	-	(135,000)	-	-	-	-	-	-	-	57
Issue of "Additional Tier 1 Instruments" (Note 20)	-	-	400,000	-	-	-	-	-	-	-	400,000
Acquisition of treasury shares (Note 20)	-	-	-	-	-	-	-	(19)	-	-	(19)
Sale of equity instruments at fair value through other comprehensive income	-	-	-	(1,411)	351	-	1,060	-	-	-	-
Other	-	-	-	-	-	-	19,942	-	-	-	19,942
Consolidated comprehensive income in 2022	-	-	-	(290,683)	147,834	-	-	-	586,559	-	443,710
Balances as at December 31, 2022	1,391,780	193,390	400,000	(426,425)	142,972	402,736	960,532	(44,110)	586,559	626	3,608,060

The accompanying notes form an integral part of the consolidated statement of changes in equity for the year ended December 31, 2022.

BANCO SANTANDER TOTTA, S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

		(Amounts expressed in thousands of Euros - tEuros)	
	Notes	31-12-2022	31-12-2021
CASH FLOW FROM OPERATING ACTIVITIES:			
Interest and commissions received		1,641,424	1,507,892
Payments of interest and commissions		(406,641)	(422,918)
Payments to staff and suppliers		(450,053)	(573,499)
Pension Fund contributions	35	(27,650)	(23,860)
Foreign exchange and other operating results		(12,313)	(14,551)
Recovery of uncollectable loans	17	10,569	3,735
Operating results before changes in operating assets and liabilities		755,336	476,799
(Increase) / Decrease in operating assets:			
Loans and advances to credit institutions		7,495	(10,293)
Financial assets held for trading		89,669	328,267
Credit granted and other balances receivable at amortised cost		(640,996)	(693,769)
Assets and liabilities at fair value through profit or loss		227,546	15,737
Non-current assets and disposal groups classified as held for sale		78,002	72,874
Investment property		34,519	36,801
Other assets		33,340	(92,375)
		(170,425)	(342,758)
Increase / (Decrease) in operating liabilities:			
Resources from credit institutions		(888,116)	(464,243)
Resources from customers and other debts		102,243	2,687,039
Financial liabilities held for trading		(97,273)	(336,197)
Other liabilities		44,248	(59,899)
		(838,898)	1,826,700
Net cash flow from operating activities before income taxes		(253,987)	1,960,741
Income tax paid		(214,343)	(10,075)
Net cash flow from operating activities		(468,330)	1,950,666
CASH FLOW FROM INVESTING ACTIVITIES:			
Dividends received	25	3,825	1,537
Purchase of financial assets at fair value through other comprehensive income		(254)	(823)
Sale of financial assets at fair value through other comprehensive income		1,813	2,050,752
Non-trading financial assets mandatorily at fair value through profit or loss	7	-	33,738
Income from financial assets at fair value through other comprehensive income		61,137	73,769
Purchase of tangible and intangible assets	12	(39,472)	(33,257)
Sale of property, plant and equipment		4,516	10,932
Investments in subsidiaries, joint ventures and associates		3,834	26,235
Net cash flow from investing activities		35,399	2,162,883
CASH FLOW FROM FINANCING ACTIVITIES:			
Capital increase	20	135,056	-
Dividends paid	20	(1,506,519)	-
Issue of "Additional Tier 1 Instruments"	20	400,000	-
Reimbursement of ancillary capital contributions	20	(135,000)	-
Issue of debt securities and subordinated debt	16	1,416,730	183,000
Redemption of debt securities and subordinated debt	16	(129,995)	(85,719)
Interest paid on debt issued and other		(50,745)	(35,256)
Net cash flow from financing activities		129,527	62,025
Net increase / (decrease) in cash and cash equivalents		(303,404)	4,175,574
Cash and cash equivalents at the beginning of the period	5	8,711,389	4,535,815
Cash and cash equivalents at the end of the period	5	8,407,985	8,711,389

The accompanying notes form an integral part of the consolidated statement of cash flows for the year ended December 31, 2022.

Notes to the Consolidated Financial Statements

INTRODUCTION

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

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

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

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

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

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

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

The Bank is engaged in obtaining third-party financial resources, in the form of deposits and others, 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 339 branches (348 branches as at December 31, 2021). It also has several branches and representation offices abroad, and holdings in subsidiaries and associates.

The Bank's financial statements for financial year ended December 31, 2022, were approved at the Board of Directors meeting on March 28, 2023. These financial statements are also subject to approval by the Shareholders' General Meeting, but the Board of Directors is convinced that they will be approved with no significant changes.

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Bases of Presentation of the Accounts

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

The accounting policies used by the Bank in preparing the consolidated financial statements as at December 31, 2022, are consistent with those used in preparing the consolidated financial statements with reference to December 31, 2021.

As from financial year 2020, the Bank has presented its financial statements according to the Regulation guidelines (EU 2017/1443, of June 29, 2017), revoked by Regulation (EU 2021/451, of December 17, 2020).

The consolidated financial statements are presented in thousands of Euros, rounded to the nearest thousand, except where otherwise indicated.

In preparing the financial statements, the Bank follows the historical cost convention, modified, when applicable, by measuring the fair value of: - Financial assets held for trading; - Non-trading financial assets mandatorily at fair value through profit or loss; - Financial assets at fair value through other comprehensive income; - Financial liabilities held for trading; - Derivatives - hedge accounting; and - Investment property.

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

The Bank's financial statements have been prepared on a going concern basis, as the Board of Directors considers that the Bank has the necessary resources to continue operating. The assessment made by the Board of Directors is based on a wide range of information related to current and future conditions, including projections of future profitability, cash flows, capital requirements and sources of financing.

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

- **IFRS 16** (amendment), 'Leases – COVID-19 related rent concessions beyond 30 June 2021'. This amendment extends the date of application of the IFRS 16 – 'Leases – COVID-19 related rent concessions' amendment from 30 June 2021 to 30 June 2022, allowing to recognise rent concessions related to COVID-19 as variable lease payments, and not as a modification to the lease. The conditions of application of the practical expedient remain, and the extension of the practical expedient can only be applied by the lessees that applied the previous practical expedient.

- **IAS 16** (amendment), 'Proceeds before intended use'. This amendment changes the accounting treatment of the proceeds obtained from the sale of products that resulted from the production test phase of property, plant, and equipment, prohibiting their deduction to the acquisition cost of assets. This amendment is applied retrospectively without restating comparatives.
- **IAS 37** (amendment), 'Onerous Contracts – Cost of Fulfilling a Contract'. This amendment specifies that when assessing whether a contract is onerous or not, only expenses directly related to the performance of the contract, such as incremental costs related to direct labour and materials and the allocation of other expenses directly related to the allocation of depreciation expenses of tangible assets used to carry out the contract, can be considered. This amendment must be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include contractual obligations to be satisfied, without restating comparatives.
- **IFRS 3** (amendment), 'Reference to the Conceptual framework'. This amendment updates the references to the Conceptual Framework in the text of IFRS 3, without changing the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be given to contingent liabilities and liabilities under IAS 37 and IFRIC 21, incurred separately versus within a business combination. This amendment is applied prospectively.
- Annual Improvements 2018 - 2020. The 2018-2020 annual improvements impact: **IFRS 1, IFRS 9, IFRS 16 and IAS 41**.

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

- **IAS 1** (amendment), 'Disclosure of accounting policies'. Amendment to the requirement to disclose the accounting policies based on "material" instead of "significant". The amendment specifies that accounting policy information is expected to be material if, in its absence, the users of the financial statements would be unable to understand other material information in those same financial statements. Immaterial accounting policy information need not be disclosed. The IFRS Practice Statement 2 was also amended to provide guidance for the application of the concept of "material" to accounting policy disclosures.
- **IAS 8** (amendment), 'Disclosure of accounting estimates'. This amendment introduces the definition of accounting estimate and the way it is distinct from changes to accounting policies. The accounting estimates are defined as corresponding to monetary amounts that are subject to measurement uncertainty, used to achieve an accounting policy's objective(s).

- **IFRS 17** (new and amendment), 'Insurance contracts'. This new standard replaces IFRS 4 and applies to all entities issuing insurance contracts, reinsurance contracts or investment contracts with discretionary participation in profit or loss if the entity issues insurance contracts. Under IFRS 17, insurers need to assess if a policy holder can benefit from a particular service as part of a claim or if the service is independent of the claim/risk event and do the unbundling of the non-insurance component. Under IFRS 17, the entities will need to identify portfolios of insurance contracts at initial recognition and divide them into a minimum of the following groups: i) contracts that are onerous at inception; ii) contracts that have no significant possibility of becoming onerous subsequently; and iii) remaining contracts in the portfolio. IFRS 17 requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. IFRS 17 requires a company to recognise profits as it delivers insurance services (rather than when it receives premiums), and to provide information about insurance contract profits the company expects to recognise in the future. IFRS 17 provides three measurement approaches for the accounting of different types of insurance contracts: i) General Measurement Model (GMM); ii) the Premium Allocation Approach (PAA), and iii) the Variable Fee Approach (VFA). IFRS 17 is applied retrospectively with some exemptions as at the transition date.
- **IFRS 17** (amendment), 'Initial Application of IFRS 17 and IFRS 9 – Comparative Information'. This amendment relates only to insurers' transitioning to IFRS 17 and allows the adoption of a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information. This amendment seeks to avoid temporary accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented, when applying IFRS 17 for the first time, providing for (i) the application on a financial asset-by-financial asset basis; (ii) the presentation of comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but without requiring an entity to apply the impairment requirements of IFRS 9; and (iii) the obligation to use reasonable and supported information available at the transition date, to determine how the entity expects that financial asset to be classified in accordance with IFRS 9.
- **IAS 12** (amendment), 'Deferred tax related to assets and liabilities arising from a single transaction'. IAS 12 will require entities to recognise deferred tax on specific transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. This applies to the recognition of i) right-of-use assets and lease liabilities; and ii) decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related asset, when not relevant for tax purposes. Such temporary differences are not in the scope of the initial recognition exemption for deferred taxes. This amendment is applied retrospectively.

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

- **IAS 1** (amendment), 'Non-current liabilities with covenants'. This amendment is still subject to endorsement by the European Union. This amendment clarifies that liabilities are classified as either current or non-current balances depending on the rights that an entity must defer its settlement for at least 12 months after the reporting date. It clarifies also that the covenants that an entity is required to comply with, on or before the reporting date, affect the classification of a liability as current or non-current, even if the covenants are only assessed after the entity's reporting date. When an entity classifies liabilities arising from loan arrangements as non-current and those liabilities are subject to covenants, it is required to disclose information that enables investors to assess the risk that the liabilities could become repayable within 12 months, such as: a) the carrying amount of the liabilities; b) the nature of the covenants and the compliance date; and c) the facts and circumstances that indicate the entity may have difficulty complying with covenants when it is required to do so. This amendment is applied retrospectively.
- **IFRS 16** (amendment), 'Lease liability in a sale and leaseback'. This amendment is still subject to endorsement by the European Union. The amendment introduces guidance for the subsequent measurement of lease liabilities, in the scope of sale and leaseback transactions that qualify as "sales" under IFRS 15, with higher impact when some or all the lease payments are variable lease payments that do not depend on an index or rate. Whilst subsequently measuring lease liabilities, seller-lessees determine "lease payments" and "revised lease payments" in a way that does not result in the seller-lessees recognizing any gains/(losses) relating with the right of use that they retain. This amendment is applied retrospectively.

In the wake of the adoption of the standards and interpretations no material impacts were identified on the consolidated financial statements.

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

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

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

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

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

On the other hand, the Group manages assets held by investment funds, which units are held by third parties. The financial statements of investment funds are not included in the Group's consolidation perimeter, except when the latter holds control of these investment funds, namely when it has more than 50% of its investment units, in which case those funds are consolidated by the full consolidation method. In accordance with IAS 32 and IFRS 10, the amount corresponding to third-party participation in investment funds consolidated by the full consolidation method is presented as a liability in the caption "Share capital redeemable at sight". The profit or loss of the Novimovest Fund, not controlled by the Group, are recognised as a deduction from the captions "Other operating income/expenses", considering the nature of the main income earned by that fund.

Financial investments in associates are measured using the equity method as from the moment the Group comes to have significant control until such time as it ceases. Associates are entities over which the Group has significant influence but does not control them.

Significant influence is understood to exist when one has a (direct or indirect) financial holding of more than 20% but less than 50% (with voting rights proportionate to the holding) or the power to take part in decisions on the financial and operational policies of an entity, but without control or joint control over it.

Under the equity method, the consolidated financial statements include the portion attributable to the Group of the total equity and of the profits and losses recognised by the associates. Dividends attributed 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 years may be reversible, up to the limit of the accumulated losses.

Goodwill corresponds to the positive difference between the acquisition cost of the business and the actual equivalent percentage in the fair value of the assets, liabilities and contingent liabilities of the subsidiaries and associates acquired, as well as any equity instruments issued by the Group. With a minimum annual frequency, the Group performs goodwill impairment tests in accordance with the requirements of IAS 36 – Impairment of assets. For this purpose, goodwill is allocated to cash flow generating units, never greater than the group of assets comprising each of the Group's operational segments, with the determination of the respective recoverable amount being based on estimates of future cash flows, updated using discount rates considered appropriate by the Group, and relying on appropriate and accepted methods. Impairment losses related to goodwill are recorded in profit or loss for the year and cannot be reversed. The goodwill of associates is included in the carrying amount of the holding, which is subject to impairment tests.

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

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

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

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

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

1.3. Summary of the Main Accounting Policies

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

a) Accrual accounting

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

b) Foreign currency transactions

The Bank's accounts are prepared in the currency of the economic environment in which it operates (“functional currency”) and are stated in Euros.

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

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

	31-12-2022	31-12-2021
Currency		
USD	1.0666	1.1326
GBP	0.8869	0.8402

c) Financial instruments

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

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

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

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

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

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

Reclassifications between financial instrument portfolios

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

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

Sale of loans

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

Securitised loans not derecognised

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

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

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

Maintenance of the risk and/or benefit is represented by bonds of a higher risk issued by the securitisation vehicle. The amount carried under assets and liabilities represents the proportion of the risk/benefit held by the Bank (ongoing involvement).

The bonds issued by securitisation vehicles and held by Group entities are eliminated in the consolidation process.

Derecognition

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

Guarantees provided and irrevocable commitments

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

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

Recognition of income and expenses from fees and commissions

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

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

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

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

Financial assets at fair value through other comprehensive income

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

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

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

Financial assets and liabilities held for trading and non-trading financial assets mandatorily at fair value through profit or loss

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

Financial assets and liabilities held for trading and non-trading financial assets mandatorily at fair value through profit or loss are initially recognised at fair value, with the expenses associated with the transactions being recognised in profit or loss at the initial moment. Gains and losses arising from subsequent valuation at fair value are recognised in the statement of profit or loss, under the captions "Gains or losses on financial assets and liabilities held for trading, net" and "Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net", respectively.

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

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

Financial liabilities measured at amortised cost

Financial liabilities are initially recognised at their fair value, which normally corresponds to the consideration received, net of transaction costs, and are measured at amortised cost, in accordance with the effective interest rate method.

Financial liabilities correspond mainly to resources of central banks and of other credit institutions, customers' deposits and debt securities issued.

Repo Operations

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

Secondary market transactions

The Bank repurchases bonds issued in the secondary market. Purchases and sales of own bonds are included proportionally under the respective bonds issued captions (principal, interest and commissions) and the differences between the amount settled and the respective carrying amount are immediately recognised in profit or loss.

Hedge accounting

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

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

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

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

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

Hedge accounting is only applied when all those requirements are met. Likewise, if at any time the hedge effectiveness ceases to be in the range between 80% and 125%, hedge accounting is discontinued.

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

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

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

- The accumulated change in the fair value of the hedging instrument from the start of the hedge; and
- The accumulated change in the fair value of the hedged item, related to the risk hedged, from the start of the hedge.

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

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

Loan impairment

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

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

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

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

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

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

Impaired financial assets

A financial asset is impaired when one or more events that have a negative impact on the estimated future cash flows of the financial asset have occurred. Financial assets with a reduction of the recoverable amount of the loans are referred to as Stage 3 assets. The Bank adopted in 2021 the new definition of default as the criterion for the identification of Stage 3 loans, following the recommendation of EBA GL 2017/06. The internal definition of non-performing loans is governed by objective and subjective criteria and is used for the calculation of the regulatory capital using advanced credit-risk methods.

Purchased or originated credit impaired (POCI) financial assets

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

Significant increase of the credit risk

The Bank monitors all financial assets to assess whether there has been a significant increase of the credit risk since their initial recognition. If there has been a significant increase of the credit risk, the Bank estimates the provision for expected credit-risk loss to maturity (PDLT (lifetime)) and not over 12 months.

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

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

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

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

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

Credit risk parameters

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

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

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

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

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

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

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

Collective analysis

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

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

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

Individual analysis

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

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

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

Incorporation of forward-looking information

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

For impairment-loss purposes, a pessimistic scenario (25.35%), the base scenario (55.28%) and an optimistic scenario (19.37%) are used. The Bank applies probabilities to the forecast scenarios identified. The base scenario is the most likely outcome and consists of information used by the Bank for strategic planning and budgeting. The estimates are updated at least once a year and are subject to annual monitoring exercises.

d) Leases

Right of use and lease liability measurement method

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

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

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

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

e) Property, plant and equipment

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

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

	<u>Years of useful life</u>
Property for own use	50
Equipment	4 to 10

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

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

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

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

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

f) Intangible assets

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

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

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

g) Investment property

Investment property comprise buildings and land held by Novimovest - Fundo de Investimento Imobiliário (hereinafter also referred to as "Novimovest Fund" or "Novimovest Real Estate Fund") Novimovest Fund) to earn income or for capital appreciation or both, and not for use in the provision of goods or services or for management purposes.

Investment property is measured at fair value, determined by periodic valuations performed by specialised independent entities. Changes in the fair value of investment property is recognised directly in the statement of profit or loss for the year.

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

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

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

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

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

If, on a subsequent date, the facts that led to the recording of impairment losses no longer exist due to an increase of the fair value less selling expenses, the impairment losses will be reverted up to the limit of the amount that the assets would have had they not been reclassified to this caption.

The Bank does not recognise potential gains on these assets.

i) Provisions

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

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

j) Employee post-employment benefits

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

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

To cover the liabilities under this defined benefit plan, the Bank has a Pension Fund.

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

Employees of the former totta have always been enrolled in Social Security, and therefore the Bank's liability regarding the defined benefit plan in respect of those employees has consisted of the payment of retirement supplements.

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

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

Following the approval by the Government of Decree-Law 127/2011, of December 31, a Tripartite Agreement has been established between the Government, the Portuguese Banks Association and the Bank Employees Union on the transfer to the sphere of Social Security of the liabilities for pensions payable to retirees and pensioners as at December 31, 2011.

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

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

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

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

In June 2022, the Board of Directors of the Insurance and Pension Fund Supervisory Authority decided to authorise the extinction of the Bank's stake and, in October 2022, Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. began to manage the Banif Pension Fund that includes the defined benefit and defined contribution plans.

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

- i) Change in the formula for determining the employer's contribution to the SAMS, which is no longer a percentage of the pension but rather a fixed amount (Euros 90.72 per beneficiary and Euros 39.26 in the case of pensioners); and
- ii) Introduction of a new benefit called "End of career bonus" (pension bonus). This benefit, because it is allocated on the date of retirement or in the event of death, is considered a post-employment benefit and therefore comes to form part of the retirement liabilities.

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

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

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

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

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

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

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

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

k) Corporate Tax

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

Following the enactment of Law No. 2/2014, of January 16 (IRC Reform) and the wording given by the State Budget Law for 2022 (Law No. 12/2022, of June 27), the taxation of corporate profits for financial years 2022 and 2021, is as follows:

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

Therefore, the aforementioned changes implied that the tax rate used by the Bank in calculating and recording deferred taxes was 31%.

In accordance with current legislation, tax losses calculated in a given tax period beginning on or after January 1, 2017, are deducted from taxable income, if any, from one or more of the five subsequent tax periods.

The deduction to be made in each of the tax periods cannot exceed the amount corresponding to 70% of the respective taxable income; however, the deduction of the part of these losses that have not been deducted is in no way prejudiced, being deducted under the same conditions and until the end of the respective deduction period.

However, this limit may be raised to 80% in cases where tax losses are determined in the 2020 and 2021 tax periods.

As with tax losses calculated in a tax period prior to January 1, 2017, tax losses calculated in the 2020 and 2021 tax periods are deducted from taxable income, if any, of one or more of the twelve subsequent tax periods.

It should be noted that the period for carrying forward the tax losses available on the first day of the 2020 tax period is suspended during that same tax period and the following.

Recently, in accordance with the State Budget for 2023 (Law No. 24-D/2022), with regard to the deduction of tax losses, there is no longer a time limit for carrying these forward. However, the annual limit for the deduction from taxable income is reduced to 65%, with the increase in the limit to 80% for tax losses calculated in the 2020 and 2021 tax periods.

This amendment applies to the deduction of losses from taxable income for tax periods beginning on or after January 1, 2023, as well as for tax losses calculated in tax periods prior to that date, which deduction period is still in progress on the date of entry into force of this law.

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

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

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

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

Deferred tax liabilities are recognised on all taxable timing differences, except those related to: i) the initial recognition of goodwill; or ii) the initial recognition of assets and liabilities, which do not result from a business combination, and which at the date of the transaction do not affect the accounting or tax profit or loss.

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

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

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

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

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

l) Banking sector contribution and Solidarity tax on the banking sector

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

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

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

- a) The liabilities calculated and approved by the taxpayer less the base ("Tier 1") and supplementary ("Tier 2") capital and the deposits covered by the Deposit Guarantee Fund. From the liabilities thus calculated are deducted:
- Elements which in accordance with the applicable accounting standards are recognised as equity;
 - Liabilities associated with the recognition of defined benefit plan liabilities;
 - Liabilities for provisions;
 - Liabilities resulting from the revaluation of derivative financial instruments;
 - Deferred income, without considering those related to liability transactions and;
 - Liabilities for assets not derecognised in securitisation transactions.
- b) The notional value of derivative financial instruments off balance sheet calculated by taxpayers, except for hedging financial instruments or which exposure is mutually compensated.

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

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

m) Treasury shares

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

n) Equity instruments

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

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

o) Earnings per share

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

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

p) Provision of insurance brokerage services

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

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

q) Cash and cash equivalents

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

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

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

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

Employee post-employment benefits (Note 35)

Retirement and survivor pensions are estimated based on actuarial valuations carried out by external experts certified by the Insurance and Pension Fund Supervisory Authority (ASF). These estimates incorporate a set of financial and demographic assumptions, including the discount rate, mortality and invalidity tables, pension and salary growth, among others. The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities. Salary and pension growth estimates were determined considering the historical ratio between inflation and the CBA table growth. The mortality table used was based on the recommendation of the actuary.

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

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

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

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

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

Determination of impairment losses (Notes 9, 17 and 38)

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

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

Property, equipment and other assets received as payment in kind or auction for the payment of overdue loan transactions are initially measured at the lower of their fair value, net of their expected selling costs, and the book value of the loan granted object of the recovery. Property is subject to periodic valuations conducted by independent evaluators that incorporate various assumptions, namely as regards the evolution of the property market and, where applicable, expectations as to the development of real-estate projects. The assumptions used in the valuation of the properties have an impact on their valuation and hence on the determination of the impairment. Whenever the value resulting from these valuations (net of selling expenses) is lower than the value at which the properties are accounted for, impairment losses are recorded.

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

Taxes (Note 13)

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

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

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

3. DISCLOSURES BY SEGMENTS

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

Corporate Investment Banking:

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

Retail Banking:

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

Corporate Banking:

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

Corporate Activities:

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

The breakdown of the consolidated statement of profit or loss by operating segment for financial years ended December 31, 2022 and 2021, is as follows:

	31-12-2022				
	Corporate Investment Banking	Retail Banking	Corporate Banking	Corporate Activities	Total
Net interest income	54,962	598,678	78,547	47,115	779,302
Dividend income	-	-	-	3,825	3,825
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	5,140	5,140
Net fee and commission income	47,484	407,759	27,147	(6,800)	475,590
Gains/Losses on financial operations a)	14,951	8,973	872	63,491	88,287
Other operating income / expenses, net	-	2,091	-	7,295	9,386
Total operating income, net	117,397	1,017,501	106,566	120,066	1,361,530
Administrative expenses	(25,456)	(388,413)	(17,020)	(2,476)	(433,365)
Cash contributions to resolution funds and deposit guarantee schemes	-	-	-	(41,658)	(41,658)
Depreciation	(1,206)	(43,175)	(935)	-	(45,316)
Profit or loss before impairment and provisions	90,735	585,913	88,611	75,932	841,191
Impairment and provisions, net of reversals b)	(195)	50,636	12,837	(34,617)	28,661
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	19,831	19,831
Other profit or loss, net	-	-	-	(35,884)	(35,884)
Profit or loss before tax from continuing operations	90,540	636,549	101,448	25,262	853,799
Tax expense or income related to profit or loss from continuing operations	(28,067)	(197,330)	(31,449)	(10,394)	(267,240)
Profit or loss for the year	62,473	439,219	69,999	14,868	586,559

	31-12-2021				
	Corporate Investment Banking	Retail Banking	Corporate Banking	Corporate Activities	Total
Net interest income	51,390	435,792	84,905	156,569	728,656
Dividend income	-	-	-	1,537	1,537
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	4,231	4,231
Net fee and commission income	48,271	372,289	24,896	(13,312)	432,144
Gains/Losses on financial operations a)	9,175	6,528	634	124,950	141,287
Other operating income / expenses, net	-	2,685	-	6,938	9,623
Total operating income, net	108,836	817,294	110,435	280,913	1,317,478
Administrative expenses	(25,195)	(417,190)	(26,423)	(3,803)	(472,611)
Cash contributions to resolution funds and deposit guarantee schemes	-	-	-	(37,679)	(37,679)
Depreciation	(3,353)	(45,542)	(405)	-	(49,300)
Profit or loss before impairment and provisions	80,288	354,562	83,607	239,431	757,888
Impairment and provisions, net of reversals b)	(379)	(153,235)	(16,311)	(163,786)	(333,711)
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	14,006	14,006
Other profit or loss, net	-	-	-	(35,075)	(35,075)
Profit or loss before tax from continuing operations	79,909	201,327	67,296	54,576	403,108
Tax expense or income related to profit or loss from continuing operations	(24,771)	(62,412)	(20,862)	(24,569)	(132,614)
Profit or loss for the year	55,138	138,915	46,434	30,007	270,494

a) Includes the following captions in the statement of profit or loss:

- Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net;
- Gains or losses on financial assets and liabilities held for trading, net;
- Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net;
- Gains or losses from hedge accounting, net;
- Exchange differences, net;
- Gains or losses on derecognition of non-financial assets, net.

b) This aggregate includes the following captions in the statement of profit or loss

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

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

		31-12-2022			
		Corporate Investment Banking	Retail Banking	Corporate Banking	Corporate Activities
					Total
Assets					
Financial assets at fair value through other comprehensive income - loans and advances					
		-	-	-	2,268,555
Financial assets at amortised cost					
	Mortgage loans	-	23,116,530	-	23,116,530
	Consumer loans	-	1,819,873	-	1,819,873
	Other loans	2,880,998	6,389,393	5,889,488	22,988
	Other balances receivable	-	68,283	-	663,411
Total allocated assets		2,880,998	31,394,079	5,889,488	2,954,954
Total non-allocated assets					12,658,659
Total Assets					55,778,178
Liabilities					
Financial liabilities measured at amortised cost					
	Deposits - Central banks	-	-	-	4,113,714
	Deposits - Credit institutions	-	-	-	2,814,412
	Deposits - Customers	743,349	31,808,275	6,325,406	184,584
	Debt securities issued	-	-	-	4,316,483
Total allocated liabilities		743,349	31,808,275	6,325,406	11,429,193
Total non-allocated liabilities					1,863,895
Total Liabilities					52,170,118
Guarantees and sureties given		141,567	563,158	1,121,298	-
					1,826,023
		31-12-2021			
		Corporate Investment Banking	Retail Banking	Corporate Banking	Corporate Activities
					Total
Assets					
Financial assets at fair value through other comprehensive income - loans and advances					
		-	-	-	2,979,302
Financial assets at amortised cost					
	Mortgage loans	-	21,920,887	-	21,920,887
	Consumer loans	-	1,716,486	-	1,716,486
	Other loans	3,205,133	6,305,840	6,276,536	30,470
	Other balances receivable	-	38,927	-	879,588
Total allocated assets		3,205,133	29,982,140	6,276,536	3,889,360
Total non-allocated assets					12,813,450
Total Assets					56,166,619
Liabilities					
Financial liabilities measured at amortised cost					
	Deposits - Central banks	-	-	-	7,410,242
	Deposits - Credit institutions	-	-	-	393,405
	Deposits - Customers	1,406,297	30,622,766	6,626,786	303,056
	Debt securities issued	-	-	-	3,006,747
Total allocated liabilities		1,406,297	30,622,766	6,626,786	11,113,450
Total non-allocated liabilities					2,146,432
Total Liabilities					51,915,730
Guarantees and sureties given		157,386	535,587	984,137	-
					1,677,110

As at December 31, 2022 and 2021, the Bank did not have relevant business in any geography besides that of the domestic business.

