Annual Report 2021

Santander

Banco Santander Totta, S. A.

Banco Santander Totta, S. A.
Rua do Ouro, 88 – 1100-063 Lisbon
Share Capital: €1,256,723,284
Registered at the Lisbon Commercial Registry under single registration and VAT number 507 096 851
LEI: 549300URJH9VSI58CS32

This Report was approved by the Bank's Board of Directors on March 29, 2022

TABLE OF INDICATORS

BALANCE SHEET AND RESULTS (million euro)	Dec-21	Dec-20	Var.
Total Net Assets	56,167	54,403	+3.2%
Loans and advances to customers (net)	42,404	41,680	+1.7%
Customers' Resources	47,438	43,539	+9.0%
Total shareholders' equity	4,251	4,111	+3.4%
Net Interest Income	728.7	785.0	-7.2%
Net Fees and Other Income	441.8	386.0	+14.4%
Net Income from Banking Activities	1,317.5	1,274.8	+3.3%
Net Operating Income*	757.9	667.7	+13.5%
Income before taxes and non-controlling interests	403.1	368.5	+9.4%
Consolidated net income attributable to BST shareholders	270.5	257.7	+4.9%

RATIOS	Dec-21	Dec-20	Var.
ROE	6.6%	7.1%	-0.5 p.p.
ROA	0.5%	0.5%	+0.0 p.p.
Efficiency ratio	40.8%	46.1%	-5.3 p.p.
CET I ratio**	26.4%	20.8%	+5.6 p.p.
Tier I ratio**	26.4%	20.8%	+5.6 p.p.
Capital ratio**	29.0%	23.1%	+5.9 p.p.
Non-Performing Exposure Ratio	2.3%	2.6%	-0.3 p.p.
Non-Performing Exposure coverage ratio	81.0%	72.3%	+8.7 p.p.
Cost of credit	0.17%	0.45%	-0.28 p.p.
Loans-to-deposits ratio (transformation ratio)	108.8%	114.9%	-6.1 p.p.

RATING	Dec-21	Dec-20
FitchRatings	BBB+	BBB+
Moody´s	Baa2	Baa3
Standard & Poor´s	BBB	BBB
DBRS	A	A

Other Data	Dec-21	Dec-20	Var.
Employees***	4,776	5,969	-1,193
Employees in Portugal***	4,764	5,937	-1,173
Branches	393	477	-84
Total Branches and Corporate Centers in Portugal	390	469	-79

* The Net Operating Income includes "Cash contributions to resolution funds and deposit guarantee schemes". In 2020, this amount was adjusted for comparability purposes

** Fully implemented with results net of payout

*** Headcount criteria

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

The year 2021 was a remarkable year for Santander Portugal. The pandemic and its impacts on the economy accelerated the need for transformation and adaptation of many sectors and banking was certainly one of them.

The new work habits, as well as the new consumption habits, the increasing digitalization of services, and the entry of new players in the market naturally led to transformations at Santander. Like all change processes, this has been a challenging process that has turned us into a more modern, more agile Bank, better prepared for the future.

From a business point of view, despite the challenging economic environment, the Bank presented solid results, reaching € 270.5 million, which represents a year-on-year increase of 4.9%.

Total loans to customers increased by 1.7%, standing at € 43.4 billion, showing that the Bank remains determined in its mission of contributing to the development of companies and families. The market shares of new loans to companies as well as housing loans stood at 22.7% and 21.2%, respectively. Deposits and Off-balance sheet resources also recorded a positive trajectory, with growth of 7.4% and 16.6%. ROE reached 6.6%.

I would also like to mention that the Bank reached the landmark of 1 million digital customers, an increase of 7.5% compared to the same period last year. This dynamic also reflects the commercial and digital transformation that has been developed, with a view to improve customer experience and satisfaction.

One of the great challenges we face – actually everyone, as a society – is the climate challenge. It is important to structure our activity so that our results are achieved in the right way — #rightway. That is why the Bank is taking clear, decisive steps to increasingly assert itself as a responsible Bank, which meets the ESG (Environmental, Social and Governance) criteria in all its activity.

At the end of the year, Santander Portugal Foundation was created, which will count on € 22.5 million for projects in the social and green areas, and that will also manage the Bank's entire cultural heritage. The Bank occupies a prominent position in the sustainability rankings and also because of this, our responsibility towards our customers and towards society is greater.

The work carried out by the Bank in Portugal throughout the year resulted in external recognition by the main specialised magazines. In 2021, *The Banker* magazine distinguished Santander as the best bank in Portugal. This recognition joins other distinctions such as the “Best Private Banking” and “Best Bank for Small and Medium Enterprises” in Portugal, by the *Global Finance* magazine.

Finally, I would like to acknowledge the extraordinary work that Santander's employees did in 2021, many of them at the forefront, keeping the branch network open and serving the community, others adapting their lives to be able to deliver from home the same quality and dedication they had from the office, never failing to support the commercial area.

Remembering the words of António Vieira Monteiro, the Bank cannot stop, and has not stopped, thanks to the work and dedication of Santander's employees in Portugal, and their dedication to our customers.

José Carlos Sítima

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear *Stakeholders*,

The year 2021 was a particularly difficult year, marked by an ongoing pandemic, which defined our entire activity and made us keep our support to families, companies and society as a main priority.

For our customers, we have implemented various measures with exceptional conditions to help them settle and lower their charges, especially in the 1st quarter of the year, when Portugal faced a very complicated 2nd pandemic wave, which forced a new lockdown. We kept supporting them through the moratoria mechanisms for credit to individuals and companies, and we kept available the credit facilities guaranteed by the State, among other aids.

With regard to support to Society, we were particularly concern with helping fight Covid-19, especially in the health area, such as by donating hospital materials and equipment, and by carrying out a blood collection campaign in six cities, which served to increase the blood reserves in the country. A portion of the total amount invested in the community – €6.7 million in 2021 – was directed towards the most vulnerable sectors of society, and to projects by Higher Education Institutions.

In addition to the health and economic situation, we are experiencing a period of profound transformation in the banking business and in the way customers interact with banks, which is increasingly digital. Something that was also accelerated by the pandemic itself.

In this sense, Santander has been making an extra effort to adapt its operations to the needs of its customers, thus guaranteeing the Bank's future sustainability. We implemented a plan to adjust our structure, and at the same time we made a strong investment in automation and digitalization, to take a qualitative leap in terms of the service we offer.

The growth of digital customers is notorious. There are already one million customers who have contributed every day so that sales through digital channels — made in complete safety —, reached 56% of the total sales amount last year. In 2021 we launched a new App, common to four European countries of the Group — simpler, more intuitive and more personalized, in the image of each customer. And we have simplified several processes, such as the offer of cards and the credit decision at branches. In order to provide a better response to customers residing abroad, we created the Próximo International Centre, through which these customers now have an innovative customer service with all the technological support to accompany them from a distance.

Despite the huge challenges, we continued to deliver solid results — from January to December, we achieved a net income of € 270.5 million — and this is due to a customer-centric business model, with high levels of capitalization, which asserts our Bank as a strong, well-structured institution with the necessary means to keep contributing to the well-being and prosperity of Portuguese families and companies.

Throughout the year, Santander was distinguished as the best bank operating in Portugal by several national and international entities, which highlighted our financial performance, reputation and service, which makes us feel very happy and proud. We must thank our teams for their dedicated work and commitment, who actually deserve this recognition, plus the great help of the OneEurope project, led by António Simões, which allows us to have a decisive scale effect in the bank's innovation and transformation process. All of this would not have been possible without the support of our shareholders, and, of course, without our customers, whose bonds of trust we work every day to satisfy.

The year 2021 was also marked by the 25th anniversary of our commitment to education, employment, and entrepreneurship. It is already two and a half decades of work, with figures that make us feel very proud: 630 thousand students, professionals, entrepreneurs and SMEs were supported. More than € 2 billion were invested, and agreements were made with more than 1,000 universities and academic institutions in 11 countries. And we're not going to stop here.

In the final stretch of the year, we announced the creation of the Santander Portugal Foundation. With an initial allocation of € 22.5 million. The Foundation will play a very important role in the areas of Education, Employability, Ecology, and Social Affairs, helping people and companies to progress in a fair, inclusive, and sustainable way.

A purpose that encourages us to do more and better, not only for the benefit of society, but of all our stakeholders. The indicators make us feel optimistic about the future, and we will work, as always, to support, innovate and help the Portuguese economy to grow and be increasingly competitive.

Pedro Castro e Almeida

CORPORATE CULTURE, AWARDS, DISTINCTIONS AND OTHER RELEVANT FACTS IN 2021

By being responsible we generate confidence

In our day-to-day businesses, we ensure that we do not simply meet our legal and regulatory requirements, but we exceed people´s expectations by being Simple, Personal and Fair in all we do.

We focus on areas where, as a Group, our activity can have a major impact on helping people and businesses prosper.

Santander Portugal

Santander Portugal is a benchmark bank in the Portuguese financial sector. The Bank's mission is to help people and companies prosper, aiming to be the best digital, open financial-services platform, acting responsibly and conquering the permanent trust of our employees, customers, shareholders, and society.

The future is about offering the best customer experience. In this sense, the Bank implemented a digital transformation plan to modernize and simplify its processes and provide increasingly faster responses to its customers. The number of digital customers has been increasing — it has reached 1 million already — and around 60% of sales are made through digital channels.

Santander provides a personalized, differentiated service, through innovative products and services, new digital solutions and flexible communication channels, and modern and welcoming service spaces, such as the *WorkCafé* branches or the *SmartRed* branches that favour more welcoming spaces, with developed digital features. There has also been a major focus on simplifying processes and automating tasks, allowing for faster and more efficient results. For example, a Housing Credit platform that reduced the average time for taking out a loan by more than 50%.

Another focus has been the development of digital payment solutions to enable customers to pay for their purchases with any mobile device, anywhere in the world, in a simple, fast and secure way. Through partnerships with Apple, Garmin and Fitbit, it is now possible to make contactless payments with smartwatches, bracelets and other devices. The Bank also provides the Digital Card, which allows customers to carry out operations immediately after contracting, while waiting for the physical card. Nowadays, it is possible to open an online bank account in 5 minutes from home, without any human intervention.

In 2021, Santander launched the new Private App, which was born from a common vision and strategy for 4 European countries (*One Europe*), and which is now more modern, intuitive, customizable, and with new features.

With regard to supporting society, Santander remains committed to the UN Sustainable Development Goals, and has established the 11 Responsible Banking goals in order to ensure the sustainable development of its activity.

In 2021, the Bank invested about € 7.5 million in community support projects in Portugal, through sustainability initiatives and Santander Universities. More than 300 Associations are supported annually in projects related to education, protection of minors, health, disability, social inclusion, and care for the elderly, achieving a direct impact on 89,000 people in the local community in 2021.

The Bank's commitment to Education is materialized in its relationship with the main Higher Education institutions in Portugal and through the policy of grants awarded by Santander Universities, which in 2021 reached about 4 thousand beneficiaries, including merit grants, social support, mobility, accommodation, research, and internship. It was an important year in this area, as the scope of the programme was extended beyond the university community, so that more people could have access to scholarships and training initiatives, especially in the types of skills most valued by the labour market, such as digital and languages. At the end of the year, the creation of the Santander Portugal Foundation was also announced, which aims to contribute to a more inclusive community, through programmes with a high social, economic, and environmental impact.

Santander Brand

Santander seeks to position itself as a close, reliable, relevant brand in the lives of the Portuguese, affirming its commitment to the development of society, acting in a simple, close and fair way. This is our mission, the way we do things, the Santander Way. Our purpose is to contribute to the development of people and companies, fulfilling the needs of our customers, whether by helping companies to develop their businesses, in the daily lives of families, or in the financial empowerment of people (so that they receive the education and training they need), among other things. And all of this, always with the constant concern of creating a positive impact on society.

At the end of October 2021, Santander launched a campaign to strengthen the relationship of trust and proximity between employees and customers. With the protagonism of Tony Carreira and his two sons, Mickael and David Carreira, the campaign ran under the slogans “Vamos Juntos”, and “O Banco Sou Eu”, focusing on our customers and on the important relationship they establish with the Bank. Presenting real testimonies, it was intended to show that all of the approximately 5 thousand employees of Santander Portugal are a key part of the Bank, generating a positive impact on the lives of our customers, constructively helping them, on a daily basis, fulfil their goals.

Awards, Distinctions and Other Relevant Facts in 2021

Bank of the Year	Santander was distinguished as the **Bank of the Year in Portugal** by ***The Banker*** magazine, belonging to the Financial Times Group, at *The Banker Awards* 2021, for the "digital transformation of the bank, and the support provided to customers and the country."
Best Bank in Portugal	Santander was distinguished with the award for **Best Bank in Portugal 2021**, awarded by ***Euromoney*** magazine for "having remained focused on supporting the community, and adapting its business to the context of the pandemic."
Best Bank in Portugal	The North American magazine ***Global Finance*** distinguished Santander as the **Best Bank in Portugal**, in the *World's Best Banks* 2021 awards for "being among the banks that are better responding to customer needs and playing a key role in the recovery of the economy."
Best Retail Bank in Portugal	Santander was distinguished as the **Best Retail Bank in Portugal**, by the ***World Finance*** magazine, within the scope of the *World Finance Banking Awards* 2021.
Best Bank for SMEs in Portugal	Santander was distinguished by the ***Global Finance*** magazine as the **Best Bank for SMEs** in the 1st edition of the *SME Bank Awards*, which distinguish 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 Private Banking Services Overall	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*. Euromoney highlights the bank's remarkable contribution to the international business sector.
Best Investment Bank in Portugal	Santander received the **Best Investment Bank** award from ***Euromoney*** magazine for its "strong dynamics and leadership in merger and acquisition transactions, and strong involvement in advising and financing renewable energy, telecommunications, and real estate projects."
Best Private Banking in Portugal	For the tenth consecutive time, Santander's *Private Banking* was considered by the ***Euromoney*** magazine as the "***Best Private Banking Services Overall in Portugal***", an award that distinguishes the best private banking services worldwide.

Best Private Banking in Portugal	Santander's ***Private Banking*** was also distinguished as the "**Best in Portugal**" by the ***Global Finance*** magazine, within the scope of *The World's Best Private Banks Awards* 2022. For seven consecutive years, this publication has recognized the Bank's business model and the service provided to customers in this segment.
Most Reputed Banking Brand in Portugal	Santander is the **brand with the best reputation and the greatest relevance in the banking sector** in Portugal, according to the *Global RepScore Pulse* study, published by ***OnStrategy***.
Family Responsible Company	***Merco***, a reference monitor that assesses the reputation of companies, highlights, in its study ***Merco Leaders and Companies***, the main 100 companies and the main 100 leaders with the best reputation in Portugal, in 2021. **Santander was ranked 1st in the banking sector.**

Other awards and distinctions

***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 Interbolsa (and not admitted to trading), weighted by the respective amounts.

***Best Book Runner Bond** – Euronext Lisbon Awards*

Euronext recognized Santander as the placing financial intermediary with the largest number of issuances and amounts placed in the various securities identified in this category, listed with Euronext Lisbon.

