

# Half-Year Report

## H1'2023



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*This report was approved by the Board of Directors of  
Santander Totta, SGPS, on September 26, 2023*

# Table of Indicators

<b>BALANCE SHEET AND RESULTS</b> (million euro)	<b>Jun-23</b>	<b>Jun-22</b>	<b>Var.</b>
Total Net Assets	57,554	61,858	-7.0%
Loans and advances to customers (net)	40,965	42,565	-3.8%
Customers' Resources	44,272	47,719	-7.2%
Total shareholders' equity	3,920	4,217	-7.0%
Net Interest Income	586.5	370.3	+58.4%
Net Fees and Other Income	246.0	251.1	-2.0%
Operating income	854.0	654.3	+30.5%
Net Operating Income	575.0	370.3	+55.3%
Income before taxes and non-controlling interests*	501.0	349.7	+43.3%
Consolidated net income attributable to the shareholders of ST, SGPS	333.7	241.3	+38.3%

<b>RATIOS</b>	<b>Jun-23</b>	<b>Jun-22</b>	<b>Var.</b>
ROE	17.6%	10.5%	+7.1 p.p.
ROA	1.2%	0.8%	+0.4 p.p.
Efficiency ratio	30.8%	39.6%	-8.8 p.p.
CET I ratio*	17.6%	21.0%	-3.4 p.p.
Tier I ratio*	20.1%	23.5%	-3.4 p.p.
Capital ratio*	21.9%	23.9%	-2.0 p.p.
Non-Performing Exposure Ratio	2.1%	2.2%	-0.1 p.p.
Non-Performing Exposure coverage ratio	88.6%	82.1%	+6.5 p.p.
Cost of credit	0.06%	0.01%	+0.05 p.p.
Loans-to-deposits ratio (transformation ratio)	112.1%	106.3%	+5.9 p.p.

<b>RATING</b>	<b>Jun-23</b>	<b>Jun-22</b>
FitchRatings	A-	BBB+

<b>Other Data</b>	<b>Jun-23</b>	<b>Jun-22</b>	<b>Var.</b>
Employees**	4,670	4,708	-38
Employees in Portugal**	4,666	4,696	-30
Branches	377	386	-9
Total Branches and Corporate Centers in Portugal	376	383	-7

\* Fully implemented with results net of payout

\*\* Headcount criteria

# Message from the Vice-President of the Board



The semester that has just ended gives us the opportunity to share an overview of our business activity, based on our mission of contributing to the prosperity of our customers, companies and, ultimately, of our society. The half-yearly report and accounts is a critical instrument in this introspection, outlining the path we have been following, and guiding us on what lies ahead.

I would begin by highlighting three areas that represent significant challenges to our economic outlook.

Firstly, despite the level of resilience that the economy has been demonstrating, we anticipate a gradual slowdown of inflation, while the unemployment rate will remain close to full employment. These market fluctuations require continuous attention, and strategic adjustments on our side.

Secondly, we expect that interest rates will remain high for an extended period of time. This scenario has an impact on our business, and will require from our side an even stricter capital management.

Lastly, early repayments have impacted credit growth, especially in mortgage loans. In addition, companies with healthy cash flows need less indebtedness, which challenges us to adapt our approach to ensure sustainable growth.

Despite such challenges, we are confident that we remain on track towards achieving a very positive financial performance in 2023. During the first half of the year, we maintained a very positive trajectory, driven by rising interest rates and the ongoing transformation of our business model, which has allowed us to improve operational efficiency and provide a much higher experience to our customers.

Our vision remains quite clear and ambitious: our aim is to become the leading bank in Portugal; offer an excellent service to our customers; provide attractive financial performance for our shareholders in a sustainable manner; and be recognized as the best place to work.

To achieve this vision, we have three well-defined priority areas of action. The first one is to keep pursuing our transformation agenda, simplifying and automating processes and procedures, and integrating technological innovation with close, genuine human relationships. The second is to maintain our strict financial discipline, managing costs and ensuring rigorous capital allocation, while pricing all our products in an optimized, personalized manner. Lastly, we intend to keep investing in the development of our employees, creating an inspiring, inclusive work environment. In this chapter, we were distinguished as *Top Employer 2023* in Portugal, by the *Top Employers Institute*.

Seeing the excellence of our work being distinguished both nationally and internationally, is also a source of pride. We were distinguished by *Euromoney* as the "Best Bank in Portugal," and by *World Finance* with the awards "Best Retail Bank in Portugal," "Best Private Banking," and "Best Pensions Fund." Additionally, *OnStrategy* considered the Santander brand as the strongest and most energetic banking brand in Portugal.

Such strength and energy is the result of the work of the exceptional group of professionals who make up Santander Portugal. We are a reference in best practices, both nationally and within the Santander Group, thanks to the outstanding dedication and commitment of all our teams.

We are, in fact, the choices we make, and our choice is to keep working together to overcome challenges, seize opportunities, and ensure a prosperous future for our bank. I thank each and everyone for their dedicated commitment to building our success.

**Pedro Castro e Almeida**

# Corporate Culture, Awards, Distinctions, and Other Relevant Facts in 1S2023

## Santander in 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 2.8 million 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 procedures, 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. Every year, more than 1 million documents are digitally signed (four times more than two years ago). New completely paperless support processes were implemented, and more capabilities for remote management with customers have been launched.

Investment in self-banking machines has continued, in order to offer our customers a 24/7 self-service cashier service. Altogether, there are now 257 self-banking machines at our Branches, which represents a 95.4% increase in the number of Branches offering this service.

Santander has also made a strong bet in innovative products and services, such as the new digital payment solutions, which allow customers to pay for their purchases with any mobile device anywhere in the world.

This transformation has contributed to the growing number of digital customers, which now exceeds 1.1 million, representing 63.5% of total customers. Those using the mobile App have also been growing, now numbering 900 thousand.

On the other hand, the Bank is committed to building a greener economy and, to this end, it is helping its customers make sustainable choices, and make their transition to a Net Zero business model. Thus, in 2023, Santander launched a new functionality on its App, which is totally innovative in the banking sector, to help customers know and offset their carbon footprint, based on purchases made with a bank card and direct debits. Customers can also access advice and best practices to reduce their carbon footprint and, in a simple, swift way, use the App to offset their carbon footprint by purchasing carbon credits.

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 programmes were launched, and more than 5 thousand 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.

## Awards, distinctions, and other relevant facts in the 1<sup>st</sup> half of 2023



### 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 2023." This publication emphasizes that the distinguished entities are "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." And those that "were able to manage their assets and liabilities in an intelligent way, considering the constantly changing interest rate scenarios."

Santander was also distinguished as the "Best Bank in Portugal" by the *Euromoney* magazine, as part of the *Euromoney Awards for Excellence 2023*. This publication highlights the bank's excellent results in 2022.

### Best Bank in Portugal



### Best Retail Bank in Portugal

Santander was elected the "Best Retail Bank in Portugal" by the *World Finance* magazine, within the scope of the *World Finance Banking Awards 2023*. These awards distinguish the Banks with the best performance across the world, with this year's winners being "those that are best placed to lead by example and lead during this uncertain macroeconomic period." According to this publication, "despite multiple factors such as tighter monetary policy, inflation, supply chain constraints, and energy shocks that have had a ripple effect on the sector, some banks have managed to stand out during these difficult times."

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 already 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 Private Banking in Portugal

*Euromoney* magazine distinguished Santander as the "Best Private Banking Internacional" in Portugal. It is the 12<sup>th</sup> consecutive time that the publication has distinguished this segment of Santander.

Santander was distinguished by the *Euromoney* magazine as the "Best Trade Finance Bank in Portugal," coming first in the "Market leader" and "Best Service" categories. For the fourth consecutive year, Euromoney has highlighted the Bank's remarkable contribution to the international business sector."

**Best Trade Finance  
Bank in Portugal**



**Best Private Banking in  
Portugal**

*World Finance* also distinguished Santander as the "Best Private Banking" in Portugal.

Santander was elected, for the second consecutive year as the **Most Responsible Bank in Portugal**, taking the first position in the sector, in the Merco ESG 2022 ranking.

**Most Responsible Bank  
— ESG in Portugal**



**Best Settlement &  
Custody — Euronext  
Lisbon Awards**

Santander was selected by *Euronext* as the financial intermediary that carried out the largest number of shares and bonds issuances registered with *Euronext Securities Porto* (and not admitted to trading), weighted by the respective amounts.

*World Finance* distinguished Santander as the "Best Pension Fund" in Portugal.

**Best Pension Fund in  
Portugal**



# Responsible Banking

## Highlights

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

For the second consecutive year, Santander Portugal was elected as the Most Responsible Bank in Portugal, taking the first position in the sector, in the Merco ESG 2022 ranking. This ranking was prepared based on the evaluation made by managers and several experts, including financial analysts, economic information journalists, NGOs, Unions, and consumer associations. Merco Consumo monitoring officers also contributed to this ranking, through which the general population was surveyed.

### Strong Inclusive Culture

- 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, for which Santander has some areas of action:
  - Promotion of gender diversity.
  - Employment programme for people with disabilities.
  - Special attention to neurodiversity;
  - Support the creation of the community
- In terms of gender diversity, the Santander Group has defined various metrics such as Women on the Board of Directors or in leadership 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 also maintained, under which there are several partnerships with NGOs for identifying candidates. Currently, 2.3% of the Bank's employees have specific needs.
- In the beginning of this year, Santander was certified as an AExcelente family responsible company, in a programme created by the *Más familia* Foundation. In Portugal, only two large companies have this certification, and Santander is one of them. More than 75 support measures available to all Santander Employees have contributed to achieving this certification.

- Santander Portugal was certified as *Top Employer 2023* in Portugal by the *Top Employers Institute*, a company that certifies the best global human resources policies and practices.
- The *Santander Women Network Portugal* launched the *Santander Women Talks*, which aim at raising awareness, support, and boost initiatives that promote, above all, gender balance in different areas of life, with emphasis on the family and professional environment. The *Santander Women Network Portugal* is made up mainly by a group of women, but it is open to the entire community.

### Supporting the green transition (*Green Finance*)

In order to achieve the environmental goals, the Bank keeps developing initiatives to strengthen the capacity for carrying out environmentally friendly operations.

To respond to the ambition of becoming *Net Zero* by 2050, environmentally responsible financing solutions have been created for Santander customers, helping them in their transition to a greener economy:

- **€ 2,296 million in consultancy** in structuring and placing financing for Finerge's renewable portfolio, and its expansion plan, using an innovative variable amortisation structure."
- **The EIF and Santander signed an agreement supported by InvestEU in March 2023 to ensure up to € 250 million** in loans for companies in Portugal. The EIF has given a guarantee to Santander to support sustainable investments, as well as companies active in the education and culture sectors. The financing to be granted will benefit from a 70% EIF guarantee, and will have a maximum maturity of 12 years.
- A new feature was launched in the *One App*, which is quite innovative in the banking sector, to help customers know and measure their carbon footprint, based on their type of spending using their bank card or direct debit. Customers can check their carbon footprint every month, measured in kg of CO<sub>2</sub> or in the equivalent in number of trees, with the possibility of offsetting individual emissions.
- Santander is a leader in the IFRRU programme started in 2018, under which it financed 245 projects with a total investment of € 688 million (€ 257 million from Santander Portugal).



- Regarding its carbon footprint, Banco Santander remains carbon neutral with regard to its own activity, by offsetting its emissions. Additionally, 100% of the electrical power consumed by Santander continues to come from renewable sources.
- Also noteworthy is the fact that it maintains a biodegradable and recyclable card initiative, as well as the non-use of unnecessary plastics in buildings.

### Financial Inclusion and Empowerment

- In 2019, the Santander Group committed to reaching 10 million financially empowered people, through initiatives that promote financial access, resilience, and education. This goal was achieved ahead of time, with Santander Portugal making a significant contribution towards it.
- Among the initiatives that allowed the Bank to achieve this goal ahead of time stands out the *Aqui & Agora* programme, a special, customized service hotline, with no time limit on service, for non-digital customers over 70 years old.
- People in unfavourable economic situations are supported through the IRIS Programme, namely by being able to renegotiate their debts.
- Lastly, programmes such as "*Contas à Vista*" and *Junior Achievement*, developed by the Santander Portugal Foundation, promote financial literacy sessions among

young people and in schools. These activities also include the participation of Bank employees, who use their professional experience to enrich these sessions.

### Community Support

- The first Activity Report of the Santander Portugal Foundation was published in the first half of the year, highlighting the social investment of € 4,745 million and the support provided to more than 35 thousand people in its first year. The report can be consulted here (<https://fundacaosantanderportugal.pt/a-fundacao/>).
- In the month of May, Santander Portugal opened its doors to candidates from the Salvador Association's Project 'Destination: Employment.' This event counted on the presence of 36 companies and 26 candidates, and 210 interviews were carried out.
- Santander became one of the founding partners of the first TUMO centre in Portugal. The project is based on an innovative, collaborative educational concept, in which young people aged between 12 and 18 can acquire skills in 8 thematic areas at the intersection of technology and creativity, totally free of charge.
- The *Global Teacher Prize* is supported in Portugal, an international initiative considered by many as the "Nobel Prize" for Education, which aims to acknowledge teachers who contribute to excellence in education, to innovation, and to the discovery of new educational responses.

# Governing Bodies

## BOARD OF THE GENERAL MEETING

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

## BOARD OF DIRECTORS

Chair:	José Carlos Brito Sítima
Deputy-Chair:	Pedro Aires Coruche Castro e Almeida
Members:	Manuel António Amaral Franco Preto Miguel Belo de Carvalho

## AUDIT BOARD

Chair:	José Duarte Assunção Dias
Members:	Henrique Salema de Carvalho e Silva Marta Sobreira Reis Alarcão Troni
Alternate Member:	José Luís Areal Alves da Cunha

## STATUTORY AUDITOR

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

## SALARIES COMMITTEE

Chair:	Maria Alexandra Teixeira Peres Brandão Palma Cavaco
Member:	Javier Roglá Puig

## COMPANY SECRETARY

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

# Business Environment

## International Economy

The economic situation, during the first half of 2023, was conditioned by the new context of high inflation, and a more normalized monetary policy.

In 2022, the combination of several factors in the response to the pandemic, including monetary and tax stimuli, as well as the increased demand, which had been suppressed during the pandemic, led to a strong acceleration of inflation (to highs of more than three decades), and required a swift reversal of monetary policy.

As a result, the main central banks carried out one of the fastest and largest cycles of increasing reference interest rates since the beginning of the 1980s.

The tighter monetary policy, together with the dissipation of pandemic-related base effects (and post-pandemic recovery), as well as the effects of the ongoing war that followed Russia's invasion of Ukraine, have resulted in slower economic growth, although in quite different ways among the main economies.

Despite this context, and the ongoing economic slowdown, the growth of the world economy has shown greater resilience in the first half of the year, as a result of the dynamics in the services sector, especially tourism. The full reopening of economies, which took place throughout 2022, and the subsequent change in consumption patterns, again in favour of services, allowed them to come close to the pre-pandemic trend, contributing to a more sustained volume of activity.

As a result, the International Monetary Fund, in its regular update of its July economic outlook, revised its growth projections for 2023 slightly upwards, while still maintaining not only the scenario of deceleration but also of economic growth below the long-term trend.

The economic slowdown was more pronounced in developed economies than in the emerging economies, also as a result of the tighter monetary policy. Among the developed economies, Europe and, in particular, the Euro Area, have been the most impacted by the effects of the war. As for the emerging economies, projections indicate continued growth in line with that observed in 2022, but still below the long-term trend.

Risks remain biased downwards, related to the persistence of inflation, plus tensions in financial markets in a context of high debt, and the further fragmentation of the global economy into blocs.

Additionally, there are risks associated with the evolution of the Chinese economy, which has remained under the pressure of a

series of shocks during this period, namely related to the pandemic, amplified by moderated external demand, meaning that activity has not yet returned to pre-pandemic levels. On the other hand, systemic problems in the real estate sector kept appearing, within a context of weak domestic demand and excessive indebtedness of the sector's main agents. In this environment, the Chinese authorities have adopted measures seeking to mitigate the main risks, but in a context of weak economic growth prospects.

### World Economic Growth

	2021	2022	2023P
<b>World</b>	<b>6.3</b>	<b>3.5</b>	<b>3.0</b>
<b>Advanced Economies</b>	<b>5.4</b>	<b>2.7</b>	<b>1.5</b>
USA	5.9	2.1	1.8
Euro Area	5.3	3.5	0.9
United Kingdom	7.6	4.1	0.4
Japan	2.2	1.0	1.4
<b>Developing Countries</b>	<b>6.8</b>	<b>4.0</b>	<b>4.0</b>
Africa	4.7	3.9	3.5
Asia	7.5	4.5	5.3
China	8.4	3.0	5.2
Central and Eastern Europe	7.3	0.8	1.8
Middle East	4.4	5.4	2.5
Latin America	7.0	3.9	1.9
Brazil	5.0	2.9	2.1

Source: IMF (July 2023)

In the USA, the economy maintained a sustained growth rate, above 2% (in annualized quarterly variation) in the first two quarters of the year. Private consumption maintained its momentum, although progressively affected by rising prices and the consequent lower purchasing power. The labour market remained quite dynamic, with net job creation and a stable unemployment rate at about 3.5%.

Inflation slowed down to 3.2% in July, but the slowdown from the previous peaks is largely due to the evolution of energy and raw material prices, which dropped compared to last year's peak. Core inflation, which excludes food and energy, stood at 4.7%, as a result of the dynamics of service prices (+6.1%), in turn influenced by the situation of the labour market.

As a result, the Federal Reserve raised benchmark interest rates last July, after a pause in June, raising the Fed funds rate to the 5.25%-5.5% range, in a total of 525 bp increases since it began the cycle in March 2022.

In the Euro Area, economic activity proved to be quite weak, affected as early as 2022 by the war and the energy shock. GDP recorded a slight contraction in Q4'22, and stagnated in Q1'23

(quarter-on-quarter). However, in the second quarter, GDP grew by 0.3% quarter-on-quarter.

The core EU countries and, in particular, Germany (which was already in technical recession in Q4'22 and Q1'23), were greatly impacted by the war in Ukraine and the subsequent energy shock, recording year-on-year growth below the long-term trend.

Despite such growth environment, unemployment remained at minimum levels (at 6.4% in June 2023), which made it possible to partially mitigate the impact of high inflation on families' disposable income.

Inflation has been progressively slowing down, but in July it remained well above the ECB's 2.0% target, with total inflation standing at 5.3% in July, and core inflation at 5.5%.

In July, the European Central Bank raised its reference interest rates by 25 bps, placing the deposit rate at 3.75%, and the refi rate at 4.25%, in other words, an increase of 425 bps since the cycle began in July 2022. Despite leaving open the possibility of a pause at the September 2023 meeting (while depending on the data released in the meantime), it reinforced the message that inflation risks remained biased upwards, as a result of changes in the factors underlying price dynamics. During the first stage, inflation mainly reflected exogenous factors, in particular the rising prices of raw materials and energy, but in the second quarter of 2023 it mainly reflected endogenous factors, such as the evolution of wages and business margins.

In the financial markets, the rapid rise in interest rates by central banks, especially in the USA, resulted in a series of disturbances in several banks, which had neglected adequate risk management, namely the management of assets and liabilities (by having their balance sheet exposed to fixed rate assets in a context of rising rates), and liquidity management (by financing the assets side of their balance sheet, with high maturities, through volatile deposits). As a result, in the USA, three interventions took place in major banks: Silicon Valley Bank, Signature Bank and, in May, in the First Republic Bank, which was suffering a disorderly outflow of deposits.

Also at the end of March, the problems that had been affecting Credit Suisse for many years led to the intervention of the Swiss authorities and the sale of Credit Suisse to UBS. The fact that AT1 holders saw the permanent write-down of their exposures (a specific feature of the Swiss bank resolution regime) impacted the wholesale markets, with their virtual closure for about two weeks, without debt issuances, collateralized or not, by European financial institutions.

From mid-April onwards, market conditions gradually went back to normal, and, in the USA, the rapid intervention of the authorities also made it possible to stabilize deposits in the regional and local banks that had been most impacted.

There was some visible tension in fixed income markets, in terms of the rise in public debt yields, in a relatively generalized way, without the occurrence of any specific disturbing situation (such as the widening of spreads between the core and the periphery of the Euro Area, for example).

On August 11, the German yield stood at 2.62%, and the 10-year Portuguese yield at 3.3%, which represents, compared to the end of 2022, an increase of 6 bps in Germany, and a drop of 28 bps in Portugal. For its part, the 10-year North American yield rose by 24 bps, up to 4.14%.

In terms of short-term market interest rates, they also kept their upward trend, reflecting the actions of central banks. The 3-month Euribor rates have reached their highest levels since 2008, while the US dollar rates are at their highest since 2007.

## Portuguese Economy

In Portugal, economic activity was once again characterized by a stronger momentum at the beginning of the year, with quarter-on-quarter growth of 1.6% (2.5% year-on-year), mainly reflecting base effects related to international trade and the evolution of the price of goods, while the moderate growth in private consumption was insufficient to offset the decline in investment.

In the second quarter, GDP stagnated, quarter-on-quarter, with a growth of 2.3% compared to the same period last year, this time due to the reversal of the international trade effects, which cancelled out the modest growth in private consumption.

Exports, in this period, fell more than imports, largely as a result of the dynamics of services, which contracted around 5% overall.

### Macroeconomic Data

	2021	2022	2023P
<b>GDP</b>	<b>5.5</b>	<b>6.7</b>	<b>2.6</b>
Private Consumption	4.7	5.7	1.8
Public Consumption	4.6	2.4	0.2
Investment	10.1	2.7	-4.8
Exports	13.4	16.7	8.3
Imports	13.2	11.0	3.3
Inflation (average)	1.3	7.8	4.3
Unemployment	6.6	6.0	7.5
Fiscal Balance (% GDP)	-2.9	-1.8	-0.8
Public Debt (% GDP)	125.4	113.9	105.2
Current Account Balance (% GDP)	0.5	-0.5	1.1

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

Despite this stagnation — starting from a very strong first quarter —, the Portuguese economy showed quite significant resilience, particularly in terms of household behaviour, which is benefiting from the full employment context.

In fact, despite high inflation and the rapid rise in interest rates (with the overwhelming majority of household credit indexed to a variable rate), only in Q4'2022 did private consumption contract, and the dynamics observed in the first half of 2023 was consistent with the progressive recovery in retail sales.

The situation in the labour market contributed greatly to the resilience of families, with the unemployment rate dropping to 6.1% in Q2, as a result of greater job creation.

However, this positive business tone was offset by the fact that the most qualified workers have lost jobs (in the last 12 months the employment of workers with higher education courses fell by 128 thousand people, while the employment of people with basic education increased by 171 thousand), a dynamic that might have repercussions on the growth potential in the medium term.

Investment evolved moderately, affected by the slower execution of the Recovery and Resilience Plan (RRP). However, the RRP volumes increased to € 22.2 billion, with an increase of € 2.4 billion in grants and € 3.2 billion in loans, which allowed the inclusion of new investments and the reinforcement of investment in measures already included in the initial plan.

Inflation slowed down throughout the second quarter of the year, to 3.1% in July 2023, compared to the 6.1% average inflation rate in the first half of the year (and the maximum of 10.4% in October 2022). As in other economies, the slowdown was the result of the dynamics of energy and other raw-material prices, plus the effect of the implementation of zero VAT on a set of 46 food items.

Similarly, to what is happening in the Euro Area, core inflation decelerated more slowly, standing at 4.7% (compared to the peak of 7.3% of December 2022), reflecting the evolution of service prices, which until July 2023 grew by 5.0%.

Households also benefited from the savings stock accumulated during the pandemic period, and was reflected in the growth of deposits with the banking sector until the end of 2022. In 2023, that stock was used to pay higher charges, whether due to inflation or to the greater debt service, but also to reduce indebtedness.

Due to the rapid rise in active interest rates compared to passive rates, many households have decided to prepay their mortgage loans, either partially or completely, as a way of mitigating the effects of rising rates. On the other hand, there was also a very significant demand for alternative financial assets, notably Savings Certificates which, until the end of May, had a maximum return rate of 3.5%. In the first half of the year, net subscription of this State savings product amounted to € 13.6 billion.

Indebtedness of the non-financial private sector fell to 179% of GDP (-18 p.p. compared to Q1'22) in the first quarter, as a result of the reduction in both corporate indebtedness (by 13 p.p., to 117% of GDP), and of household indebtedness (by 5 p.p., to 62% of GDP).

Public debt also dropped, until June, by 12 p.p., to 111% of GDP, the lowest level since 2012, in the middle of the adjustment period.

Budget execution benefited from the inflationary context, which allowed an important growth in tax revenue (+8.4%, accumulated by June), combined with the condition of full employment. However, the State increased transfers to households, in a variety of forms of support, as well as updated the wages of Civil Servants and pensions.

In June, the Public Administration balance, from the perspective of public accounting, translated into a surplus of € 4.8 billion, corresponding to a positive primary balance of € 8.2 billion. Public Administration revenue grew by 14.1% and expenditures by 6.5%, even including a 16% increase in capital expenditure.

As previously mentioned, the dynamics of the State's financing interest rates reflected the market dynamics, with a drop in the 10-year yield by 28 bps, to 3.3%.

The Country's credit rating by S&P, Fitch, and Moody's is BBB+ (stable), BBB+ (stable), and Baa2 (positive), respectively. DBRS Morningstar has revised its rating upwards, to A (stable).

**Note:** *This report was written with the information available until August 11, 2023.*

# Main Risks and Uncertainties for the Second Half of 2023

The main risks and uncertainties for Santander's activity in Portugal in the second half of 2023 are the result of the factors that had been identified for the current year in the 2022 Annual Report, and of their implications for economic activity and the financial system, namely, (i) the ongoing war in Ukraine; (ii) higher inflation; and (iii) the pursuit of tight monetary policies by central banks.

The war was still going on (as of August 11), with the resulting risks still persisting, from the point of view of geopolitical instability, in terms of disturbances in commodity markets — especially in agriculture markets —, and also on energy, as well as on the confidence of economic agents.

Inflation — despite the slowdown that has already occurred during the first half of the year — still remained above the central banks' goal (2%), with the predominance of internal factors, related to the pricing policies defined by economic agents and the resilience of the labour market. In this context, despite clear signs of a slowdown in economic activity, the main central banks continued to signal that their monetary policy will remain quite tight until inflation shows clear signs of convergence towards the goal of price stability, in other words, interest rates may remain at high levels for a longer period of time.

The combination of these factors led to a progressive downward review of growth projections, in a relatively widespread manner, despite greater resilience in the first half of the year. Economic agents have already started to adjust to the context of high inflation and higher interest rates by moderating private consumption and investment, already reflected in lower volumes of new credit, mortgage loans, and corporate credit production.

On the other hand, the higher interest rates could impact the asset quality of financial institutions, a situation still dependent on the full impact of such higher interest rates upon credit (which is more lagged in mortgage loans, where the base variable index rises up to 12 months).

A third transmission vector arises from the financial and also real impact of rising interest rates on the value of assets, such as real estate, considering the significant sensitivity of this sector to interest rate changes.

In March 2023, in the USA, the inadequate liquidity and interest rate risk management by some banks resulted in a need for intervention, through the application of resolution measures, in three medium-sized regional banks, which resulted in a period of financial instability, with the outflow of deposits in several regional banks, halted by the swift intervention of the authorities.

On the other hand, the sale process of Credit Suisse to UBS had repercussions on wholesale financial markets, with their virtual closure for two weeks, without debt issuance by financial institutions, contributing to a deterioration in liquidity and financing risk.

As a result, Santander's activity in Portugal will keep happening in a context of great uncertainty, of lower economic growth, and with greater interconnection of risk factors, which impact may be felt more quickly and abruptly, as was seen in the first half of this year.

Santander Portugal will keep implementing its strategy of supporting the progress of people and companies, based on its adequate liquidity management policies (materialized in the availability of a liquidity cushion corresponding to more than 45% of deposits), as well as on its credit risk policies (materialized in low NPL ratios and cost of credit), without prejudice to the constant monitoring of credit quality, combined with an appropriate capital allocation policy in active operations.

# Business Areas and Business Support Areas

## Individuals and Businesses, Companies and Institutional

The first half of 2023 was marked by a sharp rise in interest rates, with a relevant impact on the demand for credit — especially from individuals —, on the management of ongoing loans, and on the remuneration policy for savings.

In response to this market situation, the commercial area's strategy was to increase contactability and proximity to customers with a view to helping families find the best financial solutions, whether to mitigate the impact of higher interest rates on credit, or to remunerate savings through deposits, which had not happened in a significant way for many years.

Throughout the first half of 2023, Santander Portugal kept pursuing its strategy of increasing its commercial and transactional relationships with its customers, leveraged by its purpose of contributing to the progress of people and companies

Enhancing customer experience was also a priority. Constantly monitoring the NPS (*Net Promoter Score*), and the Bank's concern for good hospitality and efficient service helped consolidate Santander's position in the TOP 3 national banks in terms of NPS, according to *Marktest*.

The Bank's support for family and business projects remained solid, through the origination and renewal of mortgage, personal and corporate credit operations, as well as through credit, liquidity, and cash-flow management instruments, with an average monthly volume exceeding € 1.5 billion.

### Branch Transformation and Process Simplification

Technological empowerment of Branches and simplification of processes and procedures is a continuous improvement exercise, which the bank has accelerated in recent years.

During the first half of the year, the new account maintenance and data updating process, the irregularities management process, and the new Internal Cash Management operation system were particularly relevant. Also noteworthy is the centralization of all administrative tasks in operational Hubs, with improvements in several processes such as Qualification of Heirs, management of daily compensation, national and international transfers, among others.

The introduction of 50 new VTMs (Virtual Teller Machines) made it possible to increase self-service, make deposits in banknotes and coins, as well as change and exchange. There are now more than 155 branches with VTMs, and the

installation of another 60 is already underway, to add to the 110 MDRs (which allow deposits in banknotes), and 186 ATM-DV also with the possibility of making deposits.

More than 80% of Santander Branches already have the possibility of accepting self-service deposits and withdrawals 24/7.

### Individuals

With the higher interest rates, housing and personal loans recorded a reduction in demand for new operations in the Individuals segment, when compared to the same semester last year. There was also a quite strong amortization and renegotiation of credits by the Bank's customers.

It is worth highlighting the growing weight of remote personal credit contracts, either through self-service (*App* and *Netbanco*), or by through the remote sales team.

In this global environment, with lower demand for credit, the Bank has bolstered its focus on attracting new customers. Of particular note are the various membership campaigns for minors, to reactivate customers and for new additions to the payroll account, with relevant results especially in the second quarter. Also noteworthy is the new 100% online account opening process, with a digital mobile key or through video conference.

Santander customers have increased their relationship with the Bank in the first half of 2023, with year-on-year growth in payments and transfers exceeding 17%, to more than 48 million transactions, as a result of the use of digital channels as well as of both debit and credit cards made available by the Bank (and whose number increased by more than 6% compared to the same period in 2022). In this same period, almost 23 million cash withdrawals were carried out, representing a 4% increase year-on-year.

Regarding Autonomous Insurance, the new Home Protection Insurance was launched, which now has an omnichannel, simplified journey; the product was also revised, in order to better respond to Customer needs. The Car Insurance was also revised to allow it to be contracted by customers within the scope of their car leasing agreements.

The insurance offer for Companies was reinforced, with the new Cyber Insurance and Property Leasing, which completed the effort to launch products along with JV Mapfre Santander. Still in this segment, where the ability to make personalized proposals for each customer is particularly relevant, the Bank now has the capacity to make tailor-made Health proposals for Companies.



In Credit-Linked Insurance, Santander continued to optimize customer experience in their credit journeys with insurance in context, mainly on the self-service side. The competitive position was reviewed, strengthening the value offer to face the accelerated change that has been witnessed in this type of products.

More than one hundred thousand policies were created in the first six months of the year, with the total number of policies placed with Bank customers reaching more than 1.25 million (+3% compared to the same period last year).

## Companies and Business

In the first half of 2023, Santander maintained its focus on the ambition of being a trusted partner for companies in the process of recovery and transformation of the Portuguese economy, maintaining its strong commitment to supporting the Portuguese business fabric, namely by providing an optimized commercial network, with experienced, qualified professionals focused on finding the solutions that best suit the needs of companies at any given moment. The Santander App — subject to constant continuous improvements — stands out positively for its usability, which has been complemented with the evolution of new business models that support companies in training their resources.

Sustainability — mainly focused on mitigating risks associated to climate change — has also made Santander Portugal focus on improving energy efficiency, for instance, by maintaining the offer of photovoltaic solutions, in a partnership with EDP, which helps companies reduce energy costs, thus contributing to enhanced environmental sustainability.

Within the scope of European Funds, one of the main priorities for Santander Portugal is still its support for public and private investment projects. Thus, through a partnership with Specialized Consultants, Santander kept supporting investment projects throughout all stages, from analysis to implementation.

On the public website, on its page dedicated to European Funds, Santander provides all relevant, updated information for customers to have access to the various programmes, investment agendas, and active application notices in an organized manner, and where EIF and EIB facilities have taken on special relevance.

The possibility of micro-enterprises to fully open their accounts online in a simple, swift manner, which is intended to be progressively extended to the entire market. This new possibility was combined with the launch of a New Offer — *Ready, Start and Grow* — allowing companies to choose the ideal account for their business.

Tourism, Agriculture, the Social Economy, and Health remain as strategic sectors for Banco Santander, since they take on a

prominent role in the economy.

The dynamics of the second semester will also be boosted by new programmes to support certain social responses, while maintaining the investment effort in the requalification and enhanced capacity of the various social responses, in a shared effort between the State and Local Administration, and the Social Sector Entities and Banks, embodied in the Pares Programme or through specific notices integrated in the RRP.

Santander's integrated vision of the Health cluster allows it to closely monitor the sector's main players in Portugal, placing itself in the value chain of this segment, creating and maintaining close relationships with the main associations and professional societies.

Institutional Banking in Portugal positions itself alongside customers in this segment, both in terms of public entities — by keeping a strong presence in the Autonomous Regions, in Municipalities, and in the respective Municipal Companies —, and in terms of entities participated by the State, with a differentiating and appropriate offer for each customer, contributing to enhanced relationships, loyalty, and satisfaction with the Bank.

Reinforcing the Bank's positioning among its corporate customers, through its close commercial network endowed with the best professionals in the market; by developing specific products and services for each business; by creating financial and non-financial advantages suited to the needs of the various customers; and by being present at the most relevant events in each sector.