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

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE YEAR

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

Company	Direct Shareholding (%)		Effective Shareholding (%)		Net assets		Equity		Profit or loss for the year	
	31-12-2022	31-12-2021	31-12-2022	31-12-2021	31-12-2022	31-12-2021	31-12-2022	31-12-2021	31-12-2022	31-12-2021
BANCO SANTANDER TOTTA, S.A.	Holding	Holding	Holding	Holding	57,756,670	58,900,196	3,532,974	4,160,679	603,685	303,343
TOTTA (IRELAND), PLC (2)	100.00	100.00	100.00	100.00	798,140	568,046	455,780	460,490	254	1,088
TOTTA URBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. (1)	100.00	100.00	100.00	100.00	89,422	99,856	87,571	96,928	(10,105)	(4,748)
TAXAGEST, SGPS, SA	99.00	99.00	99.00	99.00	55,731	55,737	55,725	55,732	(8)	(12)
NOVIMOVEST - Fundo de Investimento Imobiliário	78.74	78.74	78.71	78.71	225,464	263,711	220,784	257,792	3,395	3,960
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	100.00	100.00	100.00	100.00	7,403	7,304	7,330	7,134	196	323
HIPOTOTTA NO. 4 PLC	-	-	-	-	451,903	511,024	(2,023)	(4,286)	2,194	(806)
HIPOTOTTA NO. 5 PLC	-	-	-	-	477,417	521,706	(10,861)	(12,849)	1,804	(2,307)
HIPOTOTTA NO. 4 FTC	-	-	-	-	388,719	450,577	384,172	447,251	(555)	1,928
HIPOTOTTA NO. 5 FTC	-	-	-	-	410,711	457,596	406,159	455,913	(208)	2,490
Operações de Securitização geridas pela GAMMA, STC	-	-	-	-	2,397,130	2,467,826	-	-	-	-
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.86	21.86	21.86	21.86	488,200	409,384	133,973	118,845	23,512	19,510

As at December 31, 2022 and 2021, the business, the location of the registered office, and the consolidation method used for the companies included in the consolidation were as follows:

Company	Activity	Registered office	Consolidation method
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Holding
TOTTA (IRELAND), PLC (2)	Investment management	Ireland	Full
TOTTA URBE - Emp. Admin. e Construções, S.A. (1)	Property management	Portugal	Full
TAXAGEST, SGPS, S.A.	Shareholding management	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Credit card issue and management	Portugal	Equity method
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 FTC	Securitised loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitised loans fund	Portugal	Full
Operações de Securitização geridas pela GAMMA, STC	Securitised loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário	Real Estate Fund	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitisation management	Portugal	Full

- (1) The equity of this subsidiary includes supplementary capital contributions amounting to Euros 99,760 thousand.
- (2) Due to this subsidiary having closed its financial year on November 30, the amounts reflected in the "Profit or loss for the year" columns correspond to the Net income determined between December 1 and December 31, 2022 (December 1 and December 31, 2021).

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

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

	31-12-2022	31-12-2021
Real estate portfolio	179,211	213,731
Accounts receivable	5,428	6,972
Cash and banks	40,754	42,901
Accruals and deferrals	71	107
	<u>225,464</u>	<u>263,711</u>
Fund capital	220,784	257,792
Adjustments and provisions	1,960	2,667
Accounts payable	1,094	1,037
Accruals and deferrals	1,626	2,215
	<u>225,464</u>	<u>263,711</u>

As at December 31, 2022 and 2021, the consolidated net income includes a profit of Euros 2,673 thousand and Euros 3,118 thousand, respectively, attributable to the Novimovest Fund.

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

The composition of this caption is as follows:

	31-12-2022	31-12-2021
Cash	307,313	341,297
Cash balances at central banks		
European Central Bank (ECB)	7,850,256	8,141,015
Other demand deposits at credit institutions		
Demand deposits	250,416	229,077
	<u>8,407,985</u>	<u>8,711,389</u>

According to the regulations in force, credit institutions established in the participating Member States are subject to setting aside minimum reserves in accounts held with the participating national central banks. The basis of incidence includes all deposits at central banks and at financial and monetary institutions located outside the Eurozone, and all customer deposits with maturities of less than two years. A coefficient of 1% is applied to this base.

As at December 31, 2022, the caption "Cash balances at central banks" includes funds to meet the requirements of the Eurosystem's Minimum Reserve System and overnight deposits through the Eurosystem's deposit facility. The component of cash available to meet the minimum reserve is currently remunerated at 2%, as are investments under the overnight liquidity absorption mechanism.

As at December 31, 2021, the caption "Cash balances at central banks" included funds to meet the requirements of the Eurosystem's Minimum Reserve System and excess reserves. The required minimum reserves were remunerated at the RFI rate (on that date this rate was zero). On September 12, 2019, the ECB Council decided to introduce a two-tier system for the remuneration of excess reserves, that would exempt part of the surplus liquidity of the institutions, that is, the part of the reserves that exceeded the mandatory reserves, from the negative remuneration at the interest rate applicable to the permanent deposit facility. The ECB Council decided, namely, to exempt a multiple of the mandatory reserves of the institutions, setting at six the initial multiplier 'm' of the mandatory reserves of the institutions that was 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 excess reserves could be adjusted over time by the ECB Council.

6. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

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

	31-12-2022	31-12-2021
Financial assets held for trading		
Derivatives with positive fair value	498,103	587,772
Financial liabilities held for trading		
Derivatives with negative fair value	508,057	605,331

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

	31-12-2022				31-12-2021			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
Forwards								
Purchases	175,819				308,284			
Sales	175,229	4,043	3,491	552	307,801	4,737	4,390	347
Currency swaps								
Purchases	949,426				974,114			
Sales	950,689	191	2,136	(1,945)	974,444	704	1,141	(437)
Interest rate swaps	24,207,273	458,804	467,400	(8,596)	25,580,771	523,864	541,203	(17,339)
Equity swaps	569,329	26,902	26,920	(18)	686,516	37,864	38,006	(142)
Currency options								
Purchases	138,315				120,523			
Sales	138,315	1,978	1,975	3	120,523	1,559	1,571	(12)
Equity options								
Purchases	7,942				16,262			
Sales	7,942	641	641	-	16,262	1,177	1,180	(3)
Interest rate caps & floors	435,471	5,544	5,494	50	913,972	17,867	17,840	27
	27,755,750	498,103	508,057	(9,954)	30,019,472	587,772	605,331	(17,559)

As at December 31, 2022, the captions of financial assets and liabilities held for trading are reduced by the amounts of, approximately, Euros 3,263 thousand and Euros 5,438 thousand of "Credit Value Adjustments" and "Debit Value Adjustments", respectively (Euros 3,977 thousand and Euros 715 thousand as at December 31, 2021, respectively), in accordance with the methodology described in Note 38.

As at December 31, 2022 and 2021, almost all the trading derivative financial instruments were hedged through a back-to-back strategy with Banco Santander, S. A..

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

The composition of this caption is as follows:

Description	Fair value	
	31-12-2022	31-12-2021
Equity Instruments		
Issued by credit institutions	31,020	99,167

The movement under this caption during 2022 and 2021 was as follows:

	31-12-2021	Purchases	Redemptions/ Amortisations/ Liquidations/Sales	Unrealised gains/losses	Realised gains/losses	31-12-2022
					(Note 28)	
Equity Instruments	99,167	463	(70,920)	41,099	(38,789)	31,020
	99,167	463	(70,920)	41,099	(38,789)	31,020

	31-12-2020	Purchases	Redemptions/ Amortisations/ Liquidations/Sales	Unrealised gains/losses	Realised gains/losses	31-12-2021
					(Note 28)	
Equity Instruments	132,905	498	(35,731)	1,137	358	99,167
	132,905	498	(35,731)	1,137	358	99,167

Redemptions/Amortisations/Liquidations/Sales in the 2022 financial year include Euros 33,838 thousand related to the Crow Project. Within the scope of this project, the Bank carried out the following actions:

- Acquisition of shares, ancillary capital contributions and shareholder loans of Solago – Investimentos Turísticos, S.A. from Investgave III which are accounted for at Euros 2,908 thousand under the caption “Non-current assets and disposal groups classified as held for sale” (Note 15);
- Subscription of 19,962 participation units of Fundo Turismo Algarve, FCR (Fund) accounted for at Euros 9,363 thousand under the caption “Non-current assets and disposal groups classified as held for sale” (Note 15);
- Capital decrease of Fundo Recuperação Turismo, FCR (Fund) of Euros 47,405 thousand and sale of participation units held for Euros 7,848 thousand;
- Capital decrease of Fundo Recuperação (FCR) (Fund) of Euros 3,049 thousand.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The composition of this caption is as follows:

	31-12-2022							
	Purchase cost	Interest receivable	Hedge adjustment	Fair Value Reserve			Other	Carrying amount
				Positive reserve	Negative reserve	Total		
Debt instruments						(Note 20)		(Note 17)
Issued by public residents	1,952,067	51,533	(142,648)	159,895	(13,624)	146,271	(1,846)	2,005,377
Issued by other residents	391	2	-	-	(1)	(1)	-	368
	1,952,458	51,535	(142,648)	159,895	(13,625)	146,270	(1,846)	2,005,745
Equity instruments	73,089	-	-	76,341	(333)	76,008	-	149,097
	2,025,547	51,535	(142,648)	236,236	(13,958)	222,278	(1,846)	2,154,842
Loans and advances	2,300,000	31,153	(267,304)	204,706	-	204,706	-	2,268,555
	4,325,547	82,688	(409,952)	440,942	(13,958)	426,984	(1,846)	4,423,397

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

During the first half of 2022, the Bank revalued its stake in SIBS – Sociedade Interbancária de Serviços, S.A., with the valuation being carried out by external experts.

The movement under this caption during 2022 and 2021 was as follows:

	31-12-2021	Purchase s	Redemptions/ Amortisations/ Liquidations/ Sales	Gains/Losses				Impairmen t	31-12-2022
				Unrealise d	Realised through Profit or loss	Realised through Equity	Interest/ Hedging/ Other		
Equity instruments	72,520	2,103	(1,871)	76,341	-	-	4	-	149,097
Debt securities	2,288,091	-	(802)	(108,996)	-	-	(172,576)	28	2,005,745
	2,360,611	2,103	(2,673)	(32,655)	-	-	(172,572)	28	2,154,842

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

The sub-caption "Debt instruments issued by public residents" presented the following characteristics:

Description	31-12-2022				31-12-2021			
	Acquisition cost	Interest receivable	Gains/Losses and other	Carrying amount	Acquisition cost	Interest receivable	Gains/Losses and other	Carrying amount
. Maturity up to three years	31,076	184	(1,106)	30,154	-	-	-	-
. Maturity between three and five years	1,865,880	49,646	5,572	1,921,098	1,797,461	49,681	268,459	2,115,601
. Maturity between five and ten years	54,625	1,699	(2,629)	53,695	155,129	1,848	13,918	170,895
. Maturity over ten years	486	4	(60)	430	487	4	(41)	450
	1,952,067	51,533	1,777	2,005,377	1,953,077	51,533	282,336	2,286,946

9. FINANCIAL ASSETS AT AMORTISED COST

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

	31-12-2022	31-12-2021
Securitised credit		
. Commercial paper	2,689,539	2,738,472
. Bonds	900,922	712,548
Interest receivable	16,099	11,122
Value adjustments of hedged assets	(129,138)	3,202
Commissions associated with amortised cost (net)	(1,172)	(930)
	3,476,250	3,464,414
Impairment of debt securities (Note 17)	(4,850)	(5,622)
	3,471,400	3,458,792

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

	31-12-2022	31-12-2021
Loans and advances - Customers		
To corporate customers		
Overdrafts and current account loans	946,003	907,078
Factoring loans	1,738,983	1,959,327
Commercial book - other	172,505	229
Finance leasing	992,105	1,122,300
Loans	8,106,310	8,614,770
Other advances	37,987	33,750
To individuals		
Overdrafts and current account loans	110,344	107,707
Finance leasing	142,683	163,927
Loans	24,852,582	23,575,844
Other advances	454,998	452,549
	<u>37,554,500</u>	<u>36,937,480</u>
Interest receivable	79,320	48,240
Value adjustments of hedged assets	(69,367)	2,605
Commissions associated with amortised cost (net)	(5,814)	(16,272)
	<u>4,139</u>	<u>34,573</u>
	<u>37,558,639</u>	<u>36,972,053</u>
Other balances receivable		
Margin/Escrow accounts	419,533	587,536
Cheques collectible	68,283	38,927
Sundry debtors and other cash equivalents	251,452	299,848
	<u>739,268</u>	<u>926,311</u>
Loans and advances - Credit institutions		
Loans	23,158	30,430
Purchase operations with resale agreement	-	26
Interest receivable	4	1
Deferred expenses/Deferred income	(59)	130
	<u>23,103</u>	<u>30,587</u>
Loans and advances	<u>38,321,010</u>	<u>37,928,951</u>
Impairment of loans and advances - Customers and other balances receivable	(941,331)	(1,013,759)
Impairment of loans and advances - Credit institutions	(115)	(117)
Impairment of loans and advances (Note 17)	<u>(941,446)</u>	<u>(1,013,876)</u>
	<u>37,379,564</u>	<u>36,915,075</u>

* Presentation of financial year 2021 suffered minor changes compared to Notes to the financial statements of the previous year

In financial years ended December 31, 2022 and 2021, portfolios of loans granted to individuals and companies were sold, with a carrying amount of Euros 103,870 thousand and Euros 96,698 thousand, respectively. As a result of these transactions, in 2022 and 2021, gains and losses were recorded in the net amount of Euros 7,276 thousand (Note 17), and Euros 6,376 thousand, respectively.

As at December 31, 2022 and 2021, the caption "Loans and advances - Customers - To individuals" included mortgage loans, assigned to the autonomous net assets of the covered bonds issued by the Bank, in the amounts of Euros 10,237,229 thousand and Euros 9,965,945 thousand, respectively (Note 16).

The sub-caption "Sundry debtors and other cash equivalents" includes Euros 157,699 thousand originating from Banif's tax losses (Note 12).

The movement in impairment losses during 2022 and 2021 is presented in Note 17.

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

	31-12-2022			31-12-2021		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Stage 1	35,735,981	(64,379)	0.18%	33,733,999	(65,342)	0.19%
Stage 2	4,973,001	(274,751)	5.52%	6,400,716	(280,518)	4.38%
Stage 3	1,088,278	(607,166)	55.79%	1,258,650	(673,638)	53.52%
	<u>41,797,260</u>	<u>(946,296)</u>		<u>41,393,365</u>	<u>(1,019,498)</u>	

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

31-12-2022					
Counterparts	Non-performing exposures, net	With reduced probability of payment, but not overdue or overdue by <= 90 days	Overdue > 90 days <= 180 days	Overdue > 180 days <= 5 years	Overdue > 5 years
Debt securities	15	15	-	-	-
Non-financial companies	15	15	-	-	-
Loans and advances	481,097	302,338	26,944	123,102	28,713
Public sector	97	97	-	-	-
Credit institutions	124	124	-	-	-
Other financial companies	136	23	-	106	7
Non-financial companies	314,992	223,985	7,335	66,655	17,017
Individuals	165,748	78,109	19,609	56,341	11,689
Total financial assets at amortised cost	481,112	302,353	26,944	123,102	28,713

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

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

	Loans and advances at amortised cost				Impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 31-12-2020	35,182,147	4,252,383	1,390,969	40,825,499	92,478	163,132	749,307	1,004,917
Transfers:								
Stage 1 to 2	(3,391,468)	3,391,468	-	-	(5,538)	128,291	-	122,753
Stage 1 to 3	(83,436)	-	83,436	-	(377)	-	21,856	21,479
Stage 2 to 3	-	(75,291)	75,291	-	-	(4,850)	29,986	25,136
Stage 2 to 1	847,539	(847,539)	-	-	2,311	(18,159)	-	(15,848)
Stage 3 to 2	-	46,146	(46,146)	-	-	6,436	(17,651)	(11,215)
Stage 3 to 1	3,003	-	(3,003)	-	129	-	(466)	(337)
Macroeconomic overlay	-	-	-	-	(39,400)	(46,700)	(47,300)	(133,400)
Re-rating overlay	(300,000)	300,000	-	-	-	15,000	-	15,000
Idiosyncratic overlay	378,700	(378,700)	-	-	-	11,900	-	11,900
Other	-	-	-	-	-	8,000	3,000	11,000
Write-offs and sales	-	-	(98,662)	(98,662)	-	-	(72,295)	(72,295)
Origination, net of amortisations	1,097,514	(287,751)	(143,235)	666,528	15,739	17,468	7,201	40,408
Balance as at 31-12-2021	33,733,999	6,400,716	1,258,650	41,393,365	65,342	280,518	673,638	1,019,498
Transfers:								
Stage 1 to 2	(1,283,116)	1,283,116	-	-	(3,822)	54,736	-	50,914
Stage 1 to 3	(80,353)	-	80,353	-	(635)	-	21,265	20,630
Stage 2 to 3	-	(118,663)	118,663	-	-	(13,754)	53,827	40,073
Stage 2 to 1	1,717,920	(1,717,920)	-	-	3,105	(56,921)	-	(53,816)
Stage 3 to 2	-	78,614	(78,614)	-	-	9,476	(36,085)	(26,609)
Stage 3 to 1	9,960	-	(9,960)	-	206	-	(1,515)	(1,309)
Re-rating overlay	300,000	(300,000)	-	-	-	(15,000)	-	(15,000)
Idiosyncratic overlay 2021	2,054,300	(2,054,300)	-	-	-	(68,900)	-	(68,900)
Idiosyncratic overlay 2022	(1,688,000)	1,688,000	-	-	-	101,000	-	101,000
Mortgages overlay	(450,000)	450,000	-	-	-	17,000	-	17,000
Other	-	-	-	-	-	(8,000)	(3,000)	(11,000)
Write-offs and sales	-	-	(78,495)	(78,495)	-	-	(76,752)	(76,752)
Origination, net of amortisations	1,421,271	(736,562)	(202,319)	482,390	183	(25,404)	(24,212)	(49,433)
Balance as at 31-12-2022	35,735,981	4,973,001	1,088,278	41,797,260	64,379	274,751	607,166	946,296

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

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

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

- Bearing in mind an expected deterioration in companies' financial year 2020 accounts, a new re-rating overlay was recorded. This overlay led to a reclassification of Euros 300 million of exposure from stage 1 to stage 2 and an increase in impairment of Euros 15 million;
- The idiosyncratic overlay was updated, having been endowed with a new increase in impairment of Euros 11.9 million, essentially in the portfolio clients (clients with a risk manager) due to a deterioration of the internal rating, with a return to stage 1 of Euros 378.7 million of exposure being partly offset by the re-rating overlay;
- At the end of the financial year, the Bank recalibrated the IFRS 9 model (PD, LGD and EAD) and included the new macroeconomic scenarios in all PD and LGD models. With this update the model began to incorporate the expectations of the evolution of the economy and with this the macroeconomic overlay ceased to apply, with the corresponding impairment values being allocated to the respective exposures.

In the 2022 financial year, the treatment given by the Bank to Overlays was:

- The 2022 financial year demonstrated that there has been no significant deterioration, since the end of the moratoriums, in the sectors most affected by the pandemic. In this sense, the Bank cancelled the Idiosyncratic Overlay for these sectors in the amount of Euros 68.9 million;
- The year 2022 was indelibly marked by Russia's invasion of Ukraine and subsequent war, still ongoing. Its shock waves, materialised in a second supply shock on the world economy, had effects in terms of energy and other raw materials. The sharp rise in the prices of these goods, in the first half of 2022, amplified the inflationary effects that were already underway, contributing to a more pronounced and faster rise in reference interest rates by the main central banks. Inflation in developed economies reached three-decade highs in 2022, and the deceleration has proven to be more gradual than initially expected, even with the strongest tightening of monetary policy. The effects of falling energy prices on inflation were partially offset by rising prices of goods and services excluding food and energy (the so-called "underlying inflation"). This slower decline in inflation resulted in the maintenance, by the main central banks, of a strong focus on controlling inflation, signalling that, as a result of latent risks, rates may rise further and remain high for a longer period. The full effect of the rise in interest rates on credit, in particular on mortgages, should be felt during 2023, considering the periodicity of the resetting of the index. In this context, the Bank set up two Overlays:
 - Idiosyncratic overlay of Euros 101.0 million for the sectors most affected by increases in energy and raw material costs; and
 - Mortgages overlay of Euros 17 million for home mortgage operations, originated under the macro-prudential perspective of earnings under Euros 1,200 with an effort rate exceeding 50% in a context of Euribor at 3.5%.

10. DERIVATIVES - HEDGE ACCOUNTING

The composition of this caption is as follows:

Type of financial instrument	31-12-2022					
	Carrying amount		Notional value			Total
	Assets	Liabilities	Up to 3 months	Between 3 months and 1 year	More than 1 year	
Hedging derivative instruments						
Fair value hedges						
Interest rate swaps						
Liabilities and loans	183,817	96	311	253,823	2,964,280	3,218,414
Financial assets at fair value through other comprehensive income	418,010	9,294	1,500,000	-	5,946,000	7,446,000
Equity swaps	-	234	-	-	7,942	7,942
Cash flow hedges						
Interest rate swaps	-	174,147	-	10,000,000	-	10,000,000
	<u>601,827</u>	<u>183,771</u>	<u>1,500,311</u>	<u>10,253,823</u>	<u>8,918,222</u>	<u>20,672,356</u>
Type of financial instrument	31-12-2021					
	Carrying amount		Notional value			Total
	Assets	Liabilities	Up to 3 months	Between 3 months and 1 year	More than 1 year	
Hedging derivative instruments						
Fair value hedges						
Interest rate swaps						
Liabilities and loans	5,592	40,848	16,077	28,345	2,988,767	3,033,189
Financial assets at fair value through other comprehensive income	-	253,238	-	-	3,380,000	3,380,000
Equity swaps	312	-	8,151	-	8,111	16,262
Cash flow hedges						
Interest rate swaps	1,543	22	-	-	10,000,000	10,000,000
	<u>7,447</u>	<u>294,108</u>	<u>24,228</u>	<u>28,345</u>	<u>16,376,878</u>	<u>16,429,451</u>

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

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

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

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

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

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

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

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

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

11. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

The composition of this caption is as follows:

	31-12-2022		31-12-2021	
	Effective shareholding (%)	Carrying amount	Effective shareholding (%)	Carrying amount
Unicre - Instituição Financeira de Crédito, S.A.	21.86	41,468	21.86	38,161

As at December 31, 2022 and 2021, the financial investments held in Unicre included goodwill. The impairment test conducted on the goodwill from Unicre revealed no impairment losses in this financial investment.

As of this day, there are no liabilities to be met vis-à-vis the associates, nor are there any contingent liabilities to be recognised by the Bank arising from the holdings therein.

12. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The composition of this caption is as follows:

Investment property

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

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

	31-12-2022	31-12-2021
Land		
Urbanised	20,293	21,044
Non-urbanised	1,002	1,015
Finished constructions		
Leased	131,036	142,239
Non-leased	26,880	49,433
	<u>179,211</u>	<u>213,731</u>

On the other hand, during the 2022 and 2021 years, the property held by the Novimovest Real Estate Fund generated, among other, the following annual income and expenses:

	31-12-2022	31-12-2021
Lease rentals (Note 30)	8,753	10,287
Taxes	(644)	(798)
Condominium charges	(252)	(992)
Maintenance and repairs	(200)	(584)
Insurance	(112)	(137)
	<u>7,545</u>	<u>7,776</u>

The movement under the sub-caption "Investment property", during 2022 and 2021, was as follows:

	2022			
	Balance as at 31-12-2021	Additions	Fair value adjustment	Balance as at 31-12-2022
Property held by Fundo Imobiliário Novimovest	213,731	70	(1,206)	179,211

	2021			
	Balance as at 31-12-2020	Additions	Fair value adjustment	Balance as at 31-12-2021
Property held by Fundo Imobiliário Novimovest	250,531	346	(654)	213,731

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

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

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

	Level 3	
	31-12-2022	31-12-2021
Investment property	<u>179,211</u>	<u>213,731</u>

In accordance with the requirements established by IFRS 13, a summary of their main characteristics, the valuation techniques adopted, and the most relevant inputs used in determining their fair value are presented below for the investment property with the highest value in the Group's portfolio as at December 31, 2022 and 2021:

Description of the property	Use	Value on		Valuation technique	Relevant inputs
		31-12-2022	31-12-2021		
Stª Cruz do Bispo - Lots 1, 2 & 3					
Retail Park in Matosinhos	Leased	48,979	48,656	Income method / Comparative market method	Lease value per m ² Capitalisation rate
Warehouse in Perafita					
Warehouse in Matosinhos	Leased	16,045	15,967	Income method / Comparative market method	Lease value per m ² Capitalisation rate
Av. Antero de Quental, 9					
Offices and shop in Ponta Delgada	Leased	11,306	11,397	Income method / Comparative market method	Lease value per m ² Capitalisation rate
Estrada da Outurela, 119, Camaxide					
Offices in Oeiras	Leased	11,069	11,141	Income method / Comparative market method Income method / Cost method	Lease value per m ² Capitalisation rate
Campos de Golf Vila Sol - G1 e G2	Leased	12,203	12,147	Income method / Cost method	Lease value per m ² Capitalisation rate
Golf Courses in Loulé					
Land in Valongo	Under construction	10,238	10,185	Comparative market method / Cost method Residual value method	Land value and Construction and marketing cost per m ²
		109,840	109,493		

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

OTHER PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The movement under these captions during financial years 2022 and 2021 can be presented as follows.

	2022												
	31-12-2021				Write-offs and sales		Transfers to/from other assets		Depreciation	31-12-2022			
	Gross amount	Accumulated depreciation	Impairment	Additions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation		Gross amount	Accumulated depreciation	Impairment	Carrying amount
	(Note 17)						(Note 14)		(Note 17)				
Property, plant and equipment													
Property													
. Property for own use	335,573	(126,979)	(6,146)	2,117	-	-	(9,948)	6,412	(6,501)	327,742	(127,068)	(6,146)	194,528
. Leasehold expenditure	9,162	(7,049)	-	521	-	-	(242)	232	(455)	9,441	(7,272)	-	2,169
. Rights of use (Note 16)	41,399	(16,854)	-	3,697	(1,406)	-	-	-	(4,250)	43,690	(21,104)	-	22,586
. Other property	167	(81)	-	-	-	-	-	-	(2)	167	(83)	-	84
	386,301	(150,963)	(6,146)	6,335	(1,406)	-	(10,190)	6,644	(11,208)	381,040	(155,527)	(6,146)	219,367
Equipment	158,756	(106,278)	-	8,209	(23,493)	20,360	(84)	57	(10,975)	143,388	(96,836)	-	46,552
Other property, plant and equipment	2,176	(77)	-	-	-	-	-	-	-	2,176	(77)	-	2,099
	160,932	(106,355)	-	8,209	(23,493)	20,360	(84)	57	(10,975)	145,564	(96,913)	-	48,651
	547,233	(257,318)	(6,146)	14,544	(24,899)	20,360	(10,274)	6,701	(22,183)	526,604	(252,440)	(6,146)	268,018
Intangible assets													
Software	132,342	(99,854)	-	24,928	-	-	-	-	(23,133)	157,270	(122,987)	-	34,283
Other intangible assets	2,009	(2,009)	-	-	-	-	-	-	-	2,009	(2,009)	-	-
Goodwill	1,160	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	135,511	(101,863)	-	24,928	-	-	-	-	(23,133)	160,439	(124,996)	-	35,443

	2021														
	31-12-2020			Additions	Write-offs and sales		Transfers to/from other assets		Other		Depreciation	31-12-2021			
	Gross amount	Accumulated depreciation	Impairment		Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Impairment		Gross amount	Accumulated depreciation	Impairment	Carrying amount
			(Note 17)				(Note 14)		(Note 17)				(Note 17)		
Property, plant and equipment															
Property															
Property for own use	402,826	(141,579)	(23,623)	818	(3,910)	1,648	(64,161)	20,862	-	17,477	(7,910)	335,573	(126,979)	(6,146)	202,448
Leasehold expenditure	26,770	(21,871)	-	206	(14,377)	14,192	(3,437)	1,215	-	-	(585)	9,162	(7,049)	-	2,113
Rights of use (Note 16)	37,155	(12,335)	-	5,345	(1,101)	-	-	-	-	-	(4,519)	41,399	(16,854)	-	24,545
Other property	167	(80)	-	-	-	-	-	-	-	-	(1)	167	(81)	-	86
	466,918	(175,865)	(23,623)	6,369	(19,388)	15,840	(67,598)	22,077	-	17,477	(13,015)	386,301	(150,963)	(6,146)	229,192
Equipment	170,388	(106,007)	-	12,048	(19,995)	12,153	(3,653)	1,240	(32)	-	(13,664)	158,756	(106,278)	-	52,478
Other property, plant and equipment	2,184	(75)	-	-	(8)	-	-	-	-	-	(2)	2,176	(77)	-	2,099
	172,572	(106,082)	-	12,048	(20,003)	12,153	(3,653)	1,240	(32)	-	(13,666)	160,932	(106,355)	-	54,577
	639,490	(281,947)	(23,623)	18,417	(39,391)	27,993	(71,251)	23,317	(32)	17,477	(26,681)	547,233	(257,318)	(6,146)	283,769
Intangible assets															
Software	111,955	(77,235)	-	17,375	-	-	-	-	3,012	-	(22,619)	132,342	(99,854)	-	32,488
Other intangible assets	5,079	(4,386)	-	2,287	(2,377)	2,377	-	-	(2,980)	-	-	2,009	(2,009)	-	-
Goodwill	1,160	-	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	118,194	(81,621)	-	19,662	(2,377)	2,377	-	-	32	-	(22,619)	135,511	(101,863)	-	33,648

13. TAX ASSETS AND LIABILITIES

The composition of these captions is as follows:

	31-12-2022	31-12-2021
Current tax assets	2,221	2,459
Deferred tax assets	242,811	252,049
	<u>245,032</u>	<u>254,508</u>
Current tax liabilities	129,741	79,161
Deferred tax liabilities	144,255	265,686
	<u>273,996</u>	<u>344,847</u>
Deferred taxes	<u>98,556</u>	<u>(13,637)</u>

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

	31-12-2022	31-12-2021
Current taxes	(211,571)	(87,501)
Deferred taxes	(55,669)	(45,113)
	<u>(267,240)</u>	<u>(132,614)</u>

The movement in deferred tax assets and liabilities during the years ended December 31, 2022 and 2021, is as follows:

	Balance as at 31-12-2021	Other comprehensive income	Profit or loss	Balance as at 31-12-2022
Provisions/Impairment temporarily not accepted for tax purposes:				
. Deferred tax assets	126,066	-	(39,760)	86,306
. Deferred tax liabilities	(5,222)	-	-	(5,222)
Revaluation of property, plant and equipment:				
. Deferred tax assets	1,144	-	(286)	858
. Deferred tax liabilities	(1,714)	-	138	(1,576)
Pensions:				
. Early retirement pensions	65,105	-	(8,604)	56,501
. Retirement pensions	4,111	-	(598)	3,513
. Transfer of pension liabilities to Social Security	3,232	-	(323)	2,909
Financial assets at fair value through other comprehensive income	(231,625)	120,781	-	(110,844)
Hedging derivatives - cash flows	313	47,081	-	47,394
Financial assets at fair value through profit or loss	44,589	-	(5,856)	38,733
Securitisation operations	(23,266)	-	489	(22,777)
Other	3,630	-	(869)	2,761
	<u>(13,637)</u>	<u>167,862</u>	<u>(55,669)</u>	<u>98,556</u>

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

To use the deferred taxes carried over from Banif, on May 29, 2018, the Bank submitted a replacement Model 22 (Corporate Income Tax) return, regarding the 2015 financial year. The submission of that tax return was motivated by the calculation of the result of Banif's 2015 financial year and the approval, by the Minister of Finance, of the request for the transfer of Banif's deferred taxes to the Bank (as per Order No. 138/2018/MF, of March 9, 2018). However, by Order of the Deputy Director of the Major Taxpayers Unit dated November 26, 2019 ("Order of the Tax Authority"), the Bank was only recognised the right to use Banif's deferred taxes for the years 2009 through 2014. As it disagreed with the Order of the Tax Authority, on January 13, 2020 the Bank filed a hierarchical appeal to the Minister of Finance. On June 30, 2020, the Sub-Director-General of the Tax Management - Income Taxes area decided to dismiss the hierarchical appeal submitted. Even though the Order of the Tax Authority and the Order of the Sub-Director-General only recognised the Bank's right to take advantage of Banif's deferred taxes in the total amount of Euros 92,301 thousand, the Bank has the right - under the agreement with the Portuguese authorities involved in Banif's resolution proceedings - to a compensation of Euros 157,699 thousand, in cash or treasury bills. To comply with this decision, the Bank transferred, in 2020, the amount in question from this caption to the caption "Other balances receivable" (Note 9).