***Best Global Bank in Financial Inclusion** – Euromoney*

Euromoney distinguished Santander as the "Best Global Bank in Financial Inclusion" in the "*Global Awards for Excellence* 2021" recognizing the effort made by the Group to make financial services more accessible. Euromoney highlighted Santander's commitment to financially empowering both individuals and entrepreneurs, namely through various programs in Latin America, Europe and in the USA, as well as through the work that Santander has done to help people adopt digital channels during the pandemic, in particular the most senior.

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

Other Relevant Facts in 2021

Santander Portugal invested a total of € 6.7 million euros in community support projects, through sustainability initiatives and through Santander Universities. The Bank supported 112,462 people in projects related to social welfare, employability, education, and protection of vulnerable groups.

Participation in the #AllTogether campaign

Collection of **€ 250,000** for **food and medicines for people in situations of vulnerability.** Through Santander's contribution, more than**74,000 people** were supported.

The "Here and Now" service for people over 65

To support customers over the age of 65, unfamiliar with adhering to and operating digital channels, Santander created the "**Here and Now**" initiative, to give them all the necessary support and prevent them from having to go to branches during the period of the pandemic. In 2021, **85,752** customers were supported in the 2nd edition of this programme.

Aqui e Agora
informação e APOIO

Santander Portugal announces the creation of a Foundation

In November, the creation of the **Santander Portugal Foundation** was announced, with the aim of developing programmes with a high social, economic, and environmental impact. With an initial allocation of € 22.5 million, the Foundation will intervene decisively in the fields of **Education, Employability, Ecology, and Social Affairs.**

Partnership with the Portuguese Rugby Federation

Social inclusion initiatives through rugby with children and young people.

4th Edition of the Santander Participative Donation.

Support for 16 Social and Environmental institutions, selected by Santander employees.

Launching of the Santander More Community Award

Support to Social and Environmental projects, selected by society through the Santander Website.

Sara Carreira Association Scholarships

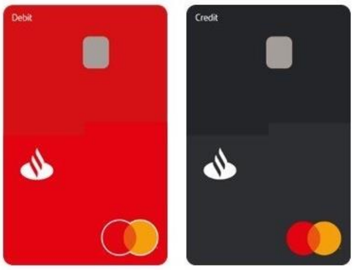
Santander joined the cause of the **Sara Carreira Association**, to support children and young people with financial constraints, helping them progress throughout their education, by awarding **21 scholarships.**

Renewal of the protocol between Santander and the Salvador Association

This protocol aims to support the project "**Destination: Employment**", whose objective is to promote the employability of people with physical disabilities.

Café Joyeux Portugal

Santander joined the **Café *Joyeux*** Portugal project. This initiative aims to promote the employability of people with Intellectual and Developmental Disabilities (IDD).



Recycling of expired bank cards

The Bank has implemented a **recycling process for expired bank cards**, which will be used to produce street furniture. With this project, f**or each kilogram of bank cards collected, a tree will be planted in a protected area**, with the guarantee of being taken care of for 5 years.

Blood collection campaign in six different cities in Portugal

In partnership with the Portuguese Blood and Transplantation Institute, plus three local hospitals, Santander launched a blood collection campaign to help increase the country's blood supply, responding to a growing need caused by Covid-19. The initiative took place in Lisbon, Coimbra, Porto, Faro, Funchal, and Ponta Delgada.

CUSTOMERS AND THE BANK'S DISTRIBUTION NETWORK

The digital and commercial transformation have allowed the growth of the digital customer base and the increase of transactionality through the various remote channels

Customers

1 Million (+7.5%)
Digital Customers
YOY Chg

+ 70 thousand
digital customers
Jan. to Dec. 21

+20%
customers with Mobile App

59%
Digital customers[1]

+ 75%
customers with Wallet

1 – as a share of active customes

Channels

56% (+13 pp)
Digital Sales[2]
Accummulated in 2021

1.9M
Active digitalizations[4]
By year end

7M (+22%)
Transactions[3]
Average of 2021

4.4M
operations through cards on electronic platforms [4]
By year end

2 – Cumulative value of digital sales in 2021, for products commercialized in physical and remote channels. Change vs 2020.
3 – Average of transactions in digital channels, monetary and voluntary, in 2021. Change vs 2020.
4 – Digitalized cards on the Apple, Garmin, Fitbit and Santander platforms, and on e-commerce platforms.

One Santander: building a Bank for a better experience for our customers, aspiring to reach **Position #1 in NPS**

In 2021, as part of the transformation of the network, **new Service models were implemented**:

The *Hub Select*

A new Service Model, made up of teams of Managers managing customers remotely, with the possibility of face-to-face service, subject to prior appointment. These teams are integrated into each Branch's own team (as back office), and this model is available in areas where there is sufficient critical mass of eligible customers. This service has already been implemented in 24 branches.
A Service Model that combines remote and physical service.

The Company Teller

Branches with a dedicated bank teller service for companies, with specialized equipment and dedicated employees. In 2021, 20 branches were implemented with this service model.

The Advanced Teller

Implementation of a new concept, reformulating the Teller function, with the creation of a "pool" of 1 to 2 account managers who simultaneously perform the Teller functions. The aim is to create value for customers, meet their expectations, and improve their experience. This concept was implemented in 185 branches of the commercial network in 2021.

For each customer to feel truly at home in our Bank, we have six different branch concepts, adapted to their different needs

Clássico

A Proven Branch – With the quality of service that our customers know so well.

Based on a robust network – Present throughout the Mainland territory and also in the islands.

Combining simple and immediate – Providing an agile service for cash operations.

Universitário

A Branch by your door – Located close to the main university campus in the country.

Accompanying students – Providing support, at a time when everything is new, including experience with Banks.

Giving them the best commercial offers – From the ease opening of an account, to the competitive conditions of the debit card.

Money Club

A Branch facing the future – A University Kiosk located on the NOVA SBE Campus, in Carcavelos, of which we are a founding partner.

Young, like them – To give them all the services they need, without having to leave the Campus.

Open to knowledge – In a sophisticated environment, where they can study and discuss ideas.

Smart Red

A space with end-to-end technology – Equipped with touch screens that screen customers according to the purpose of their visit. **With a strong focus on audiovisuals –** Which work as a communication support in the interaction with customers.

Easily accessible by everyone – With wide spaces and without physical barriers.

Work Café

A coffee, at the Branch – Served in a large, modern space, with cafeteria service.

For all those who visit us – Whether customers or the general public, are looking for a pleasant space.

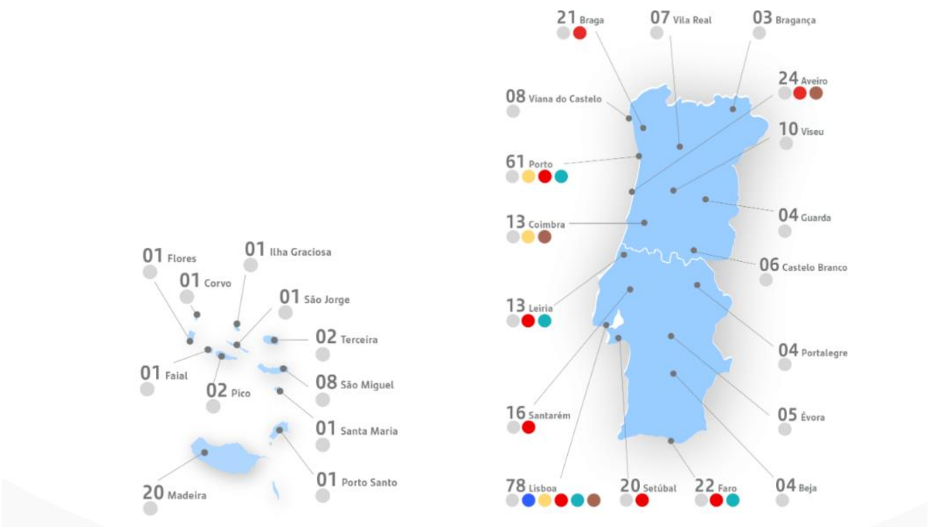
Where ideas are served hot – In an inviting open space for studying, meeting and relaxing.

Próximo

A Branch with a 100% digital service – With extended hours and service via email, phone or video call.

But it hardly seems so – Because we provide all the services available at physical branches.

Which is very close to customers – By assigning them a dedicated manager, with whom they can talk permanently.



- Being responsible is the basis of trust, and only acting in a **Simple, Close and Fair** manner can we maintain the trust of our customers and of all the stakeholders with whom we interact.
- We seek to ensure that, in the course of our current business, **we foster sustainable and inclusive** growth of society, reducing social and economic inequalities among the population, while, at the same time**, we support the development of the communities where we are present.**
- Besides investing in the **community**, Santander also acts in the areas of **financial empowering**, **climate finance** and **reduction of consumption and emissions**.

Main areas of activity as part of the sustainability policy

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

The main Sustainable Development Goals (SDG) where Santander's business and investment in the community has a higher incidence.

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

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

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

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

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

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

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

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

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

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

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

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

Main Highlights in 2022

- Santander is committed to society and to its mission of helping businesses and families to thrive, and contributing to a more sustainable future. Thus, in 2021, Santander invested about **€ 6.7 million in community support projects, through sustainability initiatives and Santander Universities.**
- The Bank supported **112,462 people,** in projects related to **social welfare**, **employability**, **education**, and **the protection of vulnerable groups**. So far, **250 institutions** were directly and indirectly supported.
- Santander also promotes **financial literacy** initiatives, and support for people in unfavourable socio-economic situations. Since 2019, **445,362 people** have been financially empowered.
- It also takes on **commitments that reinforce its long-standing concern for the environment:**
    - Since year 2020, Santander has been a **carbon neutral company**, and, **in 2021, it got rid of single-use plastics in its facilities.**
    - **Santander Portugal** signed the **BCSD Portugal Manifesto "Towards COP26,"** along with more than 80 BCSD Portugal member companies. The 11 points of the Manifesto reflect the different aspects to be considered to increase the ambition of the global and collective response — in line with the main goal of limiting the Earth's warming to 1.5°C — of achieving the goal of reducing carbon emissions and accelerating the global decarbonization process.
    - **Santander Portugal** signed a **protocol with Tourism of Portugal**, in order to accelerate sustainable transformation and the inclusion of ESG criteria in companies operating in the tourism sector.
    - Santander took part in the **15th edition of Green Fest,** the biggest sustainability festival in the country. The opening conference of *Green Fest* Braga was attended by Pedro Castro e Almeida, CEO of Santander Portugal.
    - We took part in **Agroglobal**, reinforcing our support to the agriculture sector and the importance of *Green Finance* in this sector.
    - We launched the **Agriculture Equipment Renewal Plan** to accelerate the **digitization and sustainability of Portuguese agriculture.**
    - In addition to have offered a **range of biodegradable cards to the private and corporate segments,** we also launched a **project to recycle expired and captured bank cards**, with the aim of reducing the environmental impact on society. After being returned, **the cards are transformed into street furniture.**
    - To give greater prominence to our **environmental, social and governance (ESG)** initiatives, and because we are committed to following, promoting, and sharing our best practices, we launched the podcast "Mudar o Mundo" [Change the World], and the newsletter *#TheRightWay* on the Bank's website.

Other investment initiatives in the Community

- We took an active part in initiatives such as the **#AllTogether campaign**, which brought together 10 banks and more than 30 companies in order to **raise funds for foodstuffs and medications for vulnerable people and families**, raising € 2.5 million. Through Santander's contribution, **more than 74 thousand people were supported.**
- We launched a **blood donation campaign**, open to employees and the general public, in partnership with the Portuguese Blood and Transplantation Institute, plus 3 local hospitals. The initiative took place in Lisbon, Coimbra, Porto, Faro, Funchal, and Ponta Delgada.
- As part of **Santander's partnership with the Portuguese Rugby Federation**, Santander is responding to several social challenges, ***using this sport as a driver for the inclusion of children and young people***, namely through the values it conveys.
- **4th Edition of the "Participatory Donation" –** In this initiative, Santander employees in Portugal chose the **Alzheimer Portugal Association, Casa dos Rapazes, *Ocean Alive*, and the Hippotherapy Project** as the winning institutions of the fourth edition of this Award. Other 12 Private Social Solidarity Institutions (IPSS) received honourable mentions under this initiative.
- In 2021, we launched the **Santander More Community Award**, which goal is to acknowledge and financially support social or environmental projects that promote the well-being of the communities where we operate. The selected projects were put to public voting on the Bank's website.
- Santander renewed for another two years the **protocol with the Salvador Association**, whose objective is to **promote the employability of people with physical disabilities**. This program includes vocational guidance, training sessions for developing specific skills, searching job offers, as well as organizing recruitment meetings and accompanying employers during the recruitment processes. The Bank hired five people from the Employability Programme of the Salvador Association.
- The Bank joined the **Café *Joyeux* Portugal** project, which recently opened its first coffee shop in Lisbon. The aim of this initiative is to **promote the employability of people with Intellectual and Developmental Disabilities (IDD)**, by enabling their integration into the labour market and their certified professional training.
- We launched the **Christmas solidarity campaign "Choose the cause. We have the present"** to support the projects of **APSA, CAIS, Gil Foundation, Semear**, and **MDV – Movimento de Defesa da Vida** [Pro-Life Movement], through the purchase of gifts produced by the beneficiaries

of these IPSS. Santander contributed an amount equal to each employee's purchase, and, together, we were able to contribute with a donation of about € 20 thousand to these causes.

- In November 2021, the creation of the **Santander Portugal Foundation** was announced, with the aim of developing programmes with a high social, economic, and environmental impact. With an initial allocation of € 22.5 million, the Santander Portugal Foundation will intervene decisively in the fields of **Education, Employability, Ecology, and Social Affairs.**

Financial Empowerment

- To support our customers over the age of 65, unfamiliar with the adhesion to and operation of digital channels, we have launched the **"Here and Now"** service, through which all commercial managers and other employees assist, especially these customers, in all digital channels' registration and operation procedures (Netbanco and App), as well as in their payments, whether by card or by wire transfer. Each of such dedicated managers and other employees did not fail to personally accompany the customers they helped until the end of the lockdown period. In 2021, 85,752 customers were supported in the **2nd edition of this programme.**
- Santander Portugal has **54 branches in low population density or low income communities**, which **benefit more than 105,200 people.** In the islands of the Azores and Madeira, there are **19 branches**, which benefit **39,500 people.**
- During the academic year 2020/21, **56 employees from Santander Portugal participated as volunteers in the Portugal *Junior Achievement* Programme**. Santander employees shared their knowledge and experience with 1st to 12th grade students on topics such as citizenship, financial literacy and entrepreneurship. There were **68 implementations of the Programme**, and the sessions reached **997 students.**
- To help customers make more conscious, informed decisions about their finances, we have included a section with articles on finances and day-to-day management in **Salto – The Santander community blog.**
- We have also launched the podcast **"Time is money. Do you have a couple minutes?"**, in which Santander experts talk about how to manage savings and investments, engage in conscious consumption, and prevent fraud in the digital world.
- The Bank also offers several **free online courses and workshops, aimed at SMEs, to improve their entrepreneurial skills.**

Education and Innovation

- We joined the cause of the **Sara Carreira Association**, to support the fulfilment of children and youngsters' dreams with lesser resources, helping them evolve throughout their education. The Association awarded **21 scholarships** in 2021, aimed at children and young people aged between 12 and 21, with financial constraints.
- As part of the sponsorship programmes between the Bank and Universities, **4,666 scholarships were awarded.**
- **860 Santander Future 2021 Scholarships** were awarded. Academic merit is one of the main criteria, as well as the need for financial support for university students to start or carry on with their studies in the 1st and 2nd cycles of Higher Education. These scholarships are intended for University and College students from across the country that have partnerships with Santander Universities.
- With the aim of supporting **university students wishing to have an international experience**, 2 editions of the **Santander Global Scholarships were launched, totalling 450 scholarships**, aimed at university students with academic success but in need of financial support, to encourage students to experience an international exchange.
- In partnership with the *British Council*, Santander launched **1,000 Santander Scholarships — *British Council Online English Courses***, for self-access English courses, aimed at improving the English level of graduate and postgraduate students, but also of teachers and professionals.
- The ***Data Challenge***, a programme to **support the best solutions developed by student researchers in the area of data with € 75,000**, has been launched. Organized by UPTEC – Science and Technology Cluster of the University of Porto, and by the UC Business of the University of Coimbra, the programme is promoted by Santander Universities, and open to the entire Portuguese scientific community.
- Santander supports, in partnership with the weekly newspaper *Expresso*, the ***Primus Inter Pares*** Award, which has been contributing to the **creation and development of a culture of rigour and professionalism in business management**, offering the most promising young people the opportunity to access complementary academic training of excellence.
- Santander launched the **Portugal Inspiring Award | Side by Side with Companies**, with the aim of recognising companies and people that stand out in the Portuguese business fabric, and to strengthen the Bank's role in supporting the national economy. The goal is to reward and give visibility to companies of excellence, either national or foreign, operating in Portugal, and that stand out for their ability to create jobs, boost the market, innovate, and foster economic development. These are examples of companies that inspire others to do more and better in Portugal. The Award, which will be held annually, has 4 categories: **Agriculture; Tourism and Services; Sustainability and Social Economy**; and **Innovation, Technology and Industry**.