In International Business, Santander Portugal maintains a solid market share in most Trade Finance operations, even higher than its natural market share in the corporate area — an unequivocal sign of its customers' trust in the Bank's professional structure, and in its solid, credible image in international markets, with a strong emphasis on operations related to ESG criteria, particularly in the photovoltaic and biofuels sector.

Banco Santander Portugal's *International Desk* supports multinational companies present in the Group's various geographies with specific training on those markets, their economy, and on how companies establish themselves in these countries. During the first half of the year, special focus was given to Brazil, Mexico, and Spain.

## Foreign Customers and Residents Abroad

With the growing internationalization in Portugal, namely with the growing foreign investment and the growing number of foreigners coming into the country to face the shortage of labour, the Bank maintains an account opening offer for foreigners living in Portugal.

To serve the communities of Portuguese and Portuguese descendants abroad, as well as for promotion and attraction initiatives with foreign customers who choose Portugal to invest and/or establish their residence, the Bank also offers a remote management service for customers residing abroad — *Santander Próximo International*, created in 2021, which has been strengthening and consolidating its operations and competences.

It is a digital branch, dedicated to customers residing abroad, which provides a specialized customer service in several languages, using all the technology required for remote monitoring, plus a team 100% dedicated to these customers.

## Wealth Management and Insurance

In the first half of 2023, most of Santander Portugal's *Private Banking* business indicators have evolved in a very positive way, benefiting from an overall more positive market momentum, and from the always close relationship that managers maintain with their portfolios and with their customer base. The segment's managed assets grew by about 6% in the first semester, with a 13% growth in funds, insurance, and discretionary mandates.

As for investment funds, there was a portfolio variation of around € 287 million, with assets under management converging to € 4,185 million. This section highlights the bond funds that benefited from € 224 million in net subscriptions. Two investment funds with defined maturity were launched throughout the semester.

In the Financial Insurance area, the private banking segment showed a greater momentum, with the promotion of two new *Unit Linked's*, specific to defined maturity bonds with 3- and 5-year terms. The insurance portfolio closed with assets worth € 3.335 billion, recording an increase of € 78 million.

Retirement solutions constituted a very relevant focus of commercial activity, aimed at promoting scheduled delivery plans adjusted to each customer's individual reality.

Simultaneously, and with the aim of promoting greater proximity to customers, four more sessions were held involving main customers and their managers, with the aim of explaining the performance of financial products to our customers in an extremely interactive way.

## Corporate and Investment Banking

The *Corporate & Investment Banking* area has maintained a differentiated offer in the Investment Banking segment in Portugal, providing customers with value-added solutions. This positioning has allowed the participation of several relevant transactions.

In the *Global Debt Financing* area, the first 6 months of the year

continued to be marked, among other aspects, by the Bank's leadership in some of the main renewable energy financing operations in Portugal, particularly by completing the financial advisory services to Finerge, through which the Bank supported Finerge in a financing operation worth more than € 2.3 billion, namely by refinancing its entire debt and financing its future growth plan. This operation also stands out for having presented an innovative amortization structure, more adaptable to the challenges currently faced by the energy sector, and won the European "Renewables Deal of the Year" awards by PFI magazine, and the "Deal of the Year" award by *Proximo Infrastructures*.

As far as the syndicated credit product, the Bank stood out with an assurance operation for Visabeira Global's debt, in the amount of € 450 million, an operation that was then syndicated with a group of national and international credit entities.

In terms of *Debt Capital Markets*, the *Global Debt Financing* area maintained its leading position in the Portuguese market by participating in the placement of three bond issuances for EDP, worth € 750 million over 5 years; for Caixa Central de Crédito Agrícola, of € 200 million over 4 years; and for Floene, of € 420 million over 5 years.

The *Corporate Finance* area continued to develop intense activity in Mergers & Acquisitions and in *Equity Capital Markets* operations in the first half of 2023, of which it is worth highlighting the successful conclusion of financial advisory operations to *Onex Holding* in the sale of a 221MW wind portfolio to *Finerge*, and financial advisory services to *Altri* and *Greenvolt* in the spin-off operation of the remaining 16.6% stake held in *Greenvolt* by *Altri*.

In the Markets area, there has been a growing demand from customers for risk management solutions that help mitigate the effects of the extraordinary increase in volatility and uncertainty that have impacted the financial markets.

In the Interest Rate section, in fixed rate operations and/or interest rate derivatives, there was greater demand from most Companies, increasing the percentage of financing with interest rate risk coverage. In this operation system, the good monitoring that the Bank has carried out with its customers stands out, ensuring a Corporate credit portfolio with a very high fixed rate ratio, allowing customers to face the sharp rise in interest rates with greater peace of mind.

The constant internal training initiatives, the model for identifying customer needs in managing their exchange rate risk, and the close support provided by Commercial Networks to Companies have converged in the development of an efficient business model that ensures the growth dynamics of this section and improves the offering of products that satisfy customer needs.

In the *Cash Trading* segment, the volumes traded on equity markets in the first half of 2023 recorded a decrease compared to the previous year. It is worth noting the year-on-year decrease in online business, following the reduction seen in Portugal in volumes traded on equity markets due, above all, to the tax changes on the capital gains regime that came into force in 2023. In the same period, the volumes traded on the bond markets recorded a quite strong growth, namely in Corporate Debt bonds (+237%), and Public Debt bonds (+1,389%).

In the Structured Products segment for retail, 5 products were launched since the beginning of the year, raising a total of about € 133 million. Within the Bank's range of investment products, structured products stand out for being an investment alternative that meets customer expectations regarding profitability levels for the current market.

## Digital Transformation

Banco Santander kept strengthening its digital transformation process during the first six months of the year, with the main goal of enhancing its proximity to its customers and of simplifying processes and procedures through digital solutions, which has allowed the Bank to consolidate the growth trend in the number of Digital Customers, one of this area's main goals.

At the end of the first half of 2023, the Bank had 1,142,000 digital customers, a 12% increase compared to the same period last year (123,000 more customers).

## Individuals' Private Channels

Regarding the adoption of digital channels, at the end of this first semester of 2023, the *App* had 854,000 digital customers. To date, 515,000 customers exclusively use the *App*. Regarding intensity of use, the average number of monthly logins per user was 24.

In the Web channel, the number of users decreased compared to the previous year, having closed the period with 403,000 users with logins in the last 30 days through *NetBanco Particulares*. As for the average logins of *NetBanco Particulares*, it was found that this figure remained constant at 8 logins.

During these first six months of the year, the Bank continued the process of developing the *App* and modernising *NetBanco*. As far as the *App* is concerned, it is worth highlighting the Carbon Footprint Consultation, the new Financial Assistant, and several other privacy improvement initiatives. Regarding the *NetBanco* channel, the collection of requests for adherence to the Decree Law on more Housing, legal changes to the legal procedures of funds and PPRs, improvement in the presentation of housing credit information, and the possibility of replacing physical cards with purely digital cards were

identified as key functionalities. These improvements reflect not only a more modern interface, but also a new information architecture, optimized to meet current customer needs.

Individual customers are also able to sign up to the various insurances offered in a quicker and easier way due to the improved contracting times and, in addition, they now have access to new savings products (term deposits and PPRs).

## Corporate Channels

In June 2023, *NetBanco Corporate* had 120 thousand users with logins over the last 30 days, a 1.7% increase, that is, 2 thousand users more compared to the end of 2022.

The Corporate *App* maintains its growth trend in number of users, having reached a total of 53 thousand users at the end of the semester, and keeps leading the rating of *App Stores* in *Banking Apps* for Companies.

During this first half of 2023, *Netbanco Companies* made *Santander Resolve* available to its customers, to help monitor open incidents in the contact centre.

Furthermore, Sole Proprietorships can now contract *CrediSimples* and request credit cards, while the same type of products have been made available to a wider group of company customers. Customers can now contract debit cards, and POS contracts were changed to be carried out by *Getnet*.

Through the *Companies App*, customers can receive notifications about account operations and view current account descriptions in a simpler way.

There are now more possibilities for customers to offer their opinion about the web and mobile channels through surveys — to help us understand their main needs — through the web and mobile channels themselves.

## 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 2023, boosted by enablers implemented in 2021 and 2022, namely with days devoted to the Cloud and to the transformation of information systems.

At Infrastructure level (Service Management), the incident and problem management component was reinforced, through the improvement of the incident response team process. In terms of technological modernization, the focus remained on the SD project, which will improve resilience and the level of service in the communications component for Branches and Buildings. The process of monitoring the Bank's ATM stock was also improved in order to help anticipate possible incidents.

The conflict scenario in Ukraine, and the inflationary impacts on the economy, keep presenting challenging scenarios to the Cybersecurity Area in what has always made the Bank stand out the most: risk management in general, and cyber risks in particular. These scenarios have allowed us to keep helping Santander customers, employees, and other stakeholders maintain their trust in the organization in a serious, focused manner.

The contribution towards a more digitally inclusive society was one of the responses to the growing trend of increasing cases of phishing and other social engineering events that are also measured internally with the continuous improvement of indicators in simulated scenarios. As far as business support, the Bank invested in greater robustness in the protection of access to digital media for all employees through the modernization of authentication mechanisms and the

reinforcement of controls on Bank equipment from the perspective of conditional access rules.

The Operations area continued its progress in terms of operation systems, with a set of initiatives based on customer service, 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 first half of the year was marked by the positive evolution of quality of service provided to customers, and by the improvement of execution times (SLA – Service Level Agreements), with the goal of improving customer NPS and improving user experience. Some of these measures are also in line with the “*One Europe*” spirit, which advocates, among other aspects, the alignment of objectives and initiatives common to all employees in the various geographies where the Group operates, sharing best experiences and exchanging mutual knowledge.

# Economic and Financial Information

## Consolidated Business

At the end of the first half of 2023, Santander Totta SGPS recorded a net profit of € 333.7 million, 38.3% above the € 241.3 million recorded in the same period of the former year.

The return on equity (ROE) of 17.6% in June 2023, increased by 7.1 p.p., compared to 10.5% in June 2022. The efficiency ratio reached 30.8%, 8.8 p.p. below the 39.6% recorded in the same period last year.

Credit to customers (gross) stood at € 41.9 billion, down by 3.8% compared to the same period last year, due to the early amortization of credits and the lower production of new loans. Credit to individuals decreased by 1.2%, and credit to companies decreased by 9.2%.

The Non-Performing Exposure ratio stood at 2.1%, compared to the 2.2% recorded in June 2022, with a provisions coverage of 88.6% (6.5 p.p. more than in the same period last year).

Customer resources, amounting to € 44.3 billion, dropped by 7.2% compared to the same period last year, with deposits decreasing by 8.8% year-on-year, influenced by the channelling of savings towards early repayment of credits and for investment in off-balance sheet resources, which increased by 1.1%.

At the end of June 2023, the LCR (Liquidity Coverage Ratio) ratio, calculated in accordance with CRD IV rules, stood at 128.7%, thus meeting the regulatory requirement on a fully-implemented basis.

The Common Equity Tier 1 (fully implemented) ratio stood at 17.6%, showing a decrease of 3.4 p.p. compared to the same period last year.

The MREL ratio stood at 28.7% (fully implemented), quite above the 24.17% requirement (including the CBR combined equity requirement of 3% of TREA), required from January 1, 2024.

At the end of the first half of 2023, the liquidity reserve reached € 16.7 billion, revealing the institution's solid liquidity position.

Financing obtained from the European Central Bank, consisting entirely of the third series of Targeted Long-Term Refinancing Operations (TLTRO III), amounted to € 0.7 billion. A tranche of € 3.5 billion was amortized upon maturity, in June 2023. The net exposure to the Eurosystem stood at € -6.5 billion (a surplus position).

Long-term financing also included € 2.7 billion of covered bonds (€ 0.75 billion regarding the first issuance of covered bonds under the new Legal Regime of Covered Bonds in Portugal, with

a 5-years term and with a coupon rate of 3.375%, carried out in April 2023), € 1.1 billion of securitizations, € 1.1 billion of *Senior Non-Preferred*, issuances, € 0.2 billion of *Credit Linked Notes*, and € 0.2 billion of subordinated issuances.

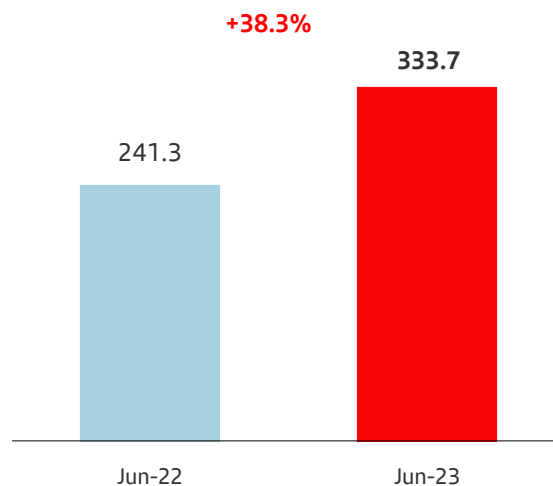
Short-term financing included interbank operations with repurchase agreements, amounting to € 4.0 billion.

Santander Portugal has the best financial ratings in the sector. The Bank's current long-term debt rating notations, compared to those of Portugal, is as follows: Fitch: A- (Portugal: BBB+).

## CONSOLIDATED NET INCOME

### ATTRIBUTABLE TO THE SHAREHOLDERS OF ST, SGPS

million euro



## Results

<b>CONSOLIDATED INCOME STATEMENTS</b> (million euro)	<b>Jun-23</b>	<b>Jun-22</b>	<b>Var.</b>
<b>Net interest income</b>	<b>586.5</b>	<b>370.3</b>	<b>+58.4%</b>
Income from equity instruments	1.7	3.7	-53.9%
Results from associated companies	8.1	9.9	-18.8%
Net fees	231.2	239.5	-3.5%
Other operating results	4.0	6.2	-35.1%
Insurance activity	10.8	5.4	+100.4%
<b>Commercial revenue</b>	<b>842.2</b>	<b>634.9</b>	<b>+32.6%</b>
Gain/losses on financial assets	11.8	19.4	-39.1%
<b>Operating income</b>	<b>854.0</b>	<b>654.3</b>	<b>+30.5%</b>
Operating costs	(233.2)	(219.6)	+6.2%
Staff Costs	(136.9)	(130.5)	+4.9%
Other Administrative Expenses	(96.3)	(89.0)	+8.2%
Cash contributions to resolution funds and deposit guarantee schemes	(23.6)	(41.4)	-42.9%
Depreciation in the year	(22.2)	(23.1)	-4.0%
<b>Net operating Income</b>	<b>575.0</b>	<b>370.3</b>	<b>+55.3%</b>
Impairment, net provisions and other results	(73.9)	(20.5)	+260.5%
<b>Income before taxes and non-controlling interests</b>	<b>501.0</b>	<b>349.7</b>	<b>+43.3%</b>
Taxes	(167.2)	(108.3)	+54.4%
<b>Income after taxes and before non-controlling interests</b>	<b>333.8</b>	<b>241.4</b>	<b>+38.3%</b>
Non-controlling interests	(0.1)	(0.1)	+39.2%
<b>Consolidated net income attributable to the shareholders of ST, SGPS</b>	<b>333.7</b>	<b>241.3</b>	<b>+38.3%</b>

At the end of June 2023, the net interest income totalled € 586.5 million, 58.4% more, compared to the € 370.3 million obtained in the same period of the previous year, reflecting the rise in interest rates, as a result of the European Central Bank's monetary policy, namely due to the increase in reference interest rates, since July 2022. The higher interest rates on credit operations, and the positive impact on the securities portfolio, more than offset the competitive business environment, which put downward pressure on credit spreads, on the lower credit volume, on the higher passive interest rates on bonds, and on interbank operations with repurchase agreements, and the gradual transfer of the rise in reference interest rates to the remuneration of deposits.

Net Fees amounted to € 231.2 million, a 3.5% decrease compared to the € 239.5 million recorded at the end of June last year, an evolution influenced by the lower credit fees (in the context of higher interest rates, reflected in the lower volume of new credit production, and regulatory changes that prevent the charging of certain fees on loans), in means of payment, and funds and insurance, partly offset by the favourable performance of financial advisory fees.

Other Operating Results reached € 4.0 million, 35.1% less compared to the € 6.2 million in the same period last year.

The Result of the Insurance Activity stood at € 10.8 million, representing a 100.4% growth compared to the € 5.4 million recorded in June 2022.

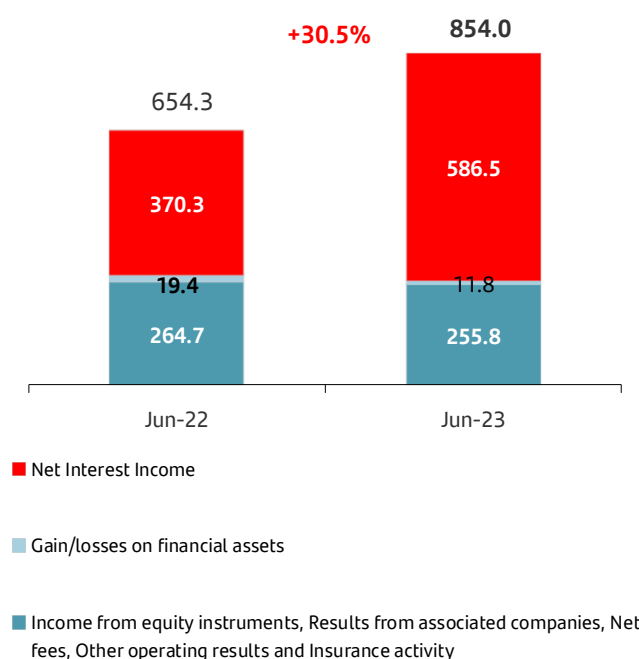
Commercial Revenue reached € 842.2 million, rising by 32.6% compared to the € 634.9 million observed at the end of the first half of 2022, benefiting from the positive environment in the evolution of interest rates on net interest income.

Gains/Losses on Financial Assets amounted to € 11.8 million, decreasing by 39.1% compared to the € 19.4 million achieved a year earlier, mainly due to the lower result obtained in derivatives and financial assets at fair value per results.

Net Income from Banking Activities amounted to € 854.0 million, with a year-on-year increase of 30.5%, compared to the € 654.3 million at the end of June 2022, driven by the favourable evolution of commercial revenue, which more than offset the lower results from financial operations.

**OPERATING INCOME**

million euro



Operating Costs recorded at the end of June 2023, in the amount of € 255.4 million, increased by 5.3%, compared to the € 242.6 million observed in the same period last year. Santander Portugal had a commercial network with 377 service points (9 less than in the same period last year), and 4.670 employees (38 less than at the end of June 2022).

Staff Expenses stood at € 136.9 million, a 4.9% increase compared to the € 130.5 million in the same period last year, influenced by the wage update implemented in 2023.

Other Administrative Expenses reached € 96.3 million, 8.2% more, compared to the € 89.0 million in the same period of the

previous year, due to the impact of inflation and of investment in IT infrastructures, and in digital transformation and process optimization programmes, as part of a strategy to constantly improve the Bank's quality of service and to enhance the offer available on digital channels, allowing efficiency and profitability gains.

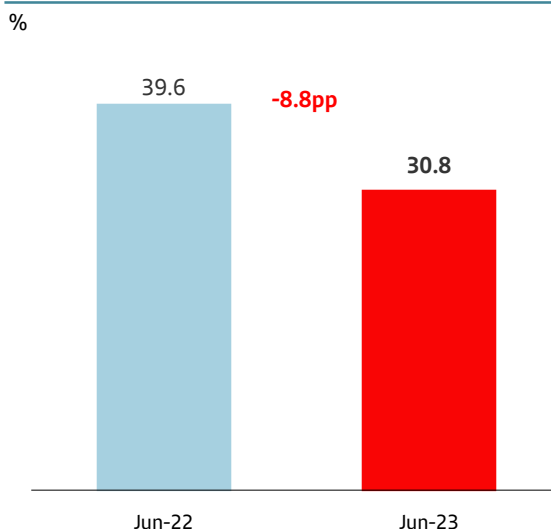
Depreciations stood at € 22.2 million, down by 4.0%, compared to the € 23.1 million at the end of June 2022.

In the operating costs structure, Staff Costs account for 53% of the total, followed by Other Administrative Expenses at 38%, and Depreciations at 9%.

<b>OPERATING COSTS</b> (million euro)	<b>Jun-23</b>	<b>Jun-22</b>	<b>Var.</b>
Staff costs	(136.9)	(130.5)	+4.9%
Other Administrative Expenses	(96.3)	(89.0)	+8.2%
Depreciation	(22.2)	(23.1)	-4.0%
<b>Operating costs</b>	<b>(255.4)</b>	<b>(242.6)</b>	<b>+5.3%</b>
<b>Efficiency ratio</b>	<b>30.8%</b>	<b>39.6%</b>	<b>-8.8 p.p.</b>

At the end of the first half of 2023, the efficiency ratio reached 30.8%, lower by 8.8 p.p. compared to the 39.6% observed in the same period last year, reflecting greater operational efficiency and increased revenue.

## EFFICIENCY RATIO



Supervision and Resolution Costs amounted to € 23.6 million, a 42.9% decrease compared to the € 41.4 million observed in the same period last year.

Net Operating Income reached € 575.0 million, which corresponded to a 55.3% increase compared to the € 370.3 million obtained in June last year.

Impairment, Net Provisions and Other Results recorded a cost of € 73.9 million, compared to the cost of € 20.5 million in the same period of the previous year.

Net Provisions represented a total cost of € 6.8 million, representing an increase compared to the cost of € 0.7 million in June 2022.

Net Impairment of Financial Assets at Amortized Cost reached a cost of € 35.0 million at the end of June 2023, compared to a provision replacement of € 1.2 million, recorded in the same period of the previous year, within the scope of a conservative credit risk control policy, in a context of lasting inflation, rising interest rates, and the consequent increase in the cost of credit, plus a moderate increase in the unemployment rate. It was found that this context has not yet had an impact on the quality of the credit portfolio, with the Non-Performing Exposure (NPE) ratio standing at 2.1%, down by 0.1 p.p. compared to that observed in the period same period last year.

Net Impairment of Non-Financial Assets recorded a provision reversal of € 3.7 million, compared to a cost of € 1.7 million in the same period last year.

Regulatory costs with the Contribution on the Banking Sector and the Additional Solidarity Contribution on the Banking Sector in the amount of € 38.3 million increased by 6.8%, compared to the € 35.9 million paid last year.

The gains on Non-Current Assets Held for Sale reached € 2.5 million, 85.0% less than the € 16.6 million achieved in the same period last year, which included non-recurring gains related to the sale of real estate assets, namely own properties.

Income Before Taxes and Non-Controlling Interests reached € 501.0 million, which represented a 43.3% increase compared to the € 349.7 million recorded in June 2022.

Taxes amounted to € 167.2 million, compared to the € 108.3 million recorded a year earlier, an increase of 54.4%.

At the end of June 2023, Net Consolidated Income for the year attributable to Santander Totta SGPS shareholders amounted to € 333.7 million, which corresponded to a 38.3% growth compared to the € 241.3 million obtained in June 2022.



## Balance Sheet and Business

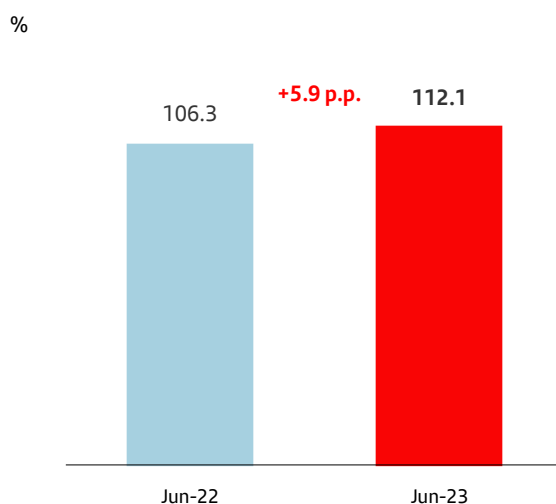
At the end of June 2023, the Business Volume totalled € 86.2 billion, corresponding to a 5.6% decrease compared to the € 91.3 billion recorded in the same period in 2022, due to the 3.8% decrease in credit to customers and the 7.2% decrease in

customer resources, reflecting the context of higher interest rates, which conditioned demand for credit, and led to the use of deposits for early repayment of loans.

<b>BUSINESS VOLUME</b> (million euro)	<b>Jun-23</b>	<b>Jun-22</b>	<b>Var.</b>
<b>Business Volume</b>	<b>86,210</b>	<b>91,297</b>	<b>-5.6%</b>
Loans and advances to customers (gross)	41,937	43,577	-3.8%
Customers' resources	44,272	47,719	-7.2%

The Transformation Ratio, measured by the ratio of loans to deposits, stood at 112.1% at the end of the first half of 2023, 5.9 p.p. higher than in the same period last year.

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



At the end of the first half of 2023, the customer credit portfolio (gross) amounted to € 41.9 billion, representing a 3.8% decrease compared to the same period of the previous

year, influenced by the higher interest rates, which led to a decrease in demand for credit and the early repayment of loans.

<b>LOANS</b> (million euro)	<b>Jun-23</b>	<b>Jun-22</b>	<b>Var.</b>
<b>Loans and advances to customers (gross)</b>	<b>41,937</b>	<b>43,577</b>	<b>-3.8%</b>
<i>of which</i>			
Loans to individuals	24,588	24,878	-1.2%
<i>of which</i>			
Mortgage	22,436	22,704	-1.2%
Consumer	1,828	1,793	+2.0%
Loans to corporates	14,470	15,936	-9.2%

Credit to Individuals stood at € 24.6 billion, down by 1.2% compared to the € 24.9 billion recorded in the same period last year.

Mortgage loans worth € 22.4 billion dropped by 1.2% year-on-year, influenced by the lower activity on new production of credit and the early repayment of loans by households, in a context of higher interest rates due to the progressive increase in Euribor interest rates, the main index for this type of credit, as a result of the monetary policy of the European Central Bank, which increased its reference interest rates.

Consumer Credit stood at € 1.8 billion, corresponding to a 2.0% increase compared to June of the previous year.

Credit to Companies reached € 14.5 billion, representing a 9.2% drop compared to the same period last year, justified by a set of

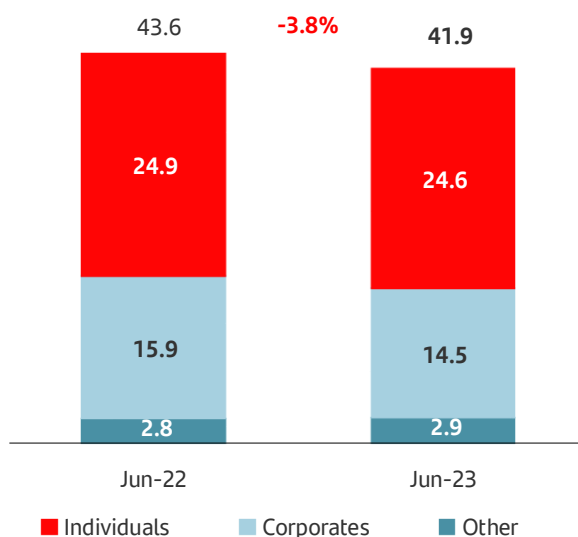
scheduled maturities for larger companies, amortization of credit facilities with

State guarantee created during the pandemic period, and postponement of investment decisions, due to the uncertain economic context and worse financing costs. Santander Portugal supports the business sector, with financing facilities for the development of its businesses, with emphasis on credit related to liquidity and cash-flow management solutions, including support for international trade, where the Bank has maintained a business activity above the same period in 2022.

At the end of the first half of 2023, Housing Credit represented 53% of the credit portfolio, Credit to Companies 35%, and Consumer Credit the other 12%.

### LOANS AND ADVANCES TO CUSTOMERS (GROSS)

billion euro



The Non-Performing Exposure (NPE) ratio, calculated in accordance with the definition of the EBA — European Banking Authority — (regarding balance sheet exposures), stood at 2.1% in June 2023, minus 0.1 p.p., compared to the 2.2% observed in June of the previous year.

Although wage increases only partially offset the higher inflation rate, the fact that the rise in interest rates has increased the cost of financing for families and companies, combined with the moderate increase in the unemployment

rate, have resulted in the deterioration of the ability to meet debt service, there seems to be no relevant impact on the quality of the credit portfolio.

Impairment Coverage stood at 88.6% in June 2023 (6.5 p.p. more, compared to 82.1% in the same month of 2022).

Cost of Credit reached 0.06%, 0.05 p.p. more, compared to 0.01% recorded in the same period of the previous year.

### CREDIT RISK RATIOS

	Jun-23	Jun-22	Var.
Non-Performing Exposure Ratio	2.1%	2.2%	-0.1 p.p.
Non Performing Exposure coverage Ratio	88.6%	82.1%	+6.5 p.p.
Cost of credit	0.06%	0.01%	+0.05 p.p.

At the end of the first half of 2023, customer resources amounted to € 44.3 billion showing a decrease of 7.2%, compared to the same period in 2022, due to a 8.8% decrease in

deposits, influenced by the early amortization of loans, and investment in off-balance sheet resources, which grew by 1.1%.

<b>RESOURCES</b> (million euro)	<b>Jun-23</b>	<b>Jun-22</b>	<b>Var.</b>
<b>Customers' resources</b>	<b>44,272</b>	<b>47,719</b>	<b>-7.2%</b>
On-balance sheet resources	36,568	40,101	-8.8%
Deposits	36,568	40,101	-8.8%
Off-balance sheet resources	7,704	7,619	+1.1%
Investment funds	3,952	3,781	+4.5%
Insurance and other resources	3,752	3,838	-2.2%

Deposits totalled € 36.6 billion, down by 8.8% compared to the € 40.1 billion recorded in the same period last year, reflecting the early repayment of credit by customers, in the context of rising interest rates, and the channelling of savings for investments in off-balance sheet resources.

Off-Balance Sheet Customer Resources reached € 7.7 billion, a growth of 1.1%, compared to the € 7.6 billion at the end of June

last year, within the scope of various investment solutions in investment funds and financial insurance.

Investment funds managed or marketed by the Bank worth € 4.0 billion grew by 4.5%, compared to the € 3.8 billion in June last year. Insurance and other resources amounting to € 3.8 billion decreased by 2.2% year-on-year.

## Solvency Ratios

At the end of the first half of 2023, the Common Equity Tier 1 (CET 1) ratio, calculated in accordance with CRR/CDR IV rules, stood at 17.6% (fully implemented), representing a reduction of 3.4 p.p., compared to the 21.0% recorded in the previous year, related to the decision of the Board of Directors of Santander in 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 rate, above the minimum requirements demanded by the European Central Bank. In 2023, CET 1 stood at 8.344%, Tier 1 at 10.125%, and Total at 12.5% (fully implemented).

At the end of June 2023, the 28.7% MREL ratio (Minimum Requirement for Own Funds and Eligible Liabilities) stood above the fully implemented requirement of 24.17%, required from January 1, 2023 (including the CBR combined equity requirement of 3% of TREA).

<b>CAPITAL</b> (million euro)	<b>Jun-23</b>	<b>Jun-22</b>	<b>Var.</b>
<b>Common Equity Tier I</b>	<b>2,815</b>	<b>3,449</b>	<b>-18.4%</b>
Tier I Capital	3,215	3,849	-16.5%
Total Capital	3,487	3,919	-11.0%
<b>Risk Weighted Assets (RWA)</b>	<b>15,958</b>	<b>16,387</b>	<b>-2.6%</b>
CET I ratio	17.6%	21.0%	-3.4 p.p.
Tier I ratio	20.1%	23.5%	-3.4 p.p.
Total Capital Ratio	21.9%	23.9%	-2.0 p.p.

# Relevant Facts After the End of the Period

There were no relevant facts after the end of the period

# 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.

### → Risk Principles and Culture

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

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

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

### → 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 Santander has granted credit directly or for whom it took on a contractual obligation;
- **Market Risk** : is the risk incurred as a result of the effects that changes in market factors, interest rates, exchange rates, variable income and commodities, among others, may have on income or capital;
- **Liquidity Risk** : is the risk the Bank incurs if it does not have enough liquid financial resources to meet its obligations on the due date, or if it can only obtain them at a high cost;
- **Structural Risk** : is the risk of changes in the value or margin creation of banking book assets or liabilities as a result of changes in market factors and in the behaviour of the balance sheet. It also includes 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** : is the risk resulting from actions or the use of the Group's means, products and services in activities of a criminal or illegal nature. These activities include, but are not limited to, money laundering, financing of terrorism, infringement of international sanctions programmes, corruption, bribery, and tax evasion;
- **Model Risk** : is the risk of loss resulting from wrong forecasts, which may lead the Bank to adopt measures that are not the most appropriate, or from the inappropriate use of a model;
- **Reputational Risk** : is the risk of immediate or potential negative economic impact for Santander due to damages on the perception of the Bank's image by employees, customers, shareholders / investors, and society in general;
- **Strategic Risk** : is risk of loss or damage resulting from strategic decisions or from their poor implementation, which have an impact on the medium and long term positioning of 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 by 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.

### → Risk Governance

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

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

#### Defence Lines

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

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

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

#### → 1<sup>st</sup> line of defence : Risk Management

The business lines and all support functions that generate risk exposure constitute the first line of defence. The first line of defence identifies, measures, controls, tracks and reports the

risks that they give rise to, and applies the policies, models and procedures that regulate risk management. Risk execution 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. The second line of defence must 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.

### → Management Processes and Tools

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

#### Risk Appetite and Limit Structure

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

The Board of Directors establishes the Bank's risk appetite annually, which is then translated into management limits and policies by type of risk, portfolio and business segment, within the defined rules.

#### Business Model and Fundamentals of Risk Appetite

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

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

- It is the responsibility of the Board of Directors and of Top Management. The Board of Directors is the ultimate responsible for defining the Bank's risk appetite, as well as for monitoring compliance therewith.
- Enterprise wide risk, comparing and questioning the risk profile. Risk appetite must consider all significant risks, facilitating an aggregated view of the risk profile through the use of quantitative metrics and qualitative indicators.
- Forward-looking view. Risk appetite should consider the desirable risk profile in the short and medium term, taking into account both the most likely circumstances, and the adverse or stress scenarios
- Linked to strategic and business planning. Risk appetite is a fundamental component of strategic and business planning, and it is integrated into management through its translation into management policies and limits, as well as through the participation of all lines of defence in key appetite processes.
- Common principles and a common risk language for the entire organization. The risk appetite of the various units, including that of the Bank, is in line with the Group's risk

appetite.