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 prior as a result of the application of the arrangements provided for in Article 51 of the Corporate Tax Code that provides for the elimination of double taxation of distributed profits.

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

The Bank was subject to a tax inspection up to and including financial year 2019. As a result of the inspection of financial year 2017, it was subject to an additional Corporate Tax assessment. To cover for this assessment, the Bank created a provision in the amount of Euros 17,705 thousand, with same having been used in 2022 upon its payment (Note 17). In the matter of Stamp Duty, the Bank was also subject to an additional assessment. The corrections made to taxable income covered various matters and most are merely timing corrections.

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

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

14. OTHER ASSETS

The composition of this caption is as follows:

	31-12-2022	31-12-2021
Other income receivable		
Placement of securities funds	5,082	4,144
Credit operations	50	50
Other services rendered	16,954	17,759
Other	2,271	2,279
Promises of payment in kind, auctions and other assets received as payment in kind	89,404	181,281
Gold, other precious metals, coins and medals	3,145	3,145
Deferred expenses	6,625	3,117
Liabilities - pensions and other benefits (Note 35)		
Liabilities - BST	(935,876)	-
BST Pension Fund book value	1,008,553	-
Liabilities - London Branch	(31,143)	-
London Branch Pension Fund book value	32,231	-
Liabilities - ex-Banif	(131,550)	-
Ex- Banif Pension Fund book value	91,671	-
Liabilities - ex-BAPOP	(140,719)	-
Ex-BAPOP Pension Fund book value	173,365	-
Values in transit and other transactions to be settled	19,199	38,649
	<u>209,262</u>	<u>250,424</u>
Impairment losses of assets received as payment in kind (Note 17)	(57,301)	(102,088)
	<u>151,961</u>	<u>148,336</u>

* Presentation of financial year 2021 suffered minor changes compared to Notes to the financial statements of the previous year

The sub-caption "Income receivable – other services rendered" mainly includes fees receivable from insurers for the marketing of their insurance (Note 34).

The movement in the sub-caption “Promises of payment in kind, auctions and other assets received as payment in kind” during the years ended December 31, 2022 and 2021 was as follows:

	December 31, 2021					Transfers/ NCAHFS	Transfers/ property, plant and equipment	Impairment (Note 17)			December 31, 2022		
	Gross amount	Impairment	Carrying amount	Additions	Sales/ write-offs	Capital		Increases	Reversals	Use	Gross amount	Impairment	Carrying amount
	(Note 17)					(Note 15)	(Note 12)				(Note 17)		
Assets received as payment in kind													
Real estate	37,331	(24,190)	13,141	-	-	(25,615)	-	(1,429)	20,336	-	11,716	(5,283)	6,433
Promises of payment in kind	337	(337)	-	-	-	(151)	-	-	151	-	186	(186)	-
Auctions	6,813	(2,924)	3,889	2,427	(14)	(5,309)	-	(47)	1,254	10	3,917	(1,707)	2,210
Other	27,849	(24,019)	3,830	9,147	(3,455)	(11,987)	-	(786)	3,203	1,192	21,554	(20,410)	1,144
Own use real estate for sale	39,838	(25,771)	14,067	41	(23,945)	-	3,573	(229)	6,790	8,228	19,507	(10,982)	8,525
Other real estate for sale	69,113	(24,847)	44,266	220	(36,809)	-	-	(7,395)	4,439	9,070	32,524	(18,733)	13,791
	181,281	(102,088)	79,193	11,835	(64,223)	(43,062)	3,573	(9,886)	36,173	18,500	89,404	(57,301)	32,103

	December 31, 2020					Transfers/ NCAHFS		Transfers/ property, plant and equipment	Impairment (Note 17)				December 31, 2021		
	Gross amount	Impairmen t	Carrying amount	Additions	Sales/ write-offs	Capital	Impairmen t		Increase s	Reversals	Use	Outros	Gross amount	Impairmen t	Carrying amount
	(Note 17)					(Note 15)	(Note 17)		(Note 12)					(Note 17)	
Assets received as payment in kind															
Real estate	51,356	(29,489)	21,867	-	-	(14,025)	5,299	-	-	-	-	-	37,331	(24,190)	13,141
Promises of payment in kind	1,856	(64)	1,792	147	(860)	(806)	-	-	(1,317)	183	861	-	337	(337)	-
Auctions	15,783	(6,316)	9,467	5,283	(2,287)	(11,966)	-	-	(1,681)	3,534	1,539	-	6,813	(2,924)	3,889
Other	32,546	(25,942)	6,604	5,308	(8,979)	(1,026)	-	-	(2,819)	3,371	1,371	-	27,849	(24,019)	3,830
Own use real estate for sale	47,071	(29,980)	17,091	376	(18,086)	(37,457)	-	47,934	(1,183)	4,178	6,942	(5,728)	39,838	(25,771)	14,067
Other real estate for sale	84,867	(11,494)	73,373	-	(15,754)	-	-	-	(14,740)	-	1,387	-	69,113	(24,847)	44,266
	233,479	(103,285)	130,194	11,114	(45,966)	(65,280)	5,299	47,934	(21,740)	11,266	12,100	(5,728)	181,281	(102,088)	79,193

As at December 31, 2022 and 2021, the typology of real estate in the portfolio of assets received as payment in kind - real estate, is as follows:

Typology	2022				2021			
	No. properties	Gross amount	Impairment	Carrying amount	No. properties	Gross amount	Impairment	Carrying amount
Real estate								
Urban land	5	864	(233)	631	5	1,094	(440)	654
Rural land	6	310	(296)	14	20	1,513	(810)	703
Constructed buildings								
. Residential	35	3,598	(1,661)	1,937	304	22,478	(14,845)	7,633
. Commercial	25	6,944	(3,093)	3,851	67	12,246	(8,095)	4,151
	71	11,716	(5,283)	6,433	396	37,331	(24,190)	13,141
Other real estate for sale								
Urban land	158	9,437	(3,470)	5,967	591	34,127	(11,389)	22,738
Rural land	61	18,912	(13,698)	5,214	94	22,844	(12,348)	10,496
Constructed buildings								
. Residential	13	842	(220)	622	122	3,534	(76)	3,458
. Commercial	26	3,333	(1,345)	1,988	47	8,608	(1,034)	7,574
	258	32,524	(18,733)	13,791	854	69,113	(24,847)	44,266
	329	44,240	(24,016)	20,224	1,250	106,444	(49,037)	57,407

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

As at December 31, 2022 and 2021, the manner of determining the fair value of the "Promises of payment in kind, auctions and other assets received as payment in kind" in accordance with the levels defined in IFRS 13 is as level 3.

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

The movement under this caption was as follows:

	December 31, 2021				Transfers from other assets		Impairment (Note 17)			December 31, 2022		
	Gross amount	Accumulated impairment	Additions	Sales	Capital	Impairment	Increases	Reversals	Use and other	Gross amount	Accumulated impairment	Carrying amount
		(Note 17)			(Note 14)	(Note 17)					(Note 17)	
Assets received as payment in kind												
Real estate	79,017	(41,873)	491	(54,080)	43,062	-	(33,892)	20,855	12,425	68,490	(42,485)	26,005
Equipment	2,407	(2,100)	1,083	(1,585)	-	-	(1,313)	1,002	709	1,905	(1,702)	203
Other assets	-	-	17,541	-	-	-	-	-	-	17,541	-	17,541
Own use real estate for sale	37,457	-	-	(37,457)	-	-	-	-	-	-	-	-
	118,881	(43,973)	19,115	(93,122)	43,062	-	(35,205)	21,857	13,134	87,936	(44,187)	43,749

	December 31, 2020				Transfers from other assets		Impairment (Note 17)			December 31, 2021		
	Gross amount	Accumulated impairment	Additions	Sales	Capital	Impairment	Increases	Reversals	Use and other	Gross amount	Accumulated impairment	Carrying amount
		(Note 17)			(Note 14)	(Note 17)					(Note 17)	
Assets received as payment in kind												
Real estate	92,345	(41,292)	5,474	(46,625)	27,823	(5,299)	(9,505)	3,903	10,320	79,017	(41,873)	37,144
Equipment	2,006	(1,599)	1,770	(1,369)	-	-	(878)	177	200	2,407	(2,100)	307
Own use real estate for sale	-	-	-	-	37,457	-	-	-	-	37,457	-	37,457
	94,351	(42,891)	7,244	(47,994)	65,280	(5,299)	(10,383)	4,080	10,520	118,881	(43,973)	74,908

In the first half of 2022, the Bank disposed of the central building (Ramalho Ortigão), which was on the balance sheet for Euros 35 million, with the materialisation of this transaction giving rise to a capital gain recorded in the caption "Profit or loss on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" (Note 33).

As at December 31, 2022 and 2021, the typology of real estate in the portfolio of assets received as payment in kind - real estate, is as follows:

Typology	2022				2021			
	No. properties	Gross amount	Impairment	Carrying amount	No. properties	Gross amount	Impairment	Carrying amount
Urban land	87	9,423	(5,621)	3,802	146	16,131	(9,094)	7,037
Rural land	70	10,525	(9,002)	1,523	84	19,214	(12,743)	6,471
Constructed buildings								
. Residential	355	32,448	(17,177)	15,271	233	27,352	(10,313)	17,039
. Commercial	73	16,094	(10,685)	5,409	72	16,323	(9,723)	6,600
	585	68,490	(42,485)	26,005	535	79,020	(41,873)	37,147

As part of the Guadiana project, the Bank entered into a promissory purchase and sale agreement in the second half of 2022 in respect of a portfolio of 563 properties for a sales price of Euros 23 million. The derecognition of the property from the balance sheet will occur as the deeds are executed. As at December 31, 2022, the deeds of 140 properties were executed for a sales price of Euros 4 million, with the gains/losses realised on this sale being recorded under the caption "Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" (Note 33).

The initial recognition of these assets is carried out at the lower of their fair value less their expected selling costs and the book value of the loan granted object of the recovery, being tested for impairment on the date of reclassification to this caption. On the other hand, assets recovered following the termination of finance lease contracts are recorded under assets for the principal outstanding on the date of termination of the contract.

Real estate is subject to periodic valuations performed by independent appraisers. Whenever the amount arising from these valuations (net of selling expenses) is lower than the amount at which the properties are measured, impairment losses are recorded. If, on a subsequent date, the facts that led the Bank to record impairment losses no longer exist, the Bank will reverse the impairment losses, up to the limit of the amount that the assets would have, had they not been reclassified to non-current assets held for sale.

The valuations of these properties are carried out in accordance with one of the following methods, applied according to the specific situation of the asset:

a) Market method

The market comparison criterion is based on real-estate transaction figures for similar property comparable to the property constituting the object of the study, obtained through market research conducted in the area where the property is located.

b) Income method

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

The valuations performed of the property referred to above are carried out by independent, specialised entities accredited by the Portuguese Securities Markets Commission (Comissão do Mercado de Valores Mobiliários ("CMVM")).

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

16. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

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

	31-12-2022	31-12-2021
Deposits - Central banks		
Resources from European Central Bank - Deposits	4,113,627	7,401,255
Resources from other central banks - Deposits	87	8,987
	<u>4,113,714</u>	<u>7,410,242</u>
Deposits - Credit institutions		
Resources from credit institutions		
Short-term resources	4,965	147,271
Deposits	737,192	245,971
Sale operations with repurchase agreement	2,071,901	33
Interest payable/deferred expenses	354	130
	<u>2,814,412</u>	<u>393,405</u>
Deposits - Customers		
Demand deposits	24,788,888	24,309,763
Term deposits	13,771,591	14,062,767
Advance notice deposits	2,000	-
Structured deposits	137	8,231
Saving deposits	493,300	573,104
Interest and charges payable	5,697	4,988
Value adjustments for hedging operations	1	51
	<u>39,061,614</u>	<u>38,958,904</u>
Deposits	<u>45,989,740</u>	<u>46,762,551</u>

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

	31-12-2022			
	Capital	Interest	Deferred expenses	Total
Debt instruments of foreign public issuers	(99,926)	-	(20)	(99,946)
Debt instruments of other issuers	2,188,074	-	(16,227)	2,171,847
	<u>2,088,148</u>	<u>-</u>	<u>(16,247)</u>	<u>2,071,901</u>

	31-12-2021			
	Capital	Interest	Deferred expenses	Total
Debt instruments of national public issuers	(99,868)	-	(105)	(99,973)
Debt instruments of other non-resident issuers	99,945	-	61	100,006
	<u>77</u>	<u>-</u>	<u>(44)</u>	<u>33</u>

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

	31-12-2022			31-12-2021		
	Issued	Reacquired	Balance	Issued	Reacquired	Balance
Mortgage bonds						
Opening balance	8,600,000	(6,600,000)	2,000,000	8,800,000	(6,800,000)	2,000,000
Issued	750,000	(750,000)	-	-	-	-
Reacquired	-	(23,800)	(23,800)	-	-	-
Redeemed	(750,000)	750,000	-	(200,000)	200,000	-
Closing balance	8,600,000	(6,623,800)	1,976,200	8,600,000	(6,600,000)	2,000,000
Interest payable	-	-	9,250	-	-	9,339
Cost-related commissions	-	-	(14,472)	-	-	(18,674)
	8,600,000	(6,623,800)	1,970,978	8,600,000	(6,600,000)	1,990,665
Bonds issued in the scope of securitisation operations						
Opening balance	3,374,158	(2,837,840)	536,318	3,806,917	(3,192,235)	614,682
Issued	665,930	-	665,930	-	-	-
Reacquired	-	(9,430)	(9,430)	-	-	-
Redeemed	(857,829)	789,709	(68,120)	(432,759)	354,395	(78,364)
Closing balance	3,182,259	(2,057,561)	1,124,698	3,374,158	(2,837,840)	536,318
Interest payable	-	-	810	-	-	-
Cost-related commissions	-	-	(36,336)	-	-	(41,992)
	3,182,259	(2,057,561)	1,089,172	3,374,158	(2,837,840)	494,326
Structured bonds						
Opening balance	191,227	(116)	191,111	8,227	-	8,227
Issued	100,800	-	100,800	183,000	-	183,000
Reacquired	-	(169)	(169)	-	(116)	(116)
Redeemed	(37,745)	-	(37,745)	-	-	-
Closing balance	254,282	(285)	253,997	191,227	(116)	191,111
Interest payable	-	-	4,338	-	-	2,796
Value adjustments for hedging operations	-	-	(488)	-	-	100
	254,282	(285)	257,847	191,227	(116)	194,007
Other bonds						
Opening balance	-	-	-	-	-	-
Issued	650,000	-	650,000	-	-	-
Closing balance	650,000	-	650,000	-	-	-
Interest payable	-	-	15,675	-	-	-
	650,000	-	665,675	-	-	-
Subordinated liabilities						
Opening balance	327,599	-	327,599	554,791	(209,100)	345,691
Issued	-	-	-	-	-	-
Redeemed	-	-	-	(227,192)	209,100	(18,092)
Closing balance	327,599	-	327,599	327,599	-	327,599
Interest payable	-	-	5,212	-	-	150
	327,599	-	332,811	327,599	-	327,749
	13,014,140	(8,681,646)	4,316,483	12,492,984	(9,437,956)	3,006,747

According to 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 Debt securities issued are described in Appendix I.

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

	31-12-2022	31-12-2021
Loans and advances (Note 9)	10,237,229	9,965,945
Loan interest	17,683	5,082
Derivatives	(166,020)	(54,776)
	<u>10,088,892</u>	<u>9,916,251</u>

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

	31-12-2022	31-12-2021
Cheques and orders payable	198,533	49,323
Creditors and other resources		
Creditors for futures operations	13,330	21,347
Contributions to other health systems	-	1,610
Public sector	29,987	34,537
Creditors for factoring contracts	55,053	62,137
Creditors for supplies of goods	2,231	1,969
Creditors for values payable	7,638	16,858
Other	27,770	6,664
Commitments for future rents (application of IFRS 16)	<u>22,790</u>	<u>24,830</u>
	<u>357,332</u>	<u>219,275</u>

Commitments for future rents correspond to the adoption of IFRS 16, and their movement during the 2022 and 2021 years was as follows:

	Lease liabilities	Right of use (Note 12)
Balance as at December 31, 2020	25,232	24,820
Depreciation 2021	(4,575)	(4,519)
Outs	(1,172)	(1,101)
Ins	2,345	2,345
Rent extensions and modifications	3,000	3,000
Balance as at December 31, 2021	24,830	24,545
Depreciation 2022	(4,798)	(4,250)
Outs	(1,406)	(1,406)
Ins	2,831	2,831
Rent extensions and modifications	1,333	866
Balance as at December 31, 2022	22,790	22,586

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

	31-12-2022	31-12-2021
. Up to 1 year	4,454	4,663
. Up to 2 years	4,067	4,402
. Up to 3 years	3,086	4,160
. Up to 4 years	2,989	3,116
. Up to 5 years	2,879	3,005
. More than 5 years	5,315	5,484
	<u>22,790</u>	<u>24,830</u>

17. MOVEMENT IN PROVISIONS AND IMPAIRMENT

The movement in Provisions during the 2022 and 2021 years was as follows:

	2022				
	31-12-2021	Increases	Reversals	Use	Transfers / Other
Impairment for guarantees and commitment given (Note 23)	51,178	4,853	(6,326)	-	-
Restructuring	87,204	-	-	(21,551)	-
Other provisions	63,428	9,180	(11,457)	(20,005)	(2,000)
	<u>201,810</u>	<u>14,033</u>	<u>(17,783)</u>	<u>(41,556)</u>	<u>(2,000)</u>

	2021				
	31-12-2020	Increases	Reversals	Use	Transfers / Other
Impairment for guarantees and commitment given (Note 23)	57,466	4,645	(10,933)	-	-
Restructuring	54,369	220,000	-	(187,165)	-
Other provisions	119,489	70,015	(40,316)	(56,909)	(28,851)
	<u>231,324</u>	<u>294,660</u>	<u>(51,249)</u>	<u>(244,074)</u>	<u>(28,851)</u>

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

The breakdown of Other Provisions was as follows:

	31-12-2022	31-12-2021
Pensions and other post-employment defined benefit obligations	10,260	14,268
Tax issues (Note 13)	250	17,955
Legal issues and pending tax disputes	2,557	2,065
Other provisions	<u>26,079</u>	<u>29,140</u>
	<u>39,146</u>	<u>63,428</u>

In 2021, the Bank undertook a profound operational and commercial transformation plan, adapting to the new competitive, more digital context, with a significant investment in process simplification and technology, oriented to the improvement of the quality of service, and which allowed the optimisation of the branch network (-79), and consequent reduction of staff numbers (-1,175). To implement this transformation plan, a provision of Euros 235 million (Euros 220 million under the restructuring concept and Euros 15 million under the concept of other provisions) was recorded in the first quarter, which was added to the one already constituted at the end of 2020 in the amount of Euros 66 million (Euros 20 million under the concept of restructuring and Euros 46 million under the concept of other provisions). The amounts concerned were used during 2021 to reduce the staff numbers, Euros 187 million, to optimise the branch network, Euros 23 million, and for the operational and commercial transformation, Euros 36 million. The amount used in 2022 was made to honour commitments already assumed and disclosed to employees.

In addition, in 2021 the Bank transferred Euros 22.5 million as first allocation to the Fundação Santander Portugal (Foundation).

The movement in Impairment during the 2022 and 2021 years was as follows:

	2022						
	31-12-2021	Increases	Reversals of impairment losses	Use and other	31-12-2022	Recoveries of past due loans and other	Gains/Losses on loan sales
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss:							
Impairment of debt securities (Note 9)	5,622	1,481	(2,253)	-	4,850	-	-
Impairment of loan and advances (Note 9)	1,013,876	88,682	(83,689)	(77,423)	941,446	(8,888)	(7,276)
Impairment of financial assets at fair value through other comprehensive income (Note 8)	52	-	(29)	1	24	-	-
	1,019,550	90,163	(85,971)	(77,422)	946,320	(8,888)	(7,276)
Impairment or reversal of impairment on non-financial assets:							
Property, plant and equipment (Note 12)	6,146	-	-	-	6,146	-	-
Other assets (Note 14)	102,088	9,886	(36,173)	(18,500)	57,301	-	-
Non-current assets held for sale (Note 15)	43,973	35,205	(21,857)	(13,134)	44,187	-	-
	152,207	45,091	(58,030)	(31,634)	107,634	-	-
	2021						
	31-12-2020	Increases	Reversals of impairment losses	Use and other	31-12-2021	Recoveries of past due loans and other	Gains/Losses on loan sales
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss:							
Impairment of debt securities (Note 9)	11,145	8,576	(14,099)	-	5,622	-	-
Impairment of loan and advances (Note 9)	993,772	435,181	(346,062)	(69,015)	1,013,876	(3,735)	(6,376)
Impairment of financial assets at fair value through other comprehensive income (Note 8)	14	73	(35)	-	52	-	-
	1,004,931	443,830	(360,196)	(69,015)	1,019,550	(3,735)	(6,376)
Impairment or reversal of impairment on non-financial assets:							
Property, plant and equipment (Note 12)	23,623	-	-	(17,477)	6,146	-	-
Other assets (Note 14)	103,285	21,740	(11,266)	(11,671)	102,088	-	-
Non-current assets held for sale (Note 15)	42,891	10,383	(4,080)	(5,221)	43,973	-	-
	169,799	32,123	(15,346)	(34,369)	152,207	-	-

18. SHARE CAPITAL REPAYABLE ON DEMAND

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

19. OTHER LIABILITIES

The composition of this caption is as follows:

	31-12-2022	31-12-2021
General administrative expenses	63,221	63,511
Staff expenses	71,059	68,262
Other charges	6,681	5,670
Other deferred income	8,046	10,163
Liabilities - pensions and other benefits (Note 35)		
Liabilities - BST	-	1,155,946
BST Pension Fund book value	-	(1,164,211)
Liabilities - former London Branch	-	52,915
Former London Branch Pension Fund book value	-	(49,938)
Liabilities - ex-Banif	-	167,108
Ex- Banif Pension Fund book value	-	(92,220)
Liabilities - ex-BAPOP	-	185,616
Ex-BAPOP Pension Fund book value	-	(194,073)
Other		
SEPA transfers	99,070	126,642
Balances to be settled - ATM's	224	69
Other values in transit and other transactions to be settled	90,996	90,796
	<u>339,297</u>	<u>426,256</u>

20. EQUITY

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

	31-12-2022			31-12-2021		
	Number of shares	Shareholding %	Amount	Number of shares	Shareholding %	Amount
Santander Totta, SGPS, S.A.	1,376,219,267	98.88%	1,376,219	1,241,179,513	98.76%	1,241,180
Treasury shares	15,022,403	1.08%	15,023	15,016,375	1.19%	15,016
Other	538,004	0.04%	538	527,396	0.04%	527
	<u>1,391,779,674</u>	<u>100.00%</u>	<u>1,391,780</u>	<u>1,256,723,284</u>	<u>100.00%</u>	<u>1,256,723</u>

In the General Meeting of May 4, 2022, a capital increase of Euros 135,057 thousand was approved, with Santander Totta, SGPS, S.A. subscribing Euros 135,039 thousand of this increase. It was also deliberated to reimburse in full the ancillary capital contributions made by Santander Totta, SGPS, S.A. in the amount of Euros 135,000 thousand, after obtaining authorisation to do so from the Bank of Portugal, amount which on December 31, 2021 constituted the balance presented under the caption "Equity instruments issued other than share capital".

During 2022, the Bank purchased 6,028 treasury shares, for Euros 19 thousand and 6,535 treasury shares for Euros 30 thousand in 2021.

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

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

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

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

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

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

	31-12-2022	31-12-2021
Gross effect of the valorisations		
Items that will not be reclassified to profit or loss		
Actuarial gains or losses on defined benefit pension plans (Note 35)	(700,416)	(813,131)
Fair value changes of equity instruments measured at fair value through other comprehensive income (Nota 8)	76,008	(333)
Share of other recognised income and expense of entities accounted for using the equity method	(112)	(783)
Total of Items that will not be reclassified to profit or loss	(624,520)	(814,247)
Items that may be reclassified to profit or loss		
Cash flow hedges reserve [effective part]	(152,884)	(1,009)
Fair value changes of debt instruments at fair value through other comprehensive income	350,976	680,925
Fair value changes of debt securities at fair value through other comprehensive income (Note 8)	146,270	255,267
Fair value changes of loans and advances at fair value through other comprehensive income (Note 8)	204,706	425,658
Total of Items that may be reclassified to profit or loss	198,092	679,916
Tax effect		
Items that will not be reclassified to profit or loss – tax effect		
Actuarial gains or losses on defined benefit pension plans	204,286	204,286
Fair value changes of equity instruments measured at fair value through other comprehensive income	(1,338)	-
Share of other recognised income and expense of entities accounted for using the equity method	864	598
Total of Items that will not be reclassified to profit or loss – tax effect	203,812	204,884
Items that may be reclassified to profit or loss – tax effect		
Cash flow hedges reserve [effective part]	47,394	313
Fair value changes of debt instruments at fair value through other comprehensive income	(108,231)	(210,410)
Fair value changes of debt securities at fair value through other comprehensive income	(44,772)	(78,456)
Fair value changes of loans and advances at fair value through other comprehensive income	(63,459)	(131,954)
Total of Items that may be reclassified to profit or loss – tax effect	(60,837)	(210,097)
Accumulated other comprehensive income	(283,453)	(139,544)

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

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

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

	31-12-2022	31-12-2021
Retained earnings	402,736	1,608,681
Other reserves		
Legal reserve	569,691	539,357
Reserves of companies consolidated	97,241	157,654
Reserves of companies under the equity method	12,525	11,729
Merger reserves		
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	(377,773)	(397,978)
	960,532	969,610

Retained earnings

This caption recognises profits or losses of prior years not distributed (see "Other reserves").

Legal reserve

In accordance with the provisions of Decree-Law 298/92, of December 31, amended by Decree-Law 201/2002, of September 26, the Bank sets aside a legal reserve until it equals the share capital, or the sum of the free reserves formed and of the retained earnings, if greater. To this end, a fraction of not less than 10% of the profit or loss for the year of the Company's separate business is annually transferred to this reserve, until said amount is achieved. This reserve may only be used to cover accumulated losses or to increase the share capital.