Sustainable Finance

The Bank has played an important role in sustainable financing in Portugal. In 2021, it participated in the issuance of € 750 million and € 1,250 million of green hybrid debt by EDP, and € 300 million of green bonds by REN. Additionally, in 2021, Santander financed € 55 million in renewable energy projects, with a total installed capacity of over 70MW.

Additionally, we offer a wide variety of products and services that incorporate environmental, social and governance criteria.:

- **Santander Sustainable Fund —** This fund follows the logic of socially responsible investment (SRI) in companies that, in addition to traditional financial criteria, meet environmental sustainability, social responsibility, and best governance practices criteria. The fund has been promoted to customers, having raised **€ 63 million** during the year, totalling more than **€ 203 million of assets under management.** The developments of the *Sustainable Finance Disclosure Regulation* (SFDR) have also been closely monitored, ensuring that all means are available to meet customers' sustainability requirements.
- **Personal Loans for Renewable Energies** — Santander is a **leading partner for investors in renewable energy production technologies**. The Renewable Energy Facility is a credit designed for those wanting to invest in alternative forms of energy, by purchasing equipment that, in addition to being able to reduce their energy costs, also lower their carbon footprint. With a reduced spread of 2%, and exemption from the credit formalization fee, lower monthly instalments are obtained, with payment terms that can be extended up to 8 years, provided that the sum of the holders' age with the term does not exceed 72 years.
- **Green Housing —** Santander offers housing credit with a green component, with a lower spread for housing with the best energy rating (A and A+).
- **Solutions Auto –** Santander has Car Leasing campaigns with lower spread for electric and hybrid vehicles.
- **Eco Green Car Credit Campaign –** for Individuals and Companies - we finance **up to 100% of the cost of a new electric vehicle**, with a lower interest rate, compared to other traditional car credit facilities.
- **IFRRU 2020** [Financial Instrument for Urban Rehabilitation and Regeneration] provides loans at more favourable conditions compared to the market, for the **complete renovation of buildings intended for housing or other activities**, including the most appropriate integrated energy efficiency solutions within the scope of such rehabilitation.
- ***Boutique Santander*** is an online store where one can buy mobile phones, computers and other technologies, watches, bags, motorcycles, bicycles, wine, and much more. In 2021, Santander provided **products to support the transition to clean mobility solutions, such as bicycles, scooters, and electric motorcycles**. Until the end of the year, offers of chargers for cars and solar panels were also introduced. All these products are complemented by a credit offer with advantageous conditions.
- **Economic Support Hotlines – Covid-19 —** The Bank, in conjunction with the public entities involved, made available the Economic Support Hotlines – Covid-19 to protect affected companies and businesses. Throughout the year, € 663 million were granted in support to SMEs and ENIs [Individual Entrepreneurs].

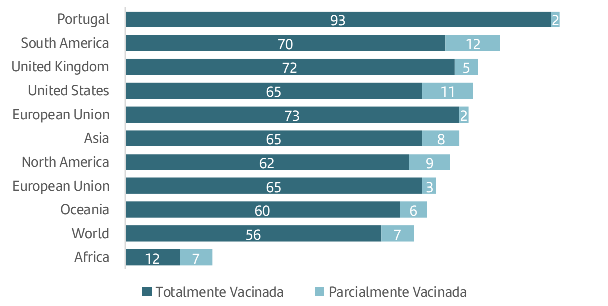
BUSINESS ENVIRONMENT

The world economy recovered in 2021, with a growth rate of about 5.9% compared to 2020, the year most affected by the Covid-19 pandemic (when it recorded a contraction of 3.1%).

The year 2021 shall remain as the year in which the vaccination process began in most of the developed economies, with which it was possible to reduce both the number of hospitalization cases due to severe illness, and deaths. By the end of February 2022, 63% of the world's population had been vaccinated, of which 56% is considered fully vaccinated, and 7% partially vaccinated.

However, the vaccination process evolved at two speeds, with the most developed economies concentrating more than 2/3 of the inoculated doses, and, at the opposite end, the poorest economies, namely those in Africa, where the percentage of totally vaccinated population is only 12%.

Population Vaccionated against Covid-19 (% population)



Source: Our World in Data

Among the most developed economies, it is worth mentioning the European Union, the United Kingdom, and the United States with the highest percentages of complete vaccination, 73%, 72%, and 65% respectively. The acceleration of the vaccination process was essential to allow the restrictions on mobility and economic activity to be lifted, which was further intensified from 2Q 2021, that is, after the 3rd pandemic wave in 1Q 2021.

However, in 1Q 2021, the growing number of new infection cases required that lockdown and restrictions again be imposed, especially in the most developed economies, whose adverse impact on growth was immediate, and which translated into a slowdown in the pace of recovery. Economic signs showed a positive but heterogeneous trend across sectors and countries, with the US, China, India and Russia in the group of economies with stronger signs of recovery, and others, such as the UK, Japan, and Brazil, with signs of a declining activity.

This pandemic dynamic resulted in the fact that, in 2021 as a whole, most economies recovered strongly compared to 2020, but intra-annual dynamics showed greater volatility.

World Economic Growth

	2020	2021	2022 P
World	-3.1	5.9	4.4
Advanced Economies	-4.5	5.0	3.9
USA	-3.4	5.6	4.0
Euro Area	-6.4	5.3	3.9
United Kingdom	-9.4	7.2	4.7
Japan	-4.5	1.6	3.3
Developing Countries	-2.0	6.5	4.8
Africa	-1.7	4.0	3.7
Asia	-0.9	7.2	5.9
China	2.3	8.1	4.8
Central and Eastern Europe	-1.8	6.5	3.5
Middle East	-2.8	4.2	4.3
Latin America	-6.9	6.8	2.4
Brazil	-3.9	4.7	0.3

Source: IMF (January 2022)

In the US, GDP grew by 5.6%, with a dynamic first semester, but a weaker 3rd quarter, as a result of the expressive rise in the number of infections, with economic activity resuming its recovery trend at the end of the year.

Families maintained a strong demand for services and durable goods, but with supply being negatively affected by the distribution constraints, resulting from the pandemic. More recently, delivery times and transport costs between China and the US have started to decrease, helping to unblock the situation. Stock levels remain below those observed in the pre-pandemic period, with potential for growth in economic activity due to a more normal functioning of global distribution chains. The inflation rate rose to 7% at the beginning of 2022, influenced by the rise of energy and food prices, with the underlying inflation rate (excluding energy and food) exceeding 5%. Pressure on prices was more prevalent on goods, as a result of blockages in distribution chains, and was reflected, albeit more moderately, in the prices of services.

Also at the end of 2021, there was an emergence of wage pressures, with the labour cost index showing signs of acceleration and across all business sectors.

In China, despite the recovery compared to 2020 (which reflects the basic effects of the pandemic), economic activity decelerated sharply throughout 2021, as a result of shortfalls in energy supplies, instability in the residential real estate sector, and the resurgence of new Covid-19 cases. Consumer confidence indicators showed mixed signs regarding the evolution of private consumption; while regarding production and investment, the feelings remained subdued as a result of constraints in distribution chains. Demand for energy remained quite high, albeit with some slowdown, supported by public measures aimed at increasing production through the use of coal and national reserves, in an attempt to reduce the escalation of prices, and ensure energy independence. The crisis in the residential real estate sector, resulting from Evergrande's liquidity issues — characterized by rating agencies as being in a situation of restricted default —, forced the Chinese government to allow the central bank of China to cut the liquidity reserve requirements of exposed banks, and thus have greater capacity to support the entire real estate sector's liquidity.

In Japan, in the intra-annual dynamics, the economy decelerated in 3Q 2021, also as a result of restrictions in the distribution of raw materials, and the higher number of infections by Covid-19. Economic recovery was therefore closely linked to restrictions on mobility, with recovery dependent on the intensification of the vaccination process and government support. The inflation rate remained negative for most of the year, accelerating towards the end of 2021, as a result of higher energy prices.

In the UK, there was a similar trend, with economic activity remaining moderate towards the end of the year, after an unexpectedly weaker 3Q 2021, as a result of the combination of restrictions in distribution chains and the lack of manpower, as a consequence of the pandemic context, clearly amplified by Brexit. Private consumption was the main driver of growth, more visible when lockdown measures were lifted. On the other hand, investment continued to evolve at a weak pace. At the end of 2021, the economy had not yet recovered to pre-pandemic levels.

In the Euro Area, the annual recovery also hides strong intra-annual volatility. After the economic contraction of 1Q 2021 (-0.2% quarter-on-quarter), the decline in the number of infections allowed economic activity to gradually open up, reinforced by an intensification of the vaccination process, which led to a 2.2% growth (also quarter-on-quarter) in 2Q 2021, with the services sector leading the recovery, as people were able to again go to shops and restaurants, as well as to an increase in travels and tourism. The industrial sector continued to operate at a good pace, despite the shortfalls and lack of raw materials and equipment, as a result of the reallocation of productive factors for fighting the pandemic, amplified by a strong recovery in demand.

The emergence of the Omicron variant of the SARS-Cov2 virus (whose transmission capacity is considered higher than that of the Delta variant, although with less harmful characteristics), and whose propagation speed increased with the arrival of colder weather throughout Q4 2021, giving rise to the 5th pandemic wave in the Euro Area as a whole.

Nevertheless, the economic recovery remained solid, despite the momentary negative impact of the 5th wave. As a result of the successful vaccination, it was possible to avoid the closure of a number of services and keep economic activity going, although with differences between the various countries.

The unemployment rate in the Euro Area maintained a downward trend, and the number of people on layoff fell significantly, compared to 2020, supporting the improvement in household income and consumption. On the other hand, the number of people who make up the workforce, and the hours worked remain below pre-pandemic levels.

	GDP	Inflation
Euro Area	5.3	2.6
Germany	2.8	3.2
France	7.0	2.1
Spain	5.0	3.0
Italy	6.5	1.9

Source: EC (February 2022)

The faster recovery of economic activity, in a context of restrictions in global distribution chains, led to an increase in the inflation rate, as a result of the surging of raw material prices, including energy, but also of services. The price surge was more visible in the second half of the year, starting to capture the attention of central banks.

The global inflationary dynamics was also evidenced in the projections of the International Monetary Fund, which, in the *World Economic Outlook* of January 2022, estimated that the acceleration of the inflation rate in the second half of 2021 would be reflected in higher price rises in 2022, higher than those seen in 2021.

From the IMF's point of view, the essential factor is that, in most of the developed economies, keeping inflation expectations anchored, the gradual dissipation of the pandemic crisis in 2022 would contribute to a more normal functioning of distribution chains, as well as of the consumption patterns between goods and services, contributing to the disappearance of inflationary pressures throughout 2022. At the turn of the year, nominal pressures of rising wages remained under control in most of the developed countries, except in the USA, where low levels of unemployment and the high number of workers unavailable for work were already putting pressure on a structural rise in wages.

The US Federal Reserve, which throughout the year has adapted its speech to the evolution of the economic situation, announced in December 2021 that it would accelerate the pace of decline in the acquisition of financial assets, and that it would implement a cycle of benchmark interest rate hikes throughout 2022.

In the Euro Area, the Central Bank maintained an accommodative monetary policy, through the extraordinary use of a pandemic emergency asset purchase program (PEPP), and the intensification of the asset purchase program (APP). As part of the PEPP, the ECB announced that it intends to reduce the volumes of net asset purchases at a slower pace than in the previous quarter, discontinuing them at the end of March 2022. However, it proposed to extend the reinvestment horizon to at least the end of 2024, with the aim of avoiding interference or causing signs of financial instability.

In line with a gradual reduction in asset purchases, and to ensure that the monetary policy stance remains consistent with the stabilization of inflation at the symmetrical medium-term objective of 2%, the ECB established a monthly pace of net purchases of € 40 billion in 2Q 2022 and € 30 billion in 3Q 2022, under the asset purchase program. As of October 2022, the ECB signalled to maintain net asset purchases under the APP at a monthly pace of € 20 billion, for as long as required, to reinforce the accommodative impact of the key ECB interest rates.

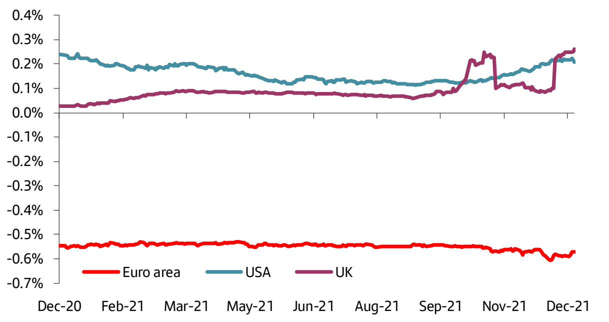
Additionally, the Governing Council reinforced the message of waiting for net purchases to end shortly before starting to increase the key ECB interest rates.

The development of inflationary pressures in many economies led several central banks, both in developing economies and in some developed economies, to an increase in reference interest rates. These more restrictive monetary policy decisions compete with the speed of economic recovery in an attempt to avoid a sustained price and cost surge.

Particularly in economies such as the US and the UK, where monetary policy has clearly taken a less expansionary stance, short-term interest rates reflected an upward trend in December 2021, a trend that continued into January 2022.

In the Euro Area, in 2021, short-term interest rates remained close to the minimum, although the longer maturities started to rise in the last months of the year.