- Periodic review, comparison and adaptation to best practices and regulatory requirements. Follow-up and control mechanisms to maintain the risk profile, and thus adopt the necessary corrective and mitigating measures in case of non-compliance.

### Limit, follow-up and monitoring structure

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

#### → Income Volatility:

- Maximum loss that Santander Portugal is prepared to take in the face of a chronic stress scenario.

#### → Solvency:

- Minimum capital position that the Bank is prepared to take in a chronic stress scenario.
- Maximum leverage level that the Bank is willing to take in a chronic stress scenario.

#### → 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.

#### → Concentration:

- Concentration by individual client;
- Concentration on non-investment grade counter-parties.
- Concentration on large exposures

#### → 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 control areas inform the Board and its Committees on a monthly basis regarding the risk profile.

Linking risk appetite limits to the limits used in managing



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

### Risk Profile Assessment (RPA)

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

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

#### → Risk Performance

- Helps 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

- Assesses the degree of implementation of the target operational model as part of advanced risk management.

#### → Forward-looking analysis

- Stress metrics or for the identification and assessment of the main threats to the Bank's strategic plan (Top Risks), allowing the establishment of specific action plans to mitigate their potential impacts.

### Scenario Analysis

Another fundamental instrument used by the Bank to ensure robust risk management and control is the analysis of the possible impacts arising from different scenarios related to the environment in which Santander 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 actions to be implemented, should the forecasted scenarios start to materialize. The objective is to reinforce income stability, as well as that of the capital and liquidity levels.

### Risk Management in the 1<sup>st</sup> half of 2023

For Santander, 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 the first half of 2023 to face the effects arising from the increase of the Euribor rates in all maturities and of the inflation rate, which reached very high levels, and by the continued demands from 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 and procedures are carried out at Santander, taking into account not only the surrounding environment, but also attitudes, behaviours, values, and the principles that each employee demonstrates in the face of the various types of risks that the Bank faces. Such strong risk culture is especially important in very challenging times, such as the last couple years, enabling both the Bank and the various teams to swiftly adapt to different circumstances.

### → Credit Risk — Main Business Vectors

The first half of 2023 was marked by the increase of Euribor rates in all terms, and by an inflation rate that reached very high levels and forced households and companies to adapt their financial lives.

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). For customers (individuals and small companies), whose credit decision is made mainly through decision models considered "automatic", the effects of inflation and of higher 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 Santander's balance sheet. The analyses and monitoring of behavioural metrics for these customers were strengthened in order to detect in advance any possible deterioration in their actual 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 according to 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.
- At the level of Portfolioed Risks the policy was maintained of proximity with the customers, in order to anticipate their credit needs, review their credit lines, and forestall possible problems in their repayment ability.

- The timely action and the loan quality level of the Bank's customers, allowed non-performing loans and credit at risk to be kept under control, at acceptable levels.
- Continuous development of improvements in admission processes, in order to respond to customer requests in a swifter, more effective way.
- The recurrence of customer monitoring and review meetings was maintained, which is Santander's usual practice, and which is included in its internal policies, for the early detection of loan-portfolio alerts.
- 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 new 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, timely management information, in order to allow measures to be taken with a view to proper management of Santander'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.
- Lastly, in this first half of 2023 there was a need to adapt internal processes in order to respond to government initiatives implemented to support families resulting from the higher interest rates, resulting from the "Mais Habitação" programme.

### → 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 Santander by its customers.

The organisation of the credit-risk function at the Bank is specialised according to type of customer, throughout the entire risk-management process, between portfolioed customers (customised), and not portfolioed customers (standardised or 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, Self-Employed 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

#### → Rating /Scoring Tools

Santander Portugal uses its own in-house solvency ratings or 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 global rating tools are applied to country-risk, financial institutions, and Global Wholesale Banking segments, both in determining their rating when monitoring the risks that have been considered. 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, ratings are assigned 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, by a risk analyst who conducts the analysis, and who must then perform a final review of the rating assigned.

The assigned ratings are reviewed periodically, namely by adding new financial information that meanwhile becomes available, as well as, at qualitative level, by adding 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 rating systems so require.

For the standardised risk portfolios, both of Private customers and of non-portfolioed Businesses, scoring tools and decision-making models are implemented, which automatically assign an assessment/decision of the transactions presented. These decision-making tools can be complemented with a behavioural scoring model — an instrument that allows greater predictability of the risks that were considered, and that are used for commercial initiatives.

### → Credit Risk Parameters

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

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

These are the factors (PD, LGD and EAD) that constitute the 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 the comparison of the use of the compromised lines at the time of default and in a normal situation, in order to identify the real consumption of the lines when the default occurs.

### → 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.

### → Planning and establishing limits

Establishing risk limits is conceived as a dynamic process, which identifies the risk profiles that Santander 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 (EBPs).

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

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

At the level of standardised risks, the planning and limit setting process is undertaken by means of joint preparation, involving the Risk, the Business, and the Strategic Commercial Planning (SCP) areas, where the expected results of the deal in terms of risk and profitability are reflected, as are the limits to which the activity, the management of the associated risks, and the means of support required must be subjected.

### → 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 Santander. This study consists of assessing the customer's ability to fulfil its contractual obligations towards the Bank, which entails assessing the customer's credit worthiness, 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.

### → Prevention, Default Management, and Recoveries

At Santander, prevention, management of non-compliances, and recoveries, constitute a strategic, integral, business activity. The specific objectives of prevention, default management and recoveries are as follows:

- Anticipate potential difficulties customers might have, thus mitigating the risk of default;
- 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 clients, safeguarding their behaviour regarding the commitments they have contractually entered into with the Bank.

The prevention, default management, and recoveries activity is structured according to the commercial segmentation of customers: Individuals & Business, Corporate, with specific management models. The activities thus segmented, also respect 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 & Business 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 on 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 the first half of 2023, the current exposure of operations on interest rate indexes (Euribor) increased slightly, reflecting the evolution of medium- and long-term market rates, despite a slight reduction in the volume of operations. With regard to exposure to Financial Groups, the number of hedging operations for structural interest rate risk also decreased, with LCH Clearnet as clearing house, despite an increase in exposure due to the increase in risk coefficients of long-term interest rate operations.

### → Trading, Structural, and Liquidity Market Risk

This chapter focuses on risk management and control activities related to market risk, distinguishing between trading activity, structural risks, and liquidity risks. The main methodologies and metrics used by the Bank 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:**

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

- **Methodologies:**

The methodology applied in 2023 by the Bank for the trading 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, and which condition the risk levels that were considered. (

Additionally, Stress Testing is also used, which consists of defining the behavioural scenarios of differing financial variables, and obtaining the respective impact on net income when applying them to the portfolios. These scenarios can

replicate the behaviour of financial variables in the light of past events (such as crises) or, on the contrary, plausible scenarios can be determined that do not correspond to past events. In short, scenario analysis seeks to identify the potential risk under extreme market conditions, and in the fringes of likelihood of occurrence not covered by the VaR.

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

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

- **Calibration and contrast measures (Back testing):**

Reliability of the VaR model is assessed periodically through a back testing analysis. Back testing is a comparative analysis between the calculations of the Value at Risk (VaR) and the daily "clean" results (clean P&L — the 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 back testing analyses performed at Santander 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 back testing: 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 per VaR, on sensitivity measures (BPV and Greeks) or on equivalent positions;
- Limits intended to protect/accommodate the volume of actual losses or to protect income levels already achieved during the period. Such limits aim to generate alerts on positions that are generating losses (loss triggers), allowing decisions to be taken before the maximum loss limit is reached (stop loss), from which point it will be considered that the losses have reached an unacceptable level and the positions will be closed immediately.

- **Quantitative analysis of the VaR during the year**

The VaR remained at very low levels, standing at € 10.2 k on June 30, 2023.

## ➔ 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.

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

Liquidity risk is the risk that Santander 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:**

The interest rate risk in the consolidated balance sheet is measured through modelling the items in assets and liabilities sensitive to interest-rate variations in accordance with their indexing and re-appraisal structure. This model allows the measurement and control of the risk originating directly from the movement of the income curve, particularly its impact on net interest income and on the Bank's equity.

Additionally, other risk indicators are calculated, such as Value at Risk (VaR), and the Stress Test.

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 128.7% on June 30, 2023.

- **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 tests, short-term and structural liquidity ratios, asset encumbrance, and concentration ratios.

## Operational Risk

### ➔ Definition and Objectives

The Bank 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 Santander, regardless of whether they have given rise to actual losses or not.

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

### → Management Model

Santander's organisational model, in terms of management and control of Operational Risk is the result of the Group's adaptation to the Basel II approach.

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

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

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

**The second line of defence** comprises the area that controls operational risk, and it is responsible, on the one hand, for supervising the actual control of operational risk in its various aspects, and, on the other, for assessing whether it is managed as defined, and 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 of Santander'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.
- Preparing periodic operational risk presentations and reports, and disclosing them to the various management and supervision bodies (internal and external).
- The operational-risk control model implemented provides us with the following benefits:
  - Promotes the development of a robust operational risk culture;
  - Allows full and effective management of operational risk (identification, measurement/assessment, control/mitigation and reporting).
  - Improves knowledge of the operational risks, both real and potential, and establishes their relationship with the business and support lines.
  - Enhances the improvement of processes and controls and mitigates/reduces potential losses;
  - Facilitates the establishment of operational-risk appetite limits.

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

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

- Database of internal events, the objective of which is to log operational-risk events, with or without possible

accounting impacts. There are accounting-reconciliation procedures that ensure the quality of the information contained in this database.

- Database of external events that provides quantitative and qualitative information and simplifies a more detailed and structured analysis of relevant events that may occur in the sector.
- Scenario analysis, in which various business areas, plus second line and operational-risk co-ordinators take part, with the objective of identifying potential events entailing low probability and high severity for the institution. The possible impact is assessed, and, if required, additional controls and/or mitigation measures are identified to minimise their impact.
- 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;
- Operational Risk Indicators (ORIs) are parameters of a different nature (metrics, indices, and measurements), which provide useful information on risk exposure. These indicators, and the respective limits, are reviewed periodically to warn about changes that might anticipate the materialisation of major risks.
- Recommendations from internal and external audit and regulators that provide relevant information on risk, allowing the identification of possible weaknesses and improvement measures.

The Bank also develops specific supervisory and control models in terms of technological and cyber risk management in order to ensure the adequate follow-up of the Bank's information systems, and the reinforcement of cyber protection. Nevertheless, the principle is one of standardisation, and, therefore, the models are perfectly aligned with the tools and with the operational-risk management instruments previously mentioned.

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

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

Santander has implemented an advanced operational-risk management programme, with the main objectives of involving all employees and management bodies in the control and

mitigation of operational risk. The implementation and disclosure of the Bank's risk culture enable a more efficient evaluation and monitoring of operational risk, and simplify decision-making by the various business areas and Management.

As in previous years, the Bank continues to act to improve the efficiency of its operational-risk management tools, including a specific application used by the first lines of defence and the various control areas. It is an integrated tool that enables synergies to be generated among the 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 Conduct

The Compliance and Conduct area embodies the Bank's compliance function, being responsible for managing regulatory compliance risks (including financial crimes), as well as conduct and reputation risks, within the context of a robust risk management structure based on the distribution of functions between three lines of defence — a demanding governance and internal control model in a close relationship with the corporation.

These risks are defined as follows:

- **Regulatory Compliance Risk** : is the risk of non-compliance with legal and regulatory requirements, as well as with the expectations of supervisors, which can result in legal or regulatory sanctions, including fines or other financial consequences.
- **Financial Crime Risk** : is the risk resulting from actions or the use of the Group's means, products and services in activities of a criminal or illegal nature. These activities include, but are not limited to, money laundering, financing of terrorism, infringement of international sanctions programmes, corruption, bribery, and tax evasion.
- **Conduct Risk** : the risk that arises from decisions or behaviours that are not aligned with the Group's values, principles and regulations, taking into account the interests of customers, shareholders and the integrity of the market.
- **Reputation Risk** : is the risk of negative economic impacts, actual or potential, for the Bank, due to damage resulting from the way the Bank's image is perceived by employees, customers, shareholders/investors or the community in general.

The essential foundations and objectives of the Compliance and Conduct area are risk management, as defined in the preceding paragraphs, determining the mechanisms and procedures that allow: i) minimising the likelihood of materialisation; ii)

identifying, reporting to the Board, managing and overcoming situations that may have arisen; iii) ensuring monitoring and control; and iv) showing, if necessary, that these risks are among the Bank's main concerns, and that it has the organisation and means to prevent, early detect, mitigate and, where appropriate, overcome them.

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.

The Plan is the result of a joint exercise (between the Bank's Compliance and Conduct area and the Santander Group's Compliance and Conduct area), with the aim of defining guidelines and, consequently, specific activities to be implemented in each financial year, which add to the set of activities that are carried out on a recurring or permanent basis.

This exercise follows a methodology established within the Santander Group, in accordance with which sources are defined, from which activities are implemented, which are grouped by categories and themes/areas of activity. The execution of the Plan is subject to recurring monitoring.

Without prejudice to all other aspects arising from what has been exposed, the internal regulatory framework on Compliance and Conduct Risks 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.

#### → **Management Model**

- Corporate values that translate into concrete "behaviour," which govern the conduct of all employees;
- Corporate Compliance and Conduct Framework;
- Global Compliance Policy;
- Financial Crime Prevention Policies;
- Codes of conduct (with three dimensions: general; relationship with customers; relating to 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 Prevention and Corporate Defence Policies (Santander has a Corporate Corruption Prevention Policy, which includes, among others: 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 other possible irregularities);
- Corruption Risk Prevention Plan and Related Offenses;

#### → **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).
- Contributions for Social Purposes Policy (defines the criteria to be followed in the allocation of donations for social purposes).

Still in terms of Reputational Risk Management, reference should be made to the General Sustainability Policy, to the Human Rights Policy, and to the Environmental, Social and Climate Change Risk Management Policy.



# Additional Information

## Prevention of Money Laundering

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.

Thus, the person responsible for the FCC area acts as "The Head of Regulatory Compliance" and counts on a specialized, exclusively dedicated organic structure, plus there are internal regulations and specific procedures and controls that have been implemented, embodying the internal control system in matters of FCC, which is subject to annual audit.

The Head of Regulatory Compliance 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/her 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 2023, the following reports were made to Supervisors, related to the year 2022:

i) *A AML/CFT Report, as determined by Bank of Portugal Instruction No. 5/2019;*

ii) *The Report provided for in Article 18.1 of CMVM Regulation No. 2/2020 concerning AML/CFT.*

## Shareholder Structure

Shareholder	Number of shares	%
Banco Santander, SA	196,996,017,344	99.85%

## Treasury shares

In keeping with the resolution passed by the Annual General Meeting held on May 16, 2023, 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 429.088 treasury shares corresponding to 0.031% of its Share Capital. During the first half of 2023, Banco Santander Totta S. A. purchased 2.779 treasury shares, corresponding to 0.0002% of its Share Capital, closing the first half of 2023 with a total of 431.867 treasury shares.

TRANSACTION WITH OWN SHARES - FIRST HALF 2023				
Santander Totta SGPS, S.A.	Number of shares	Average Unit Price (€)	Book Value	% of share Capital
<b>31/12/2023</b>	120,933,572	0.02	2,620,215	0.061%
<b>Share purchases</b>	1,690,784	0.02	29,301	0.0009%
<b>30/06/2023</b>	122,624,356	0.02	2,649,516	0.062%

# Alternative Performance Indicators

A set of Alternative Performance Indicators (API) used in the Management Report is presented, prepared in accordance with guidelines issued by ESMA (European Securities and Markets Authority) on October 5, 2015 (ESMA/2015/1415pt).

For management analysis the Bank uses a set of indicators to measure profitability, efficiency, and 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

"Part 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.

## Insurance Activity

Sum of "Gross margin from life insurance where the risk is that of the policyholder" with "Gross margin from insurance activity", as presented in the Income Statement.

## Commercial Revenue

Sum of "Net interest income," "Income from equity instruments," "Results from associated companies" "Net fees," "Other operating income," and "Insurance activity."

## Gain/losses on financial assets

Sum of "Gains or losses on derecognition of financial assets and liabilities not accounted for at fair value through profit or loss, net value," plus "Gains or losses on financial assets and liabilities, held for trading, net value," plus "Gains or losses on financial assets not held for trading mandatorily accounted for at fair value through profit or loss, net value," plus "Gains or losses from hedge accounting, net value," plus "Exchange differences (gains or losses), net value," plus "Gains or losses on derecognition of non-financial assets, net value," as presented in the Income Statement.

## 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 for the period attributable to ST, SGPS 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 & 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," and "Loans and advances – Credit institutions," as set out in Note 9 of the Chapter "Notes to the Consolidated Financial Statements." Amounts before impairments.

#### **Net loans and advances to customers (net)**

Customer loans (gross), net of impairments. Impairments correspond to the sum of "Impairments for debt securities," plus "Impairments for loans and advances - customers," 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**

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

#### **Deposits**

Corresponds to the heading "Deposits – Customers" – see note 17 (in the Notes to the Consolidated Financial Statements chapter).

#### **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 Santander Totta, SGPS Shareholders" and "Total equity" at the beginning of the period.

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

Ratio between "Consolidated Net Income Attributable to Santander Totta, SGPS Shareholders" and "Total Assets."

# Consolidated Financial Statements

The accounts for the first half of 2023 were not the object of a limited review or the issue of an opinion by the Company's auditors.

SANTANDER TOTTA, SGPS, S.A.  
CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2023 AND DECEMBER 31, 2022

(Amounts expressed in thousands of  
Euros - tEuros)

	Notes	30-06-2023	31-12-2022
<b>ASSETS</b>			
Cash, cash balances at central banks and other demand deposits	5	8,061,580	8.415.436
Financial assets held for trading	6	828,925	498.737
Non-trading financial assets mandatorily at fair value through profit or loss	7	2,772,281	2.647.169
Equity instruments		880,091	868.500
Debt securities		1,892,190	1.778.669
Financial assets at fair value through other comprehensive income	8	5,205,837	5.109.459
Equity instruments		189,944	149.230
Debt securities		2,636,842	2.691.674
Loans and advances		2,379,051	2.268.555
Financial assets at amortised cost	9	39,142,684	40.814.573
Debt securities		3,437,078	3.471.400
Loans and advances		35,705,606	37.343.173
Derivatives – Hedge accounting	10	567,347	601.827
Investments in subsidiaries, joint ventures and associates	11	64,820	111.558
Tangible assets	12	430,543	447.308
Investment property		162,108	179.211
Property, Plant and Equipment		268,435	268.097
Intangible assets	12	35,569	37.441
Tax assets	13	190,400	247.176
Other assets	14	208,357	173.755
Non-current assets and disposal groups classified as held for sale	15	45,807	43.749
<b>TOTAL ASSETS</b>		<b>57,554,150</b>	<b>59.148.188</b>
<b>LIABILITIES</b>			
Financial liabilities held for trading	6	782,099	465.786
Financial liabilities designated at fair value through profit or loss	16	2,860,462	2.792.796
Financial liabilities measured at amortised cost	17	48,303,576	50.437.165
Deposits		42,683,147	45.434.491
Debt securities issued		5,330,749	4.635.881
Other financial liabilities		289,680	366.793
Derivatives – Hedge accounting	10	4,974	183.771
Provisions	18	744,234	786.094
Commitments and guarantees given		48,539	49.705
Other provisions		695,695	736.389
Tax liabilities	13	321,583	260.293
Share capital repayable on demand	19	36,775	46.938
Other liabilities	20	580,681	350.276
<b>TOTAL LIABILITIES</b>		<b>53,634,384</b>	<b>55.323.119</b>
<b>EQUITY</b>			
Capital	21	1,972,962	1.972.962
Equity instruments issued other than capital	21	400,000	400.000
Accumulated other comprehensive income	21	(111,984)	(329.747)
Items that will not be reclassified to profit or loss		(399,228)	(420.546)
Items that may be reclassified to profit or loss		287,244	90.799
Retained earnings	21	396,780	322
Other reserves	21	929,677	1.853.595
Treasury shares	21	(2,640)	(2.610)
Profit or loss attributable to owners of the parent	22	333,669	606.727
Interim dividends	21	-	(677.515)
Minority interests [Non-controlling interests]	23	1,302	1.335
<b>TOTAL EQUITY</b>		<b>3,919,766</b>	<b>3.825.069</b>
<b>TOTAL EQUITY AND TOTAL LIABILITIES</b>		<b>57,554,150</b>	<b>59.148.188</b>

The accompanying notes form an integral part of the consolidated balance sheet for the half-year ended June 30, 2023.

SANTANDER TOTTA, SGPS, S.A.  
CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
FOR THE HALF-YEARS ENDED JUNE 30, 2023 AND 2022

(Amounts expressed in thousands of  
Euros - tEuros)

	Notes	30-06-2023	30-06-2022
Interest income	25	1,130,652	545,290
Interest expenses	25	(544,198)	(175,030)
<b>NET INTEREST INCOME</b>		<b>586,454</b>	<b>370,260</b>
Dividend income	26	1,684	3,656
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	27	8,058	9,921
Fee and commission income	28	277,788	291,753
Fee and commission expenses	28	(46,625)	(52,238)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	29	(22)	761
Gains or losses on financial assets and liabilities held for trading, net	29	815	6,269
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	29	1,070	3,880
Gains or losses from hedge accounting, net	29	-	-
Exchange differences, net	29	8,693	8,873
Gains or losses on derecognition of non-financial assets, net	30	1,235	(410)
Gross margin on life insurance where risks rest with the policyholder	31	5,809	2,742
Gross margin on insurance activity	31	5,021	2,663
Other operating income	32	8,773	9,850
Other operating expenses	32	(4,755)	(3,658)
<b>TOTAL OPERATING INCOME, NET</b>		<b>853,998</b>	<b>654,322</b>
<b>Administrative expenses</b>	33	<b>(233,232)</b>	<b>(219,551)</b>
Staff expenses		(136,947)	(130,541)
Other administrative expenses		(96,285)	(89,010)
<b>Cash contributions to resolution funds and deposit guarantee schemes</b>	34	<b>(23,644)</b>	<b>(41,438)</b>
<b>Depreciation</b>	12	<b>(22,162)</b>	<b>(23,082)</b>
<b>Provisions or reversal of provisions</b>	18	<b>(6,750)</b>	<b>(750)</b>
Commitments and guarantees given		1,166	2,915
Other provisions		(7,916)	(3,665)
<b>Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss</b>	18	<b>(35,019)</b>	<b>1,156</b>
Financial assets at fair value through other comprehensive income		24	24
Financial assets at amortised cost		(35,043)	1,132
<b>Impairment or reversal of impairment on non-financial assets</b>	18	<b>3,657</b>	<b>(1,665)</b>
<b>Other profit or loss, net</b>	1.3 l)	<b>(38,316)</b>	<b>(35,884)</b>
<b>Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations</b>	35	<b>2,487</b>	<b>16,633</b>
<b>PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>501,019</b>	<b>349,741</b>
<b>Tax expense or income related to profit or loss from continuing operations</b>	13	<b>(167,225)</b>	<b>(108,307)</b>
<b>PROFIT OR LOSS AFTER TAX FROM CONTINUING OPERATIONS</b>		<b>333,794</b>	<b>241,434</b>
<b>PROFIT OR LOSS FOR THE PERIOD</b>		<b>333,794</b>	<b>241,434</b>
Attributable to minority interest [non-controlling interests]	23	125	90
Attributable to owners of the parent		<b>333,669</b>	<b>241,344</b>

The accompanying notes form an integral part of the consolidated statement of profit or loss for the half-year ended June 30, 2023.



SANTANDER TOTTA, SGPS, S.A.  
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME  
FOR THE HALF-YEARS ENDED JUNE 30, 2023 AND 2022  
(Amounts expressed in thousands of Euros - tEuros)

	Notes	30-06-2023		30-06-2022	
		Attributable to the shareholders of the Company	Attributable to non-controlling interests	Attributable to the shareholders of the Company	Attributable to non-controlling interests
<b>Profit or loss for the period</b>		333,669	125	241.344	90
<b>Other comprehensive income</b>	21	<b>149,492</b>	<b>59</b>	<b>(97.010)</b>	<b>(21)</b>
<b>Items that will not be reclassified to profit or loss</b>					
Actuarial gains or losses on defined benefit pension plans					
. Gross amount	21	20,594	9	112.699	70
. Tax effect		1	-	6	(6)
Fair value changes of equity instruments measured at fair value through other comprehensive income					
. Gross amount		2,132	1	76.158	30
. Tax effect		(661)	-	(22.213)	(9)
Share of other recognised income and expense of entities accounted for using the equity method					
. Gross amount	7	-	-	(381)	-
. Tax effect		-	-	97	-
<b>Items that may be reclassified to profit or loss</b>					
Cash flow hedges					
Transferred to profit or loss					
. Gross amount	18	154,749	60	-	-
. Tax effect		(47,972)	(19)	-	-
Valuation gains or losses taken to equity					
. Gross amount		(1,925)	-	(119.887)	(47)
. Tax effect		596	-	37.165	15
Debt instruments at fair value through other comprehensive income					
Transferred to profit or loss					
. Gross amount		22	-	-	-
. Tax effect		(7)	-	-	-
Valuation gains or losses taken to equity					
. Gross amount	8	441	(2)	(135.153)	(35)
. Tax effect		197	1	36.930	11
Loans and advances at fair value through other comprehensive income					
Valuation gains or losses taken to equity					
. Gross amount	8	34,587	13	(147.726)	(72)
. Tax effect		(10,722)	(4)	45.795	22
Changes in the shadow reserve					
. Gross amount	20	(6,647)	-	28.796	-
. Tax effect		1,563	-	(6.767)	-
Share of other recognised income and expense of Investments in subsidiaries, joint ventures and associates					
. Gross amount		3,464	-	(3.447)	-
. Tax effect		(920)	-	918	-
<b>Total comprehensive income for the period</b>		<b>483,161</b>	<b>184</b>	<b>144.334</b>	<b>69</b>

The accompanying notes form an integral part of the consolidated statement of other comprehensive income for the half-year ended June 30, 2023.

## SANTANDER TOTTA, SGPS, S.A.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED JUNE 30, 2023 AND FINANCIAL YEAR 2022

(Amounts expressed in thousands of Euros - tEuros)

	Equity instruments		Accumulated other comprehensive income		Retained earnings	Other reserves	Treasury shares	Profit or loss		Minority interests		Total
	Capital	issued other than capital	Fair value	Taxes				attributable to owners of the parent	Interim dividends	Accumulated other comprehensive income	Other items	
<b>Balances as at December 31, 2021</b>	<b>1,972,962</b>	<b>400,000</b>	<b>(124,661)</b>	<b>(7,486)</b>	<b>482,914</b>	<b>1,602,514</b>	<b>(2,529)</b>	<b>298,614</b>	<b>-</b>	<b>55</b>	<b>1,777</b>	<b>4,624,160</b>
Appropriation of profit or loss												
. Transfer to reserves (Note 21)	-	-	-	-	(49,048)	249,623	-	(200,575)	-	(113)	113	-
. Distribution of dividends	-	-	-	-	(433,544)	25	-	(98,039)	-	-	(640)	(532,198)
Distribution of dividends - "Additional Tier 1 Instruments"	-	-	-	-	-	(19,600)	-	-	-	-	-	(19,600)
Acquisition of treasury shares (Note 21)	-	-	-	-	-	-	(81)	-	-	-	-	(81)
Transactions with minority interests	-	-	-	-	-	39	-	-	-	-	(39)	-
Distribution of interim dividends on profit or loss for the year	-	-	-	-	-	-	-	-	(677,515)	-	-	(677,515)
Sale of equity instruments at fair value												
through other comprehensive income (Note 8)	-	-	(1,411)	350	-	1,061	-	-	-	-	-	-
Other	-	-	-	-	-	19,933	-	-	-	-	6	19,939
Consolidated comprehensive income in 2022	-	-	(361,068)	164,529	-	-	-	606,727	-	176	-	410,364
<b>Balances as at December 31, 2022</b>	<b>1,972,962</b>	<b>400,000</b>	<b>(487,140)</b>	<b>157,393</b>	<b>322</b>	<b>1,853,595</b>	<b>(2,610)</b>	<b>606,727</b>	<b>(677,515)</b>	<b>118</b>	<b>1,217</b>	<b>3,825,069</b>
Appropriation of profit or loss												
. Transfer to reserves (Note 21)	-	-	-	-	395,795	(876,768)	-	480,973	-	(228)	228	-
. Distribution of dividends	-	-	-	-	663	-	-	(1,087,700)	677,515	-	(196)	(409,718)
Distribution of dividends - "Additional Tier 1 Instruments"	-	-	-	-	-	(19,586)	-	-	-	-	(14)	(19,600)
Acquisition of treasury shares (Note 21)	-	-	-	-	-	-	(30)	-	-	-	-	(30)
Transactions with minority interests	-	-	-	-	-	1	-	-	-	-	(5)	(4)
Transfer between comprehensive income and other reserves, due to												
loss of significant influence over an investee	-	-	112	(861)	-	749	-	-	-	-	-	-
Sale of equity instruments at fair value												
through other comprehensive income (Note 8)	-	-	1	-	-	(1)	-	-	-	-	-	-
Impacts of accounting policy change	-	-	90,221	(21,202)	-	(28,313)	-	-	-	-	-	40,706
Other	-	-	-	-	-	-	-	-	-	(1)	(1)	(2)
Consolidated comprehensive income for the first half of 2023	-	-	207,417	(57,925)	-	-	-	333,669	-	184	-	483,345
<b>Balances as at June 30, 2023</b>	<b>1,972,962</b>	<b>400,000</b>	<b>(189,389)</b>	<b>77,405</b>	<b>396,780</b>	<b>929,677</b>	<b>(2,640)</b>	<b>333,669</b>	<b>-</b>	<b>73</b>	<b>1,229</b>	<b>3,919,766</b>

The accompanying notes form an integral part of the consolidated statement of changes in equity for the half-year ended June 30, 2023.

SANTANDER TOTTA, SGPS, S.A.  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEARS ENDED JUNE 30, 2023 AND 2022

(Amounts expressed in thousands of Euros - tEuros)

Notes	30-06-2023	30-06-2022
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Interest and commissions received	1,285,249	811,677
Payments of interest and commissions	(452,865)	(259,588)
Payments to staff and suppliers	(235,917)	(244,463)
Pension Fund contributions	36	-
Foreign exchange and other operating results	(104)	(23,628)
Recovery of uncollectable loans	18	-
Receipt / (Payment) of insurance premiums	12,544	12,857
Operating results before changes in operating assets and liabilities	608,907	300,267
<b>(Increase) / Decrease in operating assets:</b>		
Loans and advances to credit institutions	8,238	5,546
Financial assets held for trading	(330,188)	83,662
Credit granted and other balances receivable at amortised cost	1,558,652	(412,341)
Assets and liabilities at fair value through profit or loss	(6,439)	(423,760)
Non-current assets and disposal groups classified as held for sale	(4,875)	68,620
Investment property	17,103	3,711
Other assets	(18,591)	(14,615)
	1,223,900	(689,177)
<b>Increase / (Decrease) in operating liabilities:</b>		
Resources from credit institutions	(891,583)	152,698
Resources from customers and other debts	(1,950,456)	1,689,157
Financial liabilities held for trading	316,314	(111,522)
Other liabilities	225,449	234,868
	(2,300,276)	1,965,201
Net cash flow from operating activities before income taxes	(467,469)	1,576,291
Income tax paid	(157,314)	(93,738)
<b>Net cash flow from operating activities</b>	(624,783)	1,482,553
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Dividends received	26	1,684
Purchase of financial assets at fair value through other comprehensive income	8,128	(268)
Sale / Redemption of financial assets at fair value through other comprehensive income	29,396	1,882
Non-trading financial assets mandatorily at fair value through profit or loss	(45,854)	316,249
Income from financial assets at fair value through other comprehensive income	59,867	22,340
Purchase of tangible and intangible assets	(21,076)	(16,074)
Sale of property, plant and equipment	447	160
Dividends received from subsidiaries, joint ventures and associates	19,228	-
<b>Net cash flow from investing activities</b>	51,820	327,945
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
(Issue) / Redemption of debt securities and subordinated debt	17	702,275
Interest paid on debt issued	(54,046)	(22,596)
Dividends paid	21	(409,522)
Distribution of dividends - "Additional Tier 1 Instruments"	(19,600)	(19,600)
<b>Net cash flow from financing activities</b>	219,107	272,252
<b>Net increase / (decrease) in cash and cash equivalents</b>	(353,856)	2,082,750
Cash and cash equivalents at the beginning of the period	8,415,436	8,718,528
Cash and cash equivalents at the end of the period	8,061,580	10,801,278

The accompanying notes form an integral part of the consolidated statement of cash flows  
for the half-year ended June 30, 2023.

# Notes to the Consolidated Financial Statements

## INTRODUCTION

Santander Totta, SGPS, S.A. (hereinafter also the "Company", "Santander Totta" "ST SGPS" or "Group") was incorporated on December 16, 2004, within the scope of the Banco Totta & Açores, S.A. (totta) demerger / merger operation. Under the terms of this operation, the shares held by totta in Foggia, SGPS, S.A. (Foggia), and in the then Totta Seguros - Companhia de Seguros de Vida, S.A. ("Santander Totta Seguros" or the "Company") were detached from totta's assets and used to pay up the Santander Totta share capital in kind. On the same date, totta's other assets and liabilities, in conjunction with Banco Santander Portugal, S.A. (BSP), were incorporated by merger into Companhia Geral de Crédito Predial Português, S.A. (CPP) which changed its name to Banco Santander Totta, S.A. ("Bank"). Santander Totta's purpose is the management of holdings in other companies as an indirect form of exercising economic activities, and its registered office is in Portugal.

On December 20, 2015, following the resolution measure applied by the Bank of Portugal to Banif – Banco Internacional do Funchal, S.A. (Banif), the Group 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.

Santander Totta is included in the consolidation of Banco Santander, S.A. (ultimate parent). The main balances and transactions maintained with companies of the Santander Group during the first half of 2023 and financial year 2022 are detailed in Note 38.

The Group has a nationwide network of 333 branches (339 branches as at December 31, 2022). It also has several branches and representation offices abroad, and holdings in subsidiaries and associates.

The Company's financial statements for the first half of 2023 were approved at the Board of Directors' meeting on September 26, 2023.