Merger reserve

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

Other reserves

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

21. PROFIT OR LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

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

	31-12-2022		31-12-2021	
	Profit or loss for the year	Contribution to the consolidated profit or loss	Profit or loss for the year	Contribution to the consolidated profit or loss
Profit or loss of the Bank (individual basis)	603,685	603,685	303,343	303,343
Profit or loss of other Group companies:				
Totta (Ireland), Plc.	4,028	4,028	8,278	8,278
Novimovest - Fundo de Investimento Imobiliário	3,395	2,673	3,960	3,118
Unicre, Instituição Financeira de Crédito, S.A.	23,512	5,140	19,510	4,265
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	196	196	323	323
Totta Urbe, Empresa de Administração e Construções, S.A.	(10,105)	(10,105)	(4,748)	(4,748)
Taxagest, S.A.	(8)	(8)	(12)	(11)
	21,018	1,924	27,312	11,225
Adjustments to the consolidated profit or loss				
Elimination of intragroup dividends received:				
Totta (Ireland), Plc.		(8,737)		(9,124)
Unicre, Instituição Financeira de Crédito, S.A.		(3,834)		(4,704)
Totta Urbe, Empresa de Administração e Construções, S.A.				(26,270)
		(12,571)		(40,097)
Adjustments related to securitisation operations		(7,106)		(2,421)
Other		627		(1,555)
Consolidated profit or loss attributable to owners of the parent		586,559		270,494

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.

	31-12-2022	31-12-2021
Consolidated profit or loss attributable to owners of the parent	586,559	270,494
Weighted average number of ordinary shares issued	1,338,867,171	1,256,723,284
Weighted average number of treasury shares	15,019,395	15,016,375
Weighted average number of ordinary shares outstanding	1,323,847,775	1,241,712,110
Basic earnings per share attributable to shareholders of the Bank (Euros)	0.44	0.22

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

22. MINORITY INTERESTS [NON-CONTROLLING INTERESTS]

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

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

23. OFF-BALANCE-SHEET ACCOUNTS

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

	31-12-2022	31-12-2021
Guarantees given and other contingent liabilities		
Guarantees and sureties	340,191	330,997
Loan commitments granted		
Revocable	7,232,184	6,378,768
Irrevocable	812,140	565,980
	8,044,324	6,944,748
Other commitments granted		
Non-financial guarantees and sureties	1,485,832	1,346,113
Documentary credits outstanding	242,819	315,004
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	6,539	6,736
Other commitments granted	84	-
	1,804,243	1,736,822
	10,188,758	9,012,567
Assets pledged as guarantee		
Bank of Portugal	146,457	152,926
Deposit Guarantee Fund	81,046	78,205
Investor Indemnity System	7,204	8,342
Assets pledged as guarantee in monetary policy operations	12,087,705	16,496,874
	12,322,412	16,736,347
Liabilities for services provided		
Deposit and custodianship services	40,347,573	41,779,767
Values received for collection	631,286	617,382
Other values	-	151,679
	40,978,859	42,548,828

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

Guarantees provided, commitments assumed in respect of credit granted and other commitments granted, have the following exposure per stage:

	31-12-2022							
	Exposure				Impairment (Note 17)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan commitments granted	7,507,591	528,207	8,526	8,044,324	6,710	4,960	28	11,698
Financial guarantees	309,116	8,003	23,072	340,191	700	533	13,083	14,316
Other commitments granted	1,630,374	45,879	127,990	1,804,243	695	679	22,317	23,691
	9,447,081	582,089	159,588	10,188,758	8,105	6,172	35,428	49,705

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

Deposit Guarantee Fund

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

Until 2011, as permitted by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Deposit Guarantee Fund, having also entered an irrevocable commitment to the Deposit Guarantee Fund to pay up the 10 % of the annual contribution, if and when so requested. The accumulated unpaid amount, in respect of which this commitment was entered into, totalled Euros 68,969 thousand. The assets pledged to the Bank of Portugal are reflected under off-balance-sheet captions at their market value. In 2022 and 2021, the Bank paid 100% of the annual contribution in the amounts of Euros 312 thousand and Euros 50 thousand, respectively (Note 32).

Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as expenses. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at December 31, 2022 and 2021, these liabilities amounted to Euros 6,539 thousand and Euros 6,736 thousand, respectively.

24. NET INTEREST INCOME

The composition of this caption is as follows:

	31-12-2022	31-12-2021
Interest income		
Interest on cash and deposits at central banks and credit institutions	35,160	-
Interest on non-trading financial assets mandatorily at fair value through profit or loss	16	322
Interest on financial assets at fair value through other comprehensive income	134,438	134,965
Interest on financial assets at amortised cost		
Loans and advances - Credit institutions	3,262	127
Debt securities	52,863	53,243
Loans and advances - Customers	664,853	544,566
Interest on resources at central banks and other credit institutions	57,460	72,911
Interest on hedging derivatives	225,951	205,090
Other	1	940
	<u>1,174,004</u>	<u>1,012,164</u>
Interest expenses		
Interest on financial liabilities measured at amortised cost		
Deposits - Credit institutions	(9,900)	(5,002)
Deposits - Customers	(10,629)	(6,360)
Debt securities issued	(82,915)	(37,225)
Interest on assets of central banks and credit institutions	(18,455)	(21,646)
Interest on assets of Individuals	(25,938)	(2,428)
Interest on hedging derivatives	(245,607)	(202,820)
Interest on lease liabilities	(468)	(398)
Other	(790)	(7,629)
	<u>(394,702)</u>	<u>(283,508)</u>
	<u><u>779,302</u></u>	<u><u>728,656</u></u>

25. DIVIDEND INCOME

This caption refers to dividends received and has the following composition:

	31-12-2022	31-12-2021
SIBS – Sociedade Interbancária de Serviços, S.A.	3,643	1,533
Other	182	4
	<u>3,825</u>	<u>1,537</u>

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

The composition of this caption is as follows:

	31-12-2022	31-12-2021
Unicre - Instituição Financeira de Crédito, S.A.	5,140	4,194
Lusimovest - Fundo de Inv. Imobiliário	-	37
	<u>5,140</u>	<u>4,231</u>

27. INCOME AND EXPENSES FROM FEES AND COMMISSIONS

The composition of these captions is as follows:

	31-12-2022	31-12-2021
Fee and commission income	576,208	533,691
Securities	16,229	14,924
Corporate finance	881	4,359
Asset management	1,959	2,410
Custodianship services	5,601	6,142
Payment services	293,165	272,767
Current accounts	105,928	100,457
Credit cards	20,912	19,106
Debit cards and other card payments	144,748	133,380
Transfers and other payment orders	20,526	18,686
Other fee and commission income related to payment services	1,051	1,139
Customer resources distributed but not managed	160,140	133,547
Collective investment	33,313	32,764
Insurance products (Note 34)	126,827	100,783
Structured financial instruments	10,202	5,614
Loan commitments granted	8,029	7,937
Financial guarantees given	4,021	5,354
Loans granted	58,131	52,201
Other fee and commission income	17,850	28,434
Fee and commission expenses	100,618	101,547
Securities	4,865	3,520
Payment services	71,955	70,965
of which: credit, debit and other cards	68,923	67,101
Financial guarantees received	4,042	4,193
Other fee and commission expenses	19,756	22,869

* Presentation of financial year 2021 suffered minor changes compared to Notes to the financial statements of the previous year

28. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

The composition of these captions is as follows:

	31-12-2022	31-12-2021
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	754	129,180
Gains or losses on financial assets at fair value through other comprehensive income		
Debt instruments	-	126,898
Financial assets at amortised cost (Debt instruments)	-	2,242
Other	-	40
Financial liabilities measured at amortised cost (Debt instruments)	754	-
Gains or losses on financial assets and liabilities held for trading, net	9,732	(4,409)
Derivative instruments	9,732	(4,409)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	2,530	2,991
Equity instruments	2,310	1,495
Other	220	1,496
Gains or losses from hedge accounting, net	-	-
Hedging derivatives	865,373	(171,854)
Hedged element	(865,373)	171,854
Exchange differences, net	19,959	13,505

In financial year ended December 31, 2021, the gains recorded in the caption "Financial assets at fair value through other comprehensive income" (Note 8) were justified, essentially, by the sale of public debt bonds.

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

The composition of this caption is as follows:

	31-12-2022	31-12-2021
Gains on investment property	1,098	665
Losses on investment property	(1,120)	(708)
Gains on derecognition of business lines	55,334	-
	<u>55,312</u>	<u>(43)</u>

In the second half of 2022, the Bank sold the POS (merchant acquiring) business area to Getnet Europe, Entidad de Pago, S.L.U. for Euros 55,334 thousand.

30. OTHER OPERATING INCOME AND EXPENSES

The composition of these captions is as follows:

	31-12-2022	31-12-2021
Other operating income		
Income from sundry services rendered	1,861	2,323
Rents earned	8,753	10,290
Fair value changes of investment property	1,912	2,455
Other	5,118	4,544
	<u>17,644</u>	<u>19,612</u>
Other operating expenses		
Fair value changes of investment property	(3,118)	(3,109)
Charges with customers	(3,180)	(3,017)
Other	(1,960)	(3,863)
	<u>(8,258)</u>	<u>(9,989)</u>

During 2022 and 2021, the sub-caption "Rents earned" included the amounts of Euros 8,753 thousand and Euros 10,287 thousand, respectively, in respect of the rents earned by the Novimovest Real Estate Fund (Note 12).

The sub-caption "Charges with customers" records expenses with internal and external fraud.

31. ADMINISTRATIVE EXPENSES

The composition of this caption is as follows:

Staff expenses

	31-12-2022	31-12-2021
Remuneration		
Management and supervisory bodies	7,627	6,563
Employees	171,435	200,735
Other variable remuneration	22,260	24,731
	<u>201,322</u>	<u>232,029</u>
Mandatory social charges		
Charges on remuneration	46,188	30,709
Pension funds (Note 35)	4,236	7,889
Other	776	1,068
	<u>51,200</u>	<u>39,666</u>
Other staff expenses		
Complementary pension plan (Note 35)	459	370
Staff assignments	1,127	1,162
Other	6,844	6,191
	<u>8,430</u>	<u>7,723</u>
	<u>260,952</u>	<u>279,418</u>

Other administrative expenses

	31-12-2022	31-12-2021
External supplies	6,481	7,431
Specialised services	58,546	71,549
Maintenance of IT software and hardware	73,845	68,935
Communications	5,437	6,747
Maintenance and repairs	2,672	3,756
Advertising and publishing	6,697	6,134
Other lease operations (short-term and low-value leases)	3,619	4,287
Travel, accommodation and entertainment expenses	3,003	2,162
Transportation	3,923	3,972
Insurance	2,253	1,887
Other	5,937	16,333
	<u>172,413</u>	<u>193,193</u>

Statutory Audit Firm

The fees billed or to be billed by the audit firm and respective firms in the same network, in 2022 and 2021, excluding the Value Added Tax, were as follows:

	2022			2021		
	Bank	Group	Total	Bank	Group	Total
Audit and statutory audit	2,262	60	2,322	1,655	70	1,724
Other assurance services	919	-	919	1,128	-	1,128
Tax consulting services	-	-	-	-	-	-
Other services	462	-	462	389	-	389
	<u>3,643</u>	<u>60</u>	<u>3,703</u>	<u>3,172</u>	<u>70</u>	<u>3,241</u>

The above amounts correspond to those contracted for the financial year, irrespective of their billing date.

The caption "Other assurance services" include fees for the following services:

- Assessment of the impairment of the loan portfolio, as required by Bank of Portugal Instruction No. 5/2013;
- Limited review of the quarterly financial information (1st and 3rd quarters of 2022 and 2021) prepared for the consolidation of Banco Santander, S. A.;
- Review of procedures for the safeguarding of customer assets, as required under Article 304-C of the Securities Code;
- Verification of the information on covered bonds, as required by Article 34 of Decree-Law 59/2006, of March 20;
- Verification of the information relating to covered bonds, as required by Article 17 (1)(b) of the Legal Regime for Covered Bonds;
- Verification of the information on monetary policy operations, as required by Article 101 A of Bank of Portugal Instruction No. 3/2015;
- Verification of the information on monetary policy operations, as required by Articles 100 and 100A of Bank of Portugal Instruction No. 3/2015;
- Review of the Internal Control System for the prevention of money laundering and financing of terrorism, as required by Bank of Portugal Notice No. 1/2022.
- Procedures for validating the annual financial flows report for the purposes of the IFRRU 2020 certification;
- Support provided to the Bank's Audit Committee in the context of its self-assessment report required by Notice No. 3/2020 of the Bank of Portugal under the terms provided for in No. 3 of Article 56 of the aforementioned Notice; and
- Verification of the information related to the reporting on long-term directed refinancing operations (TLTRO III).

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

- i) Issue of comfort letter for updating the prospectus regarding the covered bonds and EMTN programme;
- ii) Review of the information presented in the Sustainability Reports;
- iii) Access to the Inforfisco database containing information on tax law, doctrine and court decisions.
- iv) Agreed-upon procedures on loans and advances information included in synthetic securitisation operations; and
- v) Agreed-upon procedures on the ex-ante report to the Sole Resolution Fund.

32. CASH CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

The composition of this caption is as follows:

	31-12-2022	31-12-2021
Contributions to the Resolution Fund		
National Resolution Fund	(12,552)	(12,853)
Single Resolution Fund	(28,354)	(24,776)
Contributions to the Deposit Guarantee Fund	(312)	(50)
Other	(440)	-
	<u>(41,658)</u>	<u>(37,679)</u>

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

Within the scope of the single Resolution mechanism, the annual contributions will be transferred to the Single Resolution Fund, in accordance with Article 3(3) of the agreement on the transfer and pooling of the contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014. The Bank of Portugal, as the resolution authority, determines the amount of the contribution of each institution depending on their risk profile. In 2022 and 2021, and as provided for in a Bank of Portugal 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 Euros 33,358 thousand and Euros 29,149 thousand, respectively.

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

The composition of this caption is as follows:

	31-12-2022			31-12-2021		
	Gains	Losses	Net	Gains	Losses	Net
Assets received as payment in kind	8,535	(19,826)	(11,291)	7,172	(273)	6,899
Other non-financial assets	62,861	(31,739)	31,122	25,419	(18,312)	7,107
	<u>71,396</u>	<u>(51,565)</u>	<u>19,831</u>	<u>32,591</u>	<u>(18,585)</u>	<u>14,006</u>

34. PROVISION OF INSURANCE BROKERAGE SERVICES

Income from the provision of insurance brokerage services relates primarily to commissions billed for the marketing of life and non-life insurance, recorded in the caption "Income and expenses from fees and commissions", as follows:

	31-12-2022			31-12-2021		
	Life products	Non-life products	Total	Life products	Non-life products	Total
			(Note 27)			(Note 27)
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	38,391	-	38,391	39,772	-	39,772
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	51,376	-	51,376	36,811	-	36,811
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	-	34,566	34,566	-	22,783	22,783
Other	549	1,945	2,494	-	1,417	1,417
	<u>90,316</u>	<u>36,511</u>	<u>126,827</u>	<u>76,583</u>	<u>24,200</u>	<u>100,783</u>

As at December 31, 2022 and 2021, the sub-caption "Other income receivable – other services rendered" (Note 14) includes mainly commissions receivable from insurers as detailed hereunder:

	31-12-2022	31-12-2021
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	9,250	10,019
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	3,765	4,233
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	3,182	2,521
Other	<u>8</u>	<u>645</u>
	<u>16,205</u>	<u>17,418</u>

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

35. EMPLOYEE POST-EMPLOYMENT BENEFITS

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

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

	Santander		BAPOP		Banif	
	31-12-2022	31-12-2021	31-12-2022	31-12-2021	31-12-2022	31-12-2021
Estimate of liabilities for past services:						
- Pensions:						
. Current employees	145,899	237,145	62,417	86,279	9,442	16,185
. Pensioners	61,044	59,716	6,870	7,444	10,749	11,433
. Retired staff and early retired staff	590,938	679,673	62,978	78,691	95,620	117,174
	797,881	976,534	132,265	172,414	115,811	144,792
- Healthcare systems (SAMS)	128,503	166,240	8,068	12,505	14,658	20,740
- Death allowance	4,147	6,162	386	697	398	597
- Retirement bonus	5,345	7,010	-	-	683	979
	935,876	1,155,946	140,719	185,616	131,550	167,108
Coverage of liabilities:						
- Net assets of the Fund	1,008,553	1,164,211	173,365	194,073	91,671	92,220
Excess/(insufficient funding) (Note 14)/(Note 19)	72,677	8,265	32,646	8,457	(39,879)	(74,888)
Actuarial and financial deviations generated in the year						
- Change in assumptions	(211,728)	-	(43,691)	-	(29,606)	-
- Experience adjustments:						
. Other actuarial (gains) or losses	32,573	8,430	586	1,077	(6,548)	(3,167)
. Financial (gains) or losses	108,228	(45,334)	18,611	(7,038)	22,962	1,149
	140,801	(36,904)	19,197	(5,961)	16,414	(2,018)
	(70,927)	(36,904)	(24,494)	(5,961)	(13,192)	(2,018)

As at December 31, 2022 and 2021, the main assumptions used by the Bank to determine its liabilities for retirement pensions were as follows:

	2022		2021	
Mortality Table				
. Female	TV 99/01	(-2)	TV 88/90	(-1)
. Male	TV 88/90		TV 88/90	
Rate of return on pension fund assets	3.70%		1.10%	
Technical actuarial rate (discount rate)	3.70%		1.10%	
Salary growth rate				
. Year 2023	3.00%			
. Year 2024	2.50%		0.75%	
. Year 2025	2.00%			
. After 2025	0.75%			
Pension growth rate				
. Year 2023	2.75%			
. Year 2024	2.25%		0.5%	
. Year 2025	1.75%			
. After 2025	0.50%			
Inflation rate	0.45%		0.45%	

Decree-Law 167-E/2013, of December 31, changed the normal retirement age under the General Social Security Regime; however, the sustainability factor is no longer applicable to beneficiaries who retire at that age.

The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities.

The movement in liabilities for past services in financial years 2022 and 2021, can be detailed as follows:

	Santander		BAPOP		Banif	
	31-12-2022	31-12-2021	31-12-2022	31-12-2021	31-12-2022	31-12-2021
Liabilities at beginning of period	1,155,946	1,123,784	185,616	181,921	167,108	160,544
Cost of current services	2,507	5,462	714	1,363	-	-
Interest expense	12,256	11,940	1,673	1,638	-	-
Actuarial (gains) or losses	(179,155)	8,430	(43,105)	1,077	(36,154)	(3,168)
Early retirements	8,415	81,386	405	10,139	596	9,732
Amounts paid	(66,324)	(60,193)	(5,077)	(4,182)	-	-
Other	-	(17,352)	-	(6,953)	-	-
Employee contributions	2,231	2,489	493	613	-	-
Liabilities at end of period	935,876	1,155,946	140,719	185,616	131,550	167,108

The expenses for the year relating to pensions include the cost of current services and interest expense, net of the expected return on the Pension Fund assets.

The expenses with pensions have the following composition (Note 31):

	31-12-2022	31-12-2021
Cost of current services	3,221	6,825
Interest expense	13,929	13,578
Income from assets calculated using the discount rate	(13,929)	(13,578)
Defined benefit plan	3,221	6,825
Defined contribution plan	988	938
London Branch plan	27	126
	4,236	7,889

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

In 2023 the Bank expects to contribute Euros 2,835 thousand to the defined benefit plan of Santander, BAPOP and Banif.

Salary and pension growth estimates were determined considering the historical ratio between inflation and the CBA table growth.

The average duration of pension liabilities of the employees of Santander, of BAPOP and of Banif is 14 years, including those in active service and pensioners.

The movement in actuarial deviations during 2022 and 2021 was as follows:

	Santander		BAPOP		Banif	
	31-12-2022	31-12-2021	31-12-2022	31-12-2021	31-12-2022	31-12-2021
Deviations at beginning of period (Note 20)	758,860	795,764	1,503	7,464	41,238	43256
Actuarial (gains) or losses	(179,155)	8,430	(43,105)	1,077	(36,154)	(3,167)
Financial (gains) or losses	108,228	(45,334)	18,611	(7,038)	22,962	1149
Deviations at end of period (Note 20)	687,933	758,860	(22,991)	1,503	28,046	41,238

The Santander and Banif Pension Fund (since October 2022) is managed by Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A., and the BAPOP Pension Fund is managed by Santander Totta Seguros – Companhia de Seguros de Vida, S.A..

As at December 31, 2022 and 2021, the number of participants of the Funds was the following:

	Santander		BAPOP		Banif	
	31-12-2022	31-12-2021	31-12-2022	31-12-2021	31-12-2022	31-12-2021
Current employees						
Defined benefit plan	3,137	3,272	636	674	156	159
Defined contribution plan	561	496	94	98	551	577
Pensioners	1,365	1,333	31	31	122	100
Retired staff and early retired staff	6,052	6,113	215	210	672	695
	11,115	11,214	976	1,013	1,501	1,531

The main demographic changes during 2022 and 2021 were as follows:

	Assets											
	Defined contribution plan			Defined benefit plan			Retired and early retired employees			Pensioners		
	Santander	BAPOP	Banif	Santander	BAPOP	Banif	Santander	BAPOP	Banif	Santander	BAPOP	Banif
Total number as at December 31, 2020	460	119	710	3,885	723	194	5,773	157	648	1,282	34	99
Leavers:												
. Current employees	(51)	(21)	(110)	(146)	(3)	-	-	-	-	(12)	(3)	(3)
. Due to mortality	-	-	(2)	(4)	-	-	(158)	-	(2)	(47)	-	(2)
. Other	-	-	-	-	-	-	-	-	(16)	-	-	-
Transfers	-	-	(21)	(463)	(46)	(35)	463	46	56	-	-	-
Joiners	87	-	-	-	-	-	35	7	9	110	-	6
Total number as at December 31, 2021	496	98	577	3,272	674	159	6,113	210	695	1,333	31	100
Leavers:												
. Current employees	(67)	(4)	(24)	(81)	(33)	(1)	-	-	-	(10)	(5)	(2)
. Due to mortality	-	-	-	(5)	-	-	(139)	(2)	(18)	(49)	-	(5)
. Other	-	-	-	-	-	-	-	-	(14)	-	-	-
Transfers	(1)	-	(2)	(52)	(5)	(2)	53	5	4	-	-	-
Joiners	133	-	-	3	-	-	25	2	5	91	5	29
Total number as at December 31, 2022	561	94	551	3,137	636	156	6,052	215	672	1,365	31	122

The movement in the Bank's Pension Fund during 2022 and 2021 was as follows:

	Santander		BAPOP		Banif	
	31-12-2022	31-12-2021	31-12-2022	31-12-2021	31-12-2022	31-12-2021
Fund value at beginning of year	1,164,211	1,143,046	194,073	186,718	92,220	93,369
Bank contributions (monetary)	4,407	21,595	814	2,248	22,413	-
Employee contributions	2,231	2,489	493	613	-	-
Profit or loss of the fund:						
Income from assets calculated using discount rate	12,256	11,940	1,673	1,638	-	-
Income of the fund above the discount rate	(108,228)	45,334	(18,611)	7,038	(22,962)	(1,149)
Amounts paid	(66,324)	(60,193)	(5,077)	(4,182)	-	-
Fund value at end of year	1,008,553	1,164,211	173,365	194,073	91,671	92,220

The yields of the Pension Fund amounted, in 2022, to -8.4% in Santander, -8.21% in BAPOP and -13.70% in BAPOP, and, in 2021, to 5.13% in Santander, 5.27% in BAPOP and 7.24% in Banif.

The investments and allocation policy of the Pension Fund determines that the asset portfolio be structured in compliance with security, profitability and liquidity criteria, through a diverse set of investments, namely shares, bonds, other debt instruments, holdings in collective-investment institutions, bank deposits, other monetary assets, and land and buildings registered in the land registry.

On the other hand, that policy is guided by risk-diversification and profitability criteria, and the Managing Company may opt for a more or less conservative policy by increasing or decreasing the exposure to shares or bonds, according to its expectations as to the evolution of the markets, and in accordance with the defined investment limits.

The investment policy of the Pension Fund in force provides for the following limits:

<u>Asset class</u>	<u>Buckets considered</u>
Bonds	40% to 95%
Real estate	0% to 25%
Equities	0% to 20%
Liquidity	0% to 15%
Alternatives	0% to 10%
Commodities	0% to 5%

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

	Santander		BAPOP		Banif
	31-12-2022	31-12-2021	31-12-2022	31-12-2021	31-12-2022
Debt instruments:					
. Rating A	28,827	46,393	7,565	9,672	23,818
. Rating AA	22,644	5,233	5,367	843	2,216
. Rating AAA	24,691	783	6,055	91	-
. Rating BBB	300,806	426,870	74,400	85,689	2,074
. Rating BB	18,270	40,584	3,354	8,046	5,015
. Without rating for the issue and issuer	11,427	17,311	1,024	1,127	457
Real estate funds	93,840	118,103	691	926	-
Securities funds	453,468	427,943	67,849	76,366	40,947
Deposits	16,926	37,521	6,595	7,101	3,886
Real estate					
. Commercial spaces	19,634	19,551	-	-	12,456
. Land	1,297	1,297	-	-	-
Equity instruments:					
. Portuguese shares – listed	-	-	-	-	872
. Foreign shares – listed	-	79	-	-	-
Derivative financial instruments	293	1,954	-	210	-
Other	16,430	20,589	465	4,002	(70)
	<u>1,008,553</u>	<u>1,164,211</u>	<u>173,365</u>	<u>194,073</u>	<u>91,671</u>

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

	31-12-2022				31-12-2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	525,102	-	12,908	538,010	624,204	-	18,438	642,642
Investment funds	562,264	-	94,531	656,795	504,309	-	119,029	623,338
Equity instruments	-	-	872	872	79	-	-	79
Derivative financial instruments	293	-	-	293	2,164	-	-	2,164
Real estate	-	-	33,387	33,387	-	-	20,848	20,848
Other	-	-	44,232	44,232	-	-	69,213	69,213
	<u>1,087,659</u>	<u>-</u>	<u>185,930</u>	<u>1,273,589</u>	<u>1,130,756</u>	<u>-</u>	<u>227,528</u>	<u>1,358,284</u>

As at December 31, 2022 and 2021, the Pension Fund's portfolio included the following assets related to companies of the Santander Group in Portugal:

	31-12-2022	31-12-2021
Leased real estate	13,446	14,253
Securities (including units in funds managed)	200,151	189,719
	<u>213,597</u>	<u>203,972</u>

In 2010, insurance was taken out at Santander Totta Seguros – Companhia de Seguros de Vida, S.A., to meet the liabilities of a new supplementary defined-contribution pension plan attributed to the Bank's senior management. The initial contribution to the new plan amounted to Euros 4,430 thousand. In financial years ended December 31, 2022 and 2021, the premium paid by the Bank amounted to Euros 459 thousand and Euros 370 thousand, respectively (Note 31).

This plan covers the contingencies of retirement, death and permanent absolute disability for customary work or invalidity.

For all these contingencies, the benefits to be received by the beneficiaries will equal the accumulated balance in the supplementary plan on the date on which these occur. In the case of the beneficiary's death, this amount will be further increased by Euros 6,000.

Defined benefit pension plan – former London Branch

As at December 31, 2022 and 2021, the main assumptions used in the calculation of retirement pension liabilities related to the pension plan covering the employees of the former Bank's London Branch were as follows:

	31-12-2022	31-12-2021
	100% S3NMA_Light/ 100% S3NFA_Light	100% S3NMA_Light/ 100% S3NFA_Light
Mortality table		
Technical actuarial rate (discount rate)	4.8%	1.8%
Salary growth rate	3.0%	3.2%
Pension growth rate	2.2%	2.2%
Inflation rate	3.0%	3.2%

As at December 31, 2022 and 2021, the liabilities for the defined benefit pension plan and their coverage were as follows:

	31-12-2022	31-12-2021
Estimated liabilities for past service	31,143	52,915
Coverage of liabilities	32,231	49,938
Excess/(insufficient) funding (Note 14)/(Note 19)	1,088	(2,977)

The movement in liabilities for past services in financial years 2022 and 2021, can be detailed as follows:

	31-12-2022	31-12-2021
Liabilities at beginning of period	52,915	56,628
Cost of current services	27	25
Interest expense	891	718
Actuarial (gains) or losses	(21,476)	(2,445)
Amounts paid	(1,214)	(2,011)
Liabilities at end of period	31,143	52,915

The movement in the Fund during 2022 and 2021 was as follows:

	31-12-2022	31-12-2021
Book value at beginning of period	49,938	48,718
Profit or loss of the fund:		
. Income from assets calculated using discount rate	865	616
. Income of the fund above/(below) the discount rate	(17,374)	2,598
Bank contribution	16	17
Amounts paid	(1,214)	(2,011)
Book value at end of period	32,231	49,938

The movement in actuarial deviations during 2022 and 2021 was as follows:

	31-12-2022	31-12-2021
Deviations at beginning of period (Note 20)	11,530	16,573
Actuarial (gains)/losses	(21,476)	(2,445)
Financial (gains)/losses	17,374	(2,598)
Deviations at end of period (Note 20)	7,428	11,530

As at December 31, 2022 and 2021, the portfolio of the Pension Fund of the former London Branch included the following assets:

	31-12-2022	31-12-2021
Debt instruments	11,784	20,243
Equity instruments	12,503	21,800
Other	7,944	7,895
Fund value	32,231	49,938

The liabilities for defined benefit pension plans expose the Bank to the following risks:

- Investment risk – the updated value of liabilities is calculated based on a discount rate determined with reference to high-quality bonds – in terms of credit risk –, denominated in Euros; if the return of the Pension Fund is below that discount rate, it will create a shortfall in the funding of the liabilities.
- Interest-rate risk – a decrease of the interest rate of bonds will increase the pension liabilities.
- Longevity risk – the updated amount of liabilities is calculated based on the best estimate at the time of the expected mortality of the participants, before and after the retirement date. An increase in life expectancy for plan participants will increase pension liabilities.
- Salary risk – the updated amount of liabilities is calculated based on an estimate of the future salary of the participants. Thus, an increase in participants' salaries will increase pension liabilities.