3-Months Interest Rates



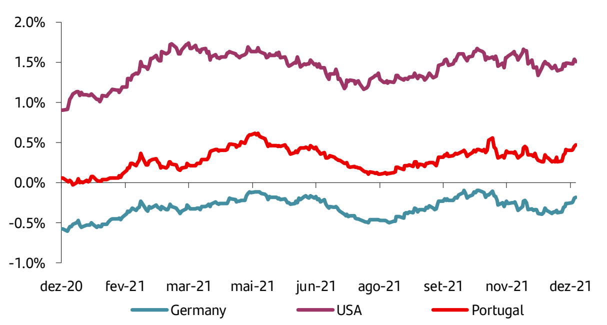
Source: Bloomberg

The performance of the European Central Bank, throughout the year, and even at the end of 2021, when inflation reached 5%, was associated with its view — shared by most central banks — that inflation reflected specific occasional factors, related to with the rise in energy prices and disruptions in distribution chains resulting from the pandemic, which should dissipate in the course of 2022.

In February 2022, and despite no signs of wage pressures (in turn, already visible in the US and UK), the ECB reinforced its surveillance over the evolution of inflation, considering that it would remain high for a longer period of time, leaving open all options for action, in case of need.

In this context of accelerating inflation, **long-term interest rates** showed an upward trend, accommodating the decrease — announced or executed —, in the pace of net acquisition of financial assets by central banks. In the Euro Area, throughout 2021, the ECB sought to ensure stability of yields, while the prospects of inflationary pressures combined with a less expansionary monetary policy by the US Federal Reserve resulted in a rise in long term interest rates.

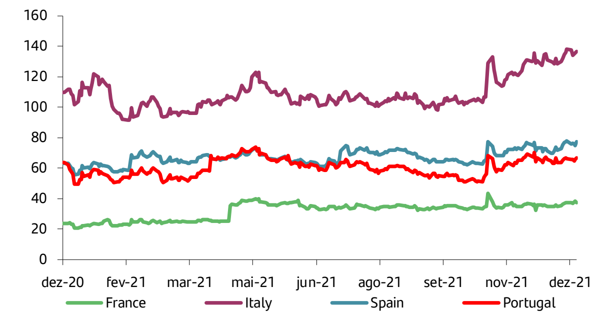
10 Year Bond Yields



Source: Bloomberg

Sovereign interest rate differentials rose at the end of 2021, revealing a change in investors' risk perception in the face of a potential scenario of rising interest rates in the Euro Area and its implications for asset value, particularly in economies whose debt ratios are higher.

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

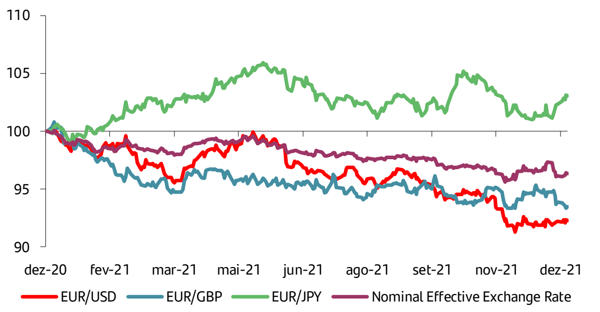


Source: Bloomberg

In Portugal, the 10-year yield intensified its upward trend, especially after the ECB meeting of February 3, 2022, having surpassed the 1% level, which resulted in a slight widening of the spread vis-à-vis Germany, in about 10 bp, to 78 basis points, above the levels observed throughout 2021. The last time the yield had reached 1% was in April 2017, but the spread had reached 150 bp, in a context in which unconventional monetary policy sought to respond to persistently low rates of underlying inflation, despite favourable economic growth.

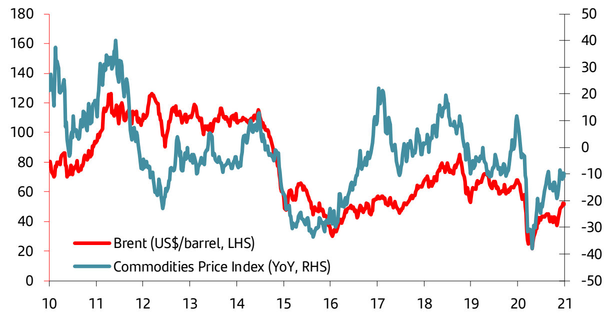
In the **foreign exchange market**, the euro tended to depreciate throughout 2021 against the main currencies, reflecting the mismatch between the ECB pursuing an expansionary monetary policy, while other central banks began to announce the reduction of or even reduce their stimuli, namely the US Federal Reserve and the UK Central Bank. Against the dollar, the euro ended the year at about 1.14 dollars, a depreciation of about 7%.

Main Exchange Rates
(Dec-2020 = 100)



Source: BCE

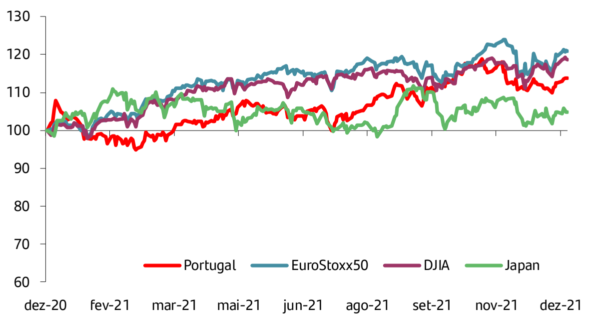
Brent crude oil (US$/Barrel) and Commodity Price Index (YoY)



Source: Bloomberg

The improvement in the pandemic situation contributed to a general appreciation of **equity markets**, as a result of a faster economic recovery than expected, supported by broadly expansionary monetary policies. At the end of the year, North American and European markets recorded a growth of almost 20%, supported by the speed of recovery of the main developed economies. In Portugal, the PSI followed the European trend, benefiting from the optimism associated with the success of the vaccination process and economic recovery. At the end of 2021, it reached the maximum levels recorded in 2018.

Equity Markets
(Dec-2020 = 100)



Source: Bloomberg

The pandemic crisis contributed to the appreciation of **gold** to levels above 1,800 dollars per ounce. Despite the economic recovery, the uncertainty regarding the emergence of new variants of the virus, and the growing geopolitical risks, namely between Russia and the USA, keep supporting structurally higher prices compared to the pre-pandemic period.

Oil appreciated sharply, with Brent recovering from the low levels of about USD 20/barrel, in 2020, to USD 90/barrel at the beginning of 2022. The swift economic recovery, associated with higher costs related to the energy transition, are the main drivers of the surge in crude oil barrel prices.

Portuguese Economy

The recovery of economic activity in 2021 was based on the success of the vaccination process, with the population joining in a massive way, culminating in more than 90% of citizens completing the vaccination plan. Despite the increase in the number of active cases resulting from the Omicron variant, the number of people with severe symptoms and the number of deaths were, at the end of 2021, 70% lower than the figure recorded at the end of 2020.

In a context of a more controlled pandemic, the various sectors of economic activity gradually reopened and normalized their operations, although subject to specific, occasional pandemic mitigation rules, such as the use of masks, mandatory presentation of vaccination certificates or negative Covid-19 tests to access recreational and tourism facilities, for example.

In Q4 2021, the increased number of contagions with the Omicron variant forced the Portuguese authorities to reactivate a set of specific measures for the Christmas and New Year period, with the return to mandatory teleworking, closing of bars and clubs, mandatory negative tests, and less people in commercial facilities.

In 2021, the Portuguese economy grew by 4.9% in volume, the highest rate since 1990, after the historic decrease of 8.4% in 2020, following the markedly adverse effects of the pandemic on economic activity. The economy started the year in decline, with an extended general lockdown, as a result of the 3rd pandemic wave, and ended with a partial lockdown.

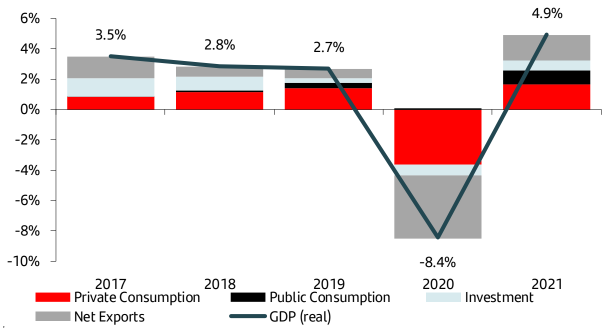
Macroeconomic Data

	2020	2021	2022 P
GDP	-8.4	4.9	5.1
Private Consumption	-7.1	4.4	3.9
Public Consumption	0.4	5.0	4.6
Investment	-5.7	7.2	12.3
Exports	-18.6	13.0	17.7
Imports	-12.1	12.8	17.8
Inflation (average)	0.0	1.3	2.8
Unemployment	7.0	6.5	6.3
Fiscal Balance (% GDP)	-5.1	-4.2 (e)	-2.3
Public Debt (% GDP)	135.2	127.5	126.5
Current Account Balance (% GDP)	0.0	0.7	0.5

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

Domestic demand contributed positively to growth, after a strongly negative period in 2020, with a recovery of private consumption and investment. The contribution of net external demand was much less negative in 2021, with significant growth in imports and exports of goods and services.

Contributions to GDP Growth (YoY)



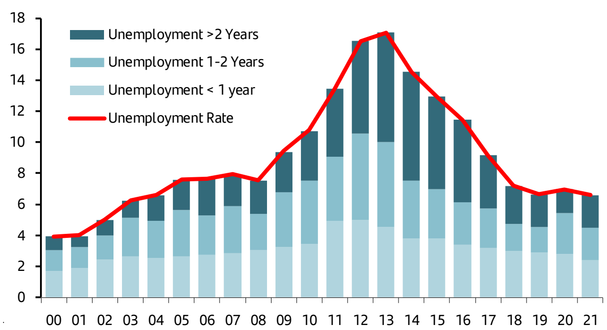
Source: INE

Private consumption grew by 4.4% in 2021, reaching the same figure of the end of 2019 in Q4 2021. The high growth rate in 2021 reflected the recovery of expenditure on services, which benefited from the easing of lockdown measures and increased confidence with the progress of vaccination. The consumption of durable goods shows a quite high dynamic, reflecting the realization of expenditure postponed during the crisis, when several activities remained closed.

The recovery in private consumption flowed from the downward trend in the unemployment rate, which, accompanied by an increase in the active population, with consequent growth in employment, contributed to a 6.6% increase in nominal disposable income. Household disposable income benefited from the swift, complete recovery of wages, together with the growth of social benefits made available during the lockdown.

The household savings rate reached a maximum of 12.8% in 2020, reflecting precautionary reasons and involuntary savings arising from consumption limitations. However, throughout 2021, the savings rate declined moderately, as consumption patterns were resumed, according to the degrees of freedom allowed by restrictions to stop the pandemic. However, the savings rate remained above pre-pandemic levels.

Unemployment Rate (%)



Source: INE

Investment showed a recovery trend throughout 2021, after a contained drop in 2020, compared to previous recessions. The investment dynamic was common to both the public and private sector, with emphasis on the growth of the public component, as a result of the impact of European funds, in particular the Recovery and Resilience Plan, and structuring investments.

The Portuguese Recovery and Resilience Plan was approved by the European Commission and the Council in July, allowing

Portugal to immediately receive a first tranche of about €2.2 billion (out of the €16.6 billion that make up the global financial envelope, of which €13.9 billion correspond to non-repayable grants). The execution of the final projects of Portugal 2020 was also added.

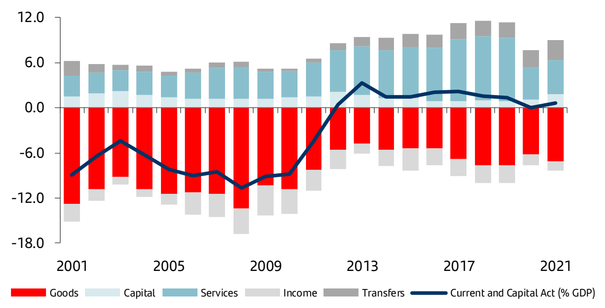
Exports of goods and services grew by 13% in 2021, characterized by a differentiated recovery between goods and services, with exports of goods exceeding the pre-pandemic level at the end of 2021. Disruptions in the supply of raw materials and intermediate goods penalized exports from some sectors, namely the automotive sector.

The lifting of restrictions on international mobility, and the increased confidence allowed exports of services, in particular tourism and transport, to progressively recover, after the abrupt drop in 2020 and early 2021. The worsening of the pandemic, as a result of the Omicron variant in Q4 2021, implied a more contained evolution of tourism flows, although October and November had recorded levels of activity very close to those of 2019.

Imports of goods grew in line with aggregate demand, in a sustained manner, despite restrictions in global chains and disruptions in some sectors. Imports thus grew by 12.8% in 2021.

The **current and capital account balance** again turned positive in 2021, supported by the partial recovery of the services account, reflecting the partial recovery of tourism, especially in the 3rd quarter. The goods account worsened the deficit, reflecting the higher demand for goods that accompanied the gradual reduction of measures to restrict the normal functioning of economic activity, as well as the rise in fuel prices. The capital account benefited from European funds, reinforcing its contribution to the surplus, while the reduction in interest payments on public debt abroad also had a positive impact on external accounts.

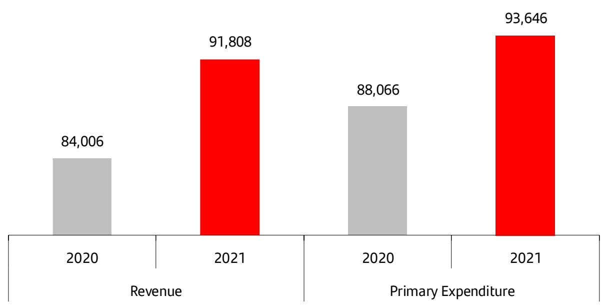
Current and Capital Account
(% GDP)



Source: Banco de Portugal, INE

Public accounts in 2021 were characterized by a reduction in the budget deficit compared to 2020, which may have been close to, but below the 3% of GDP threshold, as a result of an economic recovery that proved to be more favourable than initially expected, and whose impact contributed to an increase in tax revenues. The dynamics of the labour market also contributed to the growth of social contributions.

Current Revenue and Primary Expenditure
(€ mn)

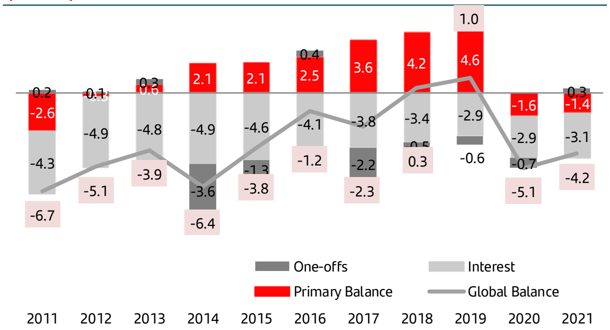


Source: Ministério das Finanças

State financing needs decreased in 2021, compared to 2020, by about € 4 billion, due to an increase in revenue greater than the growth in expenditure. The increased revenues were the result of the favourable evolution of tax and contributory revenue, and of the contribution of non-tax and non-contributory revenues, reflecting the recovery of economic activity and greater transfers from European funds within the scope of REACT-EU, RRP, and ESF.

The increase in expenditure was mainly due to greater transfers, acquisition of goods and services, and personnel expenses, mitigated by the favourable evolution of interest expenses and other charges.