### 1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

#### 1.1. Bases of Presentation of the Accounts

Santander Totta's consolidated financial statements have been prepared on a going concern basis, based on the books and accounting records maintained in accordance with the principles enshrined in the International Financial Reporting Standards (IAS / IFRS), as endorsed by the European Union, in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, of July 19, transposed into Portuguese law by Decree-Law 35/2005, of February 17, and by Bank of Portugal Notice No. 5/2005, of December 30. As regards Group companies that use different accounting standards, adjustments are made for conversion to the IAS / IFRS.

The accounting policies used by the Group in preparing the consolidated financial statements as at June 30, 2023, are consistent with those used in preparing the consolidated financial statements with reference to December 31, 2022, with the specific application of IAS 34 (interim financial reporting).

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 Group follows the historical cost convention, modified, when applicable, by measuring the fair value of: - Financial assets held for trading; - Non-trading financial assets mandatorily at fair value through profit or loss; - Financial assets at fair value through other comprehensive income; - Derivatives - hedge accounting; - Investment property; - Financial liabilities held for trading; and Financial liabilities designated at fair value through profit or loss.

The Group's financial statements have been prepared on a going concern basis, as the Board of Directors considers that the Group has the necessary resources to continue operating. The assessment made by the Board of Directors is based on a wide range of information related to current and future conditions, including projections of future profitability, cash flows, capital requirements and sources of financing.

The 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.

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, 2023:

- **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, 2024, and that the European Union has not yet endorsed:

- **IAS 1** (amendment), 'Classification of liabilities as non-current and current' and 'Non-current liabilities with covenants'. These amendments clarify 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. They clarify 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. These amendments are applied retrospectively.
- **IAS 7** (amendment) and **IFRS 7** (amendment), 'Supplier finance arrangements' (effective for annual periods beginning on or after 1 January 2024). These amendments are still subject to endorsement by the European Union. These amendments require an entity to provide additional disclosures about its supplier finance arrangements to enable: i) the assessment of how supplier finance arrangements affect an entity's liabilities and cash flows; and ii) the understanding of the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available. The additional requirements complement presentation and disclosure requirements already in IFRS as set out in the IFRS IC's Agenda decision of December 2020.
- **IAS 12** (amendment), 'International tax reform – Pillar two model rules' (effective immediately or for annual periods beginning on or after 1 January 2023). This amendment is still subject to endorsement by the European Union. Following the implementation of the OECD's Global Anti-Base Erosion ("GloBE") rules, there may be significant impacts on the calculation of deferred taxes of the entities impacted which, at this date, are difficult to estimate. This amendment to IAS 12 introduces: i) a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and ii) targeted disclosure requirements for affected entities (entities belonging to multinational groups that have consolidated revenues of €750m in at least two out of the last four years), such as: the fact that the exception was applied, the current tax expense related to Pillar Two rules, and the reasonable estimate of the impact of Pillar Two rules between the date the legislation becomes enacted and the date it becomes effective.
- **IFRS 16** (amendment), 'Lease liability in a sale and leaseback' (effective for annual periods beginning on or after 1 January 2024). 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.

With 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 23). 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 hed 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.

As a result of the transfer of the POS business (merchant acquiring) to Getnet Europe, at the end of 2022, the Bank no longer exercises significant influence over UNICRE, having stopped consolidating same.

### 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

Santander Totta 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 Company'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 June 30, 2023 and December 31, 2022, the exchange rates of the main currencies other than the functional currency were:

	Exchange rates	
	30-06-2023	31-12-2022
Currency		
USD	1.0866	1.06660
GBP	0.85828	0.88693

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 Group 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 Group.

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 Group 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 Group (ongoing involvement).

The bonds issued by securitisation vehicles and held by Group entities are eliminated in the consolidation process.

#### Derecognition

Assets are derecognised when (i) the Group's contractual right to receive their cash flows expires, (ii) the Group has substantially transferred all the risks and benefits inherent in holding them; or (iii) notwithstanding retaining a part, but not substantially the whole, of the risks and benefits inherent in holding them, the Group has transferred control over the assets.

#### Guarantees provided and irrevocable commitments

Liabilities for guarantees provided and irrevocable commitments are recorded in off-balance-sheet accounts 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 designated at fair value through profit or loss

Investment contracts marketed by Santander Totta Seguros and without significant insurance risk are considered investment contracts and accounted for in accordance with the requirements of IFRS 9.

These contracts include all products in which the investment risk is borne by the policyholder (hereinafter referred to as unit-linked) and investment contracts without discretionary participation in the results.

Financial liabilities designated at fair value through profit or loss relate exclusively to these unit-linked products. Santander Totta Seguros does not guarantee policyholders either the capital invested or any minimum remuneration on these products, and the investment risk is fully borne by the policyholders.

The assets invested by the insurer as coverage of unit-linked products are accounted for as non-trading financial assets mandatorily at fair value through profit or loss and measured accordingly. The impact of measuring the fair value of these assets is also reflected in the valuation of unit-linked liabilities. The gains and losses arising from the appreciation of both assets and liabilities are recognised in the statement of profit or loss in the caption "Gross margin on life insurance where risks rest with the policyholder".

### 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 Group 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 Group decided to continue applying the hedge accounting defined within the scope of IAS 39.

The Group 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 Group'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 Group 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 Group 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 Group's trading portfolio.

### **Loan impairment**

IFRS 9 determines that the concept of impairment based on expected losses is to be applied to all financial



assets except for financial assets at fair value through profit or loss and equity instruments measured at fair value through other comprehensive income.

The Group applies the IFRS 9 concept to financial assets at amortised cost, debt instruments and loans and advances 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 Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the effective interest rate of the financial instruments.

The Group measures the expected loss individually or on a collective basis for portfolios of financial instruments that share similar risk characteristics. The 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 Group 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 Group 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 Group 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 Group 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 Group's modelling approach for EAD reflects the expected changes in the

outstanding balance over the loan's lifetime exposure allowed by the current contractual terms, such as amortisation profiles, total or partial early repayment, and changes in the use of unused commitments before entry into default.

The Group assesses the expected credit-risk loss for 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 Group's contractual ability to demand repayment and to cancel the unused commitment does not limit the Group's exposure to loan losses during the contractual notice period. For such financial instruments, the Group 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 Group's Office of Economic Studies models economic-forecast scenarios for the Group'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 Group applies probabilities to the forecast scenarios identified. The base scenario is the most likely outcome and consists of information used by the Group for strategic planning and budgeting. The estimates are updated at least once a year and are subject to annual monitoring exercises.

### d) 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 Group 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 17), 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 Group is reasonably certain that it will exercise its right.

The lease liability is remeasured whenever a contractual change occurs, and the moment the lease liability is revalued the effects of the revaluation are 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 Group 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 Group (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 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 properties not in use 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 Group records under this caption expenditure incurred during the development stage of projects relating to information technologies implemented and being implemented, as well as those relating to software purchased; in every case where their expected impact will be reflected in years subsequent to that in which they are realised.

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

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

g) Investment property

Investment property comprise buildings and land held by Novimovest - Fundo de Investimento Imobiliário Aberto (hereinafter also referred to as “Novimovest Fund” or “Novimovest Real Estate 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 Group 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 Group 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 Group does not recognise potential gains on these assets.

i) Provisions

A provision is set aside where there is a present (legal or constructive) obligation resulting from past events in respect of which there will be a probable outflow of funds that can be determined reliably. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle the liability on the reporting date, in accordance with the information provided by the Group's legal and tax consultants.

In this way, 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

Banco Santander Totta S.A.

The Bank endorsed the Collective Bargaining Agreement (CBA) for the banking industry, and therefore its employees or their families are entitled to retirement, disability and 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.

#### Santander Totta Seguros ("Company")

In accordance with the Collective Bargaining Agreement (CBA) then in force for the insurance industry, the Company had undertaken to provide cash benefits to supplement the pensions attributed by Social Security to employees admitted to the sector up until June 22, 1995, when the CBA came into force, including those transferred from Seguros Génesis within the scope of the agreement between this entity and the Company on June 29, 2001. These benefits consisted of a percentage that increases with the number of years of service of the employee, applied to the salary scale in force upon retirement.

Under the new Collective Bargaining Agreement for the insurance industry, signed on December 23, 2011, the former defined benefit pension plan was replaced with regard to employees in service as at January 1, 2012, by a defined-contribution plan, with the current value of liabilities for past services as at December 31, 2011, having been transferred to the individual account of each participant. This change was not applicable to pension liabilities payable to employees who were already retired or pre-retired on December 31, 2011. However, on this date, the Company had no employees in this situation.

In July 2002, the Company joined the Fundo de Pensões Aberto Reforma Empresa managed by Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. (an entity of the Santander Group).

k) Corporate Tax

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

As at this date, the taxation of corporate profits for financial years 2023 and 2022, 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 Group in calculating and recording deferred taxes was 31%.

With the publication of the State Budget for 2023 (Law no. 24-D/2022, of December 30), tax losses calculated in a given tax period may be deducted from future taxable income, without any statutory use by deadline.

The deduction of tax losses to be made in each tax period cannot exceed 65% of the respective taxable income (75% in the case of tax losses generated in 2021 and 2022 – as laid down in Law no. 27-A/2020, of July 24).

The 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 - 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 Group 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 Group 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) Technical provisions

Santander Totta Seguros – Companhia de Seguros de Vida, S.A., sells life insurance and, until December 2014, sold non-life insurance.

Insurance contracts and investment contracts with a discretionary profit-sharing component sold by Santander Totta Seguros are carried in the consolidated financial statements of Santander Totta under the terms laid down in IFRS 4, until December 31, 2022. On January 1, 2023, the Company started applying IFRS 17 'Insurance contracts'. Under IFRS 17, entities issuing insurance contracts need to assess whether the policyholder can benefit from a certain service as part of a claim, or whether that service is independent of the claim / risk event and separate the uninsured component. The Company began to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty related to insurance contracts. Income is now recognised as insurance services are provided (and not when premiums are collected) and the Company provides information about the gains from the insurance contract that it expects to recognise in the future.

#### Provision for unearned premiums and deferred acquisition costs

The provision for unearned premiums corresponds to the deferral of premiums issued, which is calculated policy by policy, from the reporting date until the expiry of the period related to the premium.

This provision is applicable to life and non-life risk products. Santander Totta Seguros defers acquisition costs relating to brokerage commissions incurred with the sale of the respective insurance policies.

#### Mathematical provision for life insurance

The mathematical provision is intended to meet future costs arising from life insurance contracts and is calculated for each policy in accordance with the actuarial bases approved by the Insurance and Pension Fund Supervisory Authority. This provision is also applicable to discretionary profit-sharing investment contracts.

#### Provision for rate commitments

The provision for rate commitments is set aside when the effective rate of return of the financial instruments that represent the life insurance mathematical provisions and the financial liabilities arising from investment contracts without discretionary profit-sharing is lower than the technical interest rate used in the determination of those mathematical provisions and financial liabilities.

#### Provision for claims

The provision for claims is intended to cover indemnities payable relating to claims incurred but not yet settled, and is determined as follows:

- i) Based on the analysis of claims outstanding at year end and on the resulting estimate of the liability existing at that date;
- ii) By the estimate of the amounts required to meet the liabilities for claims incurred but not reported (IBNR);
- iii) By the estimate of the administrative expenses to be incurred in the future settlement of claims currently under management.

#### Provision for profit-sharing to be attributed

This is the net amount of the fair-value adjustments of the investments allocated to the life insurance with profit-sharing, in the part estimated as belonging to the policyholder or beneficiary of the contract.

The determination of the share of the profit to be allocated to the insured is based on the statutory financial statements of Santander Totta Seguros prepared in accordance with accounting principles generally accepted in Portugal for the insurance sector. In this sense, for consolidated financial statement purposes, such financial assets are classified in the caption "Other financial assets at fair value through other comprehensive income", and the respective unrealised gains and losses, net of taxes, are recorded in the caption "Accumulated other comprehensive income", under consolidated equity. Additionally, the policyholders' part is carried under "Technical provisions of liabilities (provision for profit-sharing to be attributed – shadow reserve)", with a contra-entry under "Accumulated other comprehensive income", under consolidated equity, to avoid distortions at the level of the consolidated statement of profit or loss and equity.

#### Provision for allocated profit-sharing

The provision for allocated profit-sharing corresponds to the amounts allocated and not yet distributed to the beneficiaries of insurance contracts and is calculated in accordance with the technical bases of each product. The profit-sharing is paid to beneficiaries of the contracts or distributed to the insurance policies under the terms established in the respective general conditions of the policy.

#### Technical provisions for reinsurance ceded

Santander Totta Seguros maintains reinsurance ceded treaties ensuring the transfer to reinsurance companies of part of the risk incurred in the insurance products contracted with its customers.

The technical provisions for reinsurance ceded correspond to the reinsurers' share of the total liabilities of Santander Totta Seguros and is calculated in accordance with the reinsurance treaties in force, based on the percentages ceded and other existing clauses.

#### Provision for risks in progress

The provision for risks in progress corresponds to the sum required to cover probable indemnities and costs to be borne following the year-end in excess of the amount of unearned premiums and of enforceable premiums in respect of non-life insurance contracts in force. This provision is calculated based on the ratios of the claims, expenses, cession and income determined in the year, as defined by the Insurance and Pension Fund Supervisory Authority.

#### n) Adjustments of receipts pending collection

These aim to adjust the amount of receipts pending collection to their estimated realisable value and are calculated in accordance with the principles established by the Insurance and Pension Fund Supervisory Authority.

#### o) Recognition of income and expenses - insurance

Premiums of life insurance contracts and investment contracts with discretionary profit-sharing are recorded when issued, in the caption "Gross margin on insurance activity - Gross premiums written, net of reinsurance", in the statement of profit or loss.

Investment contracts with no discretionary component in the profit-sharing, marketed by Santander Totta Seguros, are carried in the consolidated financial statements as "Financial liabilities measured at amortised cost".

Securities allocated to the insurance business are those that represent liabilities for insurance contracts and financial liabilities for investment contracts with and without discretionary profit-sharing, which are carried in the consolidated financial statements under "Financial assets at fair value through other comprehensive income," with the exception of securities allocated to contracts where the investment risk is borne by the policyholder (unit-linked contracts), which are carried under "Non-trading financial assets mandatorily at fair value through profit or loss".

p) 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.

q) Equity instruments

An instrument is classified as an equity instrument when there is no contractual obligation for its settlement to be made through the delivery of cash or another financial asset, regardless of its legal form, showing a residual interest in the assets of an entity after deducting all its liabilities.

Costs directly attributable to the 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.

r) Earnings per share

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

s) Cash and cash equivalents

For purposes of the preparation of the Statement of cash flows, the Group 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 Group'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 36)

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 Group's Board of Directors as to the future behaviour of the above variables.

### Valuation of financial instruments not traded on active markets (Note 39)

Valuation models or techniques are used in the valuation of financial instruments not traded on active markets. Accordingly, the valuations obtained correspond to the best estimate of the fair value of those instruments on the reporting date.

The fair value of the instrument is estimated using valuation techniques that include price valuation models or discounted cash flow techniques. When discounted cash flow techniques are used, the future cash flows are estimated in accordance with management's expectations, and the discount rate used corresponds to the market rate for financial instruments of similar characteristics.

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

### Determination of impairment losses (Notes 9, 18 and 39)

Impairment losses on loans are calculated as indicated in Note 1.3 (c). In this way, the determination of 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 these properties have an impact on their valuation and hence on the determination of the impairment. Whenever the value resulting from these valuations (net of selling expenses) is lower than the value at which the properties are accounted for, impairment losses are recorded.

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

### Taxes (Note 13)

Recognition of deferred tax assets assumes the existence of profits and future taxable income. Additionally, current and deferred taxes were determined based on the interpretation of current tax legislation. Thus, changes to tax laws or to their interpretation by the relevant authorities may have an impact on the amount of current and deferred taxes. For the purpose of analysis of the recoverability of deferred tax assets (tax losses), the Group projects taxable profits based on assumptions. Thus, the recoverability of deferred tax assets depends on the implementation of the strategy of the Group's Board of Directors.

### Determination of the outcome of legal proceedings in progress and restructuring provisions (Notes 18 and 42)

A provision is 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 Group'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.

### Determination of liabilities for insurance contracts (Note 18)

Determination of the Company's liabilities for insurance contracts is based on the methodologies and assumptions described in Note 1.3. m) above.

Given its nature, the determination of provisions for insurance contract claims and other liabilities has a certain degree of subjectivity, and the amounts actually incurred may differ from the estimates recognised in the balance sheet.

However, the Company considers that the liabilities determined on the basis of the established methodologies adequately reflect the best estimate, as at June 30, 2023, of the liabilities to which it is bound.

### Reinsurance ceded

The provisions for unearned premiums of reinsurance ceded, the mathematical provisions for reinsurance ceded and the provisions for ceded reinsurance claims correspond to the reinsurers' share of the Company's total liabilities and are calculated under the terms of the reinsurance treaties in force on the reporting date. The provisions for profit-sharing in ceded reinsurance are also estimated on the reporting date, based on the contractual conditions set out in said reinsurance

treaties.

### 3. DISCLOSURES BY SEGMENTS

Under the terms of IFRS 8, disclosures by operating segment are presented below in accordance with information as analysed by the Group's management (Executive Committee) bodies:

#### **Corporate Investment Banking:**

Essentially includes the Group's business on the financial markets and with large enterprises, involving provision of financial advisory services, 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.

#### **Insurance Management:**

This area includes life insurance that, in the cross-selling strategy, is placed through the Group's branch network.

#### **Corporate Activities:**

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

The breakdown of the consolidated statement of profit or loss by operating segment for the half-years ended June 30, 2023 and 2022, is as follows:

	30-06-2023					
	Corporate Investment Banking	Retail Banking	Corporate Banking	Insurance Management	Corporate Activities	Total
Net interest income	53,607	579,503	66,560	651	(113,867)	586,454
Dividend income	-	-	-	-	1,684	1,684
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	8,058	-	8,058
Net fee and commission income	34,831	203,938	10,029	(1,507)	(16,128)	231,163
Gains / Losses on financial operations a)	7,555	4,324	571	74	(733)	11,791
Other operating income / expenses, net	11	1,513	-	(3)	2,497	4,018
Insurance activities	-	-	-	10,830	-	10,830
<b>Total operating income, net</b>	<b>96,004</b>	<b>789,278</b>	<b>77,160</b>	<b>18,103</b>	<b>(126,547)</b>	<b>853,998</b>
Administrative expenses	(14,795)	(205,938)	(7,963)	(3,124)	(1,412)	(233,232)
Cash contributions to resolution funds and deposit guarantee schemes	-	-	-	-	(23,644)	(23,644)
Depreciation	(657)	(20,912)	(426)	(167)	-	(22,162)
	<b>80,552</b>	<b>562,428</b>	<b>68,771</b>	<b>14,812</b>	<b>(151,603)</b>	<b>574,960</b>
Impairment and provisions, net of reversals b)	2,002	(39,279)	6,786	(5)	(7,616)	(38,112)
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	-	2,487	2,487
Other profit or loss, net	-	-	-	-	(38,316)	(38,316)
<b>Profit or loss before tax from continuing operations</b>	<b>82,554</b>	<b>523,149</b>	<b>75,557</b>	<b>14,807</b>	<b>(195,048)</b>	<b>501,019</b>
Tax expense or income related to profit or loss from continuing operations	(25,588)	(162,176)	(23,423)	(1,490)	45,452	(167,225)
Profit or loss for the period attributable to minority interests	-	-	-	-	(125)	(125)
<b>Profit or loss for the period attributable to owners of the parent</b>	<b>56,966</b>	<b>360,973</b>	<b>52,134</b>	<b>13,317</b>	<b>(149,721)</b>	<b>333,669</b>

	30-06-2022					
	Corporate Investment Banking	Retail Banking	Corporate Banking	Insurance Management	Corporate Activities	Total
Net interest income	33,116	284,257	37,656	305	14,926	370,260
Dividend income	-	-	-	-	3,656	3,656
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	-	-	-	8,539	1,382	9,921
Net fee and commission income	26,489	202,961	15,304	(2,892)	(2,347)	239,515
Gains / Losses on financial operations a)	7,322	3,956	410	54	7,632	19,373
Other operating income / expenses, net	-	1,686	-	564	3,942	6,192
Insurance activities	-	-	-	5,405	-	5,405
<b>Total operating income, net</b>	<b>66,927</b>	<b>492,860</b>	<b>53,370</b>	<b>11,975</b>	<b>29,190</b>	<b>654,322</b>
Administrative expenses	(13,429)	(187,476)	(12,783)	(4,600)	(1,263)	(219,551)
Cash contributions to resolution funds and deposit guarantee schemes	(2,356)	(15,403)	(1,976)	-	(21,703)	(41,438)
Depreciation	(526)	(21,740)	(597)	(219)	-	(23,082)
	<b>50,616</b>	<b>268,242</b>	<b>38,014</b>	<b>7,155</b>	<b>6,223</b>	<b>370,251</b>
Impairment and provisions, net of reversals b)	392	5,522	15,292	(16)	(22,448)	(1,259)
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	9	16,624	16,633
Other profit or loss, net	-	-	-	-	(35,884)	(35,884)
<b>Profit or loss before tax from continuing operations</b>	<b>51,008</b>	<b>273,764</b>	<b>53,306</b>	<b>7,148</b>	<b>(35,484)</b>	<b>349,741</b>
Tax expense or income related to profit or loss from continuing operations	(15,812)	(84,867)	(16,525)	460	8,437	(108,307)
Profit or loss for the period attributable to minority interests	-	-	-	-	(90)	(90)
<b>Profit or loss for the period attributable to owners of the parent</b>	<b>35,195</b>	<b>188,897</b>	<b>36,781</b>	<b>7,608</b>	<b>(27,138)</b>	<b>241,344</b>

- 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 on 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 June 30, 2023 and December 31, 2022, the breakdown of the assets and liabilities allocated to each operational segment, in accordance with information used by the Group's Management for decision-making, is as follows:

	30-06-2023					Total
	Corporate Investment Banking	Retail Banking	Corporate Banking	Insurance Management	Corporate Activities	
<b>Assets</b>						
Financial assets at fair value through other comprehensive income	-	-	-	-	2,379,051	2,379,051
Financial assets at amortised cost						
Mortgage loans	-	22,436,132	-	-	-	22,436,132
Consumer loans	-	1,828,438	-	-	-	1,828,438
Other loans	2,588,159	6,048,993	5,509,435	-	189,276	14,335,863
Other balances receivable	-	91,063	-	-	451,188	542,251
<b>Total allocated assets</b>	<b>2,588,159</b>	<b>30,404,626</b>	<b>5,509,435</b>	<b>-</b>	<b>3,019,515</b>	<b>41,521,735</b>
Total non-allocated assets						16,032,415
<b>Total Assets</b>						<b>57,554,150</b>
<b>Liabilities</b>						
Financial liabilities measured at amortised cost						
Deposits - Central banks	-	-	-	-	693,302	693,302
Deposits - Credit institutions	-	-	-	-	5,421,886	5,421,886
Deposits - Customers	867,862	29,466,280	6,233,817	-	-	36,567,959
Debt securities issued	-	-	-	-	5,330,749	5,330,749
<b>Total allocated liabilities</b>	<b>867,862</b>	<b>29,466,280</b>	<b>6,233,817</b>	<b>-</b>	<b>11,445,937</b>	<b>48,013,896</b>
Total non-allocated liabilities						5,620,488
<b>Total Liabilities</b>						<b>53,634,384</b>
<b>Guarantees and sureties given</b>	<b>140,192</b>	<b>584,604</b>	<b>1,159,693</b>	<b>-</b>	<b>-</b>	<b>1,884,489</b>

	31-12-2022					Total
	Corporate Investment Banking	Retail Banking	Corporate Banking	Insurance Management	Corporate Activities	
<b>Assets</b>						
Financial assets at fair value through other comprehensive income	-	-	-	-	2,268,555	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	6,389,436	5,889,488	-	22,987	15,182,908
Other balances receivable	-	68,283	-	-	626,979	695,262
<b>Total allocated assets</b>	<b>2,880,998</b>	<b>31,394,122</b>	<b>5,889,488</b>	<b>-</b>	<b>2,918,521</b>	<b>43,083,128</b>
Total non-allocated assets						16,065,060
<b>Total Assets</b>						<b>59,148,188</b>
<b>Liabilities</b>						
Financial liabilities measured at amortised cost						
Deposits - Central banks	-	-	-	-	4,113,714	4,113,714
Deposits - Credit institutions	-	-	-	-	2,814,412	2,814,412
Deposits - Customers	743,804	31,787,554	5,934,827	40,180	-	38,506,365
Debt securities issued	-	-	-	-	4,635,881	4,635,881
<b>Total allocated liabilities</b>	<b>743,804</b>	<b>31,787,554</b>	<b>5,934,827</b>	<b>40,180</b>	<b>11,564,007</b>	<b>50,070,372</b>
Total non-allocated liabilities						5,252,747
<b>Total Liabilities</b>						<b>55,323,119</b>
<b>Guarantees and sureties given</b>	<b>141,567</b>	<b>563,158</b>	<b>1,121,290</b>	<b>-</b>	<b>-</b>	<b>1,826,015</b>

As at June 30, 2023 and December 31, 2022, the Group 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 PERIOD / YEAR

As at June 30, 2023 and December 31, 2022, 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 period / year	
	30-06-2023	31-12-2022	30-06-2023	31-12-2022	30-06-2023	31-12-2022	30-06-2023	31-12-2022	30-06-2023	31-12-2022
SANTANDER TOTTA, SGPS, S.A.	Holding	Holding	100.00	100.00	5,426,765	5,286,319	3,965,499	3,838,414	553,458	1,508,288
BANCO SANTANDER TOTTA, S.A.	99.96	99.96	99.96	99.96	55,914,102	57,756,669	3,486,203	3,532,974	344,234	603,685
TOTTA (IRELAND), PLC (2)	-	-	99.96	99.96	511,593	798,140	463,090	455,780	12,426	254
TOTTAURBE - EMP. ADMIN. E CONSTRUÇÕES, S.A. (1)	-	-	99.96	99.96	84,057	89,422	82,482	87,571	(5,089)	(10,105)
TAXAGEST, SGPS, SA	1.00	1.00	99.96	99.96	55,826	55,731	55,819	55,725	94	(8)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	-	-	78.71	78.71	178,448	225,464	172,980	220,784	595	3,395
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	-	-	99.96	99.96	7,594	7,403	7,493	7,330	163	196
HIPOTOTTA NO. 4 PLC	-	-	-	-	416,639	451,903	(3,821)	(2,023)	3,861	2,194
HIPOTOTTA NO. 5 PLC	-	-	-	-	445,308	477,417	(14,367)	(10,861)	14,407	1,804
HIPOTOTTA NO. 4 FTC	-	-	-	-	353,398	388,719	349,123	384,172	(50)	(555)
HIPOTOTTA NO. 5 FTC	-	-	-	-	380,595	410,711	375,693	406,159	(44)	(208)
Operações de Securitização geridas pela GAMMA, STC	-	-	-	-	2,285,064	2,397,130	-	-	-	-
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	-	-	-	21.86	-	488,200	-	133,973	-	23,512
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	100.00	100.00	100.00	100.00	3,764,272	3,671,896	117,009	106,465	18,099	14,611
AEGON SANTANDER PORTUGAL VIDA COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	131,668	139,160	27,894	39,333	7,928	20,279
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	61,020	63,832	21,904	23,450	8,683	11,654
MAPFRE SANTANDER PORTUGAL Co. SEGUROS	-	-	49.99	49.99	17,778	16,546	6,176	6,176	(162)	(470)

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

As at June 30, 2023 and December 31, 2022, 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
Santander Totta, SGPS, S.A.	Shareholding management	Portugal	Holding
Banco Santander Totta, S.A.	Banking	Portugal	Full
TOTTA (IRELAND), PLC <sup>(2)</sup>	Investment management	Ireland	Full
TOTTA URBE - Emp. Admin. e Construções, S.A. <sup>(1)</sup>	Property management	Portugal	Full
TAXAGEST, SGPS, S.A.	Shareholding management	Portugal	Full
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 FTC	Securitised loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitised loans fund	Portugal	Full
Operações de Securitização geridas pela GAMMA, STC	Securitised loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Real Estate Fund	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitisation management	Portugal	Full
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	Insurance	Portugal	Full
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity method
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity method
MAPFRE SANTANDER PORTUGAL Co. SEGUROS	Insurance	Portugal	Equity method

- (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 period" columns correspond to the Net income determined between December 1, 2022 and June 30, 2023 (December 1 and December 31, 2022).

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 a result of the transfer of the POS business (merchant acquiring) to Getnet Europe, at the end of 2022, the Group no longer exercises significant influence over UNICRE, having stopped consolidating it at the Group level.

As at June 30, 2023 and December 31, 2022, the Aegon Santander Portugal Vida and Não Vida companies' balance sheet was as follows:

	30-06-2023			31-12-2022		
	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total
Cash and cash equivalents and demand deposits	2,325	3,154	5,479	2,441	6,222	8,663
Financial assets at fair value through other comprehensive income	88,301	48,387	136,688	91,933	50,188	142,121
Property, plant and equipment	1,628	461	2,089	1,706	469	2,175
Intangible assets	5,983	4,140	10,123	6,490	4,034	10,524
Technical provisions for reinsurance ceded	28,174	1,417	29,591	30,666	1,409	32,075
Other debtors for insurance operations and other operations	3,490	2,497	5,987	3,953	450	4,403
Assets – taxes and levies	1,592	963	2,555	1,775	1,058	2,833
Accruals and deferrals	132	-	132	154	2	156
Other asset elements	43	1	44	42	-	42
	<u>131,668</u>	<u>61,020</u>	<u>192,688</u>	<u>139,160</u>	<u>63,832</u>	<u>202,992</u>
Technical provisions	80,455	25,100	105,555	77,725	27,123	104,848
Other financial liabilities	4,061	487	4,548	4,066	483	4,549
Other creditors for insurance operations and other operations	12,100	6,093	18,193	12,625	8,449	21,074
Liabilities – taxes and levies	3,389	4,191	7,580	2,187	2,302	4,489
Accruals and deferrals	3,769	3,244	7,013	3,224	2,025	5,249
Capital	7,500	7,500	15,000	7,500	7,500	15,000
Revaluation reserves	(5,921)	(3,580)	(9,501)	(6,604)	(3,935)	(10,539)
Deferred tax reserves	1,587	960	2,547	1,770	1,054	2,824
Other reserves	16,800	8,342	25,142	16,388	7,177	23,565
Retained earnings	7,928	8,683	16,611	20,279	11,654	31,933
	<u>131,668</u>	<u>61,020</u>	<u>192,688</u>	<u>139,160</u>	<u>63,832</u>	<u>202,992</u>

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

The composition of this caption is as follows:

	30-06-2023	31-12-2022
Cash	302,879	307,313
Demand deposits at central banks		
European Central Bank (ECB)	7,216,463	7,850,256
Other demand deposits at credit institutions		
Demand deposits	542,238	257,867
	<u>8,061,580</u>	<u>8,415,436</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 June 30, 2023 and 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 remunerated at 3.5% and 2%, respectively, as are investments under the overnight liquidity absorption mechanism.

## 6. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

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

	30-06-2023	31-12-2022
Financial assets held for trading		
Derivatives with positive fair value	828,925	498,737
Financial liabilities held for trading		
Derivatives with negative fair value	782,099	465,786

As at June 30, 2023 and December 31, 2022, the following derivatives are recorded:

	30-06-2023				31-12-2022			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
Forwards								
Purchases	179,650				175,819			
Sales	179,430	1,106	908	198	175,229	4,043	3,491	552
Currency swaps								
Purchases	907,433				949,426			
Sales	901,974	5,624	559	5,065	950,689	191	2,136	(1,945)
Interest rate swaps	24,305,212	780,519	768,847	11,672	25,358,606	458,804	452,049	6,755
Equity swaps	278,077	30,890	222	30,668	284,665	26,902	-	26,902
Currency options								
Purchases	95,357				138,315			
Sales	95,357	1,070	1,070	-	138,315	1,978	1,975	3
Equity options								
Purchases	97,374				7,942			
Sales	89,575	1,763	2,607	(844)	-	1,275	641	634
Interest rate caps & floors	404,625	7,953	7,886	67	435,471	5,544	5,494	50
	<u>27,534,064</u>	<u>828,925</u>	<u>782,099</u>	<u>46,826</u>	<u>28,614,477</u>	<u>498,737</u>	<u>465,786</u>	<u>32,951</u>

As at June 30, 2023, the captions of financial assets and liabilities held for trading are reduced by the amounts of, approximately, Euros 2,150 thousand and Euros 4,056 thousand of "Credit Value Adjustments" and "Debit Value Adjustments", respectively (Euros 3,263 thousand and Euros 5,438 thousand as at December 31, 2022, respectively), in accordance with the methodology described in Note 39.

As at June 30, 2023 and December 31, 2022, 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:

	30-06-2023	31-12-2022
Equity Instruments	880,091	868,500
Debt securities		
Of public issuers	1,274,213	1,209,091
Of other issuers	617,977	569,578
	<u>1,892,190</u>	<u>1,778,669</u>
	<u>2,772,281</u>	<u>2,647,169</u>

The interest and the income from the valuation of these financial assets at their fair value were reflected in the statement of profit or loss in the caption "Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss" (Note 29).