As at December 31, 2022 and 2021, a sensitivity analysis performed on a variation of the main financial assumptions as at those dates led to the following impacts on the current value of the Bank's, BAPOP's and Banif's past-service liabilities:

	2022		2021	
	(Decrease) / Increase		(Decrease) / Increase	
	in %	in amount	in %	in amount
Change in discount rate:				
. Increase of 0.5%	(5.3%)	(63,722)	(6.6%)	(99,058)
. Decrease of 0.5%	5.8%	70,438	7.4%	111,395
Change in salary growth rate:				
. Increase of 0.5%	2.5%	30,593	3.8%	57,122
. Decrease of 0.5%	(2.1%)	(25,467)	(3.2%)	(48,252)
Change in pension growth rate:				
. Increase of 0.5%	6.9%	83,810	8.1%	122,373
. Decrease of 0.5%	(6.3%)	(76,451)	(7.3%)	(110,531)
Change in mortality table:				
. Two more years	(5.1%)	(61,935)	(6.6%)	(100,126)
. Two less years	5.0%	60,777	6.7%	101,757

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

36. SECURITISATION OPERATIONS

Description of the operations

Between July 2003 and January 2018, the Bank securitised part of its mortgage loan portfolio through thirteen operations, with the initial amount of Euros 25,450,000 thousand. In the older transactions the loans were sold at par (book) value to loan securitisation funds denominated Fundos Hipototta FTC. A substantial part of the securitisations was repurchased by the Bank under said agreements, while Hipototta No. 4 and Hipototta No. 5 remain active. In January 2018, the Bank carried out a new securitisation in the amount of Euros 2,266,000 thousand, in which mortgage loans were assigned. The loans were assigned to Gamma – Sociedade de Titularização de Créditos (Gamma STC), which financed the transaction through the issue of Hipototta 13, classes A, B and C bonds, with different levels of subordination and rating and, consequently, remuneration. These bonds were entirely acquired, by the Bank.

The Hipototta Funds (No. 4 and No. 5) are managed by Navegador – Sociedade Gestora de Fundos de Titularização de Créditos, S.A.. The Bank continues to manage the loan contracts, delivering to the Hipototta Funds (No. 4 and No. 5) all amounts received under those contracts. The Santander Group has no direct or indirect holding in Navegador.

As a form of funding, the Hipototta Funds (No. 4 and No. 5) issued securitisation units with an amount identical to the loan portfolios acquired, which were fully subscribed by Fundos Hipototta (nº 4 and nº 5) PLC, having its registered office in Ireland.

On the other hand, Fundos Hipototta (nº 4 and nº 5) FTC deliver all amounts received from the Bank and from the Directorate General of the Treasury to Fundos Hipototta (nº 4 and nº 5) PLC, separating the instalments into principal and interest.

As a form of funding, Fundos Hipototta (nº 4 and nº 5) PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration.

As at December 31, 2022, the outstanding issued bonds have the following characteristics:

Hipototta nº 4 PLC							
Issued debt	Amount		Rating		Early redemption date	Remuneration	
	Initial	Actual	Fitch	Redemption date		Up to early redemption date	After early redemption date
Class A	2,616,040	336,378	A+	September, 2048	December, 2014	Euribor 3 m + 0.12%	Euribor 3 m + 0.24%
Class B	44,240	12,238	A+	September, 2048	December, 2014	Euribor 3 m + 0.19%	Euribor 3 m + 0.40%
Class C	139,720	38,649	BB+	September, 2048	December, 2014	Euribor 3 m + 0.29%	Euribor 3 m + 0.58%
	<u>2,800,000</u>	<u>387,265</u>					
Class D	14,000	7,000	NR	September, 2048	December, 2014	Residual income of the securitised portfolio	
	<u>2,814,000</u>	<u>394,265</u>					

Hipototta nº 5 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Actual	S&P	Moody's			Up to early redemption date	After early redemption date
Class A1	200,000	-			February, 2060	February, 2014	Euribor 3 m + 0.05%	Euribor 3 m + 0.10%
Class A2	1,693,000	302,026	A	Aa2	February, 2060	February, 2014	Euribor 3 m + 0.13%	Euribor 3 m + 0.26%
Class B	26,000	26,000	A	Aa2	February, 2060	February, 2014	Euribor 3 m + 0.17%	Euribor 3 m + 0.34%
Class C	24,000	24,000	A	Aa2	February, 2060	February, 2014	Euribor 3 m + 0.24%	Euribor 3 m + 0.48%
Class D	26,000	26,000	A	A3	February, 2060	February, 2014	Euribor 3 m + 0.50%	Euribor 3 m + 1.00%
Class E	31,000	31,000	A	Ba2	February, 2060	February, 2014	Euribor 3 m + 1.75%	Euribor 3 m + 3.50%
	<u>2,000,000</u>	<u>409,026</u>						
Class F	10,000	6,000	CCC-	Ca	February, 2060	February, 2014	Residual income of the securitised portfolio	
	<u>2,010,000</u>	<u>415,026</u>						

The bonds issued by Fundos Hipototta nº 4 PLC earn interest quarterly on March, June, September and December 30 of each year. The bonds issued by Fundos Hipototta nº 5 PLC earn interest quarterly on February 28, and on May, August and November 30 of each year.

The Bank has the option to redeem the bonds in advance on the dates indicated above. For all the Hipototta, the Bank has call options to repurchase the loan portfolios at par when these are equal to or less than 10% of the initial amount of the operations.

Additionally, up to 5 days before the interest-payment dates in each quarter, the Hipototta are entitled to make partial repayments of bonds issued of classes A, B and C, as well as of classes D and E in the case of Fundos Hipototta nº 5 PLC, to adjust the amount of the liabilities to that of the assets (loan portfolio).

The Hipototta No. 4 class D bonds and the Hipototta No. 5 class F bonds constitute the last liabilities to be settled.

The remuneration of the bonds of these classes corresponds to the difference between the yield of the securitised loan portfolios and the sum of all the expenses of the operations, namely:

- Taxes;
- Expenses and commissions calculated on the value of the portfolios (custody and servicer fees charged by the Bank, and management fees, charged by the Funds);
- Interest on the bonds of the other classes;
- Losses due to default.

On the date on which the securitisations were contracted, subordinated loans were concluded between the Bank and the Hipotottas, which correspond to credit facilities/lines in the event of a need for liquidity on the part of Hipotottas. Swap Agreements were also concluded between the Santander Group and the securitisation vehicles, and between the Bank and the Santander Group, intended to hedge the interest-rate risk.

Securitisation operations managed by Gamma STC

In the wake of the resolution measure applied to Banif, the Bank acquired several securitisation operations issued by the said entity, and the corresponding securitised loans and bonds issued were transferred.

Atlantes Mortgage nº 2

An operation carried out in March 2008, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issue of Atlantes Mortgage No. 2, classes A, B, C and D bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 2						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Actual	S&P	Fitch		Up to early redemption date
Class A	349,100	78,170	AA+	AA	September, 2060	Euribor 3 m + 0.33%
Class B	18,400	9,732	AA+	AA	September, 2060	Euribor 3 m + 0.95%
Class C	7,500	3,967	A+	A+	September, 2060	Euribor 3 m + 1.65%
	375,000	91,869				
Class D	16,125	8,351	NR	NR	September, 2060	Residual income of the securitised portfolio
	391,125	100,220				

Atlantes Mortgage nº 3

An operation carried out in October 2008, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issue of Atlantes Mortgage No. 3, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 3						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Actual	S&P	Fitch		Up to early redemption date
Class A	558,600	136,696	AA+	AA	August, 2061	Euribor 3 m + 0.2%
Class B	41,400	19,604	NR	NR	August, 2061	Euribor 3 m + 0.5%
	600,000	156,300				
Class C	57,668	35,224	NR	NR	August, 2061	Residual income of the securitised portfolio
	657,668	191,524				

Atlantes Mortgage nº 4

An operation carried out in February 2009, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issue of Atlantes Mortgage No. 4, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 4						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Actual	S&P	Fitch		Up to early redemption date
Class A	514,250	151,420	AA+	AA	December, 2064	Euribor 3 m + 0.15%
Class B	35,750	16,675	NR	NR	December, 2064	Euribor 3 m + 0.3%
	550,000	168,095				
Class C	74,250	46,716	NR	NR	December, 2064	Residual income of the securitised portfolio
	624,250	214,811				

Hipototta 13

In January 2018, the Bank carried out a new securitisation in the amount of Euros 2,266,000 thousand, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the transaction through the issue of Hipototta 13, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration. These bonds were acquired, in their entirety, by the Bank.

Hipototta 13						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Actual	S&P	Fitch		Up to early redemption date
Class A	1,716,000	680,230	NR	A+(sf)	October, 2072	Euribor 3 m + 0.6%
Class B	484,000	484,000	NR	NR	October, 2072	Euribor 3 m + 1%
	2,200,000	1,164,230				
Class C	66,000	36,253	NR	NR	October, 2072	Residual income of the securitised portfolio
	2,266,000	1,200,483				
VFN	0.001	0.001	NR	NR	October, 2072	No remuneration

Consumer Totta 1

In September 2022, the Bank carried out a securitisation operation in the amount of Euros 628,207 thousand, in which consumer loans were assigned from the portfolio that is held in advanced models for the purposes of the Bank's capital ratio. The credits were assigned to Gamma STC, with this entity having financed the operation through the issue of Consumer Totta 1 class A to F and X bonds with different subordination and rating levels and, consequently, remuneration. These bonds were fully placed on the market, except for class X (excess spread) which was acquired by the Bank. This operation will have a revolving period of one year and, for capital purposes, this operation represents a significant transfer of risk.

"Swap Agreements" were also signed between the Santander Group and Gamma and between the Bank and the Santander Group to cover interest rate risk.

Consumer Totta 1						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Actual	S&P	Fitch		Up to early redemption date
Class A	520,000	520,000	NR	AA+(sf)	June, 2033	Euribor 3 m + 0.80%
Class B	25,000	25,000	NR	AA-(sf)	June, 2033	Euribor 3 m + 1.10%
Class C	40,000	40,000	NR	A(sf)	June, 2033	Euribor 3 m + 2%
Class D	25,000	25,000	NR	BB+(sf)	June, 2033	Euribor 3 m + 8%
Class E	40,000	40,000	NR	NR	June, 2033	Euribor 3 m + 11.85%
Class F	6,500	6,500	NR	NR	June, 2033	Euribor 3 m + 12.5%
	656,500	656,500				
Class X	9,430	9,430	NR	NR	June, 2033	Residual income of the securitised portfolio
	665,930	665,930				

During the 2021 financial year, the Azor Mortgage No. 1 operation was liquidated and during the 2022 financial year, Azor Mortgage No. 2 and Atlantes Mortgages No. 5 and No. 7 were liquidated.

37. RELATED ENTITIES

The Bank's related entities with which it maintained balances or transactions in 2022 are as follows:

Name of the related entity	Registered office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta (Ireland), PLC	Ireland
Totta Urbe - Emp. Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Unicre - Instituição Financeira de Crédito	Portugal
Special Purpose Vehicles directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Securitisation operations managed by Gamma STC	Portugal

Name of the related entity	Registered office
Entities under direct or indirect common control by the Bank	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Bank Zachodni WBK SA	Poland
Caceis	France
CCPT - ComprarCasa Rede Serviços Imobiliários, S.A.	Portugal
Consulteam - Consultores de Gestão, Lda	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Gesban Servicios Administrativos Globais	Spain
Getnet Europe, Entidad de Pago, S.L. Unipersonal	Spain
Ibérica de Compras Corporativas	Spain
Mapfre Santander Portugal - Co. de Seguros S.A.	Portugal
Open Bank Santander Consumer S.A.	Spain
PagoNxt Trade Services, S.L.	Spain
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank, National Association	USA
Santander Consumer Bank AG	Germany
Santander Consumer Service S.A.	Spain
Santander Consumer Finance S.A.	Spain
Santander Global Facilities, S.L.	Spain
Santander Global Technology, S.L.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários, SA	Spain

The Bank's related entities with which it maintained balances or transactions in 2021 are as follows:

Name of the related entity	Registered office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta (Ireland), PLC	Ireland
Totta Urbe - Emp. Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Unicre - Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliário	Portugal
Special Purpose Vehicles directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Securitisation operations managed by Gamma STC	Portugal

Name of the related entity	Registered office
Entities under direct or indirect common control by the Bank	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Bank Zachodni WBK SA	Poland
Caceis	France
CCPT - ComprarCasa Rede Serviços Imobiliários, S.A.	Portugal
Consulteam - Consultores de Gestão, Lda	Portugal
Finaceira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
PSA Gestao Comercio&Aluguer Veiculos, SA	Portugal
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Open Bank Santander Consumer S.A.	Spain
Mapfre Santander Portugal - Co. de Seguros S.A.	Portugal
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank, National Association	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 Global Facilities, S.L.	Spain
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários, SA	Spain

As at December 31, 2022 and 2021, the balances and transactions maintained during these periods with related parties were as follows:

	31-12-2022		
	Entities that directly or indirectly control the Group	Entities significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Cash balances in other credit institutions	119,725	-	4,149
Financial assets held for trading	425,883	-	641
Financial assets at amortised cost	336,639	53,632	125,510
Derivatives - hedge accounting	189,275	-	-
Investments in subsidiaries, joint ventures and associates	-	41,468	-
Intangible assets	-	-	4,210
Tax assets	95	-	-
Other assets	13	-	16,307
Liabilities:			
Financial liabilities held for trading	358,895	-	43,794
Financial liabilities measured at amortised cost			
Deposits - Credit institutions	502,928	-	5,789
Deposits - Customers	391,249	88	272,884
Debt securities issued	1,019,823	-	7,729
Other financial liabilities	-	-	1,454
Derivatives - hedge accounting	1,760	-	-
Tax liabilities	128,834	-	-
Other liabilities	9,303	-	5,665
Profit or Loss:			
Interest income	183,516	535	588
Interest expenses	207,592	-	397
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for under the equity method	-	5,140	-
Fee and commission income	1,906	269	129,459
Fee and commission expenses	2,883	-	1,185
Gains or losses on financial assets and liabilities at fair value through profit or loss, net	418,253	-	(15,351)
Exchange differences, net	(14,774)	-	-
Gains or losses on derecognition of non-financial assets, net	0	-	55,334
Other operating income	-	1	140
Administrative expenses	9,303	-	45,815
Depreciation	-	-	2,704
Off balance sheet items:			
Financial guarantees given	16,809	-	3,607
Loan commitments granted	28,029	2,010	13,820
Other commitments granted	59,974	-	80,675
Financial guarantees received	1	-	-
Foreign exchange operations and derivatives	28,717,019	-	397,689
Liabilities for services rendered	3,197,204	-	10,211,659
Customer resources distributed but not managed	-	-	5,956,138

	31-12-2021		
	Entities that directly or indirectly control the Group	Entities significantly influenced by the Group	Entities under direct or indirect common control by the Group
<u>Assets:</u>			
Cash balances in other credit institutions	53,683	-	25,459
Financial assets held for trading	249,868	-	8,552
Financial assets at amortised cost	598,389	48,375	2,767
Derivatives - hedge accounting	5,904	-	-
Investments in subsidiaries, joint ventures and associates	-	38,161	-
Tax assets	3	-	-
Other assets	14	-	16,889
<u>Liabilities:</u>			
Financial liabilities held for trading	554,995	-	36,658
Financial liabilities measured at amortised cost			
Deposits - Credit institutions	24,238	-	857
Deposits - Customers	312,799	1	364,824
Debt securities issued	365,046	-	8,399
Derivatives - hedge accounting	48,990	-	-
Tax liabilities	78,189	-	-
Other liabilities	13,068	-	9,772
<u>Profit or Loss:</u>			
Interest income	178,173	328	84
Interest expenses	209,568	-	374
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for under the equity method	-	4,194	-
Fee and commission income	853	339	116,831
Fee and commission expenses	3,176	-	1,389
Gains or losses on financial assets and liabilities at fair value through profit or loss	100,834	-	(16,675)
Administrative expenses	8,006	-	46,300
Exchange differences, net	4,153	-	-
Other operating income	16	1	208
<u>Off balance sheet items:</u>			
Guarantees given and other contingent liabilities	50,420	22	149,287
Guarantees received	1	-	-
Commitments to third parties	120,997	2,002	17,453
Foreign exchange operations and derivatives	27,305,868	-	460,312
Liabilities for services rendered	2,010,648	-	10,601,270

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

GOVERNING BODIES

As at December 31, 2022 and 2021, advances or loans granted to members of the Board of Directors of the Bank, amounted to Euros 1,110 thousand and Euros 1,069 thousand, respectively. The deposits of members of the Board of Directors were granted at market conditions. As at December 31, 2022 and 2021, fixed and variable remunerations totalled Euros 7,627 thousand and Euros 6,563 thousand, respectively.

Regarding post-retirement benefits, the members of the Board of Directors who have an employment tie with the Bank are included in the pension plan of the Collective Bargaining Agreement (CBA) for the banking sector, subscribed by the Bank. The general conditions of this plan are described in Note 1.3. j).

The Shareholders' General Meeting of the Bank on May 30, 2007, approved the "Regulation on the supplementary award of an old-age or disability pension" to the executive members of the former totta Board of Directors who came to become executive members (Executive Committee) of the Bank's Board of Directors in line with that previously defined in the former totta regulation. Members of the Board of Directors whose term of office is at least fifteen consecutive or interpolated years, will be entitled to a pension supplement amounting to 80% of their gross annual salary. For terms of office under fifteen years, the amount of the retirement pension supplement will be determined by the Remuneration Committee. For these persons, it is currently determined that the retirement pension supplement shall be 65% of the annual gross salary, for terms of office equal to or greater than ten years, and 75% of the annual gross salary for terms of office equal to or greater than twelve years. This defined benefit pension plan is a supplementary plan and is dependent on the General Social Security Regime.

As at December 31, 2022 and 2021, liabilities with this plan amounted to Euros 10,260 thousand and Euros 14,268 thousand, respectively, and were covered by a provision of the same amount carried in the sub-caption "Provisions - Pensions and other post-employment defined benefit obligations".

Regarding employment-termination benefits, as provided for in the Portuguese Commercial Companies Code, whenever, by decision of the Bank, the term of office of a member of the governing bodies ends early, the Bank shall compensate the member of the governing body with the future remuneration to which he or she is entitled up until the end of his or her term of office.

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

Fair value

The following table summarises, for each group of financial assets and liabilities, their fair values with reference to December 31, 2022 and 2021:

31-12-2022				
	Fair value	Amortised cost	Book value	Fair value
Assets				
Cash, cash balances at central banks and other demand deposits	-	8,407,985	8,407,985	8,404,085
Financial assets held for trading	498,103	-	498,103	498,103
Non-trading financial assets mandatorily at fair value through profit or loss	31,020	-	31,020	31,020
Financial assets at fair value through other comprehensive income	4,423,397	-	4,423,397	4,423,397
Financial assets at amortised cost	-	40,850,964	40,850,964	40,056,906
Derivatives – Hedge accounting	601,827	-	601,827	601,827
	5,554,347	49,258,949	54,813,296	54,015,338
Liabilities				
Financial liabilities held for trading	508,057	-	508,057	508,057
Financial liabilities measured at amortised cost				
Deposits	-	45,989,740	45,989,740	45,972,077
Debt securities issued	-	4,316,483	4,316,483	4,083,480
Other financial liabilities	-	357,332	357,332	357,332
Derivatives – Hedge accounting	183,771	-	183,771	183,771
	691,828	50,663,555	51,355,383	51,104,717
31-12-2021				
	Fair value	Amortised cost	Book value	Fair value
Assets				
Cash, cash balances at central banks and other demand deposits	-	8,711,389	8,711,389	8,703,673
Financial assets held for trading	587,772	-	587,772	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	99,167	-	99,167	99,167
Financial assets at fair value through other comprehensive income	5,339,913	-	5,339,913	5,339,913
Financial assets at amortised cost	-	40,373,867	40,373,867	40,149,005
Derivatives – Hedge accounting	7,447	-	7,447	7,447
	6,034,299	49,085,256	55,119,555	54,886,977
Liabilities				
Financial liabilities held for trading	605,331	-	605,331	605,331
Financial liabilities measured at amortised cost				
Deposits	-	46,762,551	46,762,551	46,713,455
Debt securities issued	-	3,006,747	3,006,747	3,096,295
Other financial liabilities	-	219,275	219,275	219,275
Derivatives – Hedge accounting	294,108	-	294,108	294,108
	899,439	49,988,573	50,888,012	50,928,464

As at December 31, 2022 and 2021, the carrying amount of the financial instruments measured at fair value, by valuation methodology, was as follows:

31-12-2022				
Methodology to determine fair value				
	Quotations on active market (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
<u>Assets</u>				
Financial assets held for trading	-	449,720	48,383	498,103
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	31,020	31,020
Financial assets at fair value through other comprehensive income	174,049	4,106,340	143,008	4,423,397
Derivatives – Hedge accounting	-	601,827	-	601,827
	174,049	5,157,887	222,411	5,554,347
<u>Liabilities</u>				
Financial liabilities held for trading	-	458,587	49,470	508,057
Derivatives – Hedge accounting	-	183,771	-	183,771
	-	642,358	49,470	691,828
31-12-2021				
Methodology to determine fair value				
	Quotations on active market (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
<u>Assets</u>				
Financial assets held for trading	-	562,538	25,234	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	99,167	99,167
Financial assets at fair value through other comprehensive income	204,778	5,061,470	73,665	5,339,913
Derivatives – Hedge accounting	-	7,447	-	7,447
	204,778	5,631,455	198,066	6,034,299
<u>Liabilities</u>				
Financial liabilities held for trading	-	574,170	31,161	605,331
Derivatives – Hedge accounting	-	294,108	-	294,108
	-	868,278	31,161	899,439

For the determination of the fair value of the financial instruments, the valuation methods used consisted of obtaining quotations on active markets or using other valuation techniques, namely the discounting of future cash flows.

The fair value of the financial instruments measured at amortised cost, by valuation methodology, was as follows:

31-12-2022				
Methodology to determine fair value				
	Quotations on active market (Level 1)	Other valuation techniques (Level 2) (Level 3)		Total
<u>Assets</u>				
Cash, cash balances at central banks and other demand deposits	-	8,404,085	-	8,404,085
Financial assets at amortised cost	-	505,351	39,551,555	40,056,906
	-	8,909,436	39,551,555	48,460,991
<u>Liabilities</u>				
Financial liabilities measured at amortised cost				
Deposits	-	6,921,998	39,050,079	45,972,077
Debt securities issued	-	1,856,942	2,226,538	4,083,480
Other financial liabilities	-		357,332	357,332
	-	8,778,940	41,633,949	50,412,889
31-12-2021				
Methodology to determine fair value				
	Quotations on active market (Level 1)	Other valuation techniques (Level 2) (Level 2)		Total
<u>Assets</u>				
Cash, cash balances at central banks and other demand deposits	-	8,703,673	-	8,703,673
Financial assets at amortised cost	-	355,177	39,793,828	40,149,005
	-	9,058,850	39,793,828	48,852,678
<u>Liabilities</u>				
Financial liabilities measured at amortised cost				
Deposits	-	7,753,321	38,960,134	46,713,455
Debt securities issued	-	2,041,267	1,055,028	3,096,295
Other financial liabilities	-	-	219,275	219,275
	-	9,794,588	40,234,437	50,029,025

For the determination of the fair value of the financial instruments measured at amortised cost, the valuation methods used consisted of discounting the future cash flows.

The valuation at fair value of the Bank's financial assets and liabilities comprises three levels, under IFRS 7 and IFRS 13:

- Level 1 - Financial instruments recorded at fair value based on quotes published in active markets, mainly comprising public debt and some private debt.

- Level 2 - Financial instruments recorded at fair value using prices traded on markets that are not active or for which it is necessary to use valuation models or techniques with inputs that can be observed in the market, either directly (such as prices) or indirectly (derived from prices). This category includes some securities in the portfolio of other financial assets at fair value through other comprehensive income measured with indicative market bids or based on internal valuation models and the derivative financial instruments used for hedging and trading. It should be noted that the internal valuation models used mainly correspond to models for updating future cash flows and valuation methodologies based on the "Black-Scholes" model for options and structured products. The models for updating future cash flows ("present value method") update future contractual flows using the interest rate curves of each currency observable in the market, plus the credit spread of the issuer or entity with a similar rating.

For derivative financial instruments, the main valuation techniques are presented below:

Derivative financial instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Equity 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 derivatives held for trading and hedging derivatives from the perspective of aggregate exposure by counterparty. It simulates the evolution of the joint exposure of all derivatives, with a given counterparty, through stochastic processes. This evolution is grouped into time frames that represent the expected positive and negative future exposures (Positive and Negative Expected Future Exposures). To these exposures is applied an expected loss factor and the discount factor for the respective term. The CVA and DVA calculated for each counterparty thus result from the sum of the expected losses in each term.

Additionally, for the purposes of calculating Credit Value Adjustments and Debit Value Adjustments to derivative financial instruments, the following inputs were used:

- Counterparties with quoted credit default swaps - Quotes published in active markets;
- Counterparties without quoted credit default swaps:
 - Quotes published in active markets for counterparties with similar risk; or
 - Probability of default calculated considering the internal rating assigned to the customer (see credit risk section of these Notes) x loss given default (specific for project finance customers and 60% for other customers).
- Level 3 - The Bank classifies in this level financial instruments which are measured using internal models with some inputs that do not correspond to observable market data. In this category were classified, namely, securities not quoted in active markets for which the Bank uses extrapolations of market data and the derivatives entered in the scope of securitisation operations.

The main assumptions used in determining the fair value of the financial instruments measured at amortised cost, by type of financial instrument, were as follows:

- The future cash flows from applications and resources from credit institutions were discounted using interest rate curves for the monetary market;
- For the purposes of discounting future flows from the customer loan portfolio, the fair value of the credit granted was determined taking into account the average spread of the production carried out in the last quarter of the year;
- For customer demand deposits, it was considered that the fair value was equal to the balance sheet value.
- In the case of debt securities issued, 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 financial years 2022 and 2021, the movement in financial instruments classified in Level 3 was as follows:

	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income
December 31, 2020	27,172	132,127	74,145
Purchases	-	498	2,103
Sales	-	-	(1,407)
Reimbursements	-	(34,654)	-
Fair value changes	(1,938)	1,196	(1,176)
December 31, 2021	25,234	99,167	73,665
Purchases	-	463	2,103
Sales	-	-	(1,871)
Reimbursements	-	(83,099)	-
Reclassifications	-	-	(2,577)
Fair value changes	23,149	14,489	71,688
December 31, 2022	48,383	31,020	143,008

The interest rate curves for the most representative terms and currencies used in the valuation of financial instruments were as follows:

	31-12-2022		31-12-2021	
	EUR	USD	EUR	USD
Overnight	1.74%	4.65%	-0.64%	0.20%
1 month	1.74%	4.66%	-0.64%	0.20%
3 months	2.12%	4.77%	-0.57%	0.21%
6 months	2.69%	4.97%	-0.55%	0.31%
9 months	3.03%	5.08%	-0.52%	0.42%
1 year	3.23%	5.12%	-0.48%	0.53%
3 years	3.31%	4.34%	-0.15%	1.17%
5 years	3.23%	4.03%	0.02%	1.36%
7 years	3.20%	3.90%	0.13%	1.47%
10 years	3.20%	3.83%	0.30%	1.58%

Hedge accounting

As at December 31, 2022 and 2021, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	31-12-2022					
	Hedged element				Hedging instrument	
	Nominal value	Amount net of impairment	Fair value changes	Carrying amount	Nominal value	Fair value
Fair value hedging:						
Financial assets at amortised cost	3,218,057	3,230,941	(198,505)	3,032,436	3,218,057	183,717
Financial assets at fair value through other comprehensive income	4,151,701	4,234,233	(411,799)	3,822,434	7,446,000	408,716
Financial liabilities measured at amortised cost						
Deposits - Customers	(357)	(362)	(1)	(363)	357	4
Debt securities issued	(7,942)	(8,217)	488	(7,729)	7,942	(234)
Cash flow hedging:						
Financial assets at amortised cost	10,000,000	10,000,000	-	10,000,000	10,000,000	(174,147)
				0	0)
	17,361,459	17,456,595	(609,817)	16,846,778	20,672,356	418,056

	31-12-2021					
	Hedged element				Hedging instrument	
	Nominal value	Amount net of impairment	Fair value changes	Carrying amount	Nominal value	Fair value
Fair value hedging:						
Financial assets at amortised cost	3,084,241	3,089,350	5,807	3,095,157	3,031,714	(35,315)
Financial assets at fair value through other comprehensive income	3,380,000	3,423,924	251,746	3,675,670	3,380,000	(253,238)
Financial liabilities measured at amortised cost						
Deposits - Customers	(9,560)	(9,609)	(51)	(9,660)	9,626	102
Debt securities issued	(8,111)	(8,299)	(100)	(8,399)	8,111	269
Cash flow hedging:						
Financial assets at amortised cost	10,000,000	10,000,000	-	10,000,000	10,000,000	1,521
	16,446,570	16,495,366	257,402	16,752,768	16,429,451	(286,661)

Cash flow hedging

The expected periods for the occurrence of cash flows that will affect the profit or loss for the year present the following detail:

	31-12-2022					
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 3 years	More than 3 years	Total
Interest rate swaps	(16,728)	(157,419)	-	-	-	(174,147)

	31-12-2021					
	Up to 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 3 years	More than 3 years	Total
Interest rate swaps	4,434	9,686	21,387	(33,986)	-	1,521

The gains and losses recognised in the 2022 and 2021 statements of profit or loss, on fair value hedging transactions, presented the following detail:

	31-12-2022			31-12-2021		
	Hedged element	Hedging instrument	Net	Hedged element	Hedging instrument	Net
Financial assets at amortised cost	(204,312)	204,312	-	(51,357)	51,357	-
Financial assets at fair value through other comprehensive income	(661,699)	661,699	-	(120,832)	120,832	-
Financial liabilities measured at amortised cost						
Deposits - Customers	50	(50)	-	186	(186)	-
Debt securities issued	588	(588)	-	149	(149)	-
	(865,373)	865,373	-	(171,854)	171,854	-

RISK MANAGEMENT

CREDIT RISK

Credit-risk management at the Bank covers the identification, measurement, integration and evaluation of the various credit exposures, and an analysis of their profitability adjusted to the respective risk, both from an overall viewpoint, as well as within every area of activity.