Fiscal Balance
(% GDP)



Source: Ministério das Finanças

Within the framework of the Treasury's 2021 financing plan, it is worth highlighting the issuance, in February, of a 30-year maturity bond, with a security of € 3 billion and a 1.022% coupon rate. In April 2021, it carried out a 10-year maturity syndicated issuance, in the amount of € 4 billion, with a 0.3% coupon. These issuances contributed to increasing the average maturity of public debt and, at the same time, to reducing its average cost.

Public debt fell to 127.5% of GDP in 2021, a reduction of almost 8 bp compared to 2020. However, in absolute terms, it maintained its growth trajectory, remaining close to € 280 billion, an increase of almost 4% compared to 2020 levels.

In the Portuguese economy as a whole, the overall debt ratio was close to 332% of GDP, with the private business sector standing at 131%, and households at 71% of GDP, clearly below the levels observed in the period before the 2011-14 economic and financial adjustment programme.

The **Portuguese banking sector** (data from September 2021) was characterized by an increase in credit granted to the most affected sectors and to housing, following an economic recovery above expectations. As far as return on assets, there was a recovery compared to 2020 (from 0.1% to 0.5%), namely with a stabilization of the core capital ratio (15.4%). The NPL ratio decreased slightly from 4.9% (as of December 2020) to 4.0%, accompanied by an increase in coverage ratios, especially in the most affected sectors, to almost 56%.

The Country's credit rating by S&P, Fitch, and Moody's is BBB (stable), BBB (stable) and Baa2 (stable), respectively. DBRS maintains a BBB–high (stable) rating. This situation is consistent with the previous year, with the exception of Moody's, which revised the rating upwards.

Note: Text written with the information available up to February 11, 2022.

Major risks and uncertainties for 2022

The main risks and uncertainties for Santander's business in Portugal are associated with two major factors.

The first, which was already underway in the last months of 2021, is associated with the rapid acceleration of inflation, as a result of the surge in raw material prices, especially energy, associated with the tensions in global supply chains caused by the pandemic. The closure of activities and the unequal distribution of the vaccination process, on the one hand, and the rapid recovery of demand in advanced economies, on the other, resulted in reductions and delays in the supply of goods and commodities, with sharp price surges. In some countries, such as the USA, there were already second-order effects, with salary increases, in the context of low unemployment rates.

In the first weeks of 2022, the central banks of the main developed economies were starting to raise benchmark interest rates. The Bank of England was more advanced in the process, having raised the main benchmark interest rate twice, in December 2021 and January 2022, to 0.5%. The US Federal Reserve reinforced its message of withdrawing stimuli, with the announced end of the programme for the acquisition of financial assets, and that it would, in March, start raising its reference interest rates. In February, the European Central Bank was also more concerned about the acceleration of inflation, signalling that in March it would change its position.

The second risk factor stems from Russia's military offensive in Ukraine, started on the night of February 23 to 24, 2022. The conflict is still going on (as of March 18), with the population exodus already exceeding 3 million people. The imposition of sanctions on Russia, in response to the military offensive, will have economic impacts in Europe, which are still difficult to assess, and which are combined with the rise in prices of raw materials and, in particular, energy. Russia is the 3rd world producer of crude oil, and is the biggest supplier of natural gas to Europe. As a result, raw material prices climbed to more than a decade highs, as is the case with oil.

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

Rising inflation reduces households' purchasing power, and may lead to a retraction in consumption, a dynamic that could be amplified with an increase in uncertainty related to the military conflict. On the companies' side, it may be that they are not able to fully reflect the increased costs in their sales prices, thus decreasing their margins.

If interest rates rise, in both cases, for households and companies, their lower income could affect the ability to meet debt service, in particular for customers who have been most affected by the pandemic, and who were already being monitored following the end of the credit moratoria, at the end of September 2021.

Overall, the current combination of risk factors translates into increased uncertainty and generates negative risks for growth, compared to what was initially estimated, which was a scenario of full recovery of activities after the disruptions caused by the pandemic. The dimension of the impacts is difficult to assess at the present time.

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

BUSINESS AREAS

Individuals and Business, Companies and Institutional

2021 was a particularly challenging year for everyone, and, in particular, for the commercial areas, nevertheless allowing them to overcome challenges and conquer new paths.

The strategy in the **Individuals** area involved a focus on simplifying processes, consolidating new service models, and improving customer experience. The commercial activity results, in this segment, were in line with the goals for the year, with emphasis on the reinforcement of leadership in Mortgage Credit, increased productivity in the areas of Protection, Savings and Payments, and improvements in our customers' level of satisfaction (NPS). These results were clearly leveraged by the Bank's digital transformation process, along with a restructuring of the commercial and process areas.

In 2021, the **Insurance Protection** activity was focused on expanding the customer base, and the level of protection for each customer.

With regard to Autonomous Insurance, new Products were launched with optimized journeys and differentiating characteristics (for example, one-click quote): Auto Insurance, Corporate Liability Insurance, and Corporate Health Insurance. Packages were made available for the combined sale of insurance with advantageous conditions, and the offer on digital channels was reinforced (whose weight in the placement of new policies has doubled). At the same time, new commercial information tools and an integrated view of the customer with data from all policies were developed, to allow a better quality of service and information to customers.

With regard to **Credit-Associated Insurance**, it is worth highlighting the review of the entire simulation and contracting process, which is now much simpler and more intuitive, for both Mortgage and Personal Credit. The offer was also strengthened with the new coverage for orphans who have lost both parents, and the availability of the House Pack. On the other hand, the possibility of renewing Life Insurance with a Single Premium (VPU) and contracting insurance for Personal Credits in progress (until then it was only possible to protect one's credit at the time of contracting) was also introduced.

Additionally, the Bank kept the exceptional measures taken within the context of Covid-19 in force, which included eliminating the pandemic exclusion in Health, Life and Wage Protection Insurance (both for Self-Employed and Associates modalities)

Finally, the after-sales activity of Protection Insurance recorded significant progress in terms of both renewal of policies and claim management. The Bank started to measure the NPS of the after-sales journeys for various insurances, which helps identify and correct opportunities for improvement in customer service.

In terms of **Savings**, there was an increase in the diversification of off-balance sheet investments, mainly in investment funds and retirement savings — a process that was much helped by the fact that markets had a very positive year. It was also a year in which the digitalization path was continued, through the conclusion of several technological projects with a view to improving customer experience.

In terms of **Payments**, the focus was still to position Santander as the bank for digital payments. Thus, within the scope of the digital transformation plan and the launch of the "*One App*", various digital payment features were made available, which make our customers' day-to-day much easier. A new, simpler experience, common to the various *One Europe* countries.

Also, within the scope of digital payments, it should be noted that customers continued to digitize their cards on *Wallets* (*Apple*, *Garmin*, *Fitbit* and Santander), and on electronic platforms for online trade.

With regard to corporate customers' transactions, the marketing of products that simplify their day-to-day management was promoted, such as the commercial promotion of the Dedicated IBANs Product (a solution that facilitates the process of reconciling their bank charges), and the launch of Payment for services by batch in XML format (a solution that allows them to make payments in an aggregated way).

Additionally, with regard to Points of Sale (POS) terminals, the Bank focused on developing the service and differentiating payment solutions, namely through digital contracting and the development of new equipment, such as SmartPOS, having ensured sustained growth throughout the year. The pandemic context kept the focus on online services. Thus, the promotion and dissemination of the Payment Gateway, which allows the acceptance of cards, payments for services, and MB Way on a single platform, resulted in an increased number of merchants compared to the previous year.

Lastly, with regard to regulatory compliance with PSD2, more than two million cards were enabled to carry out strong authentication of online purchases through the Santander App. Additionally, there were further developments in terms of open banking, namely the expansion of the offer of entities that customers can aggregate through the bank's channels, which, in addition to the main national banks, now include the accounts of Revolut, Cetelem, and Universo. In this way, Santander customers can consult all their accounts without leaving Santander, and initiate transfers from any bank. Also, with regard to open banking, and within the scope of "Collections", it should be noted that the Bank now allows its customers to initiate transfers from other banks through our channels, in order to settle debts they have with Santander.

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Regarding **Personal and Housing Credit**, despite the pandemic context, the accumulated production of housing credit grew by about 20% compared to 2020, putting the Bank's production market share above 20%.

The production of personal loans amounted to € 415 million (10% more than in 2020), with emphasis on the Bank's evolution towards a fully digital, omnichannel (available on all channels), end-to-end solution, making contracting much easier. The contracting of personal credit online represented 54% of all personal credit granted.

The ***Daily Banking*** area continued its work on managing the day-to-day banking offer for customers, whose strategic priority is to provide a simple, secure, accessible payment experience through any channel. Despite the pandemic situation, 2021 was characterized by a positive evolution of customers who use the Bank in their daily lives, namely for their Purchases, Payments, Transfers, Withdrawals and Direct Debits.

The positive evolution in the number of **World 123** Private customers who enjoy an ecosystem of advantages and cashbacks when using their credit card is also noteworthy. About 80% of these customers have Santander as their first Bank. In 2021, the Bank returned cashback benefits into the card account to about 85% of these customers, amounting to approximately € 15.9 million.

With the aim of improving customer experience, several initiatives were implemented, such as a more simplified card offer, in line with the image at European level; sending of the Digital PIN of cards by SMS at the time of activation; the possibility for breaking down purchases made with a credit card at the POS into 3, 6 or 12 months; the possibility of requesting a prepaid card through digital channels; cost exemption when using MB Way on any platform; and exemption from purchase and withdrawal costs in foreign currencies up to one thousand euros on debit cards.

The Bank also reinforced its commitment to **security**. In online purchases, payment validation in the Santander *App* (*3D Secure*) became mandatory, and in situations of transactions refused by security blockages, a notification is now sent to the customer, helping him/her complete their transactions.

In terms of **Responsible Banking**, cards are now issued in biodegradable material, with the Carbon Neutral quality seal, in order to reduce the Bank's environmental footprint. Additionally, the Bank implemented a recycling process for expired cards, which will be used to produce street furniture. Another implemented initiative was that for each kilo of cards collected, a tree will be planted in a protected area, with the guarantee of it being taken care of for 5 years.

The **Santander Boutique** (*Marketplace*) celebrated one year of activity. It currently has 16 partners, and offers credit solutions (personal credit and credit card) with the possibility of customers splitting their purchases up to 36 months.

Santander | Boutique

Going deeper into the topic of **digital transformation**, 2021 was a very important year.

The launch of the new App in Portugal was a milestone in the Bank's digital transformation plan. Its aim is to better serve our customers and the way we interact with them, through a mobile banking experience model common to the various European markets. The new App was based on the structure of the App launched in Spain, recognized and awarded as the *Best Digital Bank in Western Europe* by *Euromoney*.

In addition, the Bank focused on consolidating the **Digilosofia** brand, both internally, by launching various initiatives to boost commercial and internal communication, and externally, through the implementation of a strong communication plan for customers, of which the “What is your Digilosophy?” campaign stands out. In this campaign, the concept of Digilosophy — a philosophy of digital life —, was transported to customers themselves.

This transformation strongly contributed to the continued growth trend in the number of digital customers, and, above all, to the deepening of the Bank/Customer digital relationship.

At the end of 2021, the Bank surpassed the landmark of one million digital customers, an increase of 7.5% compared to the same period last year (70 thousand more customers). This figure represents a global digital penetration rate (over active Customers) of about 60%.

At the same time, there was also a solid qualitative growth. At the end of this year, compared to the same period last year, the number of customers with a mobile App grew by almost 20%, and the number of customers with *Wallet* grew by more than 75%.

With regard to the **transformation of Branches and simplification of processes**, in recent times, banking has been experiencing a period of great challenges due to the changing behaviours in the use of banking services, in which customers seek swifter responses and use the channels of their choice at each point in time, and, increasingly in self-service. In response to this challenge, the Bank promoted the change of its service models, either by promoting the availability of its products and services in omnichannel, or by evolving its physical service channels.

This transformation was carried out based on a significant investment in simplified procedures.

At Branch level, 3 new service concepts were developed at every Branch.

The Advanced Teller Post Model, implemented in more than 70% of the Branches, aims to promote comprehensive customer service whenever it is used, not differentiating commercial activity from transactional activity, at the time of one's relationship with the Bank. This is also a solution that allows the Branch to better manage the flow of customers according to their needs.

The Dedicated Corporate Teller Model, implemented in 20 Branches, considerably improves the experience of any corporate customer wanting to carry out transactions such as deposits, payments and withdrawals, as it is equipped with more sophisticated equipment that complement the customer's activity, such as the machine that counts and stores the coins prior to the customer being served. An exclusive and specialized service point was made available for transactions of companies.

At the same time, the Bank has invested in more sophisticated Selfbanking machines for coin deposits and withdrawals, in addition to the usual banknote and check deposits, in self-service areas, available 24/7. These machines are yet another channel through which Santander customers can carry out their transactions, at the time that is most convenient for them, and which will also be the subject of software developments that will allow new functionalities in the near future. In 2021, 29 Virtual Teller Machines (VTM) were installed. The ongoing reinforcement of this equipment has already been planned.

The Bank's main processes, with an impact on its customers, underwent a deep restructuring, in order to respond to customers in a simpler, closer and fairer way. It was a profound transformation, developed on new IT platforms, modernizing and digitizing all processes in order for the Bank to be more available to our customers.

In the **Business, Corporate, and Institutional** segment, Santander Portugal maintains its strong commitment to support the Portuguese business community, making available a commercial network of experienced, qualified professionals to find the solutions that best suit the needs of companies at every moment, as well as a vast financial and non-financial offer that supports customer companies in empowering their resources and in the transition towards a more efficient and sustainable economy.

Thus, in a year still marked by the pandemic and by its adverse impacts on economic activity, making initiatives promoted by the Government reach companies (credit facilities with State Guarantee), and supporting public and private investment projects within the scope of European Funds, remained as an important priority for the Bank. Thus, Santander has made a page available on its public website just dedicated to European Funds, where information on the various programmes, investment agendas, and active application notices is presented in an organized, systematic manner, aimed at being a differentiating factor, when it comes to clarifying and identifying opportunities.

Throughout 2021, Santander developed, and will continue to develop, initiatives that support companies in their transition to a more sustainable, socially and environmentally responsible economy, where innovation plays a key role. In this context, in Q2 2021, for example, it launched the Agriculture Equipment Renewal Plan, to support and accelerate the digitization and sustainability of Portuguese agriculture, in order to enable investment in equipment fitted with precision techniques and other.

The Bank maintains its commitment to the improvement of internal procedures and processes, in order to guarantee the availability of liquidity to companies, in a swift, timely manner, so that they can meet their commitments to third parties, namely employees, suppliers, and the State. Santander Portugal also reinforced its omnichannel approach, in addition to the service provided by the physical network, with a strong investment in digital channels, which has greatly contributed to increasing the degree of customer autonomy, satisfaction and loyalty. This positioning of service quality and proximity has allowed the sustained growth of business in the Corporate segment.

With regard to **International Business**, Santander can provide teams of *Trade Finance* specialists, plus resources and tools (*Trade Club* and *Trade Markets*) to help companies develop coordinated work, find partners, and successfully complete their global expansion process.