As at June 30, 2023 and December 31, 2022, the detail of this caption is as follows:

Description	30-06-2023					31-12-2022				
	"Unit link" products		Other products			"Unit link" products		Other products		
	Capital	Interest receivable	Capital	Interest receivable	Fair value	Capital	Interest receivable	Capital	Interest receivable	Fair value
Debt instruments										
Treasury bonds	1,257,545	16,409	236	23	1,274,213	1,196,657	12,187	245	2	1,209,091
Unsubordinated debt	613,157	4,820	-	-	617,977	564,303	5,255	20	-	569,578
Equity instruments	851,211	-	28,880	-	880,091	836,375	-	32,125	-	868,500
	<u>2,721,913</u>	<u>21,229</u>	<u>29,116</u>	<u>23</u>	<u>2,772,281</u>	<u>2,597,335</u>	<u>17,442</u>	<u>32,390</u>	<u>2</u>	<u>2,647,169</u>

The movement in "Other products - Equity instruments" during the first half of 2023 and 2022 was as follows:

	31-12-2022	Purchases	Redemptions / Amortisations / Liquidations / Sales	Unrealised gains / losses	Realised gains / losses	30-06-2023
Equity instruments	32,125	26	(4,341)	3,664	(2,594)	28,880
	31-12-2021	Purchases	Redemptions / Amortisations / Liquidations / Sales	Unrealised gains / losses	Realised gains / losses	30-06-2022
Equity instruments	100,272	218	(20,491)	5,815	(1,935)	83,879

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The composition of this caption is as follows:

	30-06-2023								
	Purchase cost	Interest receivable	Hedge adjustment	Fair Value Reserve			Other	Impairment	Carrying amount
				Positive reserve	Negative reserve	Total			
									(Note 18)
Debt instruments									
Of public issuers	2,557,878	29,732	(141,117)	157,250	(57,354)	99,896	(1,679)	-	2,544,710
Of other issuers	98,878	718	-	4	(7,468)	(7,464)	-	-	92,132
	2,656,756	30,450	(141,117)	157,254	(64,822)	92,432	(1,679)	-	2,636,842
Equity instruments	111,803	-	-	78,474	(333)	78,141	-	-	189,944
Loans and advances	2,300,000	67,804	(241,223)	252,470	-	252,470	-	-	2,379,051
	5,068,559	98,254	(382,340)	488,198	(65,155)	423,043	(1,679)	-	5,205,837
	31-12-2022								
	Purchase cost	Interest receivable	Hedge adjustment	Fair Value Reserve			Other	Impairment	Carrying amount
				Positive reserve	Negative reserve	Total			
									(Note 18)
Debt instruments									
Of public issuers	2,580,939	58,360	(142,648)	162,349	(63,703)	98,646	(1,846)	-	2,593,451
Of other issuers	105,236	1,201	-	120	(8,310)	(8,190)	-	(24)	98,223
	2,686,175	59,561	(142,648)	162,469	(72,013)	90,456	(1,846)	(24)	2,691,674
Equity instruments	73,222	-	-	76,341	(333)	76,008	-	-	149,230
Loans and advances	2,300,000	31,153	(267,304)	204,706	-	204,706	-	-	2,268,555
	5,059,397	90,714	(409,952)	443,516	(72,346)	371,170	(1,846)	(24)	5,109,459

The movement under this caption during the first half of 2023 and 2022 was as follows:

	30-06-2023								
	31-12-2022	Purchases	Redemptions / Amortisations / Liquidations / Sales	Gains / Losses			Interest / Hedging / Other	Impairment	30-06-2023
				Unrealised	Realised through Equity	Change in insurance portfolio			
Equity instruments	149,230	1,081	(999)	2,133	-	-	38,499	-	189,944
Debt securities	2,691,674	-	(391)	-	(1,306)	(23,076)	(30,083)	24	2,636,842
	2,840,904	1,081	(1,390)	2,133	(1,306)	(23,076)	8,416	24	2,826,786
	30-06-2022								
	31-12-2021	Purchases	Redemptions / Amortisations / Liquidations / Sales	Gains / Losses			Interest / Hedging / Other	Impairment	30-06-2022
				Unrealised	Change in insurance portfolio				
Equity instruments	72,653	1,852	(1,738)	76,190	-	-	6	-	148,963
Debt securities	3,050,819	-	(523)	(167,281)	(64,555)	(64,555)	(30,082)	24	2,788,402
	3,123,472	1,852	(2,261)	(91,091)	(64,555)	(64,555)	(30,076)	24	2,937,365

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.

As a result of the loss of control over UNICRE (Notes 4 and 11), during the first half of 2023, the Bank began to recognise this subsidiary in the Financial Assets at fair value through other comprehensive income portfolio. This reclassification was carried out at fair value, with the valuation having been carried out by external experts.

The sub-captions of public issuers presented the following characteristics:

Description	30-06-2023				31-12-2022			
	Acquisition cost	Interest receivable	Gains / Losses and other	Carrying amount	Acquisition cost	Interest receivable	Gains / Losses and other	Carrying amount
National public issuers								
. Maturity up to one year	23,835	643	(215)	24,263	18,401	166	(84)	18,483
. Maturity between one and three years	1,848,362	21,760	9,867	1,879,989	96,838	1,137	(2,413)	95,562
. Maturity between three and five years	147,694	1,309	(9,323)	139,680	1,914,022	50,655	5,262	1,969,939
. Maturity between five and ten years	132,474	1,324	(11,639)	122,159	132,981	2,218	(13,941)	121,258
. Maturity over ten years	8,607	49	(1,207)	7,449	8,640	145	(1,426)	7,359
	<u>2,160,972</u>	<u>25,085</u>	<u>(12,517)</u>	<u>2,173,540</u>	<u>2,170,882</u>	<u>54,321</u>	<u>(12,602)</u>	<u>2,212,601</u>
Foreign public issuers								
. Maturity up to one year	67,761	1,607	(601)	68,767	37,701	299	(223)	37,777
. Maturity between one and three years	105,025	1,266	(4,390)	101,901	139,007	2,537	(4,202)	137,342
. Maturity between three and five years	63,711	681	(3,230)	61,162	71,162	448	(3,365)	68,245
. Maturity between five and ten years	156,822	1,056	(22,219)	135,659	158,977	740	(25,570)	134,147
. Maturity over ten years	3,587	37	57	3,681	3,210	15	114	3,339
	<u>396,906</u>	<u>4,647</u>	<u>(30,383)</u>	<u>371,170</u>	<u>410,057</u>	<u>4,039</u>	<u>(33,246)</u>	<u>380,850</u>
	<u>2,557,878</u>	<u>29,732</u>	<u>(42,900)</u>	<u>2,544,710</u>	<u>2,580,939</u>	<u>58,360</u>	<u>(45,848)</u>	<u>2,593,451</u>

## 9. FINANCIAL ASSETS AT AMORTISED COST

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

	30-06-2023	31-12-2022
Securitised credit		
. Commercial paper	2,500,981	2,689,539
. Bonds	1,031,848	900,922
Interest receivable	21,177	16,099
Value adjustments of hedged assets	(113,327)	(129,138)
Commissions associated with amortised cost (net)	(1,089)	(1,172)
	<u>3,439,590</u>	<u>3,476,250</u>
Impairment of debt securities (Note 18)	(2,512)	(4,850)
	<u>3,437,078</u>	<u>3,471,400</u>

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

	<u>30-06-2023</u>	<u>31-12-2022</u>
<b>Loans and advances - Customers</b>		
To corporate customers		
Overdrafts and current account loans	1,186,986	946,003
Factoring loans	1,637,351	1,738,983
Commercial book - other	166,599	172,505
Finance leasing	942,246	992,105
Loans	7,245,161	8,106,310
Other advances	40,246	37,987
To individuals		
Overdrafts and current account loans	103,908	110,344
Finance leasing	128,625	142,683
Loans	24,143,198	24,852,624
Other advances	474,240	454,998
	<u>36,068,560</u>	<u>37,554,542</u>
Interest receivable	119,036	79,320
Value adjustments of hedged assets	(62,142)	(69,367)
Commissions associated with amortised cost (net)	(6,601)	(5,814)
	<u>50,293</u>	<u>4,139</u>
	<u>36,118,853</u>	<u>37,558,681</u>
Other balances receivable		
Margin accounts	193,848	375,898
Cheques collectible	91,063	68,283
Sundry debtors and other cash equivalents	265,370	259,277
	<u>550,281</u>	<u>703,458</u>
<b>Loans and advances - Credit institutions</b>		
Loans	14,861	23,158
Interest receivable	3	3
Deferred expenses / Deferred income	-	(59)
	<u>14,864</u>	<u>23,102</u>
<b>Loans and advances</b>	<u>36,683,998</u>	<u>38,285,241</u>
Impairment of loans and advances - Customers and other balances receivable	(978,292)	(941,953)
Impairment of loans and advances - Credit institutions	(100)	(115)
<b>Impairment of loans and advances (Note 18)</b>	<u>(978,392)</u>	<u>(942,068)</u>
	<u>35,705,606</u>	<u>37,343,173</u>

In financial year ended December 31, 2022, portfolios of loans granted to individuals and companies were sold, with a carrying amount of Euros 103,870 thousand. As a result of these transactions, gains and losses were recorded, in 2022, in the net amount of Euros 7,276 thousand. In the first half of 2023 there were no sales of portfolios.

As at June 30, 2023 and December 31, 2022, the sub-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 10,273,279 thousand and Euros 10,237,229 thousand, respectively (Note 17).

The sub-caption "Sundry debtors and other cash equivalents" includes Euros 157,699 thousand originating from the tax losses of Banif (Note 13).

The movement in impairment losses during the first half of 2023 and 2022 is presented in Note 18.

The division, by stage, of the portfolio of loans and other balances receivable at amortised cost, has the following breakdown:

	30-06-2023			31-12-2022		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Stage 1	34,142,531	(61,413)	0.18%	35,700,203	(64,992)	0.18%
Stage 2	4,874,750	(274,132)	5.62%	4,973,001	(274,751)	5.52%
Stage 3	1,106,307	(645,359)	58.33%	1,088,287	(607,175)	55.79%
	<u>40,123,588</u>	<u>(980,904)</u>		<u>41,761,491</u>	<u>(946,918)</u>	

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

Counterparts	30-06-2023				
	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
<b>Debt securities</b>	-	-	-	-	-
Non-financial companies	-	-	-	-	-
<b>Loans and advances</b>	<b>460,948</b>	<b>264,380</b>	<b>39,029</b>	<b>131,458</b>	<b>26,081</b>
Public sector	86	86	-	-	-
Credit institutions	121	121	-	-	-
Other financial companies	127	24	21	79	3
Non-financial companies	279,452	179,453	15,907	68,103	15,989
Individuals	181,162	84,696	23,101	63,276	10,089
<b>Total financial assets at amortised cost</b>	<b>460,948</b>	<b>264,380</b>	<b>39,029</b>	<b>131,458</b>	<b>26,081</b>

Counterparts	31-12-2022				
	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
<b>Debt securities</b>	<b>15</b>	<b>15</b>	-	-	-
Non-financial companies	15	15	-	-	-
<b>Loans and advances</b>	<b>481,097</b>	<b>302,338</b>	<b>26,944</b>	<b>123,102</b>	<b>28,713</b>
Public sector	97	97	-	-	-
Credit institutions	124	124	-	-	-
Other financial companies	136	23	-	106	7
Non-financial companies	314,993	223,986	7,335	66,655	17,017
Individuals	165,747	78,108	19,609	56,341	11,689
<b>Total financial assets at amortised cost</b>	<b>481,112</b>	<b>302,353</b>	<b>26,944</b>	<b>123,102</b>	<b>28,713</b>

The evolution that occurred in the exposure and in the impairment of the financial assets at amortised cost in the first half of 2023 and financial year 2022, was as follows:

	Financial assets at amortised cost				Impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Balance as at 31-12-2021</b>	33,744,691	6,400,773	1,258,695	41,404,159	65,977	280,518	673,683	1,020,178
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	(57,011)	-	(53,906)
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	366,300	(366,300)	-	-	-	32,100	-	32,100
Mortgages overlay	(450,000)	450,000	-	-	-	17,000	-	17,000
Other	-	-	-	-	-	(8,000)	(3,000)	(11,000)
Write-offs and sales	-	-	(78,532)	(78,532)	-	-	(76,789)	(76,789)
Origination, net of amortisations	1,374,801	(736,619)	(202,318)	435,864	161	(25,314)	(24,211)	(49,364)
<b>Balance as at 31-12-2022</b>	<b>35,700,203</b>	<b>4,973,001</b>	<b>1,088,287</b>	<b>41,761,491</b>	<b>64,992</b>	<b>274,751</b>	<b>607,175</b>	<b>946,918</b>
Transfers:								
Stage 1 to 2	(840,895)	840,895	-	-	(2,188)	41,093	-	38,905
Stage 1 to 3	(26,124)	-	26,124	-	(468)	-	7,246	6,778
Stage 2 to 3	-	(97,537)	97,537	-	-	(14,584)	38,905	24,321
Stage 2 to 1	606,286	(606,286)	-	-	1,886	(26,453)	-	(24,567)
Stage 3 to 2	-	37,414	(37,414)	-	-	6,308	(17,377)	(11,069)
Stage 3 to 1	1,079	-	(1,079)	-	203	-	(458)	(255)
Other	-	-	-	-	-	-	1,800	1,800
Write-offs and sales	-	-	(1,922)	(1,922)	-	-	(1,906)	(1,906)
Origination, net of amortisations	(1,298,018)	(272,737)	(65,226)	(1,635,981)	(3,012)	(6,983)	9,974	(21)
<b>Balance as at 30-06-2023</b>	<b>34,142,531</b>	<b>4,874,750</b>	<b>1,106,307</b>	<b>40,123,588</b>	<b>61,413</b>	<b>274,132</b>	<b>645,359</b>	<b>980,904</b>

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 in 2020, the Bank applied two impairment overlays to the impairment model, with the aim of reflecting the impacts, in a comprehensive and prudent manner. 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 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 an 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 set up in 2020 in the amount of Euros 133.4 million, 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 proved 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%.

In the first half of 2023, there were no changes in the Overlays calculated by the Bank.



## 10. DERIVATIVES - HEDGE ACCOUNTING

The composition of this caption is as follows:

Type of financial instrument	30-06-2023					
	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	169,524	2,168	42,135	53,089	2,570,504	2,665,728
Financial assets at fair value through other comprehensive income	397,823	-	-	-	6,146,000	6,146,000
Equity swaps	-	2,806	-	-	97,374	97,374
	567,347	4,974	42,135	53,089	8,813,878	8,909,102
31-12-2022						
Type of financial instrument	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
	601,827	183,771	1,500,311	10,253,823	8,918,222	20,672,356

The Group 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 Group through the contracting of derivative financial instruments.

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

Over-the-counter 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:

	30-06-2023		31-12-2022	
	Effective shareholdin g (%)	Carrying amount	Effective shareholdin g (%)	Carrying amount
Joint ventures				
Mapfre Santander Portugal Co. Seguros	49.99	12,719	49.99	12,801
AEGON Santander Portugal Não Vida - Companhia de Seguros, S.A.	49.00	21,432	49.00	19,634
AEGON Santander Portugal Vida - Companhia de Seguros Vida, S.A.	49.00	<u>30,669</u>	49.00	<u>37,655</u>
		64,820		70,090
Associates				
Unicre - Instituição Financeira de Crédito, S.A.		-	21.86	<u>41,468</u>
		-		<u>41,468</u>
		<u>64,820</u>		<u>111,558</u>

As at December 31, 2022, the financial investments held in UNICRE included goodwill. The impairment test conducted on the UNICRE goodwill revealed no impairment losses in this financial investment.

As a result of the transfer of the POS business (merchant acquiring) to Getnet Europe, at the end of 2022, the Bank no longer exercises significant influence over UNICRE, having stopped consolidating it at the Group level. (Notes 4 and 8).

## 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 Group came to consolidate, using the full consolidation method, the Novimovest Real Estate Fund, which main assets are rental property.

As at June 30, 2023 and December 31, 2022, the property held by the Novimovest Real Estate Fund had the following characteristics:

	30-06-2023	31-12-2022
Land		
Urbanised	20,415	20,293
Non-urbanised	971	1,002
Finished constructions		
Leased	125,842	131,036
Non-leased	14,880	26,880
	<u>162,108</u>	<u>179,211</u>

On the other hand, the property held by the Novimovest Real Estate Fund generated, among other, the following annual income and expenses:

	30-06-2023	31-12-2022
Lease rentals (Note 32)	4,184	8,753
Taxes	(276)	(644)
Condominium charges	(118)	(252)
Maintenance and repairs	(329)	(200)
Insurance	(53)	(112)
	<u>3,408</u>	<u>7,545</u>

The movement under the sub-caption "Investment property", during the first half of 2023 and 2022, was as follows:

	2023				Balance as at 30-06-2023
	Balance as at 31-12-2022	Additions	Fair value adjustment	Sales	
	Property held by Fundo Imobiliário Novimovest	179,211	-	(1,374)	

	2022				Balance as at 30-06-2022
	Balance as at 31-12-2021	Additions	Fair value adjustment	Sales	
	Property held by Fundo Imobiliário Novimovest	213,731	42	16	

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 32).

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.

The form of the determination of the fair value of the investment property in accordance with the levels set out in IFRS 13 is as follows:

	Level 3	
	30-06-2023	31-12-2022
Investment property	162.108	179.211

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 the first half of 2023 and 2022 can be presented as follows:

	31-12-2022				Write-offs / sales / other		Transfers to/from other assets			30-06-2023			
	Gross amount	Accumulated depreciation	Impairment	Additions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Depreciation	Gross amount	Accumulated depreciation	Impairment	Carrying amount
	(Note 18)				(Note 14)				(Note 18)				
Property, plant and equipment													
Property													
· Property for own use	327,742	(127,068)	(6,147)	3	-	-	(364)	210	(3,153)	327,381	(130,011)	(6,147)	191,223
· Leasehold expenditure	9,441	(7,272)	-	934	(409)	409	-	-	(250)	9,966	(7,113)	-	2,853
· Other property	166	(82)	-	-	-	-	-	-	(1)	166	(83)	-	83
· Rights of use (Note 17)	43,690	(21,104)	-	-	-	-	-	-	(2,286)	43,690	(23,390)	-	20,300
	<u>381,039</u>	<u>(155,526)</u>	<u>(6,147)</u>	<u>937</u>	<u>(409)</u>	<u>409</u>	<u>(364)</u>	<u>210</u>	<u>(5,690)</u>	<u>381,203</u>	<u>(160,597)</u>	<u>(6,147)</u>	<u>214,459</u>
Equipment	146,159	(99,532)	-	10,644	(770)	564	(12)	7	(5,188)	156,021	(104,149)	-	51,872
Other property, plant and equipment	2,180	(76)	-	-	-	-	-	-	-	2,180	(76)	-	2,104
	<u>148,339</u>	<u>(99,608)</u>	<u>-</u>	<u>10,644</u>	<u>(770)</u>	<u>564</u>	<u>(12)</u>	<u>7</u>	<u>(5,188)</u>	<u>158,201</u>	<u>(104,225)</u>	<u>-</u>	<u>53,976</u>
	<u>529,378</u>	<u>(255,134)</u>	<u>(6,147)</u>	<u>11,581</u>	<u>(1,179)</u>	<u>973</u>	<u>(376)</u>	<u>217</u>	<u>(10,878)</u>	<u>539,404</u>	<u>(264,822)</u>	<u>(6,147)</u>	<u>268,435</u>
Intangible assets													
Software	142,483	(132,886)	-	9,495	-	(83)	-	-	(11,284)	151,978	(144,253)	-	7,725
Other intangible assets	27,201	(2,008)	-	-	-	-	-	-	-	27,201	(2,008)	-	25,193
Other													
Goodwill	2,651	-	-	-	-	-	-	-	-	2,651	-	-	2,651
	<u>172,335</u>	<u>(134,894)</u>	<u>-</u>	<u>9,495</u>	<u>-</u>	<u>(83)</u>	<u>-</u>	<u>-</u>	<u>(11,284)</u>	<u>181,830</u>	<u>(146,261)</u>	<u>-</u>	<u>35,569</u>

	31-12-2021			Additions	Write-offs and sales		Transfers to/from other assets			30-06-2022			Carrying amount
	Gross amount	Accumulated depreciation	Impairment		Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Depreciation	Gross amount	Accumulated depreciation	Impairment	
	(Note 18)							(Note 14)			(Note 18)		
Property, plant and equipment													
Property													
. Property for own use	335,573	(126,979)	(6,147)	2,106	-	-	295	9	(3,310)	337,974	(130,280)	(6,147)	201,547
. Leasehold expenditure	9,162	(7,049)	-	35	-	-	-	-	(230)	9,197	(7,279)	-	1,918
. Other property	166	(81)	-	-	-	-	-	-	(1)	166	(82)	-	84
. Rights of use	41,399	(16,854)	-	-	-	-	-	-	(2,125)	41,399	(18,979)	-	22,420
	<u>386,300</u>	<u>(150,963)</u>	<u>(6,147)</u>	<u>2,141</u>	<u>-</u>	<u>-</u>	<u>295</u>	<u>9</u>	<u>(5,666)</u>	<u>388,736</u>	<u>(156,620)</u>	<u>(6,147)</u>	<u>225,969</u>
Equipment	161,614	(109,076)	-	3,196	(2,230)	1,356	-	-	(5,761)	162,580	(113,481)	-	49,099
Other property, plant and equipment	2,180	(76)	-	-	-	-	-	-	(1)	2,180	(77)	-	2,103
	<u>163,794</u>	<u>(109,152)</u>	<u>-</u>	<u>3,196</u>	<u>(2,230)</u>	<u>1,356</u>	<u>-</u>	<u>-</u>	<u>(5,762)</u>	<u>164,760</u>	<u>(113,558)</u>	<u>-</u>	<u>51,202</u>
	<u>550,094</u>	<u>(260,115)</u>	<u>(6,147)</u>	<u>5,337</u>	<u>(2,230)</u>	<u>1,356</u>	<u>295</u>	<u>9</u>	<u>(11,428)</u>	<u>553,496</u>	<u>(270,178)</u>	<u>(6,147)</u>	<u>277,171</u>
Intangible assets													
Software	142,483	(109,374)	-	8,010	-	-	(2,727)	-	(11,654)	147,766	(121,028)	-	26,738
Other intangible assets	2,008	(2,008)	-	2,727	-	-	2,727	-	-	7,462	(2,008)	-	5,454
Goodwill	2,651	-	-	-	-	-	-	-	-	2,651	-	-	2,651
	<u>147,142</u>	<u>(111,382)</u>	<u>-</u>	<u>10,737</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,654)</u>	<u>157,879</u>	<u>(123,036)</u>	<u>-</u>	<u>34,843</u>

**13. TAX ASSETS AND LIABILITIES**

The composition of these captions is as follows:

	30-06-2023	31-12-2022
Current tax assets	4,050	3,045
Deferred tax assets	186,350	244,131
	<u>190,400</u>	<u>247,176</u>
Current tax liabilities	159,714	129,741
Deferred tax liabilities	161,869	130,552
	<u>321,583</u>	<u>260,293</u>
Deferred taxes	<u>24,481</u>	<u>113,579</u>

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

	30-06-2023	30-06-2022
Current taxes	(147,967)	(85,550)
Deferred taxes	(19,258)	(22,757)
	<u>(167,225)</u>	<u>(108,307)</u>

The movement in deferred tax assets and liabilities during the first half of 2023 and 2022, is as follows:

	Balance as at 31-12-2022	Other comprehensive income	Profit or loss	Other	Balance as at 30-06-2023
Provisions / Impairment temporarily not accepted for tax purposes:					
. Deferred tax assets	86,211	-	(12,429)	-	73,782
. Deferred tax liabilities	(5,221)	-	-	-	(5,221)
Revaluation of intangible assets	923	-	(111)	-	812
Revaluation of property, plant and equipment:					
. Deferred tax assets	858	-	(143)	-	715
. Deferred tax liabilities	(1,576)	-	52	-	(1,524)
Pensions:					
. Actuarial deviations	3,513	-	331	-	3,844
. Early retirement pensions	56,501	-	(4,780)	-	51,721
. Transfers of pension liabilities to Social Security	2,909	-	(162)	-	2,747
Insurance activity:					
. Fair value of insurance liabilities - Shadow reserve	20	20	-	-	40
. Fair value of insurance liabilities - Other	(60)	-	8	-	(52)
. Application of IFRS17	-	(19,701)	(907)	8,391	(12,217)
Financial assets at fair value through other comprehensive income	(95,555)	(11,156)	-	-	(106,711)
Hedging derivatives - cash flows	47,394	(47,394)	-	-	-
Financial assets at fair value through profit or loss	38,733	-	(1,281)	-	37,452
Securitisation operations	(22,779)	-	(15)	-	(22,794)
Other	1,708	-	179	-	1,887
	<u>113,579</u>	<u>(78,231)</u>	<u>(19,258)</u>	<u>8,391</u>	<u>24,481</u>

	Balance as at 31-12-2021	Other comprehensive income	Profit or loss	Balance as at 30-06-2022
Provisions / Impairment temporarily not accepted for tax purposes:				
. Deferred tax assets	126,618	-	(11,744)	114,874
. Deferred tax liabilities	(5,221)	-	-	(5,221)
Revaluation of intangible assets	1,481	-	(309)	1,172
Revaluation of property, plant and equipment:				
. Deferred tax assets	1,144	-	(143)	1,001
. Deferred tax liabilities	(1,712)	-	51	(1,661)
Pensions:				
. Actuarial deviations	4,110	-	(405)	3,705
. Early retirement pensions	65,104	-	(5,033)	60,071
. Transfers of pension liabilities to Social Security	3,232	-	(162)	3,070
Insurance activity:				
. Fair value of insurance liabilities - Shadow reserve	7,378	(6,767)	-	611
. Fair value of insurance liabilities - Other	(75)	-	8	(67)
Financial assets at fair value through other comprehensive income	(238,953)	60,534	-	(178,419)
Hedging derivatives - cash flows	313	37,180	-	37,493
Financial assets at fair value through profit or loss	44,589	-	(5,221)	39,368
Securitisation operations	(23,268)	-	263	(23,005)
Other	2,018	-	(62)	1,956
	(13,242)	90,947	(22,757)	54,948

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 18). 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 - 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:

	30-06-2023	31-12-2022
<b>Technical provisions for reinsurance ceded (Note 18)</b>		
For unearned premiums	3,157	2,539
For mathematical - Life insurance	7	10
For profit sharing	71	143
For claims	13,231	18,652
	<b>16,466</b>	<b>21,344</b>
<b>Debtors and other applications</b>		
Debtors for direct insurance and reinsurance	19,694	10,718
Other income receivable	15,710	15,050
Promises of payment in kind, auctions and other assets		
received as payment in kind	57,503	89,404
Gold, other precious metals, coins and medals	3,145	3,145
Deferred expenses	22,318	6,625
Liabilities - pensions and other benefits (Note 36)		
Liabilities - Santander	(919,468)	(935,876)
Santander Pension Fund book value	1,003,464	1,008,553
Liabilities - London Branch	(30,269)	(31,143)
London Branch Pension Fund book value	32,973	32,231
Liabilities - ex-Banif	(130,680)	(131,550)
Ex- Banif Pension Fund book value	89,916	91,671
Liabilities - ex-BAPOP	(140,100)	(140,719)
Ex-BAPOP Pension Fund book value	176,170	173,365
Values in transit and other transactions to be settled	27,823	18,269
	<b>228,199</b>	<b>209,743</b>
<b>Impairment losses (Note 18)</b>		
Debtors and other applications	(31)	(31)
Promises of payment in kind, auctions and other assets		
received as payment in kind	(36,278)	(57,301)
	<b>(36,308)</b>	<b>(57,332)</b>
	<b>208,357</b>	<b>173,755</b>

The movement in the sub-caption “Promises of payment in kind, auctions and other assets received as payment in kind” during the first half of 2023 and 2022 was as follows:

	December 31, 2022					Transfers / NCAHFS					Transfers / property, plant and equipment			Impairment			June 30, 2023		
	Gross amount	Impairment	Carrying amount	Additions	Sales	Capital	Capital	Increases	Reversals	Use	Gross amount	Impairment	Carrying amount						
						(Note 15)	(Note 12)												
Assets received as payment in kind																			
Real estate	11,716	(5,284)	6,432	-	-	(2,820)	-	-	320	-	8,896	(4,964)	3,932						
Promises of payment in kind	186	(186)	-	-	-	(82)	-	-	82	-	104	(104)	-						
Auctions	3,917	(1,707)	2,210	1,077	-	(1,139)	-	(23)	384	-	3,855	(1,346)	2,509						
Other	21,552	(20,409)	1,143	53	(5,345)	(1,008)	-	(1)	3,369	2,470	15,252	(14,571)	681						
Own use real estate for sale	19,509	(10,982)	8,527	21	(6,035)	-	159	(92)	1,211	1,834	13,654	(8,029)	5,625						
Other real estate for sale	32,524	(18,733)	13,791	-	(16,782)	-	-	(2,342)	827	12,984	15,742	(7,264)	8,478						
	89,404	(57,301)	32,103	1,151	(28,162)	(5,049)	159	(2,458)	6,193	17,288	57,503	(36,278)	21,225						
	December 31, 2021					Transfers / NCAHFS					Transfers / property, plant and equipment			Impairment			June 30, 2022		
	Gross amount	Impairment	Carrying amount	Additions	Sales	Capital	Capital	Increases	Reversals	Use	Gross amount	Impairment	Carrying amount						
						(Note 15)	(Note 12)												
Assets received as payment in kind																			
Real estate	37,331	(24,191)	13,140	-	-	(3,502)	-	(1,429)	2,687	-	33,829	(22,933)	10,896						
Promises of payment in kind	337	(337)	-	-	-	(151)	-	-	151	-	186	(186)	-						
Auctions	6,813	(2,924)	3,889	2,122	-	(2,646)	-	(54)	809	10	6,289	(2,159)	4,130						
Other	27,848	(24,018)	3,830	7,850	(509)	(1,016)	-	(560)	487	215	34,173	(23,876)	10,297						
Own use real estate for sale	39,840	(25,771)	14,069	31	(11,886)	-	(304)	(374)	5,072	5,062	27,681	(16,011)	11,670						
Other real estate for sale	69,113	(24,847)	44,266	-	(7,489)	-	-	(773)	1,417	2,012	61,624	(22,191)	39,433						
	181,282	(102,088)	79,194	10,003	(19,884)	(7,315)	(304)	(3,190)	10,623	7,299	163,782	(87,356)	76,426						

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

As at June 30, 2023 and December 31, 2022, 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 during the first half of 2023 and 2022 was as follows:

	31-12-2022				Transfers / NCAHFS				Impairment (Note 18)				30-06-2023		
	Gross amount	Accumulated impairment	Additions	Sales	Capital	Increases	Reversals	Use	Gross amount	Accumulated impairment	Carrying amount				
	(Note 18)	(Note 18)			(Note 14)				(Note 18)	(Note 18)	(Note 18)				
Assets received as payment in kind															
Real estate	68,490	(42,485)	76	(30,983)	5,049	(357)	320	19,679	42,632	(22,843)	19,789				
Equipment	1,905	(1,702)	116	(277)	-	(142)	101	155	1,744	(1,588)	156				
Other assets	17,541	-	9,345	(1,024)	-	-	-	-	25,862	-	25,862				
	87,936	(44,187)	9,537	(32,284)	5,049	(499)	421	19,834	70,238	(24,431)	45,807				

	31-12-2021				Transfers / NCAHFS				Impairment (Note 18)				30-06-2022		
	Gross amount	Accumulated impairment	Additions	Sales	Capital	Increases	Reversals	Use	Gross amount	Accumulated impairment	Carrying amount				
	(Note 18)	(Note 18)			(Note 14)				(Note 18)	(Note 18)	(Note 18)				
Assets received as payment in kind															
Real estate	79,020	(41,873)	318	(21,184)	7,315	(13,019)	4,163	6,656	65,469	(44,073)	21,396				
Equipment	2,407	(2,100)	407	(439)	-	(599)	357	229	2,375	(2,113)	262				
Own use real estate for sale	37,457	-	-	(37,457)	-	-	-	-	-	-	-				
	118,884	(43,973)	725	(59,080)	7,315	(13,618)	4,520	6,885	67,844	(46,186)	21,658				

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 35).

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 June 30, 2023 and December 31, 2022, 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 DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Liabilities for life insurance where risks rest with the policyholder are carried under this caption.

The caption "Liabilities for life insurance where risks rest with the policyholder" corresponds to amounts received from customers for subscription of Unit-link products of the Group's Insurer and the subsequent gains and losses on the financial investments in which the amounts received were invested.