Credit-risk management is carried out by an independent body, the Risks Area, which is responsible, namely, for managing the special customer monitoring system, for the segmentation of the credit risk in the light of the characteristics of the customers and of the products, and for the scoring (applicable to mortgage-loan and consumer-loan operations, and credit and business cards) and rating systems used at the Bank.

The counterparty risk consists of the latent credit risk in financial markets transactions corresponding to the possibility of default by the counterparties of the terms contracted and subsequent occurrence of financial losses for the Bank. The types of transactions covered include the purchase and sale of securities, the contracting of repos, securities lending and derivative instruments. Given the high complexity and volume of transactions, as well as the requirements necessary for an adequate control of the consolidated risks in certain customer segments, the control perimeter is defined in accordance with the segments at issue.

Control of these risks is performed daily in accordance with an integrated system that allows the recording of the approved limits and the real-time updating of positions and provides information on the availability of limits and aggregate exposure, also in real time, for the various products and maturities. The system also allows transverse control (at different levels) of risk concentration by groups of customers/counterparties.

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

For specific customer segments (namely global corporate customers) emphasis is given to the implementation of economic-capital limits, incorporating in the quantitative control the variables associated with the creditworthiness of each counterparty.

Risk analyses for customers or economic groups where the Bank has an exposure of more than Euros 500,000 are performed by risk analysts who monitor those customers and supported by rating models developed by the Bank and approved by the regulatory entities. Preparation of these models is mandatory. The assignment of various internal rating levels, ranging from 1.0 to 9.3, has subjacent the degree of risk inherent to the customer and a probability of default at one year that the Bank monitors and calibrates on a constant and regular basis.

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>Split</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

As at December 31, 2022 and 2021, the maximum exposure to the credit risk and the respective carrying amount of the financial instruments was as follows:

	31-12-2022		31-12-2021	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Cash, cash balances at central banks and other demand deposits	8,407,985	8,407,985	8,711,389	8,711,389
Financial assets held for trading	498,103	498,103	587,772	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	31,020	31,020	99,167	99,167
Financial assets at fair value through other comprehensive income	4,423,397	4,423,397	5,339,913	5,339,913
Financial assets at amortised cost	40,850,964	48,895,288	40,373,867	47,318,615
Derivatives – Hedge accounting	601,827	601,827	7,447	7,447
	54,813,295	62,857,619	55,119,555	62,064,303
Guarantees given (Note 23)				
Financial guarantees and sureties	340,191	340,191	330,997	330,997
Non-financial guarantees and sureties	1,485,832	1,485,832	1,346,113	1,346,113
Documentary credits outstanding	242,819	242,819	315,004	315,004
	2,068,842	2,068,842	1,992,114	1,992,114

The maximum exposure in “Financial assets at amortised cost” is as follows:

	31-12-2022	31-12-2021
Carrying amount	40,850,964	40,373,867
Other commitments granted (Note 23):		
Revocable	7,232,184	6,378,768
Irrevocable	812,140	565,980
Maximum exposure	48,895,288	47,318,615

Impairment losses

The Expected Credit Loss (ECL) calculation incorporates a Forward-Looking perspective by including macroeconomic scenarios (optimistic, base and acid) in the PD and LGD models, applying to each scenario a given probability of occurrence. The scenarios are updated at least once a year and mirror the behaviour of macroeconomic variables used in stress models. The main macroeconomic projections used at the 2022 year-end were as follows:

	2022	2023	2024	2025	2026
GDP (annual change)					
Base Scenario	6.70%	0.00%	1.30%	1.70%	2.00%
Optimistic Scenario	6.80%	0.70%	1.70%	2.10%	2.40%
Pessimistic Scenario	6.50%	-1.80%	0.30%	0.90%	1.20%
Unemployment (annual change)					
Base Scenario	6.00%	7.70%	8.20%	7.70%	7.10%
Optimistic Scenario	6.00%	7.60%	7.90%	7.30%	6.80%
Pessimistic Scenario	6.00%	7.90%	8.60%	8.20%	7.70%
Real Estate Prices (annual change)					
Base Scenario	13.80%	0.60%	0.30%	2.30%	4.50%
Optimistic Scenario	14.00%	1.40%	1.10%	3.00%	5.20%
Pessimistic Scenario	13.50%	-0.90%	-1.20%	0.80%	2.90%
CPI (annual change)					
Base Scenario	7.80%	6.70%	4.70%	3.00%	2.00%
Optimistic Scenario	8.20%	7.50%	5.30%	3.50%	2.60%
Pessimistic Scenario	7.50%	5.90%	3.90%	2.60%	2.00%
10-year Treasury Bonds					
Base Scenario	2.42%	3.03%	3.20%	3.37%	3.53%
Optimistic Scenario	2.34%	2.71%	2.83%	2.97%	3.10%
Pessimistic Scenario	2.47%	3.27%	3.48%	3.69%	3.87%

The Base Scenario assumes a stagnation of the economy in 2023, motivated by the erosion of purchasing power both in the national market, considering the effects of the rise in interest rates and the energy crisis, and in the tourism issuing markets, with a slow recovery in the following years. The Optimistic Scenario is characterised by a moderation in economic activity in 2023, with the economy mitigating the impact of the decrease in purchasing power as a result of high inflation and rising interest rates, with the implementation of the Recovery and Resilience Plan ("PRR" in Portuguese). The Pessimistic Scenario is characterised by a contraction in activity in 2023 followed by weak recovery in 2024, triggered by the decrease in the purchasing power of families, causing a sharp brake on demand, combined with the weak implementation of the PRR.

For sensitivity analysis purposes, a 100% weighting is assumed in extreme scenarios. In a 100% pessimistic (acid) scenario the impact on impairment would be + Euros 23.6 million (+ Euros 77.1 million as at December 31, 2021), in an 100% optimistic scenario it would be - Euros 18.8 million (- Euros 43 million as at December 31, 2021), which represents an impact on the total of the impairment recorded at the close of 2022 of +2.4% and -1.9% (+7.3% and -4% at the close of 2021) respectively.

As at December 31, 2022 and 2021, the concentration by activity sector of the portfolio of loans and advances at amortised cost, was as follows:

Activity sector	31-12-2022			
	Gross amount	Impairment	Carrying amount	Concentration %
Agriculture, animal husbandry, hunting, forestry and fisheries	285,277	(15,991)	269,286	0.72%
Extractive industries	19,379	(1,754)	17,625	0.05%
Manufacturing	1,949,894	(160,369)	1,789,525	4.79%
Electricity, gas, steam, hot and cold water and cold air	379,415	(479)	378,936	1.01%
Water catchment, treatment and distribution; sanitation, waste management and depollution	50,091	(1,929)	48,162	0.13%
Construction	1,000,015	(80,412)	919,603	2.46%
Wholesale and retail trade; motor vehicle and motorcycle repairs	1,913,839	(103,205)	1,810,634	4.84%
Transport and storage	557,596	(29,302)	528,294	1.41%
Accommodation, catering and similar	1,191,371	(63,194)	1,128,177	3.02%
Information and communication activities	95,004	(2,893)	92,111	0.25%
Real estate activities	1,259,250	(39,062)	1,220,188	3.26%
Consultancy, scientific, technical and similar activities	844,902	(22,104)	822,798	2.20%
Administrative and support activities	310,967	(31,570)	279,397	0.75%
Public administration and defence; mandatory social security	780	(2)	778	0.00%
Education	73,699	(1,381)	72,318	0.19%
Human healthcare and social support activities	259,222	(3,353)	255,869	0.68%
Artistic, shows, sports and recreational activities	77,402	(10,495)	66,907	0.18%
Other services	552,219	(19,327)	532,892	1.43%
Loans and advances - Financial institutions	830,028	(1,062)	828,966	2.22%
Loans and advances - Public sector	1,055,038	(9,969)	1,045,069	2.80%
Loans and advances - Individuals:				
. Mortgage	23,254,352	(185,805)	23,068,547	61.71%
. Consumption and other	2,361,270	(157,788)	2,203,482	5.89%
	38,321,010	(941,446)	37,379,564	100.00%

Activity sector	31-12-2021			Concentration %
	Gross amount	Impairment	Carrying amount	
Agriculture, animal husbandry, hunting, forestry and fisheries	280,236	(6,514)	273,722	0.74%
Extractive industries	25,361	(1,989)	23,372	0.06%
Manufacturing	2,120,772	(98,386)	2,022,386	5.48%
Electricity, gas, steam, hot and cold water and cold air	529,094	(285)	528,809	1.43%
Water catchment, treatment and distribution; sanitation, waste management and depollution	68,640	(1,822)	66,818	0.18%
Construction	958,136	(75,050)	883,086	2.39%
Wholesale and retail trade; motor vehicle and motorcycle repairs	1,964,401	(75,372)	1,889,029	5.12%
Transport and storage	608,178	(29,125)	579,053	1.57%
Accommodation, catering and similar	1,362,541	(81,132)	1,281,409	3.47%
Information and communication activities	108,576	(3,020)	105,556	0.29%
Real estate activities	1,319,954	(59,015)	1,260,939	3.42%
Consultancy, scientific, technical and similar activities	692,043	(25,701)	666,342	1.81%
Administrative and support activities	378,102	(37,701)	340,401	0.92%
Public administration and defence; mandatory social security	2,582	(14)	2,568	0.01%
Education	71,749	(1,244)	70,505	0.19%
Human healthcare and social support activities	272,813	(3,621)	269,192	0.73%
Artistic, shows, sports and recreational activities	91,335	(12,237)	79,098	0.21%
Other services	643,437	(134,007)	509,430	1.38%
Loans and advances - Financial institutions	902,343	(791)	901,552	2.44%
Loans and advances - Public sector	1,215,593	(10,292)	1,205,301	3.27%
Loans and advances - Individuals:				
. Mortgage	21,784,325	(221,834)	21,562,491	58.41%
. Consumption and other	2,528,740	(134,724)	2,394,016	6.49%
	37,928,951	(1,013,876)	36,915,075	100.00%

In accordance with the requirements set out in Bank of Portugal Instruction No. 4/2018, the Bank began to publish "Non-Performing Exposures" and "Forborne Exposures".

Thus, as at December 31, 2022 and 2021, the breakdown of performing and non-performing exposures was as follows:

	31-12-2022			31-12-2021		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Performing exposures	40,708,982	(339,130)	0.8%	40,134,715	(345,860)	0.9%
Non-performing exposures						
. Covered loans	1,255	(1,239)	98.7%	-	-	-
. Individuals	361,434	(195,687)	54.1%	383,618	(198,428)	51.7%
. Companies	725,589	(410,240)	56.5%	875,032	(475,210)	54.3%
	1,088,278	(607,166)		1,258,650	(673,638)	
	41,797,260	(946,296)		41,393,365	(1,019,498)	

The degree of coverage of non-performing exposures, net of impairment, by real guarantees was as follows:

	31-12-2022			31-12-2021		
	Carrying amount	Collateral	Coverage	Carrying amount	Collateral	Coverage
Non-performing exposures						
. Covered loans	16	-	0.0%	-	-	-
. Individuals	165,747	114,458	69.1%	185,190	144,819	78.2%
. Companies	315,349	214,876	68.1%	399,822	266,368	66.6%
	<u>481,112</u>	<u>329,334</u>		<u>585,012</u>	<u>411,187</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 December 31, 2022 and 2021, the breakdown of forborne exposures was as follows:

	31-12-2022			31-12-2021		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Performing exposures	412,339	(42,441)	10.3%	487,720	(45,137)	9.3%
Non-performing exposures						
. Individuals	147,939	(69,367)	46.9%	203,245	(90,033)	44.3%
. Companies	443,034	(224,701)	50.7%	622,120	(324,329)	52.1%
	<u>590,973</u>	<u>(294,068)</u>		<u>825,365</u>	<u>(414,362)</u>	
	<u>1,003,312</u>	<u>(336,509)</u>		<u>1,313,085</u>	<u>(459,499)</u>	

The movement during 2022 and 2021 in forborne exposures was as follows:

	Gross amount	Impairment	Net amount
Balance as at December 31, 2020	1,440,380	499,391	940,989
Additions in year	224,514	42,403	182,111
Debt amortisations	(194,359)	(55,549)	(138,810)
Cures	(116,045)	(8,946)	(107,099)
Portfolio sales	(46,131)	(31,374)	(14,757)
Other changes	4,726	13,574	(8,848)
Balance as at December 31, 2021	1,313,085	459,499	853,586
Additions in year	85,252	20,123	65,129
Debt amortisations	(216,298)	(82,268)	(134,030)
Cures	(121,769)	(16,121)	(105,648)
Portfolio sales	(61,540)	(46,305)	(15,235)
Other changes	4,582	1,581	3,001
Balance as at December 31, 2022	<u>1,003,312</u>	<u>336,509</u>	<u>666,803</u>

Encumbered assets

In accordance with the requirements set out in Bank of Portugal Instruction No. 28/2014, of January 15, 2015, the Bank now provides information on the encumbered assets. An encumbered asset is considered to be an asset explicitly or implicitly constituted as collateral or subject to an agreement to guarantee, collateralise or improve credit quality in any transaction from which it cannot be freely withdrawn.

As at December 31, 2022 and 2021, the breakdown of encumbered and unencumbered assets is as follows:

	2022			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Demand deposits at central banks and other				
demand deposits at credit institutions	-	-	8,100,672	-
Equity instruments	-	-	180,117	180,117
Debt securities	1,253,680	1,225,563	4,223,465	4,194,181
Loans and advances	11,183,160	-	28,464,959	-
Other assets	-	-	2,372,125	-
	12,436,840	1,225,563	43,341,338	4,374,298
	2021			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Demand deposits at central banks and other				
demand deposits at credit institutions	-	-	8,370,092	-
Equity instruments	-	-	171,687	171,687
Debt securities	1,703,462	1,674,830	4,043,421	3,952,244
Loans and advances	11,945,772	-	27,948,605	-
Other assets	-	-	1,983,580	-
	13,649,234	1,674,830	42,517,385	4,123,931

As at December 31, 2022 and 2021, liabilities associated with encumbered assets and the collaterals received are as follows:

	2022	
	Assets, collateral received and own debt securities issued excl. own covered bonds or ABS encumbered	
Carrying amount of financial liabilities	6,185,528	8,458,181
Other	205,508	273,115
	6,391,036	8,731,296

	2021	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, collateral received and own debt securities issued excl. own covered bonds or ABS encumbered
Carrying amount of financial liabilities	7,401,288	9,871,616
Other	631,752	523,924
	8,033,040	10,395,540

As at December 31, 2022 and 2021, the main captions of assets had the following breakdown by external rating (internal rating for credit granted), in keeping with the rating assigned by Standard & Poor's:

	31-12-2022	31-12-2021
Cash, cash balances at central banks and other demand deposits:		
Cash and cash balances at central banks		
S&P Rating		
AAA+ /AAA /AAA-	7,850,256	8,141,015
Not subject	307,313	341,297
	8,157,569	8,482,312
Other demand deposits		
S&P Rating		
A+ /A /A-	158,072	113,821
AA+ /AA /AA-	35,380	28,160
AAA+ /AAA /AAA-	19,722	-
BB+ / BB / BB-	1,358	1,112
BBB+ / BBB / BBB-	28,400	72,885
CCC+ /CCC /CCC-	-	1,150
No external rating	7,484	11,949
	250,416	229,077
	8,407,985	8,711,389
Financial assets at fair value through other comprehensive income		
S&P Rating		
A+ /A /A-		
BBB+ / BBB / BBB-	4,273,932	5,266,247
No external rating	392	1,198
	4,274,324	5,267,445

	31-12-2022	31-12-2021
Financial assets at amortised cost		
Debt securities		
S&P Rating		
AA+ /AA /AA-	-	26,264
AAA+ /AAA /AAA-	-	50
BBB+ / BBB / BBB-	173,066	-
No external rating	3,303,184	3,438,100
of which with internal rating:		
Low credit risk	2,429,103	2,403,713
Medium credit risk	865,617	896,071
High credit risk	9,808	13,510
	<u>3,476,250</u>	<u>3,464,414</u>
Loans and advances - Credit institutions		
S&P Rating		
A+ /A /A-	-	122
AAA+ /AAA /AAA-	1	-
BB+ / BB / BB-	1,356	1,275
BBB+ / BBB / BBB-	19,542	16,796
CCC+ / CCC / CCC-	-	1,247
No external rating	2,204	11,147
	<u>23,103</u>	<u>30,587</u>
Loans and advances - Customers and other receivables		
Internal rating		
Low credit risk	30,174,135	28,972,321
Medium credit risk	5,024,251	5,646,379
High credit risk	1,204,667	1,612,541
Unrated	1,894,854	1,667,123
	<u>38,297,907</u>	<u>37,898,364</u>
	<u>41,797,260</u>	<u>41,393,365</u>
Off-Balance sheet exposures		
	31-12-2022	31-12-2021
Low credit risk	8,115,898	6,929,521
Medium credit risk	1,048,461	1,156,890
High credit risk	118,706	141,541
Unrated	830,185	708,910
	<u>10,113,250</u>	<u>8,936,862</u>

For cases in which the Standard & Poor's rating was not available, the ratings issued by Moody's or Fitch were presented.

LIQUIDITY RISK

The balance sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the Chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury and Commercial areas. Committee meetings are held monthly, and at these meetings the balance-sheet risks are analysed, and strategic options decided.

For the ALM area, the following balance-sheet management limits are defined:

- Limits intended to control the interest-rate risk, in particular, the sensitivity of the Net Interest Margin (NIM), and the sensitivity of the Market Value of Equities (MVE) to unexpected interest-rate variations; and
- Limits intended to control the liquidity risk through the net accumulated liquidity and illiquidity coefficient indicators.

The Bank's funding policy considers the evolution of the balance-sheet aggregates, the structural situation of the maturities of assets and liabilities, the net interbank debt level in the light of the available lines, maturity dispersal and minimisation of the costs associated with the funding activity.

It should be noted that the Bank does not perform any liquidity-risk analysis for trading financial instruments.

As at December 31, 2022 and 2021, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their contractual maturities, was as follows:

	31-12-2022								
	On demand	Up to 3 months	Between 3 months and 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Undetermined	Derivatives	Total
<u>Assets</u>									
Cash, cash balances at central banks and other demand deposits	562,589	-	-	-	7,850,236	-	-	-	8,412,825
Financial assets held for trading	-	-	-	-	-	-	-	498,103	498,103
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	31,020	-	31,020
Financial assets at fair value through other comprehensive income	2	60,218	214,894	300,225	4,386,221	273,992	149,097	-	5,384,649
Financial assets at amortised cost	414,386	2,407,415	6,310,989	11,525,034	5,396,766	21,645,465	-	-	47,700,055
Derivatives – Hedge accounting	-	-	-	-	-	-	-	601,827	601,827
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	41,468	-	41,468
	976,977	2,467,633	6,525,883	11,825,259	17,633,223	21,919,457	221,585	1,099,930	62,669,947
<u>Liabilities</u>									
Financial liabilities held for trading	-	-	-	-	-	-	-	508,058	508,058
Financial liabilities measured at amortised cost									
Deposits - Central banks	87	-	3,713,694	744,778	-	-	-	-	4,458,559
Deposits - Credit institutions	737,192	980,118	1,140,745	-	-	-	-	-	2,858,055
Deposits - Customers and other loans	25,090,156	6,146,532	5,887,944	1,267,576	710,608	52,121	-	-	39,154,937
Debt securities issued	-	70,760	374,564	1,943,114	1,274,294	1,084,116	-	-	4,746,848
Derivatives – Hedge accounting	-	-	-	-	-	-	-	183,771	183,771
	25,827,435	7,197,410	11,116,947	3,955,468	1,984,902	1,136,237	-	691,829	51,910,228

	31-12-2021								
	On demand	Up to 3 months	Between 3 months and 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Undetermined	Derivatives	Total
<u>Assets</u>									
Cash, cash balances at central banks and other demand deposits	570,374	-	-	-	8,141,015	-	-	-	8,711,389
Financial assets held for trading	-	-	-	-	-	-	-	587,772	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	99,167	-	99,167
Financial assets at fair value through other comprehensive income	2	60,218	74,892	270,201	2,065,386	2,901,103	72,520	-	5,444,322
Financial assets at amortised cost	528,711	2,340,897	4,947,722	9,649,573	8,090,391	18,552,539	-	-	44,109,833
Derivatives – Hedge accounting	-	-	-	-	-	-	-	7,447	7,447
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	38,161	-	38,161
	1,099,087	2,401,115	5,022,614	9,919,774	18,296,792	21,453,642	209,848	595,219	58,998,091
<u>Liabilities</u>									
Financial liabilities held for trading	-	-	-	-	-	-	-	605,331	605,331
Financial liabilities measured at amortised cost									
Deposits - Central banks	8,987	-	-	7,264,073	-	-	-	-	7,273,060
Deposits - Credit institutions	337,492	53,081	1,766	30	-	-	-	-	392,369
Deposits - Customers and other loans	24,446,657	6,248,443	6,154,935	1,115,679	896,499	63,300	-	-	38,925,513
Debt securities issued	-	43,924	154,748	1,381,479	120,872	1,674,021	-	-	3,375,044
Derivatives – Hedge accounting	-	-	-	-	-	-	-	294,108	294,108
	24,793,136	6,345,448	6,311,449	9,761,261	1,017,371	1,737,321	-	899,439	50,865,425

Determination of the projected cash flows from financial instruments was based on principles and assumptions used by the Bank in the management and control of liquidity arising from its business, namely:

- The projected cash flows of assets and liabilities with variable remuneration associated with the interest rate curve are calculated considering the forward interest rate curve;
- Financial instruments classified as “non-structural” were considered to be payable “on demand” (cash, cash balances at credit institutions). Equity instruments carried as financial assets at fair value through other comprehensive income, were considered as having an indeterminate maturity. For non-trading financial assets mandatorily at fair value through profit or loss and for financial assets and liabilities held for trading, their fair value was considered to be their transactional value on demand, given that their management is based on the control of their exposure to market risk.
- Operations relating to credit lines without defined maturity or periodically renewable, namely bank overdrafts and current account credit facilities, were considered as having an average maturity of 25 months;
- For the subordinated liabilities, the date on which the Bank may make early redemption of the bonds that make up this caption was considered;
- The projected flows relating to demand deposits have been considered as payable on demand.

MARKET RISK

Market risk generally consists of the potential variation of the value of a financial instrument due to unexpected changes of market variables, such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard method applied for the Bank's trading activity is Value at Risk (VaR). The Historic Simulation standard is used as the basis, with a confidence level of 99% and a time horizon of one day, statistical adjustments being applied to include the more recent events that condition the risk levels assumed.

The calculated VaR is a daily estimate of the maximum potential loss under normal market conditions (individually by portfolios/business areas, and for the entirety of the positions), within the assumptions defined in the construction of the model.

At the same time, other measures are implemented that allow additional monitoring of the market risk. For unusual market conditions, scenarios are analysed (Stress Testing), which consists of defining extreme scenarios for the behaviour of different financial variables and obtaining their potential impact on profit or loss. In short, the scenario analysis seeks to identify the potential risk under extreme market conditions, and in the fringes of probable occurrence not covered by the VaR.

In parallel, there is daily monitoring of the positions, and an exhaustive control is performed of the changes that occur in the portfolios, to detect the possible impacts that may exist for their correction. The daily preparation of the profit or loss account is intended to identify the impact of variations in the financial variables or of the alteration of the composition of the portfolios.

The Bank also uses sensitivity measures and equivalent positions. In the case of the interest rate, use is made of the Basis Point Value (BPV) – estimated impact on profit or loss for parallel movements in the interest-rate curves. For the control of derivatives activities, due to their atypical nature, specific daily sensitivity measures are carried out, including calculation and analysis of sensitivities to movements of the price of the underlying item (delta and gamma), volatility (Vega), and time (theta).

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

- Limits intended to control the volume of potential future losses (VaR, equivalent positions, and sensitivities); and
- Limits intended to control the volume of actual losses or to protect the profit or loss levels already achieved during the year (Loss Triggers and Stop Losses).

Regarding the structural interest-rate risk, it is measured through modelling the asset and liability positions sensitive to interest-rate variations in accordance with their indexing and repricing structure. This model allows the measurement and control of the risks originating directly from the movement of the income curve, namely their impact on net interest income and on the Bank's equity. Additionally, other risk indicators are calculated, such as Value at Risk (VaR) and scenario analysis (Stress Test).

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

INTEREST-RATE RISK

As at December 31, 2022 and 2021, the breakdown of financial instruments by exposure to interest-rate risk was as follows:

	31-12-2022				
	Exposure to		Not subject to		
	Fixed rate	Floating rate	interest rate risk	Derivatives	Total
Assets					
Cash, cash balances at central banks and other demand deposits	-	7,850,256	557,729	-	8,407,985
Financial assets held for trading	-	-	-	498,103	498,103
Non-trading financial assets mandatorily					
at fair value through profit or loss	-	-	31,020	-	31,020
Financial assets at fair value through other comprehensive income	4,252,067	391	170,939	-	4,423,397
Financial assets at amortised cost	7,743,798	33,843,854	(736,688)	-	40,850,964
Derivatives – Hedge accounting	-	-	-	601,827	601,827
	11,995,865	41,694,501	23,000	1,099,930	54,813,296
Liabilities					
Financial liabilities held for trading	-	-	-	508,057	508,057
Financial liabilities measured at amortised cost					
Deposits - Central banks	4,113,714	-	-	-	4,113,714
Deposits - Credit institutions	166,946	2,647,111	355	-	2,814,412
Deposits - Customers and other loans	14,302,686	24,753,230	5,698	-	39,061,614
Debt securities issued	2,961,741	1,370,753	(16,011)	-	4,316,483
Other financial liabilities	-	-	357,332	-	357,332
Derivatives – Hedge accounting	-	-	-	183,771	183,771
	21,545,087	28,771,094	347,374	691,828	51,355,383
	31-12-2021				
	Exposure to		Not subject to		
	Fixed rate	Floating rate	interest rate risk	Derivatives	Total
Assets					
Cash, cash balances at central banks and other demand deposits	-	8,141,015	570,374	-	8,711,389
Financial assets held for trading	-	-	-	587,772	587,772
Non-trading financial assets mandatorily					
at fair value through profit or loss	-	-	99,167	-	99,167
Financial assets at fair value through other comprehensive income	4,253,077	1,194	1,085,642	-	5,339,913
Financial assets at amortised cost	7,257,500	33,373,241	(256,874)	-	40,373,867
Derivatives – Hedge accounting	-	-	-	7,447	7,447
	11,510,577	41,515,450	1,498,309	595,219	55,119,555
Liabilities					
Financial liabilities held for trading	-	-	-	605,331	605,331
Financial liabilities measured at amortised cost					
Deposits - Central banks	7,501,017	-	(90,775)	-	7,410,242
Deposits - Credit institutions	211,956	181,319	130	-	393,405
Deposits - Customers and other loans	14,629,200	24,324,665	5,039	-	38,958,904
Debt securities issued	2,335,710	719,318	(48,281)	-	3,006,747
Other financial liabilities	-	-	219,275	-	219,275
Derivatives – Hedge accounting	-	-	-	294,108	294,108
	24,677,883	25,225,302	85,388	899,439	50,888,012

As at December 31, 2022 and 2021, the breakdown of financial instruments by exposure to interest-rate risk, by interest rate ranges, was as follows:

	2022							
	Rate intervals					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
<u>Assets</u>								
Cash, cash balances at central banks and other demand deposits	-	7,850,256	-	-	-	557,729	-	8,407,985
Financial assets held for trading	-	-	-	-	-	-	498,103	498,103
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	31,020	-	31,020
Financial assets at fair value through other comprehensive income	99,880	31,408	4,121,170	-	-	170,939	-	4,423,397
Financial assets at amortised cost	5,456,513	23,257,665	9,930,966	2,665,495	277,012	(736,688)	-	40,850,964
Derivatives – Hedge accounting	-	-	-	-	-	-	601,827	601,827
	5,556,393	31,139,329	14,052,136	2,665,495	277,012	23,000	1,099,930	54,813,296
<u>Liabilities</u>								
Financial liabilities held for trading	-	-	-	-	-	-	508,057	508,057
Financial liabilities measured at amortised cost								
Deposits - Central banks	-	4,113,714	-	-	-	-	-	4,113,714
Deposits - Credit institutions	31,000	2,648,986	134,071	-	-	355	-	2,814,412
Deposits - Customers and other loans	38,494,578	371,743	189,596	-	-	5,698	-	39,061,614
Debt securities issued	996,201	2,321,139	690,000	278,654	46,500	(16,011)	-	4,316,483
Other financial liabilities	-	-	-	-	-	357,332	-	357,332
Derivatives – Hedge accounting	-	-	-	-	-	-	183,771	183,771
	39,521,779	9,455,582	1,013,667	278,654	46,500	347,374	691,828	51,355,384
	2021							
	Rate intervals					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
<u>Assets</u>								
Cash, cash balances at central banks and other demand deposits	8,141,015	-	-	-	-	570,374	-	8,711,389
Financial assets held for trading	-	-	-	-	-	-	587,772	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	99,167	-	99,167
Financial assets at fair value through other comprehensive income	106,590	31,526	4,116,155	-	-	1,085,642	-	5,339,913
Financial assets at amortised cost	23,067,013	14,499,559	1,361,738	1,403,070	299,360	(256,874)	-	40,373,867
Derivatives – Hedge accounting	-	-	-	-	-	-	7,447	7,447
	31,314,618	14,531,085	5,477,893	1,403,070	299,360	1,498,309	595,219	55,119,555
<u>Liabilities</u>								
Financial liabilities held for trading	-	-	-	-	-	-	605,331	605,331
Financial liabilities measured at amortised cost								
Deposits - Central banks	7,501,017	-	-	-	-	(90,775)	-	7,410,242
Deposits - Credit institutions	393,275	-	-	-	-	130	-	393,405
Deposits - Customers and other loans	38,916,684	37,181	-	-	-	5,039	-	38,958,904
Debt securities issued	1,544,429	1,320,000	-	190,599	-	(48,281)	-	3,006,747
Other financial liabilities	-	-	-	-	-	219,275	-	219,275
Derivatives – Hedge accounting	-	-	-	-	-	-	294,108	294,108
	48,355,405	1,357,181	-	190,599	-	85,388	899,439	50,888,012

As at December 31, 2022, the distribution of contractual maturities and interest rate repricing of the sensitive amounts in the Bank's portfolio, through a static GAP, is as follows:

	31-12-2022												
	Date intervals									Not subject to			
	1 month	3 months	6 months	1 year	2 years	3 years	4 years	5 years	> 5 years	Interest rate risk	Derivatives	Total	
<u>Assets</u>													
Cash, cash balances at central banks and other demand deposits	7,850,256	-	-	-	-	-	-	-	-	557,729	-	8,407,985	
Financial assets held for trading	-	-	-	-	-	-	-	-	-	-	498,103	498,103	
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	-	-	31,020	-	31,020	
Financial assets at fair value through other comprehensive income	-	-	-	-	-	30,000	1,766,000	100,000	2,356,458	170,939	-	4,423,397	
Financial assets at amortised cost	5,986,469	11,087,853	12,314,256	5,872,274	735,403	2,017,150	1,372,183	522,973	1,679,092	(736,688)	-	40,850,964	
Derivatives – Hedge accounting	-	-	-	-	-	-	-	-	-	-	601,827	601,827	
	13,836,725	11,087,853	12,314,256	5,872,274	735,403	2,047,150	3,138,183	622,973	4,035,550	23,000	1,099,930	54,813,296	
<u>Liabilities</u>													
Financial liabilities held for trading	-	-	-	-	-	-	-	-	-	-	508,057	508,057	
Financial liabilities measured at amortised cost													
Deposits - Central banks	-	4,113,714	-	-	-	-	-	-	-	-	-	4,113,714	
Deposits - Credit institutions	610,899	973,585	1,229,573	-	-	-	-	-	-	355	-	2,814,412	
Deposits - Customers and other loans	27,106,737	4,083,059	3,721,205	2,157,752	835,426	439,370	457,795	252,464	2,108	5,698	-	39,061,615	
Debt securities issued	100,719	1,269,952	22	5	1,004,197	-	7,599	980,000	970,000	(16,011)	-	4,316,483	
Derivatives – Hedge accounting	-	-	-	-	-	-	-	-	-	-	183,771	183,771	
	27,818,355	10,440,310	4,950,800	2,157,757	1,839,623	439,370	465,394	1,232,464	972,108	(9,958)	691,828	50,998,052	

Financial Instruments – non-trading

The method of calculation of the sensitivity of the net asset value involves simulation of the change in the market value of the assets and liabilities, based on 100 basis point (bp) shifts of the forward interest-rate curve. This methodology uses the following parameters and assumptions:

- All assets and liabilities sensitive to interest-rate fluctuations are identified, that is, those which value and respective contribution to net interest income may change due to changes in market rates;
- Assets and liabilities are grouped into homogeneous aggregates according to their exposure to interest-rate risk;
- For each sensitive transaction (contract), the future flows duly distributed by repricing dates (variable rate) or maturity date (fixed rate) are calculated;
- For each aggregate defined above, the transactions are grouped by repricing/maturity dates;
- The time intervals intended to measure the interest-rate gap are defined;
- For each aggregate, the cash flows are grouped on the basis of the intervals created;
- For each product considered sensitive but that has no defined maturity, distribution parameters are estimated in keeping with previously studied behaviour models; and
- For each interval, the total flows of assets and liabilities and, by the difference between these, the interest-rate risk gap are calculated.