It is worth highlighting the new offer made available to Portuguese companies — swift GPI —, which enables the traceability of international transfers, both issued and received, with real time validation and tracking of international payments that are made, as well as verification of the status of transfers received from abroad. It should be noted that Santander Portugal is the 1st and only Portuguese bank to provide this service to its corporate customers.

With regard to **Institutional Banking**, Santander Portugal keeps its commitment to customers in this segment, both in terms of public entities — with a strong presence in the Autonomous Regions and Municipalities — as well as with regard to private entities, with a special focus in religious institutions and institutions of the social economy, which have played a key role in supporting families with less resources.

Wealth Management and Insurance

The year 2021 ended as it had started, conditioned by news on the development of the pandemic, and by fears that the inflationary pressures seen in the last half of 2021 would prove to be more structural than just short-term. In fact, the shock on the demand side, combined with logistic and distribution constraints, caused a general inflation peak, reaching 7% in the US, and 5% in Europe. However, these factors did not prevent the main stock indices from closing with very positive performances: S&P 500 with valuations close to 30%, and Eurostoxx 50 above 25%, based on expectations of robust economic growth and normalization of distribution chains (with normalization of expected inflation levels).

Thus, for most of Santander Portugal's ***Private Banking*** business indicators, 2021 proved to be a very positive year, with a 9% growth in assets under management, as well as a 29% growth in Off-Balance Sheet Resources (Funds, Insurance, and Discretionary Portfolio Management).

The strong growth of the *Private Banking* customer base is also noteworthy, with a very strong dynamic, based on a strong external prospecting activity, and great collaboration and support from the branch network and corporate centres.

Initiatives aimed at improving the commercial effectiveness of *Private Banking* managers have yielded the expected results, freeing up more time for proximity and advisory business to *Private Banking* customers, and thus improve the excellent service that characterizes this segment.

In recognition for its service and customer care of excellence, at the beginning of 2021, Santander Portugal's *Private Banking* was distinguished as the best *Private Banking* operating in Portugal for the 10th consecutive year, according to *Euromoney* magazine. And, towards the end of the year, it was awarded the same distinction for the 7th consecutive year by the *Global Finance* magazine. These distinctions recognize and reinforce the quality of our teams and the investment solutions provided by Santander's *Private Banking*, and encourage us to keep up with the continuous development, and improvement of customer service and of our value proposition.

The year 2021 was marked by a general rise in stock markets: global equity markets appreciated by about 20%. This behaviour was justified by the economic growth recorded in this period following (1) the start of the distribution of vaccines against Covid-19 at the end of 2020, and (2) the expansionary monetary and fiscal policies implemented by most central banks and governments. In this context, there was an upward movement in the main yield curves, and the consequent devaluation of bonds issued by governments and companies.

Santander Asset Management (SAM) sought to manage its **securities investment funds** (FIM) in an active manner, with the aim of maximizing returns for all those participating in it. Thus, numerous initiatives were carried out throughout the year, in particular the changes in investment policies of the mixed and bond Funds, with a view to a more flexible, global management, and merging the Popular Global range funds into the range of Santander Select funds. Additionally, two new innovative funds were launched, Santander Global Investment and Santander Multi-Strategy.

The year was marked by strong demand for investment funds, which ended with assets worth € 4.6 billion, benefiting from a growth of € 1 billion.

Retirement solutions were a very important focus of the Bank's commercial business, bearing in mind the growing challenges faced by families in this area. Retirement products grew by € 183 million, benefiting from the rebranding carried out for this type of product.

The **Financial Insurance** area recorded strong dynamics in open financial insurance, both in terms of the Individuals and Businesses Network, and in terms of the *Private Banking* segment also, closing with global assets worth € 3.7 billion. During this period, the Insurance range was complemented with the launching of Santander *Future Wealth*, an innovative product that provides access to major future trends: technology, sustainability and health. The various initiatives helped mitigate the volume of maturities that occurred within the period, of about € 315 million.

Throughout the year, the Bank kept promoting initiatives aimed at improving the quality of service and of Customer experience, for instance, with the implementation of a paperless contracting process. In terms of training, various initiatives were developed, mostly as internal webinars, and webinars for customers also, with the aim of promoting greater knowledge on financial markets and on product positioning.

Corporate and Investment Banking

The year 2021 was marked by high economic uncertainty arising from the pandemic context. During this period, the Bank reinforced its proximity to its customers, and improved its digital platforms, allowing for more useful and effective communication. Resilience, commitment, and innovation were differentiating factors in the Bank's relationship with its customers.

In the ***Corporate & Investment Banking*** area, the focus remained mostly on our customers and on offering solutions suited to their needs. In this section, we highlight the offer of ESG (Environmental, Social, Governance) products, and the focus on digital channels, highlighting the digital exchange contracting platform (via NetBanco Corporate).

The loan portfolio recorded a decrease of -1.7%, justified by the recovery of economic activity, which led to increased customer liquidity.

Regarding the same period last year, operating income increased by +1% due to the good performance of recurring business.

Net interest income grew by +3% compared to 2020, and, as far as commissions are concerned, there was a recovery in transactional items, in particular ATMs and POSs, after a sharp drop in 2020.

It is important to highlight the distinction by *Euromoney* with the award "***Best Investment Bank Portugal 2021***."

In the ***Global Debt Financing*** area, 2021 was marked by the presence of Santander, as bookrunner, in the following debt issuances:

- EDP: issuance of two new *Green Hybrid Bonds*, in the amount of € 750 million and € 1,250 million, respectively. These were the third and fourth issuances of this kind for EDP, with Santander participating as bookrunner in all four operations.
- REN: issuance of a new *Green Bond*, with an 8-year maturity, in the amount of € 300 million.

Santander was present in all these issuances carried out this year in the Portuguese market.

With regard to structured financing business in 2021, it is worth highlighting the working capital financing operation for Medway Portugal, intended for the acquisition of new locomotives to enable the company's expansion in the Iberian Peninsula, in the amount of € 122 million euros, of which Santander ensured about € 77 million.

During this period, several relevant financing operations were also concluded in a wide range of sectors, of which several financing operations in the renewable energy sector and in the real estate sector stand out, namely, real estate development for student residences. Also in the retail, telecommunications infrastructure, and hospital infrastructure sectors, various financing agreements were concluded.

In 2021, the ***Corporate Finance*** area continued to develop an intense activity in **Mergers & Acquisitions** and ***Equity Capital Markets*** operations, of which it is worth highlighting the successful completion of the following financial advisory operations:

- Advising Atlantia on the announced sale of the 17.2% stake held in Lusoponte to MM Capital Partners, a subsidiary of Marubeni Corporation;
- Acting as *Joint Bookrunner* in the *IPO* of Greenvolt;
- Advising Teak Capital and Tangor Capital in the acquisition of Cerealis;
- Advising FSI/Finerge on the acquisition of shares held by EDF Renewables in 2 wind portfolios in Portugal with 507 MW (193 MW net); and
- Acting as *Global Coordinator* in the capital increase / Initial Public Offering for Ibersol's shares.

With regards to **Treasury**, particularly in the ***Corporate and Commercial Banking*** area, 2021 marked the consolidation of an alternative customer follow-up model, designed, tested and correctly implemented throughout 2020.

With the return to "normality" of most economic activities, and after the balance of activity in 2021 was made, it was concluded that the constraints caused by the pandemic in connecting with customers was overcome with great success, in a relationship of greater physical distancing, but with effective proximity in the presentation of solutions that responded to the needs of Companies supported by Santander Portugal.

With regards to **Exchange and Interest Rate** operations, activity grew quite smoothly, following the previous year's trend, supported by consolidation of the business model and the recognition by our customers for the services we provide.

Specifically in the **Foreign Exchange** area, it was possible to keep the business growth trajectory, compared to the same period in the previous year, based on the alternative contracting channels made available to all customers.

In 2021, there was, simultaneously: (1) an increase in the number of active customers in foreign exchange operations in the various segments (Companies, Private and Individuals); (2) growth in the number of customers who choose to use digital channels (the foreign exchange contracting platform available through NetBanco); (3) growth in trading volume; and (4) growth in the volume traded with customers with direct access to the Trading Room.

In this section, it is particularly noteworthy that, after the State of Emergency periods that kept many Banco Santander customers working from their homes, all means for contracting foreign exchange operations were always available, with a team permanently present in the Trading Room, the commercial teams available at the branches and commercial departments, and with the electronic platform, available through NetBanco Corporate, ensuring an adequate response to all customer needs.

Regarding interest rate risk management, the search for fixed-rate credit solutions increased, namely with regards to State-guaranteed facilities made available throughout 2021 (European Investment Fund Facility), whose formalization has mostly taken place in the form of flat rate.

The increased volatility in most financial markets, in a context of macroeconomic uncertainty, has justified a greater proximity to companies when renewing their financing or contracting new credit operations.

The escalation of the inflation rate that was already observed in some of the main world economies, the sharp increase in the value of commodities (with Brent in the spotlight), and the uncertainty surrounding the policies that will be followed by the Central Banks, gave rise to a greater need for interest rate risk coverage, both for new financing and for that already in progress.

In this context, in 2021 we witnessed a significant growth in formalized fixed-rate credit operations, with this modality representing a very significant percentage of all financing granted to Companies.

In the ***Retail Structured Products*** area, after a long period of adaptation to the new reality of negative interest rates, activity has been resumed, namely with the sale of 5 Structured Notes in 2021 for a total of € 40.4 million. It should be noted that the first two notes for 2021 are green notes (Santander 360º Sustainable, where all parties involved are 100% Santander – issuer, index, investor, sustainable asset). The capital of these notes was used to finance sustainable projects managed by Santander in accordance with Environmental, Social, Governance (ESG) criteria and their yield is indexed to the *Eurostoxx*® 50 ESG –X.

Foreign Customers and Residents Abroad

With regard to **Residents Abroad and Foreigners**, Portugal continues to be a country with an attractive legal framework for foreigners interested in investing in Portugal or wanting to live in Portugal permanently or with regular residence. On the other hand, the community of Portuguese emigrants residing abroad has a very significant importance.

Attentive to these two segments — Residents Abroad and Foreigners —, the Bank has a team whose main objective is the creation of strong commercial ties and close proximity to the communities of Portuguese and Portuguese descendants living abroad, as well as the promotion and attraction of foreign customers who choose Portugal to invest in and / or to establish their residence.

Santander has a remote service dedicated to Customers residing abroad — **Santander Próximo *International***. It is a digital branch, dedicated to customers residing abroad, providing an innovative customer service, with all the technology for remote monitoring, plus a team 100% dedicated to these customers.

With this solution, any Santander customer residing abroad will be able to interact with the Bank remotely, in the same way as a customer living in Portugal.

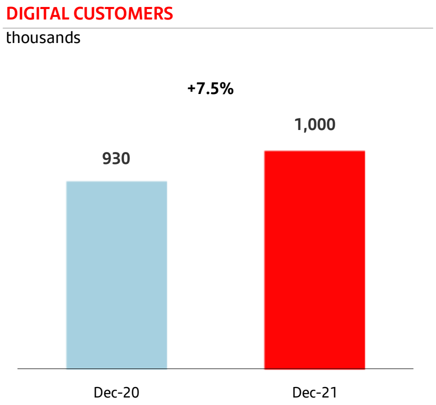
In view of the Bank's commitment to digital transformation, there has been a decrease in the need for physical contact, so there has been a gradual reduction in terms of the Bank's physical presence, namely with the closure of representative offices in Germany, France, and Switzerland, countries where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

Digital Development

In 2021, Santander continued to strengthen its digital transformation process. This process — boosted by the pandemic context — has the main objective of being closer to our customers, and of simplifying processes through digital solutions.

This strategy has allowed the consolidation of the growth trend in the number of Digital Customers.

At the end of the last half of 2021, the Bank had 1 million digital customers, a 7% increase compared to the same period last year (70,000 more customers).



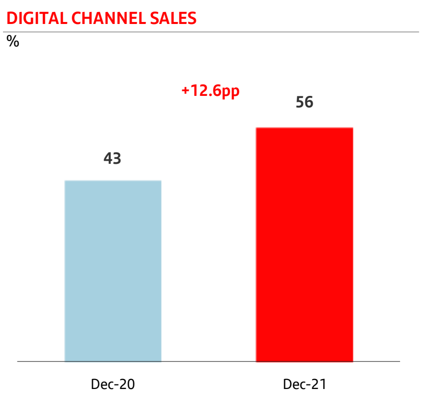
Individuals Channels

In 2021, it is worth highlighting the launching of the new Santander App in October. This was a significant milestone in the Bank's digital transformation plan, and integrates the strategy of building a common mobile banking experience model for the Bank's various geographies in Europe.

With regard to the adoption of digital channels, the growth trend in the number of Digital Customers continued throughout the year. The App showed a 19% growth in the number of users compared to the end of 2020 (+110 thousand). Currently, 683 thousand customers use the App at least once a month. Regarding the web channel, the number of users remained stable compared to the previous year, having closed the year with 448 thousand users in NetBanco Private with logins in the last 30 days.

Regarding the intensity of use, the average number of monthly logins per user was 8 logins for NetBanco, and 22 logins for the App. These figures are in line with those recorded at the end of the previous year for the NetBanco channel, but represent a slight reduction in the App channel, reflecting the growing adoption of this channel by customers with less intensive use.

The penetration of digital sales in private channels reached 56% in the last semester, representing a significant increase of 13 pp compared to the end of 2020.



With regard to satisfaction indicators, the NPS – Net Promoter Score for Private Digital Channels kept the positive trajectory for NetBanco, having recorded a slight reduction in the App. Compared to the closing figures for 2020, NetBanco's NPS grew by 18 pp, while the App's NPS dropped by 4 pp. This reduction is also a reflection of the divestment in the old App, and it is expected that, following the launch of the new App in October, the level of satisfaction with this channel will increase again in 2022.

In 2021, Private Digital Channels had three main goals:

- Increase the coverage of products and services offered through digital channels;
- Reduce the risks and impacts of non-compliance through the implementation of new "promise-to-pay" digital journeys, and other recovery use cases;
- Develop features, improvements, and initiatives that contribute to increased satisfaction in the use of channels.

Thus, the modernization process of NetBanco was continued, with emphasis on the renewal of the card pages, the consultation and contracting of deposits, the top-up functionality, the consultation and creation of direct debits, the consultation of loans, and the portal for prepaid and meal cards. The improvements implemented reflect not only a more modern interface, but also a new information architecture, optimized for our customers' current needs.

Regarding the increased offer of products through Channels, the new SafeCare Health was launched. NetBanco customers can now also make term deposits in different currencies, contract pre-paid cards, subscribe to Funds and PPRs on a timely and periodic basis at the same time, as well as contract overdrafts on their account.

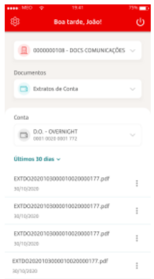
In the Late Payments area, customers in this situation can now pay the minimum amount, as well as settle their debt through external accounts, with the Open Banking capabilities available in both channels.

Since 2021, private customers have been able to update their personal, professional, and contact data on Netbanco through the digital mobile key. In addition, the descriptions of transactions were also improved and optimized, with a coverage of almost 90% of the volume of transactions already worked, revised and available to the customer.

The launch of the structural solution for opening a digital account, using the digital mobile key or through a video call, is also noteworthy. This solution is available on the Bank's public website and on the App.