	<u>30-06-2023</u>	<u>31-12-2022</u>
Life insurance liabilities where risks rest with the policyholder	<u>2,860,462</u>	<u>2,792,796</u>

#### 17. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

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

	<u>30-06-2023</u>	<u>31-12-2022</u>
<b><u>Deposits - Central banks</u></b>		
Resources from European Central Bank - Deposits	693,230	4,113,627
Resources from other central banks - Deposits	72	87
	<u>693,302</u>	<u>4,113,714</u>
<b><u>Deposits - Credit institutions</u></b>		
Deposits	998,812	742,157
Sale operations with repurchase agreement	4,422,479	2,071,901
Interest payable / deferred expenses	595	354
	<u>5,421,886</u>	<u>2,814,412</u>
<b><u>Deposits - Customers</u></b>		
Demand deposits	22,130,799	24,209,880
Term deposits	13,845,745	13,755,746
Advance notice deposits	1,400	2,000
Structured deposits	129,629	137
Saving deposits	411,091	493,301
Interest payable / deferred expenses	16,540	5,120
Financial insurance products without profit sharing	37,134	40,180
Value adjustments for hedging operations	(4,379)	1
	<u>36,567,959</u>	<u>38,506,365</u>
<b>Deposits</b>	<u>42,683,147</u>	<u>45,434,491</u>

As at June 30, 2023 and December 31, 2022, 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:

Type of subjacent	30-06-2023			Total
	Capital	Interest	Deferred expenses	
Debt instruments of foreign public issuers	(863,473)	20,597	-	(842,876)
Debt instruments of other non-resident issuers	5,441,715	-	(176,360)	5,265,355
	4,578,242	20,597	(176,360)	4,422,479

Type of subjacent	31-12-2022			Total
	Capital	Interest	Deferred expenses	
Debt instruments of foreign public issuers	(99,926)	-	(20)	(99,946)
Debt instruments of other non-resident issuers	2,188,074	-	(16,227)	2,171,847
	2,088,148	-	(16,247)	2,071,901

The sub-caption “Debt securities issued” has the following composition:

	30-06-2023			31-12-2022		
	Issued	Reacquired	Balance	Issued	Reacquired	Balance
<b>Mortgage bonds</b>						
<b>Opening balance</b>	8,600,000	(6,623,800)	1,976,200	8,600,000	(6,600,000)	2,000,000
Issued	1,750,000	(1,000,000)	750,000	750,000	(750,000)	-
Reacquired	-	-	-	-	(23,800)	(23,800)
Redeemed	(1,500,000)	1,500,000	-	(750,000)	750,000	-
<b>Closing balance</b>	<b>8,850,000</b>	<b>(6,123,800)</b>	<b>2,726,200</b>	<b>8,600,000</b>	<b>(6,623,800)</b>	<b>1,976,200</b>
Interest payable	-	-	15,993	-	-	9,250
Cost-related commissions	-	-	(18,102)	-	-	(14,472)
	<b>8,850,000</b>	<b>(6,123,800)</b>	<b>2,724,091</b>	<b>8,600,000</b>	<b>(6,623,800)</b>	<b>1,970,978</b>
<b>Bonds issued in the scope of securitisation operations</b>						
<b>Opening balance</b>	3,182,259	(2,057,561)	1,124,698	3,374,158	(2,837,840)	536,318
Issued	-	-	-	665,930	-	665,930
Reacquired	-	-	-	-	(9,430)	(9,430)
Redeemed	(195,198)	158,264	(36,934)	(857,829)	789,709	(68,120)
<b>Closing balance</b>	<b>2,987,061</b>	<b>(1,899,297)</b>	<b>1,087,764</b>	<b>3,182,259</b>	<b>(2,057,561)</b>	<b>1,124,698</b>
Interest payable	-	-	1,085	-	-	809
Cost-related commissions	-	-	(33,923)	-	-	(36,336)
	<b>2,987,061</b>	<b>(1,899,297)</b>	<b>1,054,926</b>	<b>3,182,259</b>	<b>(2,057,561)</b>	<b>1,089,171</b>
<b>Structured bonds</b>						
<b>Opening balance</b>	254,282	(8,227)	246,055	191,227	(8,227)	183,000
Issued	38,600	-	38,600	100,800	-	100,800
Redeemed	(48,175)	-	(48,175)	(37,745)	-	(37,745)
<b>Closing balance</b>	<b>244,707</b>	<b>(8,227)</b>	<b>236,480</b>	<b>254,282</b>	<b>(8,227)</b>	<b>246,055</b>
Interest payable	-	-	5,120	-	-	4,064
	<b>244,707</b>	<b>(8,227)</b>	<b>241,600</b>	<b>254,282</b>	<b>(8,227)</b>	<b>250,119</b>
<b>Other bonds</b>						
<b>Opening balance</b>	1,100,000	-	1,100,000	500,000	-	500,000
Issued	-	-	-	600,000	-	600,000
<b>Closing balance</b>	<b>1,100,000</b>	<b>-</b>	<b>1,100,000</b>	<b>1,100,000</b>	<b>-</b>	<b>1,100,000</b>
Interest payable	-	-	1,546	-	-	12,557
	<b>1,100,000</b>	<b>-</b>	<b>1,101,546</b>	<b>1,100,000</b>	<b>-</b>	<b>1,112,557</b>
<b>Subordinated liabilities</b>						
<b>Opening balance</b>	527,599	(320,000)	207,599	327,599	(320,000)	7,599
Issued	-	-	-	200,000	-	200,000
<b>Closing balance</b>	<b>527,599</b>	<b>(320,000)</b>	<b>207,599</b>	<b>527,599</b>	<b>(320,000)</b>	<b>207,599</b>
Interest payable	-	-	987	-	-	5,457
	<b>527,599</b>	<b>(320,000)</b>	<b>208,586</b>	<b>527,599</b>	<b>(320,000)</b>	<b>213,056</b>
	<b>13,709,367</b>	<b>(8,351,324)</b>	<b>5,330,749</b>	<b>13,664,140</b>	<b>(9,009,588)</b>	<b>4,635,881</b>

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 June 2023, the Bank undertook twenty-nine covered bond issues under the “€ 12,500,000,000 Covered Bonds Programme”. As at June 30, 2023 and December 31, 2022, the covered bonds had an autonomous set of net assets consisting of:

	30-06-2023	31-12-2022
Loans and advances (Note 9)	10,273,279	10,237,229
Loan interest	32,261	17,683
Derivatives	(572,530)	(166,020)
	<u>9,733,010</u>	<u>10,088,892</u>

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

	30-06-2023	31-12-2022
Cheques and orders payable	99,053	198,533
Creditors and other resources		
Creditors for futures operations	18,662	11,879
Public sector	30,292	30,560
Creditors for factoring contracts	61,559	55,053
Creditors for supplies of goods	3,673	2,629
Other creditors	22,913	17,578
Commitments for future rents (application of IFRS 16)	20,570	22,790
Other	32,958	27,771
	<u>289,680</u>	<u>366,793</u>

Commitments for future rents correspond to the adoption of IFRS 16, and their movements are as follows:

	Lease liabilities	Right of use (Note 12)
<b>Balance as at December 31, 2021</b>	<b>24,830</b>	<b>24,545</b>
Depreciation 2021	(4,798)	(4,250)
Outs	(1,406)	(1,406)
Ins	2,831	2,831
Rent extensions and modifications	1,333	866
<b>Balance as at December 31, 2022</b>	<b>22,790</b>	<b>22,586</b>
Depreciation 2023	(2,220)	(2,286)
<b>Balance as at June 30, 2023</b>	<b>20,570</b>	<b>20,300</b>

As at June 30, 2023 and December 31, 2022, the contractual cash flows are as follows:

	30-06-2023	31-12-2022
. Up to 1 year	4,260	4,454
. Up to 2 years	3,576	4,067
. Up to 3 years	3,037	3,086
. Up to 4 years	2,934	2,989
. Up to 5 years	2,812	2,879
. More than 5 years	3,951	5,315
	<u>20,570</u>	<u>22,790</u>

## 18. MOVEMENT IN PROVISIONS AND IMPAIRMENT

This composition of this caption is as follows:

	30-06-2023	31-12-2022
<b>Impairment for guarantees and commitments given</b>	<b>48,539</b>	<b>49,705</b>
<b>Restructuring</b>	<b>58,694</b>	<b>65,653</b>
<b>Other provisions</b>		
Pensions and other post-employment defined benefit obligations	10,448	10,260
Tax issues	6,918	6,918
Legal issues and pending tax disputes	2,411	2,599
Other provisions	29,038	26,079
	<b>48,815</b>	<b>45,856</b>
<b>Technical provisions</b>	<b>588,185</b>	<b>624,880</b>
<b>Provisions</b>	<b>744,234</b>	<b>786,094</b>

The movement in Provisions and Impairment related to the banking activity during the first half of 2023 and 2022 was as follows:

	2023					30-06-2023
	31-12-2022	Increases	Reversals	Use	Transfers / Other	
Impairment for guarantees and commitments given (Note 24)	49,705	3,784	(4,950)	-	-	48,539
Restructuring	65,653	-	-	(6,959)	-	58,694
Other provisions	45,856	10,014	(2,098)	(457)	(4,500)	48,815
	<b>161,214</b>	<b>13,798</b>	<b>(7,048)</b>	<b>(7,416)</b>	<b>(4,500)</b>	<b>156,048</b>

	2022					30-06-2022
	31-12-2021	Increases	Reversals	Use	Transfers / Other	
Impairment for guarantees and commitments given (Note 24)	51,179	2,301	(5,216)	-	-	48,264
Restructuring	87,204	-	-	(18,249)	-	68,955
Other provisions	70,792	7,102	(3,437)	(1,682)	(2,000)	70,775
	<b>209,175</b>	<b>9,403</b>	<b>(8,653)</b>	<b>(19,931)</b>	<b>(2,000)</b>	<b>187,994</b>

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



The movement in Impairment during the first half of 2023 and 2022 was as follows:

	2023						
	Balance as at 31-12-2022	Increases	Reversals of impairment losses	Use and other	Balance as at 30-06-2023	Recoveries of uncollectibles and other	Gains / Losses on loan sales
<b>Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss:</b>							
Impairment of debt securities (Note 9)	4,850	667	(3,005)	-	2,512	-	-
Impairment of loan and advances (Note 9)	942,068	71,918	(33,678)	(1,916)	978,392	(1,456)	597
Impairment of financial assets at fair value through other comprehensive income (Note 8)	24	-	(24)	-	-	-	-
	946,942	72,585	(36,707)	(1,916)	980,904	(1,456)	597
<b>Impairment or reversal of impairment on non-financial assets:</b>							
Non-current assets held for sale (Note 15)	44,187	499	(421)	(19,834)	24,431	-	-
Property, plant and equipment (Note 12)	6,147	-	-	-	6,147	-	-
Other assets (Note 14)	57,332	2,458	(6,193)	(17,288)	36,309	-	-
	107,666	2,957	(6,614)	(37,122)	66,887	-	-
<b>2022</b>							
	Balance as at 31-12-2021	Increases	Reversals of impairment losses	Use and other	Balance as at 30-06-2022	Recoveries of uncollectibles and other	Gains / Losses on loan sales
<b>Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss:</b>							
Impairment of debt securities	5,622	150	(1,555)	-	4,217	-	-
Impairment of loan and advances	1,014,556	60,609	(57,491)	(974)	1,016,700	(3,412)	567
Impairment of financial assets at fair value through other comprehensive income	52	-	(24)	-	28	-	-
	1,020,230	60,759	(59,070)	(974)	1,020,945	(3,412)	567
<b>Impairment or reversal of impairment on non-financial assets:</b>							
Non-current assets held for sale (Note 15)	43,973	13,618	(4,520)	(6,884)	46,187	-	-
Property, plant and equipment (Note 12)	6,147	-	-	-	6,147	-	-
Other assets	102,119	3,190	(10,623)	(7,299)	87,387	-	-
	152,239	16,808	(15,143)	(14,183)	139,721	-	-

The movement in the technical provisions related to the insurance activity during the first half of 2023 and financial year 2022 was as follows:

	Amounts in profit or loss for the period						Balance as at 30-06-2023
	Balance as at 31-12-2022	Change in provisions	Change in provisions for claims	Change in shadow reserve	Settlements	Transfers through profit-sharing distribution Other	
<b>Assets for technical provisions of reinsurance ceded (Note 14)</b>							
<b>Life insurance</b>							
. Provision for unearned premiums	2,539	618	-	-	-	-	3,157
. Mathematical provision	11	(3)	-	-	-	-	8
. Deferred acquisition costs of the mathematical provision	(1)	-	-	-	-	-	(1)
. Provision for claims	18,652	-	(5,421)	-	-	-	13,231
. Provision for profit sharing	143	402	-	-	(474)	-	71
<b>Total assets for technical provisions of reinsurance ceded</b>	<b>21,344</b>	<b>1,017</b>	<b>(5,421)</b>	<b>-</b>	<b>(474)</b>	<b>-</b>	<b>16,466</b>
<b>Liabilities for technical provisions of direct insurance</b>							
<b>Life insurance</b>							
. Provision for unearned premiums	(2,561)	(766)	-	-	-	-	(3,327)
. Mathematical provision	(589,575)	30,839	-	-	-	(22)	(589,759)
. Deferred acquisition costs of the mathematical provision	1	-	-	-	-	-	-
. Provision for claims	(25,477)	-	6,718	-	-	-	(18,762)
. Provision for profit sharing	(350)	(166)	-	(87)	161	22	(420)
. Other technical provisions	(6,918)	-	-	-	-	-	(6,918)
<b>Total liabilities for technical provisions of direct insurance</b>	<b>(624,880)</b>	<b>29,907</b>	<b>6,718</b>	<b>(87)</b>	<b>161</b>	<b>-</b>	<b>(588,186)</b>
<b>Amounts in profit or loss for the year</b>							
	Balance as at 31-12-2021	Change in provisions	Change in provisions for claims	Change in shadow reserve	Settlements	Transfers through profit-sharing distribution	Balance as at 31-12-2022
<b>Assets for technical provisions of reinsurance ceded (Note 14)</b>							
<b>Life insurance</b>							
. Provision for unearned premiums	2,672	(133)	-	-	-	-	2,539
. Mathematical provision	62	(51)	-	-	-	-	11
. Deferred acquisition costs of the mathematical provision	(1)	-	-	-	-	-	(1)
. Provision for claims	17,037	-	1,615	-	-	-	18,652
. Provision for profit sharing	-	618	-	-	(475)	-	143
<b>Total assets for technical provisions of reinsurance ceded</b>	<b>19,770</b>	<b>434</b>	<b>1,615</b>	<b>-</b>	<b>(475)</b>	<b>-</b>	<b>21,344</b>
<b>Liabilities for technical provisions of direct insurance</b>							
<b>Life insurance</b>							
. Provision for unearned premiums	(2,743)	182	-	-	-	-	(2,561)
. Mathematical provision	(611,840)	22,287	-	-	-	(22)	(589,575)
. Deferred acquisition costs of the mathematical provision	1	-	-	-	-	-	1
. Provision for claims	(23,848)	-	(1,629)	-	-	-	(25,477)
. Provision for profit sharing	(31,699)	(193)	-	31,310	210	22	(350)
. Other technical provisions	(6,787)	(131)	-	-	-	-	(6,918)
<b>Total liabilities for technical provisions of direct insurance</b>	<b>(676,916)</b>	<b>22,145</b>	<b>(1,629)</b>	<b>31,310</b>	<b>210</b>	<b>-</b>	<b>(624,880)</b>

The technical provisions set up for the Life insurance contracts represent, as a whole, the commitments assumed with the insured, which include those relating to profit sharing to which they have already acquired rights.

Mathematical provisions were calculated using mortality tables PF60/64, GKF80, GRF95 and GRM95 for insurance in case of life and PM60/64, GKM80 and GKM95 for insurance in case of death. The technical interest rates (discount rates) were 3% and 4%, respectively. For modalities without profit sharing, the technical rate used is the guaranteed rate of return for the product. Most of the insurance contracts are temporary annual renewables.

19. SHARE CAPITAL REPAYABLE ON DEMAND

As at June 30, 2023 and December 31, 2022, this caption represented the participation units of the Novimovest Fund not owned by the Group.

20. OTHER LIABILITIES

The composition of this caption is as follows:

	30-06-2023	31-12-2022
Staff expenses	64,023	71,720
General administrative expenses	71,198	63,417
Other charges	9,795	8,454
Other direct insurance and reinsurance liabilities	20,179	7,196
Other deferred income	9,623	9,150
Other		
SEPA transfers	304,968	99,070
Other values in transit and other transactions to be settled	100,895	91,269
	580,681	350,276

21. EQUITY

As at June 30, 2023 and December 31, 2022, Santander Totta, SGPS, S.A.'s share capital was represented by 197,296,207,958 shares with a par value of one cent each, fully subscribed and paid up by the following shareholders:

	30-06-2023			31-12-2022		
	Number of shares	Shareholding %	Amount	Number of shares	Shareholding %	Amount
Santander Group	196,996,017,344	99.85%	1,969,960	196,996,017,344	99.85%	1,969,960
Other	177,566,258	0.09%	1,776	179,257,042	0.09%	1,793
Treasury shares	122,624,356	0.06%	1,226	120,933,572	0.06%	1,209
	197,296,207,958	100.00%	1,972,962	197,296,207,958	100.00%	1,972,962

As described in the Introductory Note, Santander Totta was incorporated on December 16, 2004 as part of the demerger / merger operation of totta. The share capital was paid up in kind by the Company's shareholders, through the delivery of the shares of financial holdings in Foggia, SGPS and in Totta Seguros - Companhia de Seguros de Vida, which were demerged from the net assets of totta at their book value.

Thus, on December 31, 2004, the share capital of Santander Totta was represented by 150,879,442,125 shares, with a par value of one cent each, being fully subscribed and paid up.

On April 21, 2005, the merger by incorporation of Foggia, SGPS into Santander Totta was carried out. As a result, the Company's share capital was increased, coming to be represented by 197,296,207,958 ordinary shares, with a par value of one cent each, with a merger reserve of Euros 640,575 thousand having also been recorded.

#### Treasury shares

During 2022, the Company purchased 3,883,629 treasury shares for Euros 81 thousand.

During the first half of 2023, the Company purchased 1,690,784 treasury shares for Euros 30 thousand.

Under the terms of article 66 (5)(d) of the Portuguese Commercial Companies Code, it is hereby informed that, on June 30, 2023, the Company holds 122,624,356 own shares, with the par value of one cent each.

#### Equity instruments issued other than share capital

On January 14, 2021, the Company realised a third issue of "€ 400,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments" bonds that qualify for the capital Tier 1 ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV – Capital Requirements Directive). This operation has no set term, has a call option by the Company from the end of the 5th year, and an interest rate of 4.9% per annum during the first 5 years. As it is an Additional Tier 1 instrument, the corresponding interest payment is decided at the discretion of the Company and is subject to compliance with several conditions. The issue of this instrument was realised after approval by the European Central Bank.

### Accumulated other comprehensive income

As at June 30, 2023 and December 31, 2022, the breakdown of the Accumulated other comprehensive income reserves was as follows:

	30-06-2023	31-12-2022
<b>Gross effect of the valorisations</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Actuarial gains or losses on defined benefit pension plans	(679,546)	(700,140)
Fair value changes of equity instruments measured at fair value through other comprehensive income	78,111	75,978
Share of other recognised income and expense of entities accounted for using the equity method	-	(112)
<b>Total of Items that will not be reclassified to profit or loss</b>	<u>(601,435)</u>	<u>(624,274)</u>
<b>Items that may be reclassified to profit or loss</b>		
Cash flow hedges reserve [effective part]	-	(152,824)
Fair value changes of debt instruments at fair value through other comprehensive income	330,613	295,196
Fair value changes of insurance liabilities (shadow reserve)	83,133	(74)
Share of other recognised income and expense of entities accounted for using the equity method	(1,700)	(5,164)
<b>Total of Items that may be reclassified to profit or loss</b>	<u>412,046</u>	<u>137,134</u>
<b>Tax effect</b>		
<b>Items that will not be reclassified to profit or loss – tax effect</b>		
Actuarial gains or losses on defined benefit pension plans	204,207	204,206
Fair value changes of equity instruments measured at fair value through other comprehensive income	(2,000)	(1,339)
Share of other recognised income and expense of entities accounted for using the equity method	-	861
<b>Total of Items that will not be reclassified to profit or loss – tax effect</b>	<u>202,207</u>	<u>203,728</u>
<b>Items that may be reclassified to profit or loss – tax effect</b>		
Cash flow hedges reserve [effective part]	-	47,376
Fair value changes of debt instruments at fair value through other comprehensive income		
Fair value changes of debt securities at fair value through other comprehensive income	(31,574)	(31,678)
Fair value changes of loans and advances at fair value through other comprehensive income	(74,156)	(63,434)
Fair value changes of insurance liabilities (shadow reserve)	(19,536)	17
Share of other recognised income and expense of entities accounted for using the equity method	464	1,384
<b>Total of Items that may be reclassified to profit or loss – tax effect</b>	<u>(124,802)</u>	<u>(46,335)</u>
<b>Accumulated other comprehensive income</b>	<u>(111,984)</u>	<u>(329,747)</u>

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

The captions “Retained earnings” and “Other reserves” had the following composition:

	30-06-2023	31-12-2022
Retained earnings	<u>396.780</u>	<u>322</u>
Other reserves		
Legal reserve	394,592	369,799
Merger reserves	640,575	640,575
Consolidated reserves		
Companies consolidated under the full consolidation method	(123,416)	815,228
Companies consolidated under the equity method	<u>17,926</u>	<u>27,993</u>
	<u>929,677</u>	<u>1,853,595</u>

On February 28, 2022, the General Meeting deliberated to distribute dividends on retained earnings in the amount of Euros 482,855 thousand.

On May 4, 2022, the General Meeting deliberated to distribute dividends in respect of the year 2021 in the amount of Euros 49,049 thousand.

On July 27, 2022, the Supervisory Board approved the Board of Directors' distribution of an interim dividend on the 2022 profits in the amount of Euros 677,925 thousand.

On March 31, 2023, the General Meeting deliberated to distribute dividends in respect of the year 2022 in the amount of Euros 677,925 thousand already distributed in 2022 and Euros 409,775 thousand to be distributed in 2023.

#### Retained earnings

This caption recognises undistributed profits or losses of prior years.

#### Legal reserve

In accordance with the provisions of Decree-Law 298/92, of December 31, amended by Decree-Law 201/2002, of September 26, the Company had been setting aside a legal reserve until same equalled 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 was annually transferred to this reserve, until achieving said amount.

According to the opinion issued by its legal advisors, the Company, pursuant to Decree-Law No. 109-H/2021, of December 10, which reworded Article 2 A of the RGICSF, is no longer considered a financial company and no longer applies Article 97 of Decree-Law No. 201/2002, of September 26, being now considered a financial institution, and applying Article 295 of the Commercial Companies Code, which establishes that at least 5% of the annual net income must be set aside to reinforce the legal reserve until it represents at least 20% of the share capital.

This reserve may only be used to cover accumulated losses or to increase 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 incorporates the impacts of changes in accounting policies and the impacts arising from the sale of equity instruments, as well as the distribution of income – "Additional Tier 1 Instruments".

## 22. PROFIT OR LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

In the period ended June 30, 2023 and financial year ended December 31, 2022, the determination of the consolidated profit can be summarised as follows:

	30-06-2023		31-12-2022	
	Profit or loss for the period	Contribution to the consolidated profit or loss	Profit or loss for the year	Contribution to the consolidated profit or loss
Profit or loss of ST SGPS (individual basis)	553,458	553,458	1,508,288	1,508,288
Profit or loss of other Group companies:				
Banco Santander Totta, S.A.	344,234	344,100	603,685	603,449
Totta (Ireland), Plc.	12,172	12,167	4,028	4,026
Unicre, Instituição Financeira de Crédito, S.A.	-	-	23,512	5,138
Santander Totta Seguros, S.A.	18,099	18,099	14,611	14,611
TottaUrbe, Empresa de Administração e Construções, S.A.	(5,089)	(5,087)	(10,105)	(10,101)
Aegon Santander Portugal Vida - Companhia de Seguros, S.A.	7,928	3,884	20,279	9,937
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	8,683	4,255	11,654	5,710
Novimovest - Fundo de Investimento Imobiliário Aberto	595	468	3,395	2,672
Taxagest, S.A.	94	94	(8)	(8)
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	163	163	196	196
Mapfre Santander Portugal Co. Seguros	(162)	(81)	(470)	(235)
		378,062		635,395
Annulment of dividends received:				
Banco Santander Totta, S.A.		(550,249)		(1,505,904)
Totta (Ireland), PLC		(4,860)		(8,734)
Unicre - Instituição Financeira de Crédito, S.A.		(4,354)		(3,833)
Aegon Santander Portugal Vida e Não Vida - Companhia de Seguros Vida, S.A.		(14,874)		(11,960)
		(574,337)		(1,530,431)
Adjustments related to securitisation operations		5,254		(4,433)
Annulment of the UNICRE valorisation in BST		(31,172)		-
Other		2,404		(2,092)
		(23,514)		(6,525)
		333,669		606,727

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

	30-06-2023	30-06-2022
Consolidated profit or loss attributable to owners of the parent	333,669	241,344
Weighted average number of ordinary shares issued	197,296,207,958	197,296,207,958
Weighted average number of treasury shares	122,624,356	119,259,791
Weighted average number of ordinary shares outstanding	197,174,727,357	197,177,454,916
Basic earnings per share attributable to owners of the parent (Euros)	0.0017	0.0012

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.

## 23. MINORITY INTERESTS [NON-CONTROLLING INTERESTS]

In the first half of 2023 and financial year 2022, the value of non-controlling interests in the balance sheet and statement of profit or loss corresponds to the proportion of the holdings of third parties in the Company's share capital.

## 24. OFF-BALANCE-SHEET ITEMS

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

	30-06-2023	31-12-2022
Guarantees given and other contingent liabilities		
Guarantees and sureties	348,490	340,183
Loan commitments granted		
Revocable	6,636,643	7,222,184
Irrevocable	648,793	812,140
	<u>7,285,436</u>	<u>8,034,324</u>
Other commitments granted		
Non-financial guarantees and sureties	1,535,999	1,485,832
Documentary credits outstanding	264,178	242,819
Deposit Guarantee Fund	68,969	68,969
European Resolution Fund	26,451	-
Investor Indemnity System	6,947	6,539
Other commitments granted	84	84
	<u>1,902,628</u>	<u>1,804,243</u>
	<u>9,536,554</u>	<u>10,178,750</u>
Assets pledged as guarantee		
Bank of Portugal	172,617	146,457
Deposit Guarantee Fund	81,950	81,046
European Resolution Fund	26,451	-
Investor Indemnity System	9,106	7,204
Assets pledged as guarantee in monetary policy operations	10,203,952	12,087,705
	<u>10,494,076</u>	<u>12,322,412</u>
Liabilities for services provided		
Deposit and custodianship services	36,978,680	34,268,965
Values received for collection	644,443	631,286
	<u>37,623,123</u>	<u>34,900,251</u>

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:

	30-06-2023							
	Exposure				Impairment (Note 18)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan commitments granted	6,831,165	446,385	7,886	7,285,436	6,558	3,421	43	10,022
Financial guarantees	319,261	6,118	23,111	348,490	582	383	15,059	16,024
Other commitments granted	1,744,362	42,882	115,384	1,902,628	728	682	21,083	22,493
	<u>8,894,788</u>	<u>495,385</u>	<u>146,381</u>	<u>9,536,554</u>	<u>7,868</u>	<u>4,486</u>	<u>36,185</u>	<u>48,539</u>



	31-12-2022							
	Exposure				Impairment (Note 18)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan commitments granted	7,497,591	528,207	8,526	8,034,324	6,710	4,960	28	11,698
Financial guarantees	309,108	8,004	23,071	340,183	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
	9,437,073	582,090	159,587	10,178,750	8,105	6,172	35,428	49,705

### 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 items at their market value. In the first half of 2023 and 2022, the Bank paid 100% of the annual contribution in the amounts of Euros 321 thousand and Euros 532 thousand, respectively (Note 34).

### Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as expenses. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at June 30, 2023 and December 31, 2022, these liabilities amounted to Euros 9,106 thousand and Euros 7,204 thousand, respectively.

## 25. NET INTEREST INCOME

The composition of this caption is as follows:

	30-06-2023			30-06-2022		
	Income	Expenses	Net	Income	Expenses	Net
<b>Assets</b>						
Financial assets held for trading	11,305	-	11,305	-	-	-
Cash and deposits at central banks and credit institutions	115,013	-	115,013	163	(15,741)	(15,578)
Financial assets at fair value through profit or loss	6	-	6	-	-	-
Financial assets at fair value through other comprehensive income						
Loans and advances	36,048	-	36,048	36,651	-	36,651
Debt securities	30,951	(194)	30,757	30,737	(131)	30,606
Financial assets at amortised cost						
Loans and advances - Credit institutions	5,199	-	5,199	664	-	664
Debt securities	42,925	-	42,925	24,221	-	24,221
Loans and advances - Customers						
Interest	638,127	(1,904)	636,223	246,714	(1,253)	245,461
Financial commissions	40,469	(15,153)	25,316	35,813	(11,155)	24,658
Hedge accounting	210,599	(307,383)	(96,784)	113,510	(112,800)	710
Other assets	10	-	10	1	-	1
<b>Liabilities</b>						
Financial liabilities held for trading	-	(11,335)	(11,335)	-	-	-
Financial liabilities at amortised cost						
Deposits - Central banks	-	(57,144)	(57,144)	56,816	-	56,816
Deposits - Credit institutions	-	(42,264)	(42,264)	-	(1,914)	(1,914)
Deposits - Customers	-	(37,730)	(37,730)	-	(2,916)	(2,916)
Debt securities issued	-	(70,597)	(70,597)	-	(28,407)	(28,407)
Other financial liabilities	-	-	-	-	-	-
Lease liabilities	-	(217)	(217)	-	(179)	(179)
Other	-	(277)	(277)	-	(534)	(534)
	<u>1,130,652</u>	<u>(544,198)</u>	<u>586,454</u>	<u>545,290</u>	<u>(175,030)</u>	<u>370,260</u>

## 26. DIVIDEND INCOME

This caption refers to dividends and income received and has the following composition:

	30-06-2023	30-06-2022
SIBS - Sociedade Interbancária de Serviços, S.A.	1,664	3,643
Other	20	13
	<u>1,684</u>	<u>3,656</u>

## 27. 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:

	<u>30-06-2023</u>	<u>30-06-2022</u>
In joint ventures		
AEGON Santander Portugal Vida	3,884	5,028
AEGON Santander Portugal Não Vida	4,255	3,679
Mapfre Santander Portugal Co. Seguros	<u>(81)</u>	<u>(168)</u>
	8,058	8,539
In associates		
Unicre - Instituição Financeira de Crédito	<u>-</u>	<u>1,382</u>
	<u>8,058</u>	<u>9,921</u>

## 28. INCOME AND EXPENSES FROM FEES AND COMMISSIONS

The composition of these captions is as follows:

	<u>30-06-2023</u>	<u>30-06-2022</u>
<b>Fee and commission income</b>	<b>277,788</b>	<b>291,753</b>
Securities	7,373	8,297
Corporate finance	1,820	563
Asset management	1,443	1,030
Custodianship services	2,402	2,480
Payment services	136,639	145,127
Customer resources distributed but not managed [by type of product]	76,849	80,541
Structured financial instruments	15,195	6,187
Loan commitments granted	4,427	4,082
Financial guarantees given	2,022	2,005
Loans granted	22,039	30,225
Foreign currency	45	44
Other fee and commission income	7,531	11,172
<b>Fee and commission expenses</b>	<b>46,625</b>	<b>52,238</b>
Securities	3,294	2,891
Asset management	1,797	1,956
Payment services	32,009	36,300
Financial guarantees received	566	705
Other fee and commission expenses	8,959	10,386

## 29. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

The composition of these captions is as follows:

	<u>30-06-2023</u>	<u>30-06-2022</u>
<b>Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net</b>	<b>(22)</b>	<b>761</b>
Financial assets at fair value through other comprehensive income		
Debt instruments	(22)	-
Financial liabilities at amortised cost (Debt instruments)	-	761
<b>Gains or losses on financial assets and liabilities held for trading, net</b>	<b>815</b>	<b>6,269</b>
Derivative instruments	815	6,269
<b>Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net</b>	<b>1,070</b>	<b>3,880</b>
Equity instruments (Note 7)	1,070	3,880
<b>Gains or losses from hedge accounting, net</b>	<b>-</b>	<b>-</b>
Hedging derivatives	(55,272)	(573,022)
Hedged element	55,272	573,022
<b>Exchange differences, net</b>	<b>8,693</b>	<b>8,873</b>

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

The composition of this caption is as follows:

	<u>30-06-2023</u>	<u>30-06-2022</u>
Gains on investment property	151	1
Gains / Losses in investments in associates	1,386	-
Losses on investment property	(302)	(411)
	<u>1,235</u>	<u>(410)</u>

## 31. GROSS MARGIN FROM THE INSURANCE BUSINESS

The composition of the insurance gross margin is as follows:

	<u>30-06-2023</u>	<u>30-06-2022</u>
Gross margin of life insurance where the investment risks rest with the policyholder	5,809	2,742
Gross margin of insurance activity – Commissions of reinsurance ceded	10,018	10,804
Profit sharing of reinsurance ceded		
Costs with claims, net of reinsurance	(42,305)	(22,842)
Change in technical provisions, net of reinsurance	30,923	8,308
Interest and net income of assets allocated to technical provisions	4,851	4,920
Net gains / (losses) of assets allocated to technical provisions	2,016	1,806
Charges for services and commissions associated with technical provisions	(482)	(333)
	<u>5,021</u>	<u>2,663</u>

Technical provisions include liabilities for insurance contracts and financial liabilities for investment contracts with discretionary profit-sharing.

Financial liabilities for investment contracts without discretionary profit-sharing are not considered when determining the gross margin of the insurance activity.

### 32. OTHER OPERATING INCOME AND EXPENSES

The composition of these captions is as follows:

	<u>30-06-2023</u>	<u>30-06-2022</u>
Other operating income		
Rents earned	4,184	4,380
Income from sundry services rendered	1,369	1,277
Fair value changes of investment property	677	917
Other	<u>2,543</u>	<u>3,276</u>
	<u>8,773</u>	<u>9,850</u>
Other operating expenses		
Fair value changes of investment property	(2,051)	(901)
Charges with customers	(1,747)	(1,668)
Other	<u>(957)</u>	<u>(1,089)</u>
	<u>(4,755)</u>	<u>(3,658)</u>

The sub-caption “Rents earned” included the amounts of Euros 4,184 thousand and Euros 4,380 thousand, respectively, in respect of the rents earned by the Novimovest Real Estate Fund.

The sub-caption “Charges with customers” records expenses with internal and external fraud.

### 33. ADMINISTRATIVE EXPENSES

The composition of this caption is as follows:

#### Staff expenses

	<u>30-06-2023</u>	<u>30-06-2022</u>
Remuneration		
Management and supervisory bodies	1,952	1,957
Employees	90,678	85,500
Other variable remuneration	13,500	12,713
	<u>106,130</u>	<u>100,170</u>
Mandatory social charges		
Charges on remuneration	24,676	23,193
Pension funds (Note 36)	1,370	2,628
Other	421	407
	<u>26,467</u>	<u>26,228</u>
Other staff expenses		
Staff assignments	542	541
Complementary pension plan (Note 36)	230	210
Other	3,578	3,392
	<u>4,350</u>	<u>4,143</u>
	<u>136,947</u>	<u>130,541</u>

#### Other administrative expenses

	<u>30-06-2023</u>	<u>30-06-2022</u>
External supplies:	4,388	4,138
External services:		
Specialised services	41,920	40,466
Maintenance of IT software and hardware	31,600	27,333
Communications	2,939	2,632
Maintenance and repairs	1,642	1,398
Advertising and publishing	4,004	3,673
Other lease operations (short-term and low-value leases)	1,469	1,763
Travel, accommodation and entertainment expenses	1,731	1,355
Transportation	1,938	1,925
Insurance	1,223	1,161
Other services	2,394	2,094
Membership fees and donations	245	210
Other rates and taxes	792	862
	<u>96,285</u>	<u>89,010</u>

### 34. CASH CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

The composition of this caption is as follows:

	<u>30-06-2023</u>	<u>30-06-2022</u>
Contributions to the Resolution Fund		
National Resolution Fund	6,821	12,552
Single Resolution Fund	16,283	28,354
Contributions to the Deposit Guarantee Fund	321	532
Other	219	-
	<u>23,644</u>	<u>41,438</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 the first half of 2023 and financial year 2022, 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 22% and 15%, respectively, of the amount of the annual contribution. The annual contribution amounted to Euros 21,010 thousand and Euros 33,358 thousand, respectively.