The interest-rate gap allows an approximation of the sensitivity of the net asset value and of the net interest income in the light of market-rate variations. This approach has the following assumptions:

- The volumes are always maintained in the balance sheet and are renewed automatically;
- It assumes parallel variations in the interest-rate curve, not considering the possibility of specific movements for different periods of the interest-rate curve; and
- It does not consider the different elasticities between the various products.

From the perspective of variation of the net asset value, interest-rate increases entail a decrease of value in the intervals with positive gaps, and an increase of value in the negative gaps. Interest-rate decreases have the opposite effect.

General assumptions of this Interest-rate sensitivity analysis

- Balance-sheet evolution – a static balance sheet is assumed, according to which the amounts of contracts that do not have a fixed maturity date or which renewal is presumed, are replaced with new transactions of the same amount, so that the balance-sheet balances remain constant during the year under analysis;
- Maturities and repricing – the real maturities and repricing of the transactions are considered. Assets and liabilities which contribution to net interest income and which carrying amount does not alter with the interest-rate variations are considered non-sensitive;
- Indices – the indices defined contractually are considered, and the spot curve of the date of analysis with the underlying forward curve is used for the simulation; and
- Characteristics of new business operations (term, repricing, volumes, spread, index, etc.) – the conditions entered in the budget for each product are used. When these characteristics begin to lie outside the market for certain products, the average conditions applied during the previous month or the new commercial guidelines for each of the products in question are used.

As at December 31, 2022 and 2021, the sensitivity of the net asset value of the Bank's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	31-12-2022		31-12-2021	
	+100 bp's change	-100 bp's change	+100 bp's change	-100 bp's change
<u>Assets</u>				
Cash and cash balances at central banks	(2,580)	2,368	(1,445)	416,249
Financial assets at fair value through other comprehensive income	(75,865)	79,461	(89,928)	94,045
Financial assets at amortised cost	(688,047)	731,329	(915,620)	1,109,594
	<u>(766,492)</u>	<u>813,158</u>	<u>(1,006,993)</u>	<u>1,619,888</u>
Derivatives – Hedge accounting	282,550	(307,482)	202,485	(231,190)
<u>Liabilities</u>				
Financial liabilities measured at amortised cost				
Deposits - Central banks	(5,911)	5,788	(3,203)	88,910
Deposits - Credit institutions	(6,113)	6,124	(79)	79
Deposits - Customers and other loans	(1,082,528)	1,146,896	(1,230,462)	1,302,594
Debt securities issued	(110,725)	116,268	(120,409)	143,837
Other financial liabilities	(11,776)	11,970	(20,519)	20,855
	<u>(1,217,053)</u>	<u>1,287,046</u>	<u>(1,374,672)</u>	<u>1,556,275</u>

Financial Instruments – trading

The basic parameters for calculation of the VaR applicable are, in general, besides the calculation method itself, as follows:

- Time horizon: The time period for which potential losses of a portfolio are calculated for the measurement of the (daily) VaR is 1 day.
- Confidence level: both the VaR (potential loss) and the VaE (potential gain) are determined with a confidence level of 99% (1% and 99% percentiles, respectively, of the losses and gains distribution). For purposes of contrast analysis, a VaR and a VaE will also be calculated at a confidence level of 95% (5% and 95% percentiles, respectively).
- Exponential decrease factor: Allows exponential weighting of the variation amounts in market factors over time, giving less weight to observations more distant in time. The exponential decrease factor applied is determined periodically by Market Risk.
- The VaR values used correspond to the highest of those calculated with the decrease factor in force and those calculated using uniform weighting;
- Calculation currency: In the process of calculating the VaR all positions are valued in Euros, which guarantees that the risk-free currency is the local currency. However, VaR values are reported in US dollars (USD) to allow the aggregation of different units; and
- Market data time window: A 2-year time window is used, or at least 520 data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile gives equal weighting to the set of 520 observations considered. The Weighted Percentile VaR gives a significantly higher weighting to the most recent observations in relation to the reference date of the analysis.

Historical simulation consists of using the historical variations as the distribution model of possible variations in the risk factors. For this reason, the chosen period is sufficiently long and significant, such that all interactions between the market factors, their volatilities and the correlations between them, are duly mirrored in the historical period selected.

On the other hand, the complete revaluation of the portfolio requires a valuation of each of the instruments, using the respective mathematical expression to obtain the market value of each individual position. In using forms of revaluation, non-linear effects implicit in certain financial products as a result of changes in market factors are calculated and collected on the VaR values.

As at December 31, 2022 and 2021, the VaR associated with the interest-rate risk corresponded to:

	<u>31-12-2022</u>	<u>31-12-2021</u>
VaR 99% percentile	3	(1)

EXCHANGE RATE RISK

The profile defined for the exchange-rate risk is quite conservative and is embodied in the hedging policy used. Its implementation is the responsibility of the Treasury area, so the risks involved are not very relevant, and it is implemented primarily using currency swaps. Risk limits are stipulated for the exchange-rate risk that are controlled by the Market Risks Area.

As at December 31, 2022 and 2021, the detail of the financial instruments by currency was as follows:

	31-12-2022			
	Euros	US dollars	Other currencies	Total
Assets				
Cash, cash balances at central banks and other demand deposits	8,291,904	62,843	53,238	8,407,985
Financial assets held for trading	496,069	-	2,034	498,103
Non-trading financial assets mandatorily at fair value through profit or loss	31,020	-	-	31,020
Financial assets at fair value through other comprehensive income	4,423,337	60	-	4,423,397
Financial assets at amortised cost	40,369,605	449,578	31,781	40,850,964
Derivatives – Hedge accounting	570,805	30,484	538	601,827
Investments in subsidiaries, joint ventures and associates	41,468	-	-	41,468
	54,224,208	542,965	87,591	54,854,764
Liabilities				
Financial liabilities held for trading	506,126	-	1,931	508,057
Financial liabilities measured at amortised cost				
Deposits – Central banks	4,113,714	-	-	4,113,714
Deposits – Credit institutions	2,516,382	297,613	417	2,814,412
Deposits – Customers and other loans	37,677,246	1,156,676	227,692	39,061,614
Debt securities issued	4,316,483	-	-	4,316,483
Other financial liabilities	357,332	-	-	357,332
Derivatives – Hedge accounting	183,771	-	-	183,771
	49,671,054	1,454,289	230,040	51,355,383
31-12-2021				
	Euros	US dollars	Other currencies	Total
Assets				
Cash, cash balances at central banks and other demand deposits	8,569,303	41,254	100,832	8,711,389
Financial assets held for trading	585,930	774	1,068	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	99,167	-	-	99,167
Financial assets at fair value through other comprehensive income	5,339,913	-	-	5,339,913
Financial assets at amortised cost	39,720,655	612,783	40,429	40,373,867
Derivatives – Hedge accounting	1,903	5,544	-	7,447
Investments in subsidiaries, joint ventures and associates	38,161	-	-	38,161
	54,355,032	660,355	142,329	55,157,716
Liabilities				
Financial liabilities held for trading	603,908	774	649	605,331
Financial liabilities measured at amortised cost				
Deposits – Central banks	7,410,242	-	-	7,410,242
Deposits – Credit institutions	203,010	188,589	1,806	393,405
Deposits – Customers and other loans	37,425,273	1,261,121	272,510	38,958,904
Debt securities issued	3,006,747	-	-	3,006,747
Other financial liabilities	219,275	-	-	219,275
Derivatives – Hedge accounting	288,657	5,344	107	294,108
	49,157,112	1,455,828	275,072	50,888,012

As at December 31, 2022 and 2021, the VaR associated with the exchange-rate risk corresponded to:

	31-12-2022	31-12-2021
VaR 99% percentile	13	(14)

ASSET PRICE RISK

Financial Instruments – trading

As at December 31, 2022 and 2021, the Bank had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

Offsetting financial assets and liabilities

As at December 31, 2022 and 2021, the value of derivative financial instruments traded over the counter, offset by the related financial derivatives, by type of counterparty, is as follows:

31-12-2022				
Counterpart	Financial assets/liabilities presented in financial statements	Related amounts not offset in financial statements		Net amount
	Financial instruments	Cash collateral		
Financial institutions	229,464	-	6,641	236,105
Group companies	211,350	-	(256,228)	(44,878)
	440,814	-	(249,587)	191,227
31-12-2021				
Counterpart	Financial assets/liabilities presented in financial statements	Related amounts not offset in financial statements		Net amount
	Financial instruments	Cash collateral		
Financial institutions	(250,552)	-	(1,661)	(252,213)
Group companies	(376,322)	-	395,547	19,225
	(626,874)	-	393,886	(232,988)

As at December 31, 2022 and 2021, the value of the sale transactions with repo agreement, by type of counterparty, is as follows:

31-12-2022				
Counterpart	Financial	Related amounts not offset		Net amount
	liabilities	in financial statements		
	presented			
	in financial	Financial	Cash collateral	
	statements	instruments		
Financial institutions	(2,071,901)	2,088,148	29,364	45,611

31-12-2021				
Counterpart	Financial liabilities presented in financial statements	Related amounts not offset in financial statements		Net amount
		Financial instruments	Cash collateral	
Financial institutions	(33)	77	8,538	8,582

39. CAPITAL MANAGEMENT

The Bank has a solid capital position, coherent with its business model, balance sheet structure, risk appetite and regulatory requirements. The strength of the balance sheet and the profitability of the Bank allow us to exercise our activity of financing the economy and generate capital organically. The various capital metrics are stable, with ratios comfortably above regulatory requirements and aligned with the risk appetite approved by top management.

The management and adequacy of capital aims to ensure solvency and maximise profitability, as well as compliance with regulatory requirements. Capital management is a key strategic tool for decision making. There is a governance framework approved by top management where the criteria, policies, functions, metrics and processes related to capital management are established.

At the end of 2022, the CET1 phasing in ratio is 18.9% and the total phasing in capital ratio is 21.3%, comfortably meeting the minimum requirements of 8.34% and 12.5%, respectively. The decrease in the CET1 ratio is explained by the distribution of dividends, model updates and the adequate management of the RWA growth, namely through the contracting of new synthetic securitisation operations.

On June 28, 2019, the Bank operationalised the first synthetic securitisation operation originated by the Bank. The operation is based on a portfolio of Corporates, SMEs, City Councils and sole proprietors ("ENIs" in Portuguese) in the amount of Euros 2.4b, in relation to which the Bank buys protection corresponding to a mezzanine tranche with a 1% attachment point and an 8.5% detachment point. The Euros 181.3m mezzanine tranche was fully placed with foreign institutional investors, through a special purpose vehicle being incorporated to the effect, with a premium of 8.7%.

On July 26, 2021, the Bank operationalised the second synthetic securitisation operation originated by same. The transaction has subjacent a portfolio of Corporates, SMEs, ENIs and Project Finance in the amount of Euros 3.05b, for which the Bank purchased protection corresponding to a mezzanine tranche with an attachment point of 1.2% and a detachment point of 7.2%. The mezzanine tranche, in the amount of Euros 183m, was fully placed with foreign institutional investors, in the form of a CLN issued directly by the Bank, with a premium of 9.0%.

On May 16, 2022, the Bank operationalised the third synthetic securitisation operation originated by the Bank. The operation is based on a portfolio of Corporates, SMEs, ENIs and Project Finance in the amount of Euros 1.2 billion, for which the Bank purchased protection corresponding to a mezzanine tranche with an attachment point of 1.4% and a detachment point of 8.4%. The mezzanine tranche, in the amount of Euros 101 million, was placed entirely with foreign institutional investors, in the format of a CLN directly issued by the Bank, with a premium of 9.5%.

The following table summarises the composition of the regulatory capital and prudential ratios of the Bank as at December 31, 2022 and 2021 (both in BIS III - Phasing in):

Amounts in millions of Euros		
	Dec22	Dec21
A – LEVEL 1 OWN FUNDS (TIER I)	3,003	3,918
Eligible Capital (includes additional instruments eligible as Tier I)	1,941	1,541
Eligible Reserves and Results (excl. Minority Interests)	1,080	2,439
Eligible Minority Interests	-	-
Deductions from Base Own Funds	(18)	(62)
B – LEVEL 2 OWN FUNDS (TIER II)	387	381
Subordinated liabilities with undetermined maturity	328	328
Eligible Minority Interests	-	-
Other Elements/Deductions from Complementary Own Funds	59	53
C – DEDUCTIONS FROM TOTAL OWN FUNDS	-	-
D – TOTAL ELIGIBLE OWN FUNDS (A+B+C)	3,390	4,299
E – RISK-WEIGHTED ASSETS	15,877	14,428
RATIOS		
TIER I (A/E)	18.9%	27.2%
CORE CAPITAL (CET1)	16.4%	27.2%
TIER II (B/E)	2.4%	2.6%
CAPITAL ADEQUACY RATIO (D/E)	21.4%	29.8%
LEVERAGE	5.5%	7.1%

Note: the amounts presented in the table above are unaudited

40. RESOLUTION FUND

The Resolution Fund is a legal person under public law with administrative and financial autonomy, established by Decree-Law 31-A/2012, of February 10, which is governed by the General Credit Institutions and Financial Companies Regime ("RGICSF") and by its regulation, the mission of which is to provide financial support for the resolution measures implemented by the Bank of Portugal, in the capacity of national resolution authority, and to perform all other functions conferred by law within the scope of the implementation of such measures.

The Bank, like the majority of the financial institutions operating in Portugal, is one of the institutions participating in the Resolution Fund, making contributions resulting from the application of a rate set annually by the Bank of Portugal based, essentially, on the amount of their liabilities. In 2022, the periodic contribution made by the Bank amounted to Euros 12,552 thousand, based on a contribution rate of 0.046%.

Resolution measure applied to Banco Espírito Santo, S. A.

Within the scope of its responsibility as supervision and resolution authority of the Portuguese financial sector, on August 3, 2014, the Bank of Portugal decided to apply to Banco Espírito Santo, S.A. ("BES") a resolution measure under Article 145-G(5) of the RGICSF, which consisted of the transfer of most of its business to a transition bank, called Novo Banco, S.A. ("Novo Banco"), created especially for the purpose.

To pay up the Novo Banco share capital, the Resolution Fund, as its sole shareholder, provided Euros 4,900 million, of which Euros 365 million corresponded to its own financial resources. A loan was also granted by a banking syndicate to the Resolution Fund in the amount of Euros 635 million, with the participation of each credit institution weighted in the light of several factors, including the respective dimension. The remainder (Euros 3,900 million) consisted of a repayable loan granted by the Portuguese State.

Following the implementation of said resolution measure, on July 7, 2016, the Resolution Fund stated that it would review and assess the steps to be taken following the publication of the report on the results of the independent valuation, conducted to estimate the credit recovery level for each class of creditors in a hypothetical scenario of a normal insolvency process of BES as at August 3, 2014. Under applicable law, if it is found that creditors which credits have not been transferred to Novo Banco bear a larger loss than would hypothetically be the case if BES had entered liquidation at a moment immediately preceding that of the application of the resolution measure, those creditors would be entitled to receive the difference from the Resolution Fund.

On March 31, 2017, the Bank of Portugal reported that it had selected the Lone Star Fund for the purchase of Novo Banco, which purchase was completed on October 17, 2017, with the injection, by the new shareholder, of Euros 750 million, which will be followed by a new inflow of capital in the amount of Euros 250 million, to be realised over a period of up to three years. This operation put an end to Novo Banco's status as a transition bank, the Lone Star Fund having acquired 75% of the Novo Banco share capital and the Resolution Fund the remaining 25%, albeit without the corresponding voting rights.

On February 26, 2018, the European Commission released the non-confidential version of the decision approving the State aid underlying the Novo Banco sale process, which includes a contingent capitalisation mechanism, under which the Resolution Fund may be called upon to inject capital in the event of the occurrence of certain conditions relating to the performance of a restricted set of Novo Banco's assets and to the evolution of the bank's capital levels.

This mechanism is triggered every year based on Novo Banco's annual accounts certified by the respective auditor, and there is a possibility of intra-annual assessments only in the event of default, by Novo Banco, of the prudential requirements. For the purpose of this mechanism, consideration is given to the asset valuation differences (positive or negative) compared with their carrying amounts, net of impairment, as at June 30, 2016 (around Euros 7.9 thousand million according to information provided by Novo Banco). Thus, economic losses or gains are considered, resulting, for example, from the sale of assets or restructuring of loans, as well as impairments, or their reversal, which are recorded by Novo Banco in accordance with the accounting standards, as well as the financing costs associated with maintaining the assets in the Novo Banco balance sheet.

Under that mechanism, to date, the Resolution Fund has made payments of Euros 3,293 million to Novo Banco in respect of the 2017 to 2020 accounts, having used for the purpose its own financial resources resulting from the contributions paid, directly or indirectly, by the banking sector, complemented by a State loan of Euros 2,130 million within the scope of the framework agreement celebrated between the Portuguese State and the Resolution Fund.

On May 31, 2021, the Resolution Fund entered into a new loan agreement amounting to a maximum of Euros 475 million with a set of banks to meet the Fund's financing needs arising from commitments made to Novo Banco under the Contingent Capital Agreement. The Bank's share was Euros 104 million.

This mechanism will be in force until December 31, 2025 (which may be extended until December 31, 2026) and is limited to an absolute maximum of Euros 3,890 million.

Resolution measure applied to Banif – Banco Internacional do Funchal, S. A.

On December 19, 2015, the Bank of Portugal decided to declare that Banif - Banco Internacional do Funchal, S.A. ("Banif") was "at risk of or was in a situation of insolvency," and began an urgent resolution process of the institution in the form of a partial or total sale of its business, which came about with the sale on December 20, 2015, to Banco Santander Totta S.A. ("Santander Totta") of the rights and obligations, including assets, liabilities, off-balance sheet items, and assets under Banif management, for Euros 150 million.

Most of the assets that were not sold were transferred to an asset-management vehicle called Oitante, S.A. ("Oitante"), created specifically for the purpose, and which has the Resolution Fund as its sole shareholder. Oitante issued bonds representing the debt, in the amount of Euros 746 million, a guarantee having been provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation also involved public support estimated at Euros 2,255 million, which aimed to cover future contingencies, of which Euros 489 million was financed by the Resolution Fund, and Euros 1,766 million directly by the Portuguese State.

On July 21, 2016, the Resolution Fund made a payment to the State, in the amount of Euros 136 million, by way of partial early repayment of the resolution measure applied to Banif, allowing the amount owed to drop from Euros 489 million to Euros 353 million.

Resolution Fund's liabilities and funding

Following the resolution measures applied to BES and Banif, and the agreement for the sale of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities arising from:

- the effects of the application of the principle that no creditor of the credit institution under resolution can assume a loss greater than what it would assume if the institution had gone into liquidation;
- negative effects arising from the resolution process resulting in liabilities or additional contingencies for Novo Banco that have to be neutralised by the Resolution Fund;
- lawsuits against the Resolution Fund;
- guarantee given to bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- contingent capitalisation mechanism associated with the sale process of Novo Banco to Lone Star.

To preserve financial stability by promoting the conditions that lend predictability and stability to the contribution effort to the Resolution Fund, the Portuguese government reached an agreement with the European Commission to alter the conditions of the loans granted by the Portuguese State and by the participating banks to the Resolution Fund. To this end, an addendum to the Resolution Fund funding agreements was formalised, which introduced a number of amendments to the repayment plans, remuneration rates and other terms and conditions associated with these loans so that they are adjusted to the Resolution Fund's ability to fulfil its obligations in full on the basis of its regular income, that is, without a need for the banks participating in the Resolution Fund to be charged special contributions or any other type of extraordinary contribution.

According to the announcement of the Resolution Fund of March 31, 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund considered that full payment of its liabilities is assured, as well as the respective remuneration, with no need for recourse to special contributions or any other type of extraordinary contributions on the part of the banking sector.

Notwithstanding the possibility provided for in the applicable legislation governing the charging of special contributions, and given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate, in which the Bank is included, and the public announcements made by the Resolution Fund and the Office of the Minister of Finance, these financial statements reflect the Board of Directors' expectation that no special contributions or any other type of extraordinary contributions will be required of the Bank to finance the Resolution Fund.

Any significant changes regarding these matters may have relevant implications for the Bank's financial statements.

41. COMPETITION AUTHORITY

In 2012, administrative-offence proceedings were instituted by the Competition Authority ("AdC"), for alleged signs of infringement of Article 9 of Law 19/2012, of May 8 (Competition Act).

Within the scope of these proceedings, search and seizure measures were carried out at the premises of the Bank and of other credit institutions, on March 6, 2013, and indiscriminate documentation was seized to determine possible evidence of infringement of the aforesaid legal precept.

On June 3, 2015, the Bank, like other 14 credit institutions, was notified of the Statement of Objections issued by the AdC regarding the administrative-offence process under appraisal (Case No. PRC 9/2012), accused of taking part in an exchange of certain commercially sensitive information between competitors. This exchange of information was sanctioned as an "infringement by object", that is, the Competition Authority considered this conduct to be unlawful even without the demonstration of any effects on consumers.

On September 9, 2019, the AdC issued the final decision, essentially maintaining the theory presented in the 2015 Statement of Objections, namely the presumption of anti-competitive conduct based on the exchange of information between competitors on Mortgage Loans, Consumer Loans and Loans to Companies. Bank Santander Totta was sentenced to a fine of Euros 35 million, plus a fine of Euros 650 thousand applied to BAPOP.

The fine imposed - which could amount to a maximum equivalent to 10% of the annual turnover of the infringing company in the year before the decision -, came to be applied for an amount corresponding to about 2.02% of that indicator (considering not only the penalty imposed on the Bank, but also on BAPOP).

Nevertheless, on October 21, 2019, the Bank judicially challenged the final decision of the AdC, with the case now pending before the Competition, Regulation and Supervision Court.

In the scope of the judicial challenge, the amount and type of the collateral to be provided, to suspend the contested decision was set. In this regard, the Bank presented a bank guarantee in the amount of Euros 17,825 thousand, issued by the Bank itself, to fulfil the mentioned collateral.

The trial hearing sessions took place between October 2021 and March 2022, with the Court of Competition, Regulation and Supervision making a first decision on April 28, 2022. In this decision, although generally confirming the facts included in the sanctioning decision of the AdC on the alleged exchange of non-public information on spreads and credit production, the Competition Court recognised, as alleged by Santander, that a preliminary ruling on this matter by the Court of Justice of the European Union (CJEU) was justified, due to the absence of case law and decision-making practice considering autonomous exchanges of information between competitors, such as the one at issue in this case, as infringements of competition law "by object", that is, regardless of its effects on the market.

Consequently, the Competition Court suspended its judgment and final decision while the preliminary ruling is being decided by the CJEU, which will be resumed after the latter court clarifies the issues raised by the Competition Court.

This decision confirms that the alleged infringement is not as clear as the Competition Authority tried to maintain, since the Competition Court itself has doubts about the applicable legal framework.

In accordance with the regular proceedings of that process before the CJEU, the written opinion of Banco Santander Totta was filed on August 30, 2022.

The Bank will await the CJEU decision and, subsequently, the decision on the judicial challenge lodged, not waiving the exercise of all the legal and judicial faculties that ensure the protection of its interests.

In line with what has been its position throughout the proceedings, the Bank strongly refutes all the arguments underlying the decision of the AdC, and its judicial challenge through the Competition, Regulation and Supervision Court has been supported, namely, by the opinion of distinguished Law Professors, attesting to the absence of any unlawful conduct by the institution.

Taking the foregoing into consideration, the Bank's Board of Directors is convinced that the likelihood of the Bank not being ordered to pay a fine by the end of the proceedings are greater than those of being so ordered, and therefore no provision for this case has been recorded in the financial statements as at December 31, 2022.

42. CLIMATIC RISK

The Santander Group, which the Bank is part of, publicly supports the Paris Agreement on climate change. It joined the United Nations Collective Commitment to Climate Action (CCCCA) when it was launched in September 2019. It established and communicated its ambition to become Net Zero by 2050. The Santander Group is a founding member of the Net Zero Banking Alliance (NZBA), this being a key initiative to advance its ambition.

In this sense, the Bank is increasingly aware of the impact climate change has on its business, so it treats this risk as strategic, also considering the impact of its lending policy on global climatic risks.

During 2020, a set of regulations related to climate change and environmental issues was issued for banking, and this trend is expected to continue in the future. The two most important guidelines issued in 2020 are the "ECB Guide on climate-related and environmental risks" and the "EBA guidelines on loan origination and monitoring". The common denominator of these guidelines is the focus on environmental and social aspects. In this vein, the ECB is expected to require banks to take an end-to-end approach to climatic and environmental risks across their processes and business management. In this sense, the Bank has developed and consolidated initiatives, which can be consulted in the "Responsible Bank Report, in chapter 4.5. Climate Strategy".

Regarding the estimates to be incorporated in the preparation of its financial statements, the Bank also considered the impact in terms of classification of financial instruments linked to climatic indicators or other sustainability indicators: relevance is given to the impact of the contractual conditions of financial instruments associated with climatic indicators or sustainability on the contractual cash flows of financial instruments (and whether they represent only capital and interest payments).

43. SUBSEQUENT EVENTS

On the date of approval of these consolidated financial statements by the Bank's Board of Directors, there were no events subsequent to December 31, 2022 – the reference date of these financial statements – which would require adjustments or modifications to the amounts of assets and liabilities, under the terms of IAS 10 – Events after the reporting period.

44. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on March 28, 2023.

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.