Corporate Channels

Throughout 2021, Santander Portugal kept strengthening its relationship with its Corporate customers on its digital channels, through continuous improvement and modernization of existing functionalities.



In December 2021, NetBanco Corporate had 117,000 users with logins in the last 30 days, with an increase of 3 thousand users compared to the end of 2020 (a 3% increase).

On the other hand, the Corporate App showed a 30% growth in the number of users (+10,000 users compared to the end of 2020), reaching a total of 41,000 users at the end of 2021, and is leading the App Stores ratings in Banking Apps for Businesses.

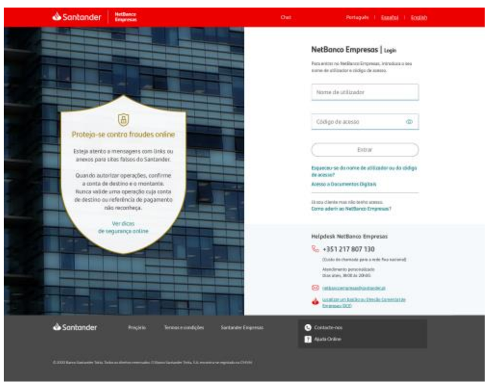
Regarding intensity of use, the average number of monthly logins per user was 20 logins for NetBanco Corporate, and 21 logins for the Corporate App. These figures represent an increase of 1, and 3 average monthly logins in both channels, respectively.

Currently, on NetBanco Corporate, customers can consult new and improved pages on loans, escrow accounts, and guarantees. After having been allowed to consult commission statements at the beginning of the year, improvements were also made to the digital document pages, and the possibility of consulting Leasing invoices was also included.

Customers can also find out more information about their late payments and settle their situation through external accounts, through the option open banking.

In addition, since March, Corporate customers can contract their Santander Business credit card through NetBanco Corporate, as well as manage their card limits completely online.

A renewed login page was made available at Netbanco Corporate, allowing the recovery of username and password in an autonomous way.



Through the Corporate App, our customers can consult their digital documents such as account statements and tax returns, as well as get proofs of their transfers from the details of account movements.

It is now possible to authenticate online purchases made, by using corporate customer cards through push notifications, and provide simplified access to cardholders who do not use the channels.

Features such as credit card payments, card cancellation requests, as well as smartphone top-ups, and other services, as well as the possibility of scheduling periodic transfers were also introduced in the App.

Our customers have been the permanent focus of our work and are the key to our creation of value.

BUSINESS SUPPORT AREAS

Customer Experience

Customer Centre

Customer focus is one of the Bank's strategic pillars, and its fulfilment is inseparable from the *Customer Centre*.

Developing banking activity with the customer at the centre requires a very concrete, real attitude that is close to the focus, which can only be achieved through an impartial laboratory whose mission is to listen, explore, analyse, and monitor the customer.

Abstracting our customers, ignoring their contact, underestimating their perception regarding the offer of products and services deviate us from the path.

This fact has created, in all areas, from the most operational to the most commercial, the need to integrate the *Customer Centre* as a step in the process of building, validating and modifying the strategy and, consequently, the solutions that serve our customer.

In two years, the *Customer Centre* contributed to improve the Bank's internal and external service, involving 700 people, of which 300 are employees, in a joint connection between the Commercial Network and Central Services, where everyone walks in the same direction.

Various user experience methodologies were applied to the 70 projects carried out, always appropriate and adapted to the object of research, which made it possible to provide the various areas with solutions aimed at the supreme goal of improving customer satisfaction in their relationship with the Bank, and of transforming Santander into the 1st Bank within the Market in NPS.

Customer satisfaction

2021 was a year of consolidation of the concept and of customer satisfaction results based on the NPS (*Net Promotor Score*) metric.).

With the NPS, the Bank intends to assess the reliability of its customers on the Santander brand. This need has led to an attempt to measure more and more experiences, favouring faster and closer contact with our customers.

Continuing with the previously adopted strategy, 2021 marked the conclusion of the "VOC – *Voice of Customer*" programme, in which 48 questionnaires were reviewed and adjusted to the best market practices, closing the year with an NPS of 60.5 pp, 9.5 pp more than in 2020.

In the same line, the Stars model was extended and enriched, which, similarly to what happens in the hotel industry, classifies each of the Bank's Branches within a ranking of 2 to 5 stars, incorporating new and more challenging attributes, whether in terms of the customer's perception of quality, or operational aspects, related to effectiveness and good practices.

Understanding the customers' satisfaction or dissatisfaction reasons allows the Bank to act and improve customer experience, thus contributing to the Bank's transformation.

An example of the added value of such a robust measurement system was that it enabled an almost daily monitoring of the transformation process, thus allowing to react, mitigate impacts, and correct what was required in order to reverse the negative trend of some indicators.

Thus, two tactical plans were defined, with 25 additional measures, to react to the impacts of the transformation plan that was implemented, and which had the greatest negative impact in the summer.

Positioning against the competition

In the benchmark study in which the most outstanding peers in the sector are monitored throughout the year, there is clearly a top of the table, one more ranking, where Santander is always positioned, and with a great balance between the 3 main banks that stand out.

Given such proximity between banks, any disturbance could result in losing positions in such ranking. This is what happened in 2021, when Santander Portugal lost the first position achieved in 2020 due to the impact of the transformation process that was expected to generate some drop in customer satisfaction.

However, the results of the last months of the year show that the Bank is recovering, having already closed 2021 in the first position, with the bank resuming the position which it wants to be Santander's position — precisely TOP 1.

"I'm the Bank" Programme

This programme, started in 2020, is based on the involvement of the entire bank in determining and implementing transformative measures from Customer Experience. Thus, 14 action measures were defined and implemented, aimed at responding to situations identified by customers through our accurate measurement system.

A second goal of this programme was passed it on to the entire organization, in order to improve an entire customer culture, and ensure that the whole Bank keeps the customer at the centre of its business.

Thus, we started to prepare and internally publicize the concept that *I'm the Bank*, now materialized in a new attitude towards our customers, with each employee's clear commitment of being the bank himself/herself, and to present himself/herself before the customer with this indication on their coat.

We also started an initiative to review our behavioural standards under the motto "Serving with the Heart," with which we intend to review behaviours in order to generate empathy with our customers, “taking on their concerns,” to allow a better response to their needs.

This new attitude is reflected in the new campaign in which we communicate customer experience. And under the motto "Let's go Together", we tell customers that we are here to serve them, and that each of our employees is the Bank, and considers as his/her ultimate objective to serve that specific customer.

We are increasingly and definitively *a service bank at your service*, and it is this vocation that we want to exercise in order to fulfil our purpose with distinction and decisively contribute to the prosperity of people and companies.

Customer Loop Program for Managers

In April 2020, the customer experience area promoted a new original system of knowledge about our customers and the bank on the part of its first-line managers, consisting in each of the eighty eligible managers, making, each month, at least ten phone calls to customers who gave the bank a negative rating in satisfaction surveys carried out during the period.

The distribution of dissatisfied customers among managers was at random, in the sense that the type of dissatisfaction does not correspond to the usual duties of a given manager who takes charge of the respective customer, in order to promote overall knowledge of the Bank, to the detriment of specialization in just the most popular areas.

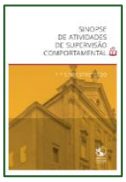
In the same way, the main agenda of the phone call is not to solve the specific issue that left the customer dissatisfied, but to establish and increase dialogue and personal relationships that may allow the manager to acquire knowledge, and create ties of recognition and trust with the customer.

The initiative was and is a success, with the dedicated involvement of managers, especially of the members of the Executive Committee.

Dissatisfaction and complaints

The year 2021 was still marked by the Covid-19 pandemic, and, as far as banking is concerned, the moratoria and limitations in face-to-face service at the branches according to DG Health (DGS) guidelines were the main reasons for customer dissatisfaction. With this reaction in mind, Santander took preventive and continuous measures throughout the year with a view to mitigate all factors that generated greater dissatisfaction among customers, thus allowing it to maintain a positive trend of a 13% reduction in complaints received throughout the year, compared to the same period in the previous year.

Additionally, there was a reduction in entries by regulators, which demonstrates greater trust by customers in Santander's ability to solve situations and their concerns.



This favourability was decisive in the positive result of the three main indicators of the Bank of Portugal, published in the half-yearly report on Behavioural Supervision, with a reduction in the volume of complaints on each subject.

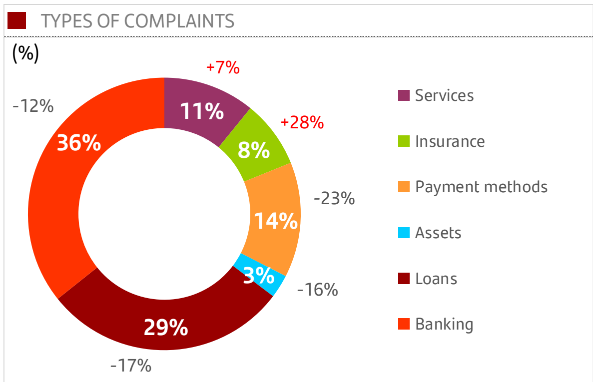
With the exception of the item cancellation of insurance associated with mortgage loans, which present significant materiality due to procedural changes of the Group's Insurance Companies, and which were reflected in complaints addressed to the Bank, the main complaints did not undergo significant changes in line with the years previous accounts, namely current accounts (closing and commissions), credit, cards, and even moratoria. However, with a relevant reduction compared to the same period last year, as a result of the improvements implemented throughout the year.

The main indicators of the year are as follows:

Complaints

	2021	2020
Complaints received	3,570	4,036
Growth yoy	- 12 %	- 13 %
Complaints to Customers * Ratio	0.97	1.10
Complaints originated by Regulators	69%	70%

* per 10.000 customers



Technology and Operations

The **Technology area** — in line with the business and digital transformation areas — acted in several initiatives aimed at providing employees and customers with more digital, simpler, and more integrated solutions, continuing to promote the adoption of new technologies, modern architectures, and agile development approaches.

From an internal perspective, several technological solutions were implemented and improved, namely the improvement of applications that support contracting procedures, the monitoring of customers with more complete information, and greater efficiency in the execution of operations, continuing the evolution of the *Cockpit* as a gateway for all branch tools, and *VOICE* with aggregated information and customer knowledge.

From an external perspective, with improvements in the solutions available to customers through more features and a better user experience, of which we highlight the opening of a digital account in the Netbanco and *App* channels, and the implementation of the new Santander *App* for individuals, in line with the *One Europe* initiative, which provides a more personalized, simpler, and more secure *App*.

From a mixed perspective, with internal and external benefits, we also highlight the improvements and automatizations introduced in the *Contact Centre*, more specifically in the SuperLine, guided towards the internal efficiency of procedures and improved customer service.

The year 2021 still had a relevant impact caused by the pandemic, in general terms, due to the challenges of the different work models, and, in particular, due to the need for a technological response to the management of public and private moratoria as an important support mechanism for families and businesses.

Along with the development and evolution of technological solutions, the Technology area kept an important focus on the compliance dimension, a fundamental pillar in Santander's operations, ensuring the implementation of initiatives to ensure compliance with legal and regulatory requirements, as well as the implementation of recommendations resulting from internal and external audits.

Throughout the year of 2021, we revisited and updated our IT Strategy, covering the dimensions of Technology, Operating Model, and People, operationalized through a set of initiatives, and measured through various success metrics. Thus, we launched several initiatives to speed up the transformation of information systems and the journey to the Cloud, the creation of enablers for digital transformation, and the promotion of a development model with greater agility and automation. The foundations created during this year will be the fundamental pillars for accelerating next year's IT Strategy.

The Bank keeps renovating its infrastructure in order to ensure controlled levels of obsolescence. During the year, some AIOPS initiatives were launched with a view to evolving the systems monitoring model to a higher level of maturity, which is able to predict, correlate and avoid events that cause infrastructure errors.

Under the aegis of "Helping people and businesses thrive", the Cybersecurity area guided its plan of activities following the multiple challenges that it had already been managing since the beginning of the pandemic situation that has been affecting the country, and, in particularly the financial sector. Having completed the Cybersecurity Transformation Plan, it continued with its journey by analysing the threats that are expected to affect the business and the technology on which it is based, in order to face the emerging risks with confidence.

In a financial ecosystem that is progressively more interconnected and interdependent, it has invested in resilience by adopting innovative solutions in the detection and response to emerging risks and threats in key areas such as fraud management, cyber risks in the perimeter of the supply chain, and in solutions based on Security by Design.

Because data is the new perimeter, cyber resilience emerges as a commercial advantage that is required to be competitive and to drive the trust and loyalty, of our customers, partners and society in general. These pillars that guide us, translate into initiatives as diverse as the creation of cyber services focused on our customers, security of access to the Bank, and actively collaborating in public-private initiatives that enable a better response capacity to society in general through information sharing and cyber excellence.

The **Operations** area pursued the Transformation Project with the same strategic objectives defined initially, including technological evolution, process automation, and the digitization of operations, guided by the quality of service provided to our customers and improved execution times (*SLAs - Service Level* Agreements) with a commitment to improve our customers' NPS.

Thus, the year was essentially marked by the expansion of the Business Process Management (BPM) platform to Commercial Networks, where the integration of the platform into the Commercial Network framed with the ergonomics of the Branch within the scope of its daily operations was guaranteed, enabling less duplication of activities with the automatic filling of data and validation within the context of the Bank's systems, the adoption of standardized forms, among others. This action helped to simplify operations, reduce the administrative burden, and offer a better user experience (e.g., end-to-end visibility of all tasks, assisted execution with a checklist of documents, among others).

Additionally, along with these activities, and as a result of an analysis conducted to all Operation procedures with a joint view of their execution, with the purpose of defining and implementing a set of automation and process reengineering initiatives, enabling the integration of transactions, easier execution and operational simplification, both in Operations and in the Commercial Network. While also reinforcing sustainability and digitization criteria, the digital strategy aimed at Operations increased its pace of implementation, with the aim of simplifying processes and reducing the consumption of physical documents in the workflow (leveraging the adoption of digital tools), thus helping to accelerate process execution and reduce costs, by reducing paper consumption and the amount of space used for physical archives.

This activity plan pursues the initial goals of the Transformation Project, allowing for excellence in the execution of all operational tasks, and decisively contributing to the NPS (*Net Promoter Score*) of our customers.

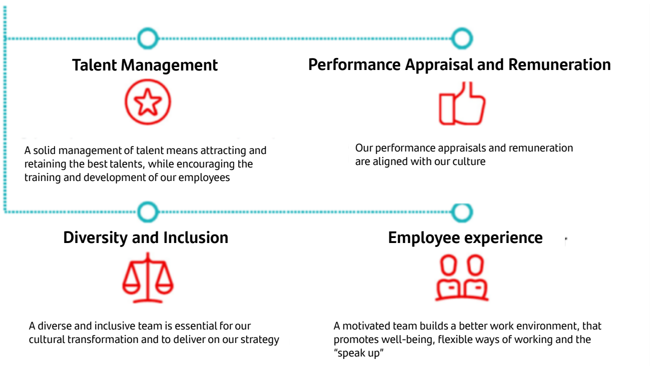
People Management

Introduction

A committed team

Our team reflects the diversity of our communities and adapts to the new business environment, inspiring customer loyalty and responding to the needs of society.