### 35. 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:

	<u>30-06-2023</u>			<u>30-06-2022</u>		
	<u>Gains</u>	<u>Losses</u>	<u>Net</u>	<u>Gains</u>	<u>Losses</u>	<u>Net</u>
Assets received as payment in kind	3,473	(1,628)	1,845	4,622	(11,752)	(7,130)
Other non-financial assets	4,770	(4,128)	642	31,773	(8,010)	23,763
	<u>8,243</u>	<u>(5,756)</u>	<u>2,487</u>	<u>36,395</u>	<u>(19,762)</u>	<u>16,633</u>

### 36. 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 June 30, 2023 and December 31, 2022, as well as the respective coverage, are detailed as follows:

	Santander		BAPOP		Banif	
	30-06-2023	31-12-2022	30-06-2023	31-12-2022	30-06-2023	31-12-2022
Estimate of liabilities for past services:						
- Pensions:						
. Current employees	144,755	145,899	62,110	62,417	9,064	9,442
. Pensioners	63,214	61,044	6,923	6,870	10,837	10,749
. Retired staff and early retired staff	573,806	590,938	62,440	62,978	94,963	95,620
	781,775	797,881	131,473	132,265	114,864	115,811
- Healthcare system (SAMS)	127,912	128,503	8,228	8,068	14,693	14,658
- Death allowance	4,156	4,147	399	386	400	398
- Retirement bonus	5,625	5,345	-	-	723	683
	919,468	935,876	140,100	140,719	130,680	131,550
Coverage of liabilities:						
- Net assets of the Fund	1,003,464	1,008,553	176,170	173,365	89,916	91,671
Excess / (Insufficient funding) (Note 14)	83,996	72,677	36,070	32,646	(40,764)	(39,879)
Actuarial and financial deviations generated in the period						
- Change in assumptions	-	(211,728)	-	(43,691)	-	(29,283)
- Experience adjustments:						
. Other actuarial (gains) or losses	(1,841)	32,573	(1,176)	586	581	(6,871)
. Financial (gains) or losses	(13,191)	108,228	(3,080)	18,611	(273)	22,962
	(15,032)	140,801	(4,256)	19,197	308	16,091
	(15,032)	(70,927)	(4,256)	(24,494)	308	(13,192)



As at June 30, 2023 and December 31, 2022, the main assumptions used by the Bank to determine its liabilities for retirement pensions were as follows:

Mortality Table	
. Female	TV 99/01 <sup>(-2)</sup>
. Male	TV 88/90
Rate of return on pension fund assets	3.70%
Technical actuarial rate (discount rate)	3.70%
Salary growth rate	
. Year 2023	3.00%
. Year 2024	2.50%
. Year 2025	2.00%
. After 2025	0.75%
Pension growth rate	
. Year 2023	2.75%
. Year 2024	2.25%
. Year 2025	1.75%
. After 2025	0.50%

Decree-Law 167-E/2013, of December 31, changed the normal retirement age under the General Social Security Regime; however, the sustainability factor is no longer applicable to beneficiaries who retire at that age.

The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities.

The movement in liabilities for past services in the first half of 2023 and financial year 2022, can be detailed as follows:

	Santander		BAPOP		Banif	
	30-06-2023	31-12-2022	30-06-2023	31-12-2022	30-06-2023	31-12-2022
Liabilities at beginning of period	935,876	1,155,946	140,719	185,616	131,550	167,108
Cost of current services	534	2,507	192	714	123	-
Interest expense	16,542	12,256	1,981	1,673	2,350	-
Actuarial (gains) or losses	(1,841)	(179,155)	(1,176)	(43,105)	581	(36,154)
Early retirements	3,179	8,415	640	405	454	596
Amounts paid	(35,948)	(66,324)	(2,497)	(5,077)	(4,420)	-
Employee contributions	1,126	2,231	241	493	42	-
Liabilities at end of period	919,468	935,876	140,100	140,719	130,680	131,550

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 in the first half of 2023 and 2022 have the following composition (Note 33):

	30-06-2023	30-06-2022
Cost of current services	849	2,102
Interest expense	20,873	6,964
Income from assets calculated using the discount rate	<u>(20,873)</u>	<u>(6,964)</u>
Defined benefit plan	849	2,102
Defined contribution plan	515	499
London Branch plan	<u>6</u>	<u>27</u>
	<u>1,370</u>	<u>2,628</u>

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.

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 12 years, including those in active service and pensioners.

The movement in actuarial deviations during the first half of 2023 and financial year 2022 was as follows:

	Santander		BAPOP		Banif	
	30-06-2023	31-12-2022	30-06-2023	31-12-2022	30-06-2023	31-12-2022
Deviations at beginning of period	687,933	758,860	(22,991)	1,503	28,046	41,238
Actuarial (gains) or losses	(1,841)	(179,155)	(1,176)	(43,105)	581	(36,154)
Financial (gains) or losses	(13,191)	108,228	(3,080)	18,611	(273)	22,962
Deviations at end of period	<u>672,901</u>	<u>687,933</u>	<u>(27,247)</u>	<u>(22,991)</u>	<u>28,354</u>	<u>28,046</u>

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 June 30, 2023 and December 31, 2022, the number of participants of the Funds was the following:

	Santander		BAPOP		Banif	
	30-06-2023	31-12-2022	30-06-2023	31-12-2022	30-06-2023	31-12-2022
Current employees						
Defined benefit plan	3,102	3,137	631	636	149	156
Defined contribution plan	628	561	89	94	545	551
Pensioners	1,374	1,365	31	31	121	122
Retired staff and early retired staff	6,038	6,052	216	215	680	672
	11,142	11,115	967	976	1,495	1,501

The movement in the Bank's Pension Fund during the first half of 2023 and financial year 2022 was as follows:

	Santander		BAPOP		Banif	
	30-06-2023	31-12-2022	30-06-2023	31-12-2022	30-06-2023	31-12-2022
Fund value at beginning of period	1,008,553	1,164,211	173,365	194,073	91,671	92,220
Bank contributions (monetary)	-	4,407	-	814	-	22,413
Employee contributions	1,126	2,231	241	493	42	-
Profit or loss of the fund:						
Income from assets calculated using discount rate	16,542	12,256	1,981	1,673	2,350	-
Income of the fund above the discount rate	13,191	(108,228)	3,080	(18,611)	273	(22,962)
Amounts paid	(35,948)	(66,324)	(2,497)	(5,077)	(4,420)	-
Fund value at end of period	1,003,464	1,008,553	176,170	173,365	89,916	91,671

The yields of the Pension Fund amounted, in the first half of 2023, to 2.98% in Santander, 3.35% in BAPOP and 2.9% in Banif, and, in financial year 2022, to (8.4%) in Santander, (8.21%) in BAPOP and (13.70%) 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 Fund's Managing Company may opt for a more or less conservative policy by increasing or decreasing the exposure to shares or bonds, according to its expectations as to the evolution of the markets, and in accordance with the defined investment limits.

The investment policy of the Pension Fund in force provides for the following limits:

Asset class	Buckets considered
Bonds	40% to 95%
Real estate	0% to 25%
Equities	0% to 20%
Liquidity	0% to 15%
Alternatives	0% to 10%
Commodities	0% to 5%

As at June 30, 2023 and December 31, 2022, the composition of the Pension Fund was as follows:

	Santander		BAPOP		Banif	
	30-06-2023	31-12-2022	30-06-2023	31-12-2022	30-06-2023	31-12-2022
Debt instruments:						
. Rating A	25,188	28,827	5,280	7,565	-	23,818
. Rating AA	39,955	22,644	9,423	5,367	-	2,216
. Rating AAA	70,696	24,691	16,791	6,055	-	-
. Rating BBB	231,243	300,806	63,093	74,400	8,916	2,074
. Rating BB	16,180	18,270	3,406	3,354	3,669	5,015
. Without rating	11,502	11,427	1,037	1,024	472	457
Real estate funds	81,364	93,840	682	691	-	-
Securities funds	483,441	453,468	69,070	67,849	61,796	40,947
Deposits	6,900	16,926	8,168	6,595	1,884	3,886
Real estate						
. Commercial spaces	19,634	19,634	-	-	12,456	12,456
. Land	1,297	1,297	-	-	-	-
Equity instruments:						
. Portuguese shares – listed	-	-	-	-	818	872
. Foreign shares – listed	-	-	-	-	-	-
Derivative financial instruments	175	293	90	-	-	-
Other	15,889	16,430	(870)	465	(95)	(70)
	<u>1,003,464</u>	<u>1,008,553</u>	<u>176,170</u>	<u>173,365</u>	<u>89,916</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 39), was as follows:

	30-06-2023				31-12-2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	493,840	-	13,011	506,851	525,102	-	12,908	538,010
Investment funds	614,307	-	82,046	696,353	562,264	-	94,531	656,795
Equity instruments	-	-	818	818	-	-	872	872
Derivative financial instruments	265	-	-	265	293	-	-	293
Real estate	-	-	33,387	33,387	-	-	33,387	33,387
Other	-	-	31,876	31,876	-	-	44,232	44,232
	<u>1,108,412</u>	<u>-</u>	<u>161,138</u>	<u>1,269,550</u>	<u>1,087,659</u>	<u>-</u>	<u>185,930</u>	<u>1,273,589</u>

The Pension Fund's portfolio included the following assets related to companies of the Santander Group in Portugal:

	30-06-2023	31-12-2022
Leased real estate	13,446	13,446
Securities (including units in funds managed)	163,390	200,151
	<u>176,836</u>	<u>213,597</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 the first half of 2023 and 2022, the premium paid by the Bank amounted to Euros 230 thousand and Euros 210 thousand, respectively (Note 33).

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 June 30, 2023 and December 31, 2022, the main assumptions used in the calculation of retirement pension liabilities related to the pension plan covering the employees of the Bank's former London Branch were as follows:

	<u>30-06-2023</u>	<u>31-12-2022</u>
	100% S3NMA_Light / 100% S3NFA_Light	100% S3NMA_Light / 100% S3NFA_Light
Mortality table		
Technical actuarial rate (discount rate)	5.2%	4.8%
Salary growth rate	3.1%	3.0%
Pension growth rate	2.2%	2.2%
Inflation rate	3.1%	3.0%

As at June 30, 2023 and December 31, 2022, the liabilities for the defined benefit pension plan and their coverage were as follows:

	<u>30-06-2023</u>	<u>31-12-2022</u>
Estimated liabilities for past service	30,269	31,143
Coverage of liabilities	32,973	32,231
Excess / (Insufficient) funding (Note 14)	2,704	1,088

The movement in liabilities for past services in the first half of 2023 and financial year 2022, can be detailed as follows:

	<u>30-06-2023</u>	<u>31-12-2022</u>
Liabilities at beginning of period	31,143	52,915
Cost of current services	6	27
Interest expense	748	891
Actuarial (gains) or losses	(625)	(21,476)
Amounts paid	(1,003)	(1,214)
Liabilities at end of period	30,269	31,143

The movement in the Fund in the first half of 2023 and financial year 2022 was as follows:

	<u>30-06-2023</u>	<u>31-12-2022</u>
Book value at beginning of period	32,231	49,938
Profit or loss of the fund:		
. Income from assets calculated using discount rate	748	865
. Income of the fund above / (below) the discount rate	970	(17,374)
Bank contributions	27	16
Amounts paid	<u>(1,003)</u>	<u>(1,214)</u>
Book value at end of period	<u>32,973</u>	<u>32,231</u>

The movement in actuarial deviations for the period indicated was as follows:

	<u>30-06-2023</u>	<u>31-12-2022</u>
Deviations at beginning of period	7,428	11,530
Actuarial (gains) / losses	(625)	(21,476)
Financial (gains) / losses	<u>(996)</u>	<u>17,374</u>
Deviations at end of period	<u>5,807</u>	<u>7,428</u>

As at June 30, 2023 and December 31, 2022, the portfolio of the Pension Fund of the former London Branch included the following assets:

	<u>30-06-2023</u>	<u>31-12-2022</u>
Debt instruments	11,265	11,784
Equity instruments	12,309	12,503
Other	<u>9,399</u>	<u>7,944</u>
Fund value	<u>32,973</u>	<u>32,231</u>

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.

### 37. SECURITISATION OPERATIONS

#### Description of the operations

Between July 2003 and January 2018, the Bank securitised part of its mortgage-loan portfolio through thirteen operations, 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, in their entirety, acquired by the Bank.

The Fundos Hipototta (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 Fundos Hipototta (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 Fundos Hipototta (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 delivered all amounts received from the Bank and from the Directorate General of the Treasury to Fundos Hipototta (nº 4 and nº 5) PLC, separating the instalments into principal and interest.

As a form of funding, Fundos Hipototta (nº 4 and nº 5) PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration.

As at June 30, 2023, the outstanding issued bonds have the following characteristics:

Issued debt	Hipototta nº 4 PLC							
	Amount		Rating	Redemption date	Early redemption date	Remuneration		
	Initial	Current	Fitch			Up to early redemption date	After early redemption date	
Class A	2,616,040	306,394	A+	September, 2048	December, 2014	Euribor 3 m + 0.12%	Euribor 3 m + 0.24%	
Class B	44,240	11,147	A+	September, 2048	December, 2014	Euribor 3 m + 0.19%	Euribor 3 m + 0.40%	
Class C	139,720	35,204	BBB+	September, 2048	December, 2014	Euribor 3 m + 0.29%	Euribor 3 m + 0.58%	
	<u>2,800,000</u>	<u>352,745</u>						
Class D	14,000	7,000	NR	September, 2048	December, 2014	Residual income of the securitised portfolio		
	<u>2,814,000</u>	<u>359,745</u>						

Hipototta nº 5 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P	Moody's			Up to early redemption date	After early redemption date
Class A1	200,000	-			February, 2060	February, 2014	Euribor 3 m + 0.05%	Euribor 3 m + 0.10%
Class A2	1,693,000	271,701	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>378,701</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>384,701</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, May 30, August 31 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 the 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	Current	S&P	Fitch		Up to early redemption date
Class A	349,100	72,920	AA+	AA+	September, 2060	Euribor 3 m + 0.33%
Class B	18,400	9,078	AA+	AA+	September, 2060	Euribor 3 m + 0.95%
Class C	7,500	3,700	A+	A+	September, 2060	Euribor 3 m + 1.65%
	<u>375,000</u>	<u>85,698</u>				
Class D	16,125	8,332	NR	NR	September, 2060	Residual income of the securitised portfolio
	<u>391,125</u>	<u>94,030</u>				

### 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	Current	S&P	Fitch		Up to early redemption date
Class A	558,600	128,301	AA+	AA	August, 2061	Euribor 3 m + 0.2%
Class B	41,400	18,400	NR	NR	August, 2061	Euribor 3 m + 0.5%
	<u>600,000</u>	<u>146,701</u>				
Class C	57,668	33,477	NR	NR	August, 2061	Residual income of the securitised portfolio
	<u>657,668</u>	<u>180,178</u>				

### 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	Current	S&P	Fitch		Up to early redemption date
Class A	514,250	140,309	AA+	AA+	December, 2064	Euribor 3 m + 0.15%
Class B	35,750	15,452	NR	NR	December, 2064	Euribor 3 m + 0.3%
	<u>550,000</u>	<u>155,761</u>				
Class C	74,250	43,392	NR	NR	December, 2064	Residual income of the securitised portfolio
	<u>624,250</u>	<u>199,153</u>				

### 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	Current	S&P	Fitch		Up to early redemption date
Class A	1,716,000	587,849	NR	A+(sf)	October, 2072	Euribor 3 m + 0.6%
Class B	484,000	484,000	NR	NR	October, 2072	Euribor 3 m + 1%
	<u>2,200,000</u>	<u>1,071,849</u>				
Class C	66,000	36,253	NR	NR	October, 2072	Residual income of the securitised portfolio
	<u>2,266,000</u>	<u>1,108,102</u>				
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	Current	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	5,200	NR	NR	June, 2033	Euribor 3 m + 12.5%
	<u>656,500</u>	<u>655,200</u>				
Class X	9,430	5,952	NR	NR	June, 2033	Residual income of the securitised portfolio
	<u>665,930</u>	<u>661,152</u>				

During the financial year 2022, the Azor Mortgage No. 2 and Atlantes Mortgages No. 5 and No. 7 were liquidated.

### 38. RELATED ENTITIES

The Company's related entities with which it maintained balances or transactions in the first half of 2023 are as follows:

<u>Name of the related entity</u>	<u>Registered office</u>
<b><u>Entities that directly or indirectly control the Group</u></b>	
Banco Santander, S.A.	Spain
<b><u>Entities under direct or indirect control by the Group</u></b>	
Banco Santander Totta, S.A.	Portugal
Gamma - Sociedade de Titularização Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, SGPS, S.A.	Portugal
Totta (Ireland), PLC	Ireland
Santander Totta Seguros - Comp <sup>a</sup> de Seguros De Vida, S.A.	Portugal
Tottaurbe - Emp. Admin. e Construções, S.A.	Portugal
<b><u>Entities significantly influenced and joint ventures controlled by the Group</u></b>	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Mapfre Santander Portugal, Co. Seguros	Portugal
<b><u>Special Purpose Vehicles directly or indirectly controlled by the Group</u></b>	
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
<b>Entities under direct or indirect common control by the Group</b>	
Open Bank, S.A.	Spain
Santander Consumer Finance, S.A.	Spain
Banco Santander (Brasil) S.A.	Brazil
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Asset Management, S.A. SGIIIC.	Spain
Santander Back-Offices Globales Mayoristas, S.A.	Spain
Santander Global Services, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Consumer Bank A.S.	Norway
Retama Real Estate, S.A.	Spain
CCPT - ComprarCasa Rede Serviços Imobiliários, S.A.	Portugal
Gesban Servicios Administrativos Globales, S.L.	Spain
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Getnet Europe, Entidad de Pago, S.L. Unipersonal	Spain
Santander Bank, National Association	USA
Santander Bank Polska S.A.	Poland
Santander UK Group Holdings plc	United Kingdom
Santander Consumer Services, S.A.	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Santander Global Technology and Operations, S.L. Unipersonal	Spain
PagoNxt Trade Services, S.L.	Spain
CACEIS	France
Relevante e Astuto, S.A.	Portugal
PDC Digital, Lda.	Portugal
Consulteam Consultores de Gestão, Unipessoal, Lda.	Portugal
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Bank AG	Germany
Banco Santander International SA	Switzerland
Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México	Mexico
Santander Investment, S.A.	Spain
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Ibérica de Compras Corporativas, S.L.	Spain
Unión de Créditos Inmobiliarios, S.A., EFC	Spain
Santander Financial Services plc	United Kingdom

The Company's related entities with which it maintained balances or transactions in financial year 2022 are as follows:

Name of the related entity	Registered office
<b><u>Entities that directly or indirectly control the Group</u></b>	
Banco Santander, S.A.	Spain
<b><u>Entities under direct or indirect control by the Group</u></b>	
Banco Santander Totta, S.A.	Portugal
Gamma - Sociedade de Titularização Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, SGPS, S.A.	Portugal
Totta (Ireland), PLC	Ireland
Santander Totta Seguros - Comp <sup>a</sup> de Seguros De Vida, S.A.	Portugal
Tottaurbe - Emp. Admin. e Construções, S.A.	Portugal
<b><u>Entities significantly influenced and joint ventures controlled by the Group</u></b>	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Mapfre Santander Portugal-Companhia de Seguros	Portugal
<b><u>Special Purpose Vehicles directly or indirectly controlled by the Group</u></b>	
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
<b>Entities under direct or indirect common control by the Group</b>	
Abbey National Treasury Services plc	United Kingdom
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	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 Unipessoal	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
Open Bank Santander Consumer, S.A.	Spain
PagoNxt Trade Services, S.L.	Spain
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Santander Consumer Services, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank, National Association	USA
Santander Consumer Bank A.S.	Norway
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Global Facilities, S.L.	Spain
Santander Global Technology, S.L., Soci	Spain
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander UK Group Holdings plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários, SA	Spain

As at June 30, 2023 and December 31, 2022, the balances and transactions maintained during these periods / years with related parties were as follows:

	30-06-2023		
	Entities that directly or indirectly control the Group	Entities significantly influenced and joint ventures controlled by the Group	Entities under direct or indirect common control by the Group
<b>Assets:</b>			
Cash balances in other credit institutions	389,610	-	1,754
Financial assets held for trading	759,169	-	-
Financial assets at fair value through other comprehensive income	44,563	-	133
Financial assets at amortised cost	126,996	8	81,899
Derivatives - hedge accounting	174,098	-	-
Investments in subsidiaries, joint ventures and associates	-	64,820	-
Intangible assets	-	-	4,403
Other assets	13	7,077	900
<b>Liabilities:</b>			
Financial liabilities held for trading	685,772	-	-
Financial liabilities measured at amortised cost			
Deposits - Credit institutions	818,297	-	27,278
Deposits - Customers	-	19,866	42,256
Debt securities issued	1,348,166	-	-
Other financial liabilities	-	2	1
Derivatives - hedge accounting	4,974	-	-
Provisions	-	-	2
Other liabilities	5,361	-	13,483
<b>Profit or Loss:</b>			
Interest income	190,407	-	1,544
Interest expenses	172,545	1	152
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for under the equity method	-	8,058	-
Fee and commission income	294	42,884	1,638
Fee and commission expenses	-	-	1,935
Gains or losses on financial assets and liabilities at fair value through profit or loss, net	(21,839)	-	-
Gross margin of life insurance where risks rest with the policyholder	(6)	-	49
Gross margin of insurance activity	348	-	-
Exchange differences, net	357	-	-
Administrative expenses	5,504	-	28,665
Depreciation	-	-	1,337
Other operating income and expenses, net	-	4	2
<b>Off-balance-sheet items:</b>			
Financial guarantees given	16,101	-	1,769
Loan commitments granted	55,269	6	3,371
Other commitments granted	62,457	599	77,636
Financial guarantees received	1	-	-
Foreign exchange operations and derivatives	30,345,203	-	-
Liabilities for services rendered	403,731	135,906	6,347,547
Customer resources distributed but not managed	-	-	3,021,920

	31-12-2022		
	Entities that directly or indirectly control the Group	Entities significantly influenced and joint ventures controlled by the Group	Entities under direct or indirect common control by the Group
<b>Assets:</b>			
Cash balances in other credit institutions	119,725	-	4,149
Financial assets held for trading	425,883	-	-
Financial assets at fair value through other comprehensive income	44,360	-	133
Financial assets at amortised cost	336,639	53,639	81,874
Derivatives - hedge accounting	189,275	-	-
Investments in subsidiaries, joint ventures and associates	-	111,558	-
Intangible assets	-	-	5,703
Other assets	13	6,950	49
<b>Liabilities:</b>			
Financial liabilities held for trading	358,895	-	-
Financial liabilities measured at amortised cost			
Deposits - Credit institutions	502,928	-	5,789
Deposits - Customers	-	22,048	44,378
Debt securities issued	1,346,950	-	-
Other financial liabilities	-	1	-
Derivatives - hedge accounting	1,760	-	-
Other liabilities	9,303	-	6,459
<b>Profit or Loss:</b>			
Interest income	184,012	535	572
Interest expenses	204,770	2	12
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for under the equity method	-	20,552	-
Fee and commission income	1,906	87,702	1,397
Fee and commission expenses	2,883	-	3,860
Gains or losses on financial assets and liabilities at fair value through profit or loss, net	418,253	-	-
Gross margin of life insurance where risks rest with the policyholder	(156)	-	(429)
Gross margin of insurance activity	356	-	6
Exchange differences, net	(14,774)	-	-
Other – non-financial	-	-	55,334
Administrative expenses	9,303	-	46,497
Depreciation	-	-	2,704
Other operating income and expenses, net	-	137	4
<b>Off-balance-sheet items:</b>			
Financial guarantees given	16,809	-	3,599
Loan commitments granted	28,029	2,017	3,813
Other commitments granted	59,974	599	80,077
Financial guarantees received	1	-	-
Foreign exchange operations and derivatives	28,717,019	-	-
Liabilities for services rendered	402,490	141,595	6,786,170
Customer resources distributed but not managed	-	-	2,801,335

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



## **GOVERNING BODIES**

As at June 30, 2023 and December 31, 2022, advances or loans granted to members of the Board of Directors of the Bank, amounted to Euros 939 thousand and Euros 1,110 thousand, respectively. The deposits of members of the Board of Directors were granted at market conditions. As at June 30, 2023 and 2022, fixed remunerations totalled Euros 1,735 thousand and Euros 1,783 thousand, respectively.

Regarding post-retirement benefits, the members of the Board of Directors who have an employment tie with the Bank are included in the pension plan of the Collective Bargaining Agreement (CBA) for the banking sector, subscribed by the Bank. The general conditions of this plan are described in Note 1.3. j).

The Shareholders' General Meeting of the Bank on May 30, 2007, approved the "Regulation on the supplementary award of an old-age or disability pension" to the executive members of the former totta Board of Directors who came to become executive members (Executive Committee) of the Bank's Board of Directors in line with that previously defined in the former totta regulation. Members of the Board of Directors whose term of office is at least fifteen consecutive or interpolated years, will be entitled to a pension supplement amounting to 80% of their gross annual salary. For terms of office under fifteen years, the amount of the retirement pension supplement will be determined by the Remuneration Committee. For these persons, it is currently determined that the retirement pension supplement shall be 65% of the annual gross salary, for terms of office equal to or greater than ten years, and 75% of the annual gross salary for terms of office equal to or greater than twelve years. This defined benefit pension plan is a supplementary plan and is dependent on the General Social Security Regime.

As at June 30, 2023 and December 31, 2022, liabilities with this plan amounted to Euros 10,448 thousand and Euros 10,260 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.

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

**Fair value**

The following table summarises, for each group of financial assets and liabilities, their fair values with reference to June 30, 2023 and December 31, 2022:

	30-06-2023			
	Fair value	Amortised cost	Book value	Fair value
<b><u>Assets</u></b>				
Cash, cash balances at central banks and other demand deposits	-	8,061,580	8,061,580	8,050,437
Financial assets held for trading	828,925	-	828,925	828,925
Non-trading financial assets mandatorily at fair value through profit or loss	2,772,281	-	2,772,281	2,772,281
Financial assets at fair value through other comprehensive income	5,205,837	-	5,205,837	5,205,837
Financial assets at amortised cost	-	39,142,684	39,142,684	38,695,003
Derivatives – Hedge accounting	567,347	-	567,347	567,347
	<b>9,374,390</b>	<b>47,204,264</b>	<b>56,578,654</b>	<b>56,119,830</b>
<b><u>Liabilities</u></b>				
Financial liabilities held for trading	782,099	-	782,099	782,099
Financial liabilities designated at fair value through profit or loss	2,860,462	-	2,860,462	2,860,462
Financial liabilities measured at amortised cost				
Deposits	-	42,683,147	42,683,147	42,664,222
Debt securities issued	-	5,330,749	5,330,749	5,099,212
Other financial liabilities	-	289,680	289,680	289,680
Derivatives – Hedge accounting	4,974	-	4,974	4,974
Technical provisions	-	588,185	588,185	530,583
	<b>3,647,535</b>	<b>48,891,761</b>	<b>52,539,296</b>	<b>52,288,834</b>

	31-12-2022			
	Fair value	Amortised cost	Book value	Fair value
<b><u>Assets</u></b>				
Cash, cash balances at central banks and other demand deposits	-	8,415,436	8,415,436	8,411,536
Financial assets held for trading	498,737	-	498,737	498,737
Non-trading financial assets mandatorily at fair value through profit or loss	2,647,169	-	2,647,169	2,647,169
Financial assets at fair value through other comprehensive income	5,109,459	-	5,109,459	5,109,459
Financial assets at amortised cost	-	40,814,573	40,814,573	40,020,515
Derivatives – Hedge accounting	601,827	-	601,827	601,827
	<b>8,857,192</b>	<b>49,230,009</b>	<b>58,087,201</b>	<b>57,289,243</b>
<b><u>Liabilities</u></b>				
Financial liabilities held for trading	465,786	-	465,786	465,786
Financial liabilities designated at fair value through profit or loss	2,792,796	-	2,792,796	2,792,796
Financial liabilities measured at amortised cost				
Deposits	-	45,434,491	45,434,491	45,416,734
Debt securities issued	-	4,635,881	4,635,881	4,388,604
Other financial liabilities	-	366,793	366,793	366,793
Derivatives – Hedge accounting	183,771	-	183,771	183,771
Technical provisions	-	624,880	624,880	624,880
	<b>3,442,353</b>	<b>51,062,045</b>	<b>54,504,398</b>	<b>54,239,364</b>

As at June 30, 2023 and December 31, 2022, the carrying amount of the financial instruments measured at fair value, by valuation methodology, was as follows:

	30-06-2023			
	Methodology to determine fair value			
	Quotations on active market (Level 1)	Other valuation techniques (Level 2) (Level 3)		Total
<b><u>Assets</u></b>				
Financial assets held for trading	-	788,062	40,863	828,925
Non-trading financial assets mandatorily at fair value through profit or loss	2,743,401	-	28,880	2,772,281
Financial assets at fair value through other comprehensive income	838,265	4,177,628	189,944	5,205,837
Derivatives – Hedge accounting	-	567,347	-	567,347
	<b>3,581,666</b>	<b>5,533,037</b>	<b>259,687</b>	<b>9,374,390</b>
<b><u>Liabilities</u></b>				
Financial liabilities held for trading	-	740,181	41,918	782,099
Financial liabilities designated at fair value through profit or loss	-	2,860,462	-	2,860,462
Derivatives – Hedge accounting	-	4,974	-	4,974
	<b>-</b>	<b>3,605,617</b>	<b>41,918</b>	<b>3,647,535</b>

	31-12-2022			
	Methodology to determine fair value			
	Quotations on active market	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
<b>Assets</b>				
Financial assets held for trading	-	450,354	48,383	498,737
Non-trading financial assets mandatorily at fair value through profit or loss	2,614,954	-	32,215	2,647,169
Financial assets at fair value through other comprehensive income	859,978	4,106,340	143,141	5,109,459
Derivatives – Hedge accounting	-	601,827	-	601,827
	<u>3,474,932</u>	<u>5,158,521</u>	<u>223,739</u>	<u>8,857,192</u>
<b>Liabilities</b>				
Financial liabilities held for trading	-	416,316	49,470	465,786
Financial liabilities designated at fair value through profit or loss	-	2,792,796	-	2,792,796
Derivatives – Hedge accounting	-	183,771	-	183,771
	<u>-</u>	<u>3,392,883</u>	<u>49,470</u>	<u>3,442,353</u>

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.

As at June 30, 2023 and December 31, 2022, the fair value of the financial instruments measured at amortised cost, by valuation methodology, was as follows:

	30-06-2023			
	Methodology to determine fair value			
	Quotations on active market	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
<b>Assets</b>				
Cash, cash balances at central banks and other demand deposits	-	8,050,437	-	8,050,437
Financial assets at amortised cost	-	683,025	38,011,978	38,695,003
	<u>-</u>	<u>8,733,462</u>	<u>38,011,978</u>	<u>46,745,440</u>
<b>Liabilities</b>				
Financial liabilities measured at amortised cost				
Deposits	-	6,119,367	36,544,855	42,664,222
Debt securities issued	-	2,601,527	2,497,685	5,099,212
Other financial liabilities	-	-	289,680	289,680
Technical provisions	-	-	530,583	530,583
	<u>-</u>	<u>8,720,894</u>	<u>39,862,803</u>	<u>48,583,697</u>

	31-12-2022			
	Methodology to determine fair value			
	Quotations on active market (Level 1)	Other valuation techniques (Level 2) (Level 3)		Total
<b>Assets</b>				
Cash, cash balances at central banks and other demand deposits	-	8,411,536	-	8,411,536
Financial assets at amortised cost	-	505,351	39,515,164	40,020,515
	-	8,916,887	39,515,164	48,432,051
<b>Liabilities</b>				
Financial liabilities measured at amortised cost				
Deposits	-	6,921,998	38,494,736	45,416,734
Debt securities issued	-	1,847,397	2,541,207	4,388,604
Other financial liabilities	-	-	366,793	366,793
Technical provisions	-	-	624,880	624,880
	-	8,769,395	42,027,616	50,797,011

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 Group's financial assets and liabilities comprises three levels, under IFRS 7 and IFRS 13:

- Level 1 – Financial instruments recorded at fair value based on quotes published in active markets, mainly comprising public debt 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 Group 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 Group 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 Group 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 the first half of 2023 and financial year 2022, the movement in financial instruments classified in Level 3 was as follows:

	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Total
<b>December 31, 2021</b>	<b>25,234</b>	<b>100,176</b>	<b>73,798</b>	<b>199,208</b>
Purchases	-	647	2,103	2,750
Sales	-	-	(2,770)	(2,770)
Reimbursements	-	(83,098)	-	(83,098)
Fair value changes	23,149	14,490	70,010	107,649
<b>December 31, 2022</b>	<b>48,383</b>	<b>32,215</b>	<b>143,141</b>	<b>223,739</b>
Purchases	-	170	1,081	1,251
Sales	-	(100)	(999)	(1,099)
Reimbursements	-	(3,749)	-	(3,749)
Reclassifications	-	-	38,500	38,500
Fair value changes	(7,520)	344	8,221	1,045
<b>June 30, 2023</b>	<b>40,863</b>	<b>28,880</b>	<b>189,944</b>	<b>259,686</b>

The interest rate curves for the most representative terms and currencies used in the valuation of financial instruments were as follows:

	30-06-2023		31-12-2022	
	EUR	USD	EUR	USD
Overnight	3.66%	5.49%	1.74%	4.65%
1 month	3.67%	5.50%	1.74%	4.66%
3 months	3.76%	5.55%	2.12%	4.77%
6 months	3.90%	5.64%	2.69%	4.97%
9 months	3.99%	5.68%	3.03%	5.08%
1 year	4.02%	5.65%	3.23%	5.12%
3 years	3.62%	4.63%	3.31%	4.34%
5 years	3.26%	4.17%	3.23%	4.03%
7 years	3.09%	3.96%	3.20%	3.90%
10 years	3.00%	3.82%	3.20%	3.83%





The gains and losses recognised in the June 30, 2023 and December 31, 2022 statements of profit or loss, with fair value hedging transactions, presented the following detail:

	30-06-2023			30-06-2022		
	Hedged element	Hedging instrument	Net	Hedged element	Hedging instrument	Net
Financial assets at amortised cost	23,019	(23,019)	-	(136,103)	136,103	-
Financial assets at fair value						
through other comprehensive income	27,930	(27,930)	-	(437,312)	437,312	-
Financial liabilities measured at amortised cost						
Deposits - Customers	4,323	(4,323)	-	(393)	393	-
	55,272	(55,272)	-	(573,808)	573,808	-

## **RISK MANAGEMENT**

### **CREDIT RISK**

Credit-risk management at the Group covers the identification, measurement, integration and evaluation of the various credit exposures, and an analysis of their profitability adjusted to the respective risk, both from an overall viewpoint, 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 Group.