APPENDIX I

As at December 31, 2022, the conditions of the structured mortgage bonds issue in the scope of securitisation operations, other and of subordinated liabilities are as follows:

Securities issued	Currency	Issue amount		Interest payable/ Deferred commissions	Value adjustments for hedging operations	Total	Interest rate	Date issued	Date maturing	Index	
		Issued	Subscribed by the Group								Consolidated balance sheet
Structured bonds											
Obs. BST Index linked notes 2024	EUR	8,227	285	7,942	275	(488)	7,729	Floating	20-12-2019	23-12-2024	Index basket
Credit Linked Notes due August 2037	EUR	145,255	-	145,255	2,042	-	147,297	Floating	26-07-2021	15-08-2037	Euribor3M (floored at 0) + 9%
Credit Linked Notes due January 2042	EUR	100,800	-	100,800	2,021	-	102,821	Floating	31-05-2022	31-01-2042	Euribor3M + 8.7%
Total		254,282	285	253,997	4,338	(488)	257,847				
Mortgage bonds											
Hipotecária XVII	EUR	750,000	750,000	-	(149)	-	(149)	0.90%	15-04-2016	15-04-2023	Fixed rate
Hipotecária XVIII	EUR	750,000	750,000	-	(148)	-	(148)	0.65%	26-07-2016	26-07-2023	Fixed rate
Hipotecárias XX - 1ª	EUR	750,000	750,000	-	(685)	-	(685)	1.20%	07-12-2017	07-12-2027	Fixed rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	(933)	-	(933)	1.48%	10-04-2017	10-04-2027	Fixed rate
Hipotecárias XXII	EUR	1,000,000	3,800	996,200	3,658	-	999,858	0.88%	25-04-2017	25-04-2024	Fixed rate
Hipotecárias XXIII	EUR	1,000,000	20,000	980,000	(3,137)	-	976,863	1.25%	05-07-2019	05-07-2029	Fixed rate
Hipotecária XXIV	EUR	1,100,000	1,100,000	-	(1,386)	-	(1,386)	0.41%	05-07-2019	05-07-2029	Fixed rate
Hipotecárias XXV	EUR	750,000	750,000	-	(433)	-	(433)	0.51%	27-03-2020	27-03-2025	Fixed rate
Hipotecária XXVI	EUR	750,000	750,000	-	(1,055)	-	(1,055)	0.00%	28-10-2020	28-10-2030	Fixed rate
Hipotecária XXVII	EUR	750,000	750,000	-	(954)	-	(954)	0.64%	04-03-2022	04-03-2029	Fixed rate
Total		8,600,000	6,623,800	1,976,200	(5,222)	-	1,970,978				
Bonds issued under securitisation operations											
Hipototta 4 - Class A - Notes	EUR	336,378	246,159	90,219	(301)	-	89,918	Floating	09-12-2005	30-12-2048	Euribor 3m+0.12% (until December 2014); Euribor 3m+0.24% (after)
Hipototta 4 - Class B - Notes	EUR	12,238	12238	-	-	-	-	Floating	09-12-2005	30-12-2048	Euribor 3m+0.19% (until December 2014); Euribor 3m+0.40% (after)
Hipototta 4 - Class C - Notes	EUR	38,649	38,649	-	-	-	-	Floating	09-12-2005	30-12-2048	Euribor 3m+0.29% (until December 2014); Euribor 3m+0.58% (after)
Hipototta 4 - Class D - Notes	EUR	7,000	7,000	-	-	-	-	Floating	09-12-2005	30-12-2048	Residual return generated by securitised portfolio

Securities issued	Currency	Issue amount			Interest payable/Deferred commissions	Value adjustments for hedging operations	Total	Interest rate	Date issued	Date maturing	Index
		Issued	Subscribed by the Group	Consolidated balance sheet							
Hipototta 5 - Class C - Notes	EUR	24,000	24,000	-	-	-	-	Floating	16-03-2007	28-02-2060	Euribor 3m+0.24% (until February 2014); Euribor 3m+0.48% (after)
Hipototta 5 - Class D - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-03-2007	28-02-2060	Euribor 3m+0.50% (until February 2014); Euribor 3m+1.00% (after)
Hipototta 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	-	Floating	22-03-2007	28-02-2060	Euribor 3m+1.75% (until February 2014); Euribor 3m+3.50% (after)
Hipototta 5 - Class F - Notes	EUR	6,000	6,000	-	-	-	-	Floating	22-03-2007	28-02-2060	Residual return generated by securitised portfolio
Atlantes Mortgage 2 - Class A	EUR	78,170	-	78,170	(9,518)	-	68,652	Floating	05-03-2008	18-09-2060	Euribor 3m + 0.33%
Atlantes Mortgage 2 - Class B	EUR	9,732	9,732	-	-	-	-	Floating	05-03-2008	18-09-2060	Euribor 3m + 0.95%
Atlantes Mortgage 2 - Class C	EUR	3,967	3,967	-	-	-	-	Floating	05-03-2008	18-09-2060	Euribor 3m + 1.65%
Atlantes Mortgage 2 - Class D	EUR	8,351	8,351	-	-	-	-	Floating	05-03-2008	18-09-2060	Residual return generated by securitised portfolio
Atlantes Mortgage 3 - Class A	EUR	136,696	42,603	94,093	(6,709)	-	87,384	Floating	30-10-2008	20-08-2061	Euribor 3m + 0.20%
Atlantes Mortgage 3 - Class B	EUR	19,604	19,604	-	-	-	-	Floating	30-10-2008	20-08-2061	Euribor 3m + 0.50%
Atlantes Mortgage 3 - Class C	EUR	35,224	35,224	-	-	-	-	Floating	30-10-2008	20-08-2061	Residual return generated by securitised portfolio
Atlantes Mortgage 4 - Class A	EUR	151,420	-	151,420	(19,294)	-	132,126	Floating	16-02-2009	30-12-2064	Euribor 3m + 0.15%
Atlantes Mortgage 4 - Class B	EUR	16,675	16,675	-	-	-	-	Floating	16-02-2009	30-12-2064	Euribor 3m + 0.30%
Atlantes Mortgage 4 - Class C	EUR	46,716	46,716	-	-	-	-	Floating	16-02-2009	30-12-2064	Residual return generated by securitised portfolio
Hipototta No. 13 Class A	EUR	680,230	680,230	-	-	-	-	Floating	09-01-2018	23-10-2072	Euribor 3m + 0.60%
Hipototta No. 13 Class B	EUR	484,000	484,000	-	-	-	-	Floating	09-01-2018	23-10-2072	Euribor 3m + 1%
Hipototta No. 13 Class C	EUR	36,253	36,253	-	-	-	-	Floating	09-01-2018	23-10-2072	Residual return generated by securitised portfolio
Hipototta No. 13 Class D	EUR	-	-	-	-	-	-	Floating	09-01-2018	23-10-2072	
Consumer Totta 1 Class A	EUR	520,000	-	520,000	174	-	520,174	Floating	30-09-2022	28-06-2033	Euribor 3m + 0.80%
Consumer Totta 1 Class B	EUR	25,000	-	25,000	9	-	25,009	Floating	30-09-2022	28-06-2033	Euribor 3m + 1.10%
Consumer Totta 1 Class C	EUR	40,000	-	40,000	19	-	40,019	Floating	30-09-2022	28-06-2033	Euribor 3m +2%
Consumer Totta 1 Class D	EUR	25,000	-	25,000	28	-	25,028	Floating	30-09-2022	28-06-2033	Euribor 3m + 8%
Consumer Totta 1 Class E	EUR	40,000	-	40,000	62	-	40,062	Floating	30-09-2022	28-06-2033	Euribor 3m + 11.85%
Consumer Totta 1 Class F	EUR	6,500	-	6,500	11	-	6,511	Floating	30-09-2022	28-06-2033	Euribor 3m + 12.5%
Consumer Totta 1 Class X	EUR	9,430	9,430	-	-	-	-	Floating	30-09-2022	28-06-2033	Residual return generated by securitised portfolio
Total		3,182,259	2,057,561	1,124,698	(35,526)	-	1,089,172				

Securities issued	Currency	Issue amount		Interest payable/Deferred commissions	Value adjustments for hedging operations	Total	Interest rate	Date issued	Date maturing	Index
		Issued	Subscribed by the Group							
<u>Other bonds issued</u>										
OB. BST VAR SR 2	EUR	650,000	-	650,000	15,675	-	665,675	4.51%	20-06-2022	20-06-2028
<u>Subordinated liabilities</u>										
OB. BST SA 7.5%	EUR	7,599	-	7,599	136	-	7,735	7.50%	06-10-2016	06-10-2026
OB. BST 2030 TIER2	EUR	320,000	-	320,000	5,076	-	325,076	1.58%	31-12-2020	31-12-2030
Total		327,599	-	327,599	5,212	-	332,811			
		13,014,140	8,681,646	4,332,494	(15,523)	(488)	4,316,483			

Reports and Opinions on the Consolidated Business



Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of *Banco Santander Totta, S.A* (the "Group" or "Bank"), which comprise the consolidated statement of financial position as at December 31, 2022 (which shows total assets of Euros 55.778.178 thousand and total equity of Euros 3.608.060 thousand including a profit for the year attributable to owners of the parent of Euros 586.559 thousand), the consolidated income statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Banco Santander Totta, S.A as at December 31, 2022, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements, as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda.

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Matriculada na CRC sob o NIPC 506 628 752, Capital Social Euros 314.000

Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

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Impairment losses on loans and advances to customers at amortized cost***Measurement and disclosures related to impairment losses on loans and advances to customers at amortized cost presented in notes 1.3 c), 2, 9, 17 and 38 attached to the Bank's consolidated financial statements***

The significant expression of loans and advances to customers and associated impairment losses, which require a set of complex assumptions and judgments from the management in relation to the identification of customers with a significant increase in credit risk or in default, as well as the corresponding amount of impairment losses, justify that these constitute key matters for the purposes of our audit.

As at December 31, 2022, the gross amount of loans and advances to customers amounted to Euros 38.297.907 thousand and the corresponding impairment losses recognized at that date amounted to Euros 941.331 thousand.

Impairment losses on loans and advances to customers are determined by management on an individual basis, through a case-by-case analysis of a significant component of the total loan portfolio, and for the remaining portfolio impairment losses are determined through a collective analysis.

For the most significant exposures, evaluated in terms of the total amount of responsibilities and signs of a deterioration in the Bank customers' creditworthiness, the Bank performs an individual impairment measurement analysis, which includes an individual staging assessment, in order to validate the indicative attribution of stage automatically generated by the system (stage 1, 2 or 3), as well as an individual impairment measurement analysis. In this last scenario, the analysis is performed for the responsibilities classified in stage 3, and the amount of impairment losses are determined through a detailed analysis of the economic and financial position of each customer, with reference to (i) the estimated cash flows that may be generated in the future for the fulfilment of their responsibilities – going approach; or (ii) the evaluation attributed to the collateral received in the scope of the credit granted, whenever the recovery is anticipated by means of the assignment, execution and/or sale of the collateral,

The audit procedures developed included the identification, understanding and assessment of the policies and procedures established by the Bank for the purpose of measuring impairment losses for the loans and advances to customers portfolio as well as its key controls with respect to refers to the approval, recording and monitoring of credit risk and the timely identification, recording and correct measurement of impairment losses.

On a sample basis, we analysed a group of customers within the Bank's individual analysis perimeter, based on the criteria defined in internal regulations, with the objective of: (i) reviewing the conclusions and results obtained by the Bank in the individual analysis of stage and in the individual analysis of impairment measurement; (ii) formulate our own judgment on the existence of situations of significant increase in credit risk and default; and (iii) assess how the impairment losses were timely identified, measured and recognized by management. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that met the criteria defined by the Bank in its methodology.

For a sample of exposures classified in stage 3, extracted from the credit population subject to individual analysis by the Bank as at December 31, 2022, the procedures we have developed consisted of: (i) review the available documentation on credit processes; (ii) verify the match of the financial plans used to determine impairment losses with those reflected in the contractual support; (iii) analyse the contractual support and the most relevant collaterals and confirm its registration in favour of the Bank; (iv) analyse the most recent evaluations of these collaterals; (v) review the incorporation of forward looking information; (vi) a critical analysis of the discounted cash flows underlying the calculation of impairment losses; (vii) to assess the evolution of exposures; and (viii) understand the views of the management regarding the economic and financial

Key Audit Matter	Summary of the Audit Approach
<p>less the costs inherent to its recovery and sale – gone approach.</p> <p>For exposures not covered by the individual analysis, the Bank developed collective analysis models to calculate expected impairment losses, in light of the IFRS 9 requirements, which include the classification of exposures by different stages according to the evolution of their credit risk since the date of its concession, and not according to the credit risk at the reporting date (stages 1, 2 or 3). These models are based on the internal historical information of defaults and recoveries and, in order to be representative of the current economic context and simultaneously incorporate a perspective of future economic evolution, these models also use forward looking information such as (i) the GDP growth rate; (ii) the expected unemployment rate; (iii) the evolution of Euribor; and/or (iv) the prospects for the real estate market. On the basis of these macroeconomic data, potential scenarios are developed that allow estimating the expected loss in each segment of the Bank's loan portfolio, based on a probability of occurrence.</p> <p>The specificity and uncertainty of the current macroeconomic and geopolitical situation led to an increase in the complexity of determining impairment losses. In these circumstances, the internal models developed by the Bank were adapted in order to incorporate new criteria and other judgments, in particular the updating of prospective information, through an adjustment to the models (post model adjustments), in order to reflect the potential effects of the current adverse macroeconomic context, very marked by the impacts and restrictions still arising from the COVID-19 pandemic and exacerbated by the war in Europe, as well as the reflection of the expected relationship of this information with the risk parameters of the collective analysis models developed by the Bank.</p> <p>Considering all the above, changes in the assumptions or methodologies used by the Bank in the analysis and quantification of impairment losses of the loans and advances to customers, as well as different recovery strategies, condition the estimation of recovery flows and timing of their receipt, and may have a material impact on the determination of the amount of impairment losses recognized in each period.</p>	<p>situation of the customers, and the predictability of expected cash flows of the respective businesses, as well as the prospects of collectability of credits.</p> <p>Whenever we concluded for the need to review some assumption used by management, we recalculated the estimated amount of impairment losses and compared the results obtained with those calculated by the Bank, in order to assess the existence of possible relevant material divergences.</p> <p>Additionally, we selected a sample of debtors for specific analysis of the criteria for determining a significant increase in credit risk (stage 2) and in an impairment situation (stage 3), on an individual basis.</p> <p>For the portfolio whose impairment losses are assessed through the collective analysis model, specific procedures were developed with the objective of evaluating how the assumptions considered by management include the risk variables regarding all historic performance and recoveries of the Bank's loans and advances to customers portfolio, namely: (i) review of the methodological documentation for the development and validation of the models; (ii) analysis of the documentation of the back testing exercise of the risk parameters and its results; (iii) review and testing of portfolio segmentation; (iv) analysis of the Bank's definition of default and the criteria applied in the classification of staging, on a sample basis, including the additional criteria established and the sectoral analyses developed by the Bank for the economic sectors most affected by the current macroeconomic and geopolitical situation; (v) review and testing of the main risk parameters, as well as the available prospective information and its update through the estimated economic effects, including the analysis of the methodologies defined by the Bank for the determination of <i>post model adjustments</i> arising from the current adverse macroeconomic context; (vi) critical analysis of the main assumptions and sources of information used to estimate the future recoveries incorporated in the LGD (Loss Given Default), including test historical recoveries incorporated in this calculation, on a sampling basis; and (vii) recalculation of Expected Credit Loss ("ECL") for the loans and advances to customers portfolio, with reference to December 31, 2022.</p> <p>Our audit procedures also included a review of the disclosures for loans and advances to customers, as</p>

Key Audit Matter	Summary of the Audit Approach
<p>Other receivable related with the resolution measure applied to Banif</p> <p><u>Measurement of the receivable related with the resolution measure applied to Banif and related disclosures presented in notes 1.3 c), 9 and 13 attached to the Bank's consolidated financial statements</u></p> <p>As mentioned in Note 13, in the scope of the resolution measure applied to Banif - Banco Internacional do Funchal, S.A. ("Banif") arising from the decision of the Board of Directors of Banco de Portugal of December 20, 2015 ("transaction"), and bearing in mind the understandings and subsequent clarifications communicated to the Bank by the Banco de Portugal, and the approval by the Ministry of Finance of the request for the transfer of Banif's tax losses, the Bank submitted, on May 29, 2018, a replacement corporate income tax declaration (Declaração Modelo 22 - IRC) for the 2015 financial year.</p> <p>Subsequently, by order of the Deputy Director of the Major Taxpayers Unit (Unidade dos Grandes Contribuintes), the Bank was only granted the right to use Banif's tax losses for the years 2009 to 2014. Following the decision of the Ministry of Finance of June 30, 2020 regarding the rejection of the hierarchical appeal presented by the Bank in relation to the aforementioned order, the Bank demanded in 2020 a compensation of Euros 157.699 thousand, in cash or in treasury bills, within the scope of the transaction and the agreement entered into with the Portuguese authorities involved in the resolution measure applied to Banif, having then proceeded, as mentioned in Note 13, to the reclassify that amount to "Financial assets at amortised cost - Loans and advances - Other balances receivable".</p> <p>Due to its relevance in the context of the Bank's consolidated financial statements, and for the significant change in the form and strategy of recovering the balance in question, this was a relevant matter for the purposes of our audit.</p>	<p>well as the related impairment losses, contained in the accompanying notes to the Bank's consolidated financial statements, considering the applicable and current accounting standards.</p> <p>The audit procedures we have developed for this matter included the identification and understanding of the key processes and controls implemented by the Bank to monitor this matter, as well as the assessment of the assumptions adopted by the management body regarding their form of recovery and respective amount.</p> <p>In view of the relevance of the judgments required by the management body, within the scope of our audit, we carried out, among others, the following procedures: (i) meetings with the management body to analyse the evaluation carried out by the Bank regarding the situation and evolution of the referred process; (ii) appreciation of correspondence exchanged with Banco de Portugal and Finance Ministry; and (iii) meetings with the Bank's external lawyers and analysis of its opinions.</p> <p>Our audit procedures also included the review of the disclosures on this subject, contained in the accompanying notes to the Bank's consolidated financial statements, considering the applicable and current accounting standards.</p>

Key Audit Matter

Summary of the Audit Approach

Fair value of financial instruments measured through fair value not quoted in an active market – level 3 of the fair value hierarchy

Measurement of the fair value of financial instruments not listed on an active market classified at level 3 of the fair value hierarchy and related disclosures presented in notes 1.3 c), 2, 6, 7, 8 and 38 attached to the Bank's consolidated financial statements

Due to its relevance in the context of the Bank's consolidated financial statements and the associated judgment, the fair value measurement of financial instruments not quoted in an active market classified at level 3 of the fair value hierarchy was a relevant matter for the purposes of our audit. At December 31, 2022, the balance sheet balances of these financial instruments amount to Euros 222.411 thousand of assets and Euros 49.470 thousand of liabilities.

The financial instruments thus classified are composed of (i) debt instruments whose business model is "hold to collect and sale" or trading; (ii) trading or hedging derivatives; and (iii) equity instruments.

For these financial instruments classified at level 3 of the fair value hierarchy, and when observable market data is not available, the Bank determines its fair value through the use of valuation models based on discount cash flows techniques, which usually involve a high degree of judgment by the management in defining the assumptions and inputs to be used.

In this context, changes in the assumptions and in the measurement techniques used by the management may give rise to material impacts in the determination of the fair value of the financial instruments recognized in the Bank's consolidated financial statements.

The audit procedures we have developed included the identification and understanding of key controls established by the Bank underlying the fair value methodologies adopted and the determination of the main assumptions used in the determination of fair value for the financial instruments not quoted in an active market and classified as level 3 of the fair value hierarchy.

For a sample of instruments whose measurement was based substantially of unobservable data, our procedures also included: (i) the understanding of methodologies and main assumptions used by the Bank; (ii) the assessment of whether the models developed by the Bank and the data and assumptions used are reasonable in the circumstances, having compared the data subject to observation with market information collected from external and independent sources, whenever available; and (iii) the analytical revision of fair value of those financial instruments, comparing the results with the homologous period and with the last financial information available and respective audit reports, whenever available.

Our audit procedures also included the review of disclosures about financial instruments not quoted in an active market and classified as level 3 of the fair value hierarchy, contained in the accompanying notes to the Bank's consolidated financial statements, considering the applicable and current accounting standards.

Employees post-employment benefits

Measurement and disclosures related to employees' post-employment benefits presented in notes 1.3 j), 2, 14, 19 and 35 attached to the Bank's consolidated financial statements

At December 31, 2022, the liabilities for past services of the Bank regarding its directors, employees and pensioners amounted to Euros 1.239.288 thousand,

The audit procedures developed included the identification and understanding of the key controls instituted by the Bank to ensure that the information

Key Audit Matter	Summary of the Audit Approach
<p>mainly covering retirement and survivors' pensions, disability, health care and death benefit, as provided for in the Acordo Coletivo de Trabalho ("ACT") for the banking sector.</p> <p>These liabilities are estimated based on actuarial valuations performed by an actuary certified by the Insurance and Pension Funds Supervisory Authority ("ASF"). These valuations incorporate a set of financial and actuarial assumptions, such as the discount rate, inflation rate, mortality and disability tables, pensions and wages growth rates, among others, defined by the management and adjusted to the characteristics of the benefits and the population of directors, employees and pensioners, and the current and future behaviour of these variables.</p> <p>In the specific case of the discount rate used in the actuarial studies, it is determined based on the market rates for high-quality entities in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with a similar maturity the duration of the payment of the benefits of the plan.</p> <p>In this context, future changes in the assumed financial and actuarial assumptions may give rise to material impacts on the liabilities measurement, and this issue was considered a key matter for the purposes of our audit.</p>	<p>collected and provided to the independent actuary is correct and complete to calculate the plan's liabilities and funding needs.</p> <p>The audit work included meetings with the management and the independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. Given the relevance of the judgments required of management, we proceeded to evaluate the reasonableness of the main assumptions, comparing them with the data that, independently, we were able to obtain.</p> <p>A conformity review was performed to: (i) the employees' historical information used for calculating the liabilities; and (ii) the accounting recognition of plan cuts or liquidations, costs related to past services and other changes in assumptions and estimates that occurred during the year.</p> <p>Finally, we have developed the detailed analysis of the actuarial study prepared by an independent actuary with reference to December 31, 2022, based on the results of the procedures referred to above.</p> <p>Our audit procedures also included the review of the disclosures on the post-employment benefits of directors, employees and pensioners, contained in the accompanying notes to the Bank's consolidated financial statements, considering the applicable and current accounting standards.</p>
<p>Contingent liabilities</p> <p><u>Disclosures related to contingent liabilities presented in notes 1.3.i), 2, 40 and 41 attached to the Bank's consolidated financial statements</u></p> <p>Contingent liabilities disclosed in notes 40 and 41 attached to the Bank's consolidated financial statements as at December 31, 2022, are detailed as follows:</p> <ul style="list-style-type: none"> • Resolution Fund <p>The resolution measures applied in 2014 to Banco Espírito Santo, S.A. - a process that led to the creation of Novo Banco, S.A. ("Novo Banco") - and in 2015 to Banif - Banco Internacional do Funchal, S.A. ("Banif") created uncertainties related to the possible insufficiency of resources of the Resolution Fund to</p>	
	<p>The audit procedures we have developed in this area included the identification and understanding of the key processes and controls established by the Bank with respect to the identification and monitoring of the contingent liabilities.</p> <p>In this context, due to the relevance and complexity of the judgments required by the management, in the scope of our audit, we carried out, among others, the following procedures in relation to the Resolution Fund: (i) monitoring of major changes to the simplified model of cash flow projections of the Resolution Fund presented by the Bank when renegotiating loans</p>

Key Audit Matter	Summary of the Audit Approach
<p>ensure the fulfilment of its responsibilities, in particular the short-term repayment of the financing it has contracted for this purpose.</p> <p>These uncertainties have become more relevant due to the liabilities and contingent liabilities assumed, namely those resulting from: (i) effects of the application of the principle that no creditor of the credit institution under resolution may incur in a greater loss than it would if it had entered into liquidation; (ii) legal proceedings against the Resolution Fund; (iii) negative effects arising from the resolution process resulting in additional responsibilities or contingencies for Novo Banco that must be neutralized by the Resolution Fund; and (iv) the contingent capitalization mechanism associated with Novo Banco's sale process to Lone Star, under which the Resolution Fund, as shareholder of Novo Banco, may be called upon to make capital injections in the event of certain conditions related to the performance of a restricted set of assets of Novo Banco and the evolution of its capitalization levels.</p> <ul style="list-style-type: none"> • <u>Portuguese Competition Authority</u> <p>In 2012 the Portuguese Competition Authority (Autoridade da Concorrência) launched an offense claim against several banks, including Banco Santander Totta, S.A., for alleged restrictive competition practices. On September 9, 2019, the Portuguese Competition Authority notified the banks of its decision, which points to their condemnation, with a penalty of Euros 36 million being applied to the Bank. The Bank understands that it did not commit with the imputed infraction, so it filed on October 2019 an appeal against that decision to the Competition, Regulation and Supervision Court ("CRSC"). In May 2020, by decision of the aforementioned Court, the Bank provided a deposit of part of the penalty imposed, which is provisional in nature, providing that it is pending a decision on the judicial impugnation presented by the Bank. In April 2022, the CRSC issued a decision in which certain facts were proven, but did not rule on any sanctions, suspending the process and proceeding to refer it for a preliminary ruling to the Court of Justice of the European Union, in order for it to rule on issues involving the interpretation of the Treaty on the Functioning of the European Union, which to date has not been resolved.</p>	<p>granted, based on the contractual conditions agreed between the banks and the Resolution Fund; (ii) appreciation of the relevant public communications on liabilities and the contingent liabilities assumed by the Resolution Fund and / or the Portuguese State; (iii) analysis of the evolution of the Bank's exposures with the Resolution Fund; and (iv) understanding of the views of the management regarding the Resolution Fund's economic and financial situation, and the predictability of expected cash flows from its regular revenues.</p> <p>With regard to the process initiated by the Portuguese Competition Authority, our work included (i) analysing the Bank's assessment of the nature and situation of said process, which underlies the non-constitution of provisions, and (ii) assessing the information obtained from the Bank external lawyers who follow the process.</p> <p>We also analysed the information available on developments after December 31, 2022 on the most relevant litigations.</p> <p>Our audit procedures also included the review of the disclosures on provisions and contingent liabilities, contained in the accompanying notes to the Bank's consolidated financial statements, considering the applicable and current accounting standards.</p>

Key Audit Matter

Summary of the Audit Approach

The consolidated financial statements as of December 31, 2022 reflect the management expectation that the Bank, as an entity participating in the Resolution Fund, will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to the BES and Banif or any other liability or contingent liability assumed by the Resolution Fund. In addition, the management is also convinced that the probabilities that the process initiated by the Portuguese Competition Authority will end without the Bank having to pay a fine are higher than those of the opposite.

Contingent liabilities may evolve differently than originally expected, so they are subject to continuous review to determine whether this eventuality of outflow of resources has become probable. In these circumstances, the assessment of these contingent liabilities implies that the management employs complex estimates and judgments regarding the probability of materializing and quantifying the amounts of liabilities that may result from litigation and contingencies to which the Bank is a party and, to that extent, this was a matter considered relevant for the purposes of our audit.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

- a) the preparation of the consolidated financial statements, which present fairly the consolidated financial position, the consolidated financial performance and cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;
- b) the preparation of the Directors' report, the corporate governance report and the non-financial statement, in accordance with the applicable law and regulations;
- c) the creation and maintenance of an appropriate system of internal control to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- d) the adoption of appropriate accounting policies and criteria; and
- e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

- g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and
- i) confirm to the supervisory board that we comply with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law on corporate governance matters and verifying that the consolidated non-financial statement was presented.

Report on other legal and regulatory requirements

Directors' report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Directors' report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the corporate governance report includes the information required under article No. 29-H of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs 1 c), d), f), h), i) and l) of that article.

European Single Electronic Format (ESEF)

The Entity's consolidated financial statements for the year ended on December 31, 2022 must comply with the applicable requirements established in Commission Delegated Regulation (EU) 2019/815, of December 17, 2018 (ESEF Regulation).

The management is responsible for the preparation and disclosure of the annual report in accordance with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements included in the annual report are presented in accordance with the requirements of the ESEF Regulation.

Our procedures took into account the OROC Technical Application Guide on ESEF reporting and included, among others:

- a) obtaining an understanding of the financial reporting process, including the annual report presentation in valid XHTML format; and
- b) the identification and assessment of the risks of material misstatement associated with the tagging of information in the consolidated financial statements, in XBRL format using iXBRL technology. This assessment was based on an understanding of the process implemented by the entity to tag the information.

In our opinion, the consolidated financial statements included in the annual report are presented, in all material respects, in accordance with the requirements of the ESEF Regulation.

Consolidated non-financial statement

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the Group prepared a separate report of the Directors' report that includes the consolidated non-financial statement set forth in article No. 508-G of the Portuguese Company Law, which was disclosed together with the Directors' report.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

- a) We were first appointed auditors of Banco Santander Totta, S.A in the Shareholders' General Meeting of May 31, 2016 for the period from 2016 to 2018, having remained in functions until the current period. Our last appointment was in the Shareholders' General Meeting of November 23, 2021 for the period from 2022 to 2024 .
- b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.
- c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of April 27, 2023.
- d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 1 of article No. 5 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014 and that we remain independent of the Group in conducting our audit.

April 27, 2023

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

[Original in Portuguese signed by]
José Manuel Henriques Bernardo, ROC no. 903
Registered with the Portuguese Securities Market Commission under no. 20160522