The counterparty risk consists of the latent credit risk in financial markets transactions corresponding to the possibility of default by the counterparties of the terms contracted and subsequent occurrence of financial losses for the Group. The types of transactions covered include the purchase and sale of securities, 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 Group 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 Group and approved by the regulatory entities. Preparation of these models is mandatory. The assignment of various internal rating levels, ranging from 1.0 to 9.3, has subjacent the degree of risk inherent to the customer and a probability of default at one year that the Group monitors and calibrates on a constant and regular basis.

In concrete terms, the rating is determined by the analysis of the following factors to which are assigned a rating from 1.0 (minimum) to 9.3 (maximum), in accordance with the following weighting:

<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 Group's information technology system.

In this way, the Group's internal rating system can be described as follows:

Rating 1.0 – 3.9: Customer of high-default probability;  
 Rating 4.0 – 6.0: Customer of moderate-default probability;  
 Rating 6.1 – 9.3: Customer of low-default probability

As at June 30, 2023 and December 31, 2022, the maximum exposure to the credit risk and the respective carrying amount of the financial instruments was as follows:

	30-06-2023		31-12-2022	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Cash, cash balances at central banks and other demand deposits	8,061,580	8,061,580	8,415,436	8,415,436
Financial assets held for trading	828,925	828,925	498,737	498,737
Non-trading financial assets mandatorily at fair value through profit or loss	2,772,281	2,772,281	2,647,169	2,647,169
Financial assets at fair value through other comprehensive income	5,205,837	5,205,837	5,109,459	5,109,459
Financial assets at amortised cost	39,142,684	46,428,120	40,814,573	48,848,897
Derivatives – Hedge accounting	567,347	567,347	601,827	601,827
Investments in subsidiaries, joint ventures and associates	64,820	64,820	111,558	111,558
	<u>56,643,474</u>	<u>63,928,910</u>	<u>58,198,759</u>	<u>66,233,083</u>
Guarantees given (Note 24)				
Financial guarantees and sureties	348,490	348,490	340,183	340,183
Non-financial guarantees and sureties	1,535,999	1,535,999	1,485,832	1,485,832
Documentary credits outstanding	264,178	264,178	242,819	242,819
	<u>2,148,667</u>	<u>2,148,667</u>	<u>2,068,834</u>	<u>2,068,834</u>

The maximum exposure in “Financial assets at amortised cost” is as follows:

	30-06-2023	31-12-2022
Carrying amount	39,142,684	40,814,573
Other commitments granted (Note 24):		
Revocable	6,636,643	7,222,184
Irrevocable	648,793	812,140
Maximum exposure	46,428,120	48,848,897

### 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 and at the June 30, 2023 period end were as follows:

	2022	2023	2024	2025	2026
<b>GDP (annual change)</b>					
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%
<b>Unemployment (annual change)</b>					
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%
<b>Real Estate Prices (annual change)</b>					
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%
<b>CPI (annual change)</b>					
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%
<b>10-year Treasury Bonds</b>					
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 December 31, 2022 close of +2.4% and -1.9% (+7.3% and -4% at the close of 2021) respectively.

As at June 30, 2023 and December 31, 2022, the concentration by activity sector of the portfolio of loans and advances at amortised cost, was as follows:

Activity sector	30-06-2023			
	Gross amount	Impairment	Carrying amount	Concentration %
Agriculture, animal husbandry, hunting, forestry and fisheries	287,879	(16,048)	271,831	0.76%
Extractive industries	15,459	(1,140)	14,319	0.04%
Manufacturing	1,828,824	(149,436)	1,679,388	4.70%
Electricity, gas, steam, hot and cold water and cold air	307,255	(496)	306,759	0.86%
Water catchment, treatment and distribution; sanitation, waste management and depollution	49,089	(2,201)	46,888	0.13%
Construction	998,981	(83,237)	915,744	2.56%
Wholesale and retail trade; motor vehicle and motorcycle repairs	1,877,129	(101,512)	1,775,617	4.97%
Transport and storage	512,497	(29,332)	483,165	1.35%
Accommodation, catering and similar	1,073,924	(67,143)	1,006,781	2.82%
Information and communication activities	96,624	(2,983)	93,641	0.26%
Real estate activities	1,266,697	(39,290)	1,227,407	3.44%
Consultancy, scientific, technical and similar activities	579,472	(22,591)	556,881	1.56%
Administrative and support activities	299,633	(38,125)	261,508	0.73%
Public administration and defence; mandatory social security	421	(1)	420	0.00%
Education	70,547	(1,340)	69,207	0.19%
Human healthcare and social support activities	236,569	(3,364)	233,205	0.65%
Artistic, shows, sports and recreational activities	72,565	(9,480)	63,085	0.18%
Other services	527,017	(18,040)	508,977	1.43%
Loans and advances - Financial institutions	539,623	(872)	538,751	1.51%
Loans and advances - Public sector	1,105,146	(9,548)	1,095,598	3.07%
Loans and advances - Individuals:				
. Mortgage	22,597,508	(202,113)	22,395,395	62.72%
. Consumer and other	2,341,139	(180,100)	2,161,039	6.05%
	<b>36,683,998</b>	<b>(978,392)</b>	<b>35,705,606</b>	<b>100%</b>

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	4.85%
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	3.27%
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	0.69%
Artistic, shows, sports and recreational activities	77,402	(10,495)	66,907	0.18%
Other services	552,462	(19,336)	533,126	1.43%
Loans and advances - Financial institutions	790,488	(1,062)	789,426	2.11%
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	61.77%
. Consumer and other	2,364,798	(158,401)	2,206,397	5.91%
	<b>38,285,241</b>	<b>(942,068)</b>	<b>37,343,173</b>	<b>100%</b>

In accordance with the requirements set out in Bank of Portugal Instruction No. 4/2018, the Group began to publish "Non-Performing Exposures" and "Forborne Exposures".

Thus, as at June 30, 2023 and December 31, 2022, the breakdown of performing and non-performing exposures was as follows:

	30-06-2023			31-12-2022		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Performing exposures	39,017,281	(335,545)	0.9%	40,673,204	(339,743)	0.8%
Non-performing exposures						
. Covered loans	-	-	-	1,255	(1,239)	98.7%
. Individuals	406,914	(225,752)	55.5%	361,434	(195,687)	54.1%
. Companies	699,393	(419,607)	60.0%	725,598	(410,249)	56.5%
	<b>1,106,307</b>	<b>(645,359)</b>		<b>1,088,287</b>	<b>(607,175)</b>	
	<b>40,123,588</b>	<b>(980,904)</b>		<b>41,761,491</b>	<b>(946,918)</b>	

The degree of coverage of non-performing exposures, net of impairment, by real guarantees was as follows:

	30-06-2023			31-12-2022		
	Carrying amount	Collateral	Coverage	Carrying amount	Collateral	Coverage
Non-performing exposures						
. Covered loans	-	-		16	-	-
. Individuals	181,162	121,902	67.3%	165,747	114,458	69.1%
. Companies	279,786	180,161	64.4%	315,349	214,876	68.1%
	<u>460,948</u>	<u>302,063</u>		<u>481,112</u>	<u>329,334</u>	

### Forborne exposures

In accordance with Bank of Portugal Instruction No. 04/2018, institutions must identify and mark, in their information systems, loan contracts of a customer in financial difficulties, whenever there are changes to the terms and conditions of such contracts (including extension of the repayment term, introduction of grace periods, capitalisation of interest, reduction of interest rates, pardon of interest or principal) or the institution contracts new credit facilities for the (total or partial) settlement of the service of the existing debt.

As at June 30, 2023 and December 31, 2022, the breakdown of forborne exposures was as follows:

	30-06-2023			31-12-2022		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Performing exposures	466,591	(46,328)	9.9%	412,339	(42,441)	10.3%
Non-performing exposures						
. Individuals	150,084	(71,920)	47.9%	147,939	(69,367)	46.9%
. Companies	422,545	(229,376)	54.3%	443,034	(224,701)	50.7%
	<u>572,629</u>	<u>(301,296)</u>		<u>590,973</u>	<u>(294,068)</u>	
	<u>1,039,220</u>	<u>(347,624)</u>		<u>1,003,312</u>	<u>(336,509)</u>	

### LIQUIDITY RISK

The balance sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the Chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury 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 Group's funding policy considers the evolution of the balance-sheet aggregates, the structural situation of the maturities of assets and liabilities, the net interbank debt level in the light of the available lines, maturity dispersal and minimisation of the costs associated with the funding activity.

It should be noted that the Group does not perform any liquidity-risk analysis for trading financial instruments.

As at June 30, 2023 and December 31, 2022, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their contractual maturities, was as follows:

	30-06-2023							Derivatives	Total
	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		
<b>Assets</b>									
Cash, cash balances at central banks and other demand deposits	852,840	42,519	186,300	496,346	7,730,913	-	-	-	9,308,918
Financial assets held for trading	-	-	-	-	-	-	-	828,925	828,925
Non-trading financial assets mandatorily at fair value through profit or loss	-	30,018	235,109	638,034	288,295	796,643	896,007	-	2,884,106
Financial assets at fair value through other comprehensive income	2	76,532	164,148	2,281,408	373,894	2,983,862	111,803	-	5,991,649
Financial assets at amortised cost	446,605	2,572,432	6,306,317	12,397,887	7,784,740	20,815,823	-	-	50,323,804
Derivatives – Hedge accounting	-	-	-	-	-	-	-	567,347	567,347
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	64,820	-	64,820
	<b>1,299,447</b>	<b>2,721,501</b>	<b>6,891,874</b>	<b>15,813,675</b>	<b>16,177,842</b>	<b>24,596,328</b>	<b>1,072,630</b>	<b>1,396,272</b>	<b>69,969,569</b>
<b>Liabilities</b>									
Financial liabilities held for trading	-	-	-	-	-	-	-	782,099	782,099
Financial liabilities designated at fair value through profit or loss	2,860,462	-	-	-	-	-	-	-	2,860,462
Financial liabilities measured at amortised cost									
Deposits – Central banks	72	-	784,339	-	-	-	-	-	784,411
Deposits – Credit institutions	982,984	756,523	2,966,748	865,537	-	-	-	-	5,571,792
Deposits – Customers and other loans	22,815,331	5,398,984	6,873,334	1,034,891	446,127	20,048	-	-	36,588,715
Debt securities issued	-	106,157	1,475,228	1,391,897	2,782,527	66,003	-	-	5,821,812
Derivatives – Hedge accounting	-	-	-	-	-	-	-	4,974	4,974
Technical provisions	75,642	315,651	12,739	23,755	18,754	84,041	-	-	530,582
	<b>26,734,491</b>	<b>6,577,315</b>	<b>12,112,388</b>	<b>3,316,080</b>	<b>3,247,408</b>	<b>170,092</b>	<b>-</b>	<b>787,073</b>	<b>52,944,847</b>

	31-12-2022								Total
	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	
<b>Assets</b>									
Cash, cash balances at central banks and other demand deposits	562,589	-	-	-	7,850,236	-	-	-	8,412,825
Financial assets held for trading	-	-	-	-	-	-	-	498,737	498,737
Non-trading financial assets mandatorily at fair value through profit or loss	-	60,695	64,595	656,622	299,227	820,607	888,086	-	2,789,832
Financial assets at fair value through other comprehensive income	2	65,872	275,266	544,982	4,554,863	528,283	149,230	-	6,118,498
Financial assets at amortised cost	414,386	2,407,415	6,310,989	11,521,707	5,396,766	21,645,464	-	-	47,696,727
Derivatives – Hedge accounting	-	-	-	-	-	-	-	601,827	601,827
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	111,558	-	111,558
	976,977	2,533,982	6,650,850	12,723,311	18,101,092	22,994,354	1,148,874	1,100,564	66,230,004
<b>Liabilities</b>									
Financial liabilities held for trading	-	-	-	-	-	-	-	465,786	465,786
Financial liabilities designated at fair value through profit or loss	2,792,796	-	-	-	-	-	-	-	2,792,796
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	24,510,997	6,147,526	5,876,954	1,264,833	714,156	23,570	-	-	38,538,036
Debt securities issued	-	70,760	371,432	1,928,454	2,564,654	69,545	-	-	5,004,845
Derivatives – Hedge accounting	-	-	-	-	-	-	-	183,771	183,771
Technical provisions	80,013	333,891	13,475	25,128	19,838	88,897	-	-	561,242
	28,121,085	7,532,295	11,116,300	3,963,193	3,298,648	182,012	-	649,557	54,863,090

Determination of the projected cash flows from financial instruments was based on principles and assumptions used by the Group 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 Group 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 Group's trading activity is Value at Risk (VaR). The Historic Simulation standard is used as the basis, with a confidence level of 99% and a time horizon of one day, statistical adjustments being applied 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 Group also uses sensitivity measures and equivalent positions. In the case of the interest rate, use is made of the Basis Point Value (BPV) – estimated impact on profit or loss for parallel movements in the interest-rate curves. For the control of derivatives activities, due to their atypical nature, specific daily sensitivity measures are carried out, including calculation and analysis of sensitivities to movements of the 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 Group's equity. Additionally, other risk indicators are calculated, such as Value at Risk (VaR) and scenario analysis (Stress Test).

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

**INTEREST-RATE RISK**

As at June 30, 2023 and December 31, 2022, the breakdown of financial instruments by exposure to interest-rate risk was as follows:

	30-06-2023				
	Exposure to		Not subject to interest rate risk	Derivatives	Total
	Fixed rate	Floating rate			
<b><u>Assets</u></b>					
Cash, cash balances at central banks and other demand deposits	-	7,519,342	542,238	-	8,061,580
Financial assets held for trading	-	-	-	828,925	828,925
Non-trading financial assets mandatorily at fair value through profit or loss	1,869,734	22,456	880,091	-	2,772,281
Financial assets at fair value through other comprehensive income	4,954,753	113,807	249,081	-	5,317,641
Financial assets at amortised cost	7,259,514	32,550,584	(667,414)	-	39,142,684
Derivatives – Hedge accounting	-	-	-	567,347	567,347
	14,084,001	40,206,189	1,003,996	1,396,272	56,690,458
<b><u>Liabilities</u></b>					
Financial liabilities held for trading	-	-	-	782,099	782,099
Financial liabilities designated at fair value through profit or loss	-	-	2,860,462	-	2,860,462
Financial liabilities measured at amortised cost					
Deposits - Central banks		692,102	1,200	-	693,302
Deposits - Credit institutions	3,982,985	1,438,306	595	-	5,421,886
Deposits - Customers and other loans	14,233,438	22,285,226	49,295	-	36,567,959
Debt securities issued	4,033,799	1,324,244	(27,294)	-	5,330,749
Other financial liabilities	-	-	289,680	-	289,680
Derivatives – Hedge accounting	-	-	-	4,974	4,974
	22,250,222	25,739,878	3,173,938	787,073	51,951,111

	31-12-2022				
	Exposure to		Not subject to interest rate risk	Derivatives	Total
	Fixed rate	Floating rate			
<b>Assets</b>					
Cash, cash balances at central banks and other demand deposits	-	7,850,256	565,180	-	8,415,436
Financial assets held for trading	-	-	-	498,737	498,737
Non-trading financial assets mandatorily at fair value through profit or loss	1,664,390	114,740	868,039	-	2,647,169
Financial assets at fair value through other comprehensive income	4,983,332	2,843	123,284	-	5,109,459
Financial assets at amortised cost	7,618,800	33,925,259	(729,486)	-	40,814,573
Derivatives – Hedge accounting	-	-	-	601,827	601,827
	14,266,522	41,893,098	827,017	1,100,564	58,087,201
<b>Liabilities</b>					
Financial liabilities held for trading	-	-	-	465,786	465,786
Financial liabilities designated at fair value through profit or loss	-	-	2,792,796	-	2,792,796
Financial liabilities measured at amortised cost					
Deposits - Central banks	4,113,714	-	-	-	4,113,714
Deposits - Credit institutions	166,946	2,647,112	354	-	2,814,412
Deposits - Customers and other loans	14,275,441	24,225,805	5,119	-	38,506,365
Debt securities issued	3,283,799	1,370,753	(18,671)	-	4,635,881
Other financial liabilities	-	-	366,793	-	366,793
Derivatives – Hedge accounting	-	-	-	183,771	183,771
	21,839,900	28,243,670	3,146,391	649,557	53,879,518

### 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 June 30, 2023 and December 31, 2022, the sensitivity of the net asset value of the Group's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	30-06-2023		31-12-2022	
	+100 bp's change	-100 bp's change	+100 bp's change	-100 bp's change
<b><u>Assets</u></b>				
Cash and cash balances at central banks	(4,525)	4,432	(2,580)	2,368
Financial assets at fair value through other comprehensive income	(66,486)	69,418	(75,865)	79,461
Financial assets at amortised cost	(672,690)	715,221	(688,047)	731,329
	<u>(743,701)</u>	<u>789,071</u>	<u>(766,492)</u>	<u>813,158</u>
Derivatives – Hedge accounting	274,783	(297,197)	282,550	(307,482)
<b><u>Liabilities</u></b>				
Financial liabilities measured at amortised cost				
Deposits - Central banks	(1,218)	1,194	(5,911)	5,788
Deposits - Credit institutions	(30,478)	30,844	(6,113)	6,124
Deposits - Customers and other loans	(660,024)	683,635	(1,081,985)	1,146,319
Debt securities issued	(123,523)	128,254	(104,928)	108,982
Other financial liabilities	(10,375)	10,532	(11,776)	11,970
	<u>(825,618)</u>	<u>854,459</u>	<u>(1,210,713)</u>	<u>1,279,183</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.

The sensitivity of the net asset value associated with insurance products which investment risk is borne by the policyholder is considered immaterial, due to the symmetrical behaviour of the assets and liabilities associated with these products.

## **EXCHANGE RATE RISK**

The profile defined for the exchange-rate risk is quite conservative and is embodied in the hedging policy used. Its implementation is the responsibility of the Treasury area, so the risks involved are not very relevant, and it is implemented primarily using currency swaps. Risk limits are stipulated for the exchange-rate risk that are controlled by the Market Risks Area.

As at June 30, 2023 and December 31, 2022, the detail of the financial instruments by currency was as follows:

	30-06-2023			
	Euros	US dollars	Other currencies	Total
<b><u>Assets</u></b>				
Cash, cash balances at central banks and other demand deposits	7,965,125	41,948	54,507	8,061,580
Financial assets held for trading	827,043	-	1,882	828,925
Non-trading financial assets mandatorily at fair value through profit or loss	2,708,153	64,128	-	2,772,281
Financial assets at fair value through other comprehensive income	5,205,837	-	-	5,205,837
Financial assets at amortised cost	38,768,551	338,586	35,547	39,142,684
Derivatives – Hedge accounting	539,469	27,180	698	567,347
Investments in subsidiaries, joint ventures and associates	64,820	-	-	64,820
	<b>56,078,998</b>	<b>471,842</b>	<b>92,634</b>	<b>56,643,474</b>
<b><u>Liabilities</u></b>				
Financial liabilities held for trading	779,853	-	2,246	782,099
Financial liabilities designated at fair value through profit or loss	2,860,462	-	-	2,860,462
Financial liabilities measured at amortised cost				
Deposits - Central banks	693,302	-	-	693,302
Deposits - Credit institutions	5,391,841	21,818	8,227	5,421,886
Deposits - Customers and other loans	35,228,513	1,107,205	232,241	36,567,959
Debt securities issued	5,330,749	-	-	5,330,749
Other financial liabilities	289,680	-	-	289,680
Derivatives – Hedge accounting	4,276	-	698	4,974
	<b>50,578,676</b>	<b>1,129,023</b>	<b>243,412</b>	<b>51,951,111</b>

	31-12-2022			
	Euros	US dollars	Other currencies	Total
<b>Assets</b>				
Cash, cash balances at central banks and other demand deposits	8,301,873	62,877	50,686	8,415,436
Financial assets held for trading	496,446	107	2,184	498,737
Non-trading financial assets mandatorily at fair value through profit or loss	2,588,429	58,740	-	2,647,169
Financial assets at fair value through other comprehensive income	5,109,459	-	-	5,109,459
Financial assets at amortised cost	40,333,215	449,578	31,780	40,814,573
Derivatives – Hedge accounting	579,325	22,240	262	601,827
Investments in subsidiaries, joint ventures and associates	111,558	-	-	111,558
	57,520,305	593,542	84,912	58,198,759
<b>Liabilities</b>				
Financial liabilities held for trading	466,988	(108)	(1,094)	465,786
Financial liabilities designated at fair value through profit or loss	2,792,796	-	-	2,792,796
Financial liabilities measured at amortised cost				
Deposits - Central banks	4,113,714	-	-	4,113,714
Deposits - Credit institutions	2,516,381	297,613	418	2,814,412
Deposits - Customers and other loans	37,122,669	1,156,090	227,606	38,506,365
Debt securities issued	4,635,881	-	-	4,635,881
Other financial liabilities	366,793	-	-	366,793
Derivatives – Hedge accounting	183,509	-	262	183,771
	52,198,731	1,453,595	227,192	53,879,518

**ASSET PRICE RISK****Financial instruments – trading**

As at June 30, 2023 and December 31, 2022, the Group had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

**40. CAPITAL MANAGEMENT**

The Group 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 Group allow us to exercise our activity of financing the economy and generate capital organically. The various capital metrics are stable, with ratios comfortably above regulatory requirements and aligned with the risk appetite approved by top management.

The management and adequacy of capital aims to ensure solvency and maximise profitability, as well as compliance with regulatory requirements. Capital management is a key strategic tool for decision making. There is a governance framework approved by top management where the criteria, policies, functions, metrics and processes related to capital management are established.

At the end of the first half of 2023, the CET1 phasing in ratio is 19% and the total capital phasing in ratio is 21.5%, comfortably meeting the minimum requirements of 8.34% and 12.5%, respectively.

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%.

In February 2023, the Bank operationalised the fourth synthetic securitisation operation originated by the Bank. The operation is based on a portfolio of mortgage loans in the amount of Euros 1.3 billion, for which the Bank purchased protection corresponding to a mezzanine tranche with an attachment point of 2.55% and a detachment point of 8.06%. The mezzanine tranche, in the amount of Euros 136 million, was placed entirely with foreign institutional investors, in the format of a financial guarantee / insurance contract, with a premium of 10.5%.



The following table summarises the composition of the regulatory capital and prudential ratios of the Group as at June 30, 2023 and December 31, 2022 (both in BIS III - Phasing in):

Amounts in millions of Euros		
	30-06-2023	31-12-2022
<b>A – LEVEL 1 OWN FUNDS (TIER I)</b>	3,268	3,150
Eligible Capital (includes additional instruments eligible as Tier I)	2,370	2,370
Eligible Reserves and Results (excl. Minority Interests)	1,215	847
Eligible Minority Interests	-	-
Deductions from Base Own Funds	(317)	(67)
<b>B – LEVEL 2 OWN FUNDS (TIER II)</b>	272	274
Subordinated liabilities with undetermined maturity	209	213
Eligible Minority Interests	-	-
Other Elements / Deductions from Complementary Own Funds	63	61
<b>C – DEDUCTIONS FROM TOTAL OWN FUNDS</b>	-	-
<b>D – TOTAL ELIGIBLE OWN FUNDS (A+B+C)</b>	3,540	3,425
<b>E – RISK-WEIGHTED ASSETS</b>	15,958	16,258
<b>RATIOS</b>		
<b>TIER I (A/E)</b>	20.5%	19.4%
CORE CAPITAL (CET1)	18.0%	16.9%
<b>TIER II (B/E)</b>	1.7%	1.7%
<b>CAPITAL ADEQUACY RATIO (D/E)</b>	22.2%	21.1%
<b>LEVERAGE</b>	5.9%	5.5%

Note: the amounts presented in the table above are unaudited

#### 41. RESOLUTION FUND

The Resolution Fund is a legal person under public law with administrative and financial autonomy, established by Decree-Law 31-A/2012, of February 10, which is governed by the General Credit Institutions and Financial Companies Regime ("RGICSF") and by its regulation, the mission of which is to provide financial support for the resolution measures implemented by the Bank of Portugal, in the capacity of national resolution authority, and to perform all other functions conferred by law within the scope of 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 2023, the periodic contribution made by the Bank amounted to Euros 6,821 thousand, based on a contribution rate of 0.023%.

#### 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 whose 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.

#### 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.

#### 42. COMPETITION AUTHORITY

In 2012, administrative-offence proceedings were instituted by the Competition Authority ("AdC"), for alleged signs of infringement of Article 9 of Law 19/2012, of May 8 (Competition Act).

Within the scope of these proceedings, search and seizure measures were carried out at the premises of the Bank and 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 Banco Popular Portugal.

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 Banco Popular Portugal).

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 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 issue 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 parties' oral arguments were presented on June 22, 2023, and it is estimated that the Advocate General's opinion will be issued by the end of this year.

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 June 30, 2023.

#### 43. SUBSEQUENT EVENTS

On the date of approval of these consolidated financial statements by the Bank's Board of Directors, there were no events subsequent to June 30, 2023 – the reference date of these financial statements – which would require adjustments or modifications to the amounts of assets and liabilities, under the terms of IAS 10 – Events after the reporting period.

#### 44. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on September 26, 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 June 30, 2023, 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		Balance sheet	Interest payable / Deferred commissions	Value adjustments through hedging operations	Total	Interest rate	Date issued	Date maturing	Index
		Issued	Subscribed by the Group								
<b>Structured bonds</b>											
Ob.BST Index linked notes 2024	EUR	8,227	8,227	-	-	-	-	Floating	20-12-2019	23-12-2024	Index basket
Syntotta 2 - Credit Linked Notes due August 2037	EUR	101,656	-	101,656	1,965	-	103,621	Floating	26-07-2021	15-08-2037	Euribor3M (floored at 0) + 9%
Syntotta 3 - Credit Linked Notes due January 2042	EUR	100,800	-	100,800	2,659	-	103,459	Floating	31-05-2022	31-01-2042	Euribor3M + 8.7%
Syntotta 2 - Credit Linked Notes due August 2037	EUR	34,024	-	34,024	496	-	34,520	Floating	13-04-2023	15-08-2037	Euribor3M + 9%
<b>Total</b>		<b>244,707</b>	<b>8,227</b>	<b>236,480</b>	<b>5,120</b>	<b>-</b>	<b>241,600</b>				
<b>Mortgage bonds</b>											
Hipotecárias XX - 1ª	EUR	750,000	750,000	-	(607)	-	(607)	1.201%	07-12-2017	07-12-2027	Fixed rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	(695)	-	(695)	1.481%	10-04-2017	10-04-2027	Fixed rate
Hipotecárias XXII	EUR	1,000,000	3,800	996,200	275	-	996,475	0.875%	25-04-2017	25-04-2024	Fixed rate
Hipotecária XXIII	EUR	1,000,000	20,000	980,000	3,657	-	983,657	1.250%	26-09-2017	26-09-2027	Fixed rate
Hipotecária XXIV	EUR	1,100,000	1,100,000	-	(1,182)	-	(1,182)	0.412%	05-07-2019	05-07-2029	Fixed rate
Hipotecária XXV	EUR	750,000	750,000	-	(247)	-	(247)	0.505%	27-03-2020	27-03-2025	Fixed rate
Hipotecária XXVI	EUR	750,000	750,000	-	(966)	-	(966)	0.00%	28-10-2020	28-10-2030	Fixed rate
Hipotecária XXVII	EUR	750,000	750,000	-	(764)	-	(764)	0.64%	04-03-2022	04-03-2029	Fixed rate
Hipotecária XXVIII	EUR	750,000	-	750,000	(356)	-	749,644	3.38%	19-04-2023	19-04-2028	Fixed rate
Hipotecária XXIX	EUR	1,000,000	1,000,000	-	(1,224)	-	(1,224)	0.35%	02-06-2023	02-06-2031	Fixed rate
<b>Total</b>		<b>8,850,000</b>	<b>6,123,800</b>	<b>2,726,200</b>	<b>(2,109)</b>	<b>-</b>	<b>2,724,091</b>				

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Securities issued	Currency	Issue amount			Interest payable / Deferred commissions	Value adjustments through hedging operations	Total	Interest rate	Date issued	Date maturing	Index
		Issued	Subscribed by the Group	Balance sheet							
<b>Bonds issued under securitisation operations</b>											
Hipototta 4 - Class A - Notes	EUR	306,394	224,217	82,177	(274)	-	81,903	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	11,147	11,147	-	-	-	-	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	35,204	35,204	-	-	-	-	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
Hipototta 5 - Class A2 - Notes	EUR	271,701	222,857	48,844	49	-	48,893	Floating	22-03-2007	28-02-2060	Euribor 3m+0.13% (until February 2014); Euribor 3m+0.26% (after)
Hipototta 5 - Class B - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22-03-2007	28-02-2060	Euribor 3m+0.17% (until February 2014); Euribor 3m+0.34% (after)
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	72,920	-	72,920	(8,853)	-	64,067	Floating	05-03-2008	18-09-2060	Euribor 3m + 0.33%
Atlantes Mortgage 2 - Class B	EUR	9,078	9,078	-	-	-	-	Floating	05-03-2008	18-09-2060	Euribor 3m + 0.95%
Atlantes Mortgage 2 - Class C	EUR	3,700	3,700	-	-	-	-	Floating	05-03-2008	18-09-2060	Euribor 3m + 1.65%
Atlantes Mortgage 2 - Class D	EUR	8,332	8,332	-	-	-	-	Floating	05-03-2008	18-09-2060	Residual return generated by securitised portfolio
Atlantes Mortgage 3 - Class A	EUR	128,301	39,987	88,314	(6,143)	-	82,171	Floating	30-10-2008	20-08-2061	Euribor 3m + 0.20%
Atlantes Mortgage 3 - Class B	EUR	18,400	18,400	-	-	-	-	Floating	30-10-2008	20-08-2061	Euribor 3m + 0.50%
Atlantes Mortgage 3 - Class C	EUR	33,477	33,477	-	-	-	-	Floating	30-10-2008	20-08-2061	Residual return generated by securitised portfolio
Atlantes Mortgage 4 - Class A	EUR	140,309	-	140,309	(17,918)	-	122,391	Floating	16-02-2009	30-12-2064	Euribor 3m + 0.15%
Atlantes Mortgage 4 - Class B	EUR	15,452	15,452	-	-	-	-	Floating	16-02-2009	30-12-2064	Euribor 3m + 0.30%
Atlantes Mortgage 4 - Class C	EUR	43,392	43,392	-	-	-	-	Floating	16-02-2009	30-12-2064	Residual return generated by securitised portfolio

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Securities issued	Currency	Issue amount			Interest payable / Deferred commissions	Value adjustments through hedging operations	Total	Interest rate	Date issued	Date maturing	Index
		Issued	Subscribed by the Group	Balance sheet							
Hipototta nº13 Class A	EUR	587,849	587,849	-	-	-	-	Floating	09-01-2018	23-10-2072	Euribor 3mth + 0.60%
Hipototta nº13 Class B	EUR	484,000	484,000	-	-	-	-	Floating	09-01-2018	23-10-2072	Euribor 3mth + 1%
Hipototta nº13 Class C	EUR	36,253	36,253	-	-	-	-	Floating	09-01-2018	23-10-2072	Residual return generated by securitised portfolio
Hipototta nº13 Class D	EUR	-	-	-	-	-	-	Floating	09-01-2018	23-10-2072	
Consumer Totta 1 Class A	EUR	520,000	-	520,000	190	-	520,190	Floating	30-09-2022	28-06-2033	Euribor 3mth + 0,80%
Consumer Totta 1 Class B	EUR	25,000	-	25,000	10	-	25,010	Floating	30-09-2022	28-06-2033	Euribor 3mth + 1.10.
Consumer Totta 1 Class C	EUR	40,000	-	40,000	19	-	40,019	Floating	30-09-2022	28-06-2033	Euribor 3mth + 2%
Consumer Totta 1 Class D	EUR	25,000	-	25,000	24	-	25,024	Floating	30-09-2022	28-06-2033	Euribor 3mth + 8%
Consumer Totta 1 Class E	EUR	40,000	-	40,000	51	-	40,051	Floating	30-09-2022	28-06-2033	Euribor 3mth + 12%
Consumer Totta 1 Class F	EUR	5,200	-	5,200	7	-	5,207	Floating	30-09-2022	28-06-2033	Euribor 3mth + 12.5%
Consumer Totta 1 Class X	EUR	5,952	5,952	-	-	-	-	Floating	30-09-2022	28-06-2033	Residual return generated by securitised portfolio
<b>Total</b>		<b>2,987,061</b>	<b>1,899,297</b>	<b>1,087,764</b>	<b>(32,838)</b>	<b>-</b>	<b>1,054,926</b>				



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Securities issued	Currency	Issue amount		Interest payable / Deferred commissions	Value adjustments through hedging operations	Total	Interest rate	Date issued	Date maturing	Index	
		Issued	Subscribed by the Group								Balance sheet
<b><u>Other bonds issued</u></b>											
Senior Holdco	EUR	500,000	-	500,000	129	-	500,129	Floating	17-06-2021	17-06-2027	Euribor 6mth +0.974%
Senior Non-Preferred 6NC5 Fixed-to-Fixed Reset Rate Notes	EUR	600,000	-	600,000	1,417	-	601,417	3.08%	03-06-2022	03-06-2028	Euribor 6mth
<b>Total</b>		<b>1,100,000</b>	<b>-</b>	<b>1,100,000</b>	<b>1,546</b>	<b>-</b>	<b>1,101,546</b>				
<b><u>Subordinated liabilities</u></b>											
OB.BST SA 7.5%	EUR	7,599	-	7,599	419	-	8,018	7.50%	06-10-2016	06-10-2026	
OB. BST 2030 TIER2	EUR	320,000	320,000	-	-	-	-	1.58%	31-12-2020	31-12-2030	
Subordinated 10NC5 Fixed-to-Fixed Reset Rate Tier 2	EUR	200,000	-	200,000	568	-	200,568	4.71%	09-06-2022	09-06-2032	
<b>Total</b>		<b>527,599</b>	<b>320,000</b>	<b>207,599</b>	<b>987</b>	<b>-</b>	<b>208,586</b>				
<b>TOTAL LIABILITIES REPRESENTED BY SECURITIES</b>		<b>13,709,367</b>	<b>8,351,324</b>	<b>5,358,043</b>	<b>(27,294)</b>	<b>-</b>	<b>5,330,749</b>				