Our employees, the cornerstone of our strategy



Our goal

Treating our employees responsibly, building stronger teams, willing to inspire our customers' loyalty, guaranteeing that our shareholders get the return they expect.

In this way, we are able to invest more in our communities, which makes our Employees feel proud of being part of Santander, forming a virtuous circle of loyalty that drives our success.

In Portugal, in 2021, Santander was certified as a "*Great Place to Work*" by the *Great Place To Work* — a leading external entity, and we maintained the 75 Measures as a Family-Responsible Company, in which the Bank has certification for the triennium 2020/2022, with level (A) of Excellence, as a Family-Responsible Company (EFR) — Foundation Más Familia. In Portugal there are only 2 companies with this certification, one of which is Banco Santander.

In the global commitment survey, conducted across the entire Group from May 24 to June 11, 2021, we highlight the alignment of Employees in Portugal with the Santander Way: i) respect for **useful and purposeful work** (94% favourability, 6 pp above the Santander Group, and 16 pp above the financial sector benchmark), and the possibility of helping in the **mission of contributing to the development of people and companies (**91% favourability, 11 pp above the last survey carried out in 2019); and ii) alignment with the Risk culture, the belief in the priority of cybersecurity (92% favourability), and the sense **of responsibility for the risks faced (also with 92% favourability).**

We also highlight 91% of responses in favour of the response to the pandemic — "Where I work, everyone takes personal responsibility to follow the safety rules and procedures related to the coronavirus."

The year 2021 required an ongoing strong focus on managing the pandemic, as a result of the different COVID19 variants that appeared throughout the year.

As a result of the new ways of working in the acceleration, simplification, and digitization of end-to-end processes, of automation and of increased number of digital Customers, the year 2021 was marked by a major restructuring of the Bank.

We keep progressing and developing our work in a more responsible and sustainable way, focusing on our mission — to contribute to the development of people and companies — in a simple, close, and fair way.

The Bank has been launching several initiatives in the field of sustainability, and, in 2021, we implemented measures to reduce paper, thus contributing to the preservation of trees, improving the environment, and reducing unnecessary costs.

The pandemic has changed the way we work, making us more digital and proving that we can carry out our tasks without printing. Thus, in central buildings, i) we have reduced the number of printers, ii) we relocated them to places further away from the workstations, thus discouraging printing, and iii) we established monthly printing quotas for all Employees.

Also, within the scope of a more sustainable Bank, we replaced all paper business cards with sharing telephone contacts and consulting the App.

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

Transforming the Bank into an open financial services platform was accelerated, and the Bank began to value certain skills in its Employees such as greater adaptability, as well as skills reflecting the needs of a more digital, more creative future, under constant change.

Also, in terms of restructuring and reducing the number of Employees, which was a major focus in 2021, the Bank created the **New Stage Programme**, which consisted of an Office and a New Stage Pack.

This program was designed to support people leaving the Bank and transitioning to a new personal and professional stage, namely for all people who leave the Bank by mutual agreement or that retire before the age of 65, encompassing a set of benefits and support upon departure — a new stage pack lasting up to 3 years, depending on benefits.

- **New stage office**, with a dedicated person — actually, someone who also retired from the Bank, for greater identification with the target segment, the issues, and the situations raised and the way of solving them, and as an actual support after leaving the Bank.
- **New Stage Pack**, covering 3 important areas in people's lives
  1. **Protection on departure**, keeping all existing credits under Employee conditions, Employee pricing, access to new credits under the same Employee conditions, and health insurance and/or SAMS;
  2. **new professional activity and relaunch** with support for training, outplacement, support for re-entering the labour market, for the Employee and, in some cases, also for the family, and support in setting up their own business;
  3. **well-being — for a healthy life** with access to the Santander Centre Gym, the Sports Group, Psychologist Hotline, and the Bank's group of volunteers.

We followed, adapted and adopted all recommendations from the Government and the health authorities **on Covid-19** in 3 main pillars: (1) development and implementation of health and safety protocols; (2) prioritization and monitoring of our employees' health, namely through a survey conducted by Occupational Medicine on the vaccination rate of our Employees; and (3) testing, through a protocol with a reference laboratory, and availability of antigen tests at the Santander Centre via our nursing office — Occupational Medicine.

Talent Management

Our talent management strategy helps us attract and retain the most talented and qualified employees.

It also contributes to accelerating our transformation by encouraging their continuous development. Several corporate projects in progress that contribute to this objective are the following:

- ***Strategic Workforce Planning* (SWP)** identifies challenges and gaps in Employee skills, with a view to their greater specialization. It helps us create action plans to make sure each area has the skills it needs.
- ***Skill Model*** helps us define common position profiles across the Group. As the skills we need are similar in all geographies, it is an opportunity to define common requirements for the various positions, in order to allow our Employees to understand which are the critical aspects for their work and focus on new areas, thus promoting the Bank's transformation.
- ***Dojo*,** a training platform that brings together all the Group's subsidiaries, with a view to developing and updating skills and promoting our Employees' careers.
- ***Workday*,** our new global HR platform.

These programs are complemented by local initiatives to nurture talent according to the specific requirements of each geography.

Main talent management figures

	2021	2020	2019
Total Employees (thousands)	**4.817**	6.012	6.226
% employees with open-ended contracts	**100.0**	100.0	99.7
% employees working full time	**99.8**	99.9	99.9
% employees promoted	**3.9**	8.7	3.9
% employees covered by collective agreements	**99.8**	99.6	99.5

Internal Communication in times of Covid-19

In order to communicate all the procedures, protocols, and all the changes and measures that we have launched as a consequence of the Covid-19 crisis, the People Management area kept the line of communication implemented in 2020 active, communicating in a **simple, close** way with Employees, establishing a strong connection with the Bank, both in teleworking and also when returning to the workplace, conveying **support, security, and confidence.**

We communicated with all Employees, through informative emails, with creative headlines, appealing messages, illustrated with images from the Santander brand manual.

This "new" way of communicating also contributed to a better understanding of the *Santander Way*. The *Santander Way* is the "path" chosen by the Group to identify the Group's and the Bank's culture, always highlighted and included in all internal communications.

Thus, we make known to all Employees our "way" of doing things: **in a simple, close, fair way, with our 8 behaviours and 4 Leadership commitments.**

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

The 8 behaviours that should be applied by all employees in their daily lives are: I Promote Change, I Promote Collaboration, I Speak Clearly, I Listen Carefully, I Support People, I Work With Passion, I Show Respect, and I Keep my Promises. These 8 behaviours will help us be:

- The best Bank for employees
- The best Bank for society
- The best Bank for customers
- The best Bank for shareholders

Leadership

In order to improve the Bank's global performance, leadership was identified as a strategic axis of action, since this factor has an impact on employee engagement, on their degree of happiness in the workplace, and even on their well-being. Thus, leadership commitments that should be used by our leaders were created, guiding and aligning the path and expectations in order to be responsible by focusing on the following areas of activity:

1. Be open and inclusive,
2. Inspire and implement transformation,
3. Lead by example,
4. Support the team to progress

Executive training

The focus on leadership development has been, for many years, a strategic axis of action, since the framing of teams has an impact on individual performance, and, consequently, upon the organization as a whole.

To embody this commitment, two executive training programs were developed entirely according to the needs identified:

- ***Elevate*:** a program aimed at developing leadership skills in 4 main areas: *1. Elevate myself; 2. Elevate my team; 3. Elevate the business* and *4. Elevate the vision*.

The programme totalled 120 hours of training for a universe of 35 employees, thus totalling 4,200 hours.

- At the same time, many opportunities were granted in open programmes at the best universities in the country, in order to promote not only the acquisition of current and relevant knowledge, but also the exchange of experiences with workers from other sectors.

Talent attraction

In order to transform the Bank into the best open platform for financial services, we have a value proposition with advantages for candidates and attractive communication, used internally for employees and also for external candidates. A global recruitment process is also being developed. This way of acting is already being implemented in the ongoing recruitment processes, with Santander taking on the main objective of acting uniformly, and that newly integrated employees are welcomed in the same way, regardless of the country that hires them, and that they receive, from the very beginning, the same values and principles that characterize the Santander brand throughout the world.

As part of the staff rejuvenation process, throughout 2021 we recruited 92 people with skills in areas associated with the Bank's transformational process.

- Attract professionals from the technological/digital area

Our employee value proposition drives the impact that technology and digital experts can have on the organization. Thus, we keep closely connected to leading universities in the field of Technology and Digital, seeking to attract the best talents, which is critical to support our digital transformation.

- Professional development

Santander's transformation is driven by our continuous learning approach. Our training and development programmes help employees acquire new skills, increase performance and productivity, and become better professionals. There is also a concern to improve the leadership skills of team leaders, as they have a critical role in the performance of the entire organization.

These are the main corporate talent and career development programmes:

- Talent reviews
- Succession planning: Our strategic approach is critical to ensuring Santander's future success, identifying potential replacements for key positions, and providing them with valuable development opportunities.
- *Young Leaders* involves 185 emerging leaders who have outstanding expertise in digital and innovation fields, and that champion our Simple, Close and Fair culture. Portugal has 10 participants in this team.
- *Top Talent* is focused on accelerating the development of our most senior leaders. Participants reflect on their management style, and are given individual feedback and support to create a development plan based on their main strengths and areas for improvement.
- *Elevate*

- Corporate mobility

Mobility is vital for the development of our employees, and for setting up teams with as much diversity as possible. The main corporate mobility programmes are the following:

- ***Global Job Posting*** offers employees the opportunity to apply to work in other countries, areas, and companies of the Santander Group.
- **Talent mobility programmes in the following areas:** CIB, Accounting and Control, Internal Auditing. Other companies and functions have international mobility programmes to expose employees to new realities and projects, boosting their career development.
- **Santander World** has been one of the flagship talent programmes of the Santander Group since 2008. It supports the development of more than 2,000 employees who have participated in strategic projects in other countries over a period of 3 to 6 months.

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

- Training and Development

In 2021, a total of 5,836 employees participated in training initiatives, 78% of which through e-learning.

A total of 219,786 hours of training were imparted, representing an investment of about €1.3 million in training, over the year.

Corresponding to an average of 44.6 hours *per capita* distributed in three modalities: e-learning, virtual classes, and in person classes.

In 2021, online training and several webinars were offered to Employees on topics such as: human rights, namely diversity and inclusion; health and safety; customer and supplier relationships; the environment, and the fight against corruption.

Performance and compensation reviews

The Group's remuneration model is quite comprehensive, and combines variable and fixed regimes, based on employee and company results.

Variable remuneration, in the short and long term, reflects **what** we have achieved (quantitative and qualitative objectives at Group level, as well as individual and team objectives), and **how we have done it** (e.g., behaviours, leadership, sustainability, commitment, growth, and risk management).

In addition, employees have competitive benefits, banking products and services, and life and health insurance.

Fixed remuneration schemes reflect local market conditions. For fixed remuneration, the reference criteria and the collective agreements in force in each country are strictly applied.

In order to comply with EU regulations on remuneration, the Santander Group classifies its employees as *identified employees*, whose decisions may have a material impact on the Group's capital. These employees are subject to a variable remuneration deferral policy. This policy suspends a significant amount of their variable remuneration (40%-60%, depending on their responsibilities) for a period of three to seven years, in accordance with internal and local regulations. 50% of this remuneration is delivered in shares and is subject to potential reductions *malus*) or recoveries (*clawback*).

Main initiatives in 2021:

- Raise awareness to fair pay practices, in terms of equal pay, narrowing the gender pay gap, and diversity in pay.
- Inclusion of ESG aspects in our long-term metrics for compensation of Executive officers, with a specific long-term metric comprising our three most representative Responsible Banking commitments: women in management positions, financially empowered people, and green financing.

Highlight *MyContribution*

MyContribution is the **Group's Performance Management common model.** Performance Management is essential to enriching our culture and ensuring that Employees do their best to achieve their career goals.

Diversity and Inclusion

Our commitment to a diverse, inclusive work environment is a cornerstone of our corporate strategy.

The global executive D&I working group and the network of local D&I representatives of the Santander Group play a vital role in driving and creating a “ripple effect” on the importance of diversity and inclusion across the Group.

To recruit, manage and develop talent that reflects society in general, we maintain a **diversity and inclusion (D&I) strategy.**

The aim of this strategy is to consolidate an inclusive team in terms of gender, LGBTI, people with disabilities, and cultural diversity (age, ethnicity, religion and educational background), by:

- Encouraging leader involvement:
- Raising awareness:

Equal pay

Our strategy also prioritizes equal pay for the same role between men and women. We measure this indicator in terms of equal pay gap and gender pay gap.

People with disability

The Santander Group has plans in place to include and increase accessibility for people with disabilities. We believe that the inclusion of people with disabilities is a matter of talent, ethics and responsibility. While promoting their independence, freedom and dignity, it enriches the teams these people join. Our D&I strategy defines two main objectives to promote the inclusion of people with disabilities:

- Reach or overcome the legal quota of employees with disabilities;
- Comply with local accessibility legislation.
- Santander's global initiatives led to an increased number of employees with disabilities, which, in Portugal, increased from 1.9% in 2019, to 2.1% in 2021. These initiatives were:
  - Global mapping, to share good practices from various countries with the entire Group.
  - Recruitment of talent with disabilities through programmes with different associations that support the integration of people with disabilities.
  - Volunteering and monitoring aimed at people with disabilities.

Best practices for the inclusion of people with disabilities — Santander Portugal

It is important to highlight our active role with the Inclusive Community Forum (ICF), under which we helped establish an inclusive recruitment process, which was taken up by the partner companies of this forum.

Another program worth being highlighted in this area, which has the support of Santander, is the Salvador Employability Programme for people with motor disabilities, whose aim is to promote the social and professional integration of people with motor disabilities, and improve their quality of life. Thus, we helped the Salvador Association develop skills in the young people it supports through bootcamps and job fairs.

We are part of the network of Receptive Companies of the Portuguese Association of Asperger Syndrome (APSA). As part of our support to this association, we have hired two persons who are currently working for Santander.

Employee experience

Our teams' motivation is vital to ensure commitment and success in the mission of supporting the development of people and companies.

1. Speak openly, listen actively, and take action

In a responsible Bank, everyone should feel that they can suggest better ways of doing things, and warn management when things go wrong or when they suspect misconduct.

In the Global Commitment Survey, conducted in 2021, we had 82% favourable responses to the question: “Can I have constant, open conversations with my line manager to improve my performance".

Our listening strategy

The Group, in line with our corporate behaviour, listens carefully to all our colleagues and encourages them to speak clearly and openly.

In order to drive change, we take action driven by feedback, data and experience, rather than by processes. We carry out many large-scale **internal listening exercises,** such as **employee surveys (our Global Commitment Survey), performance checks and appraisals, exit interviews, incident follow-up, and reporting channels.**

We are also evaluated by external certifications, such as *Top Employer* and/or *Great Place To Work*, which highlight the way in which we listen to employees.

Ethical Channels

The **Open Channel** was implemented in the main markets of the Santander Group.

In Portugal, it has existed since 2020 with the purpose of allowing employees to report breaches to the general code of conduct, and actions that do not comply with corporate behaviour.

2. Corporate benefits

We offer various benefits to employees in all geographies. Each country establishes programmes adapted to local conditions, with benefits ranging from free services for employees and their families, to discounts on products and services.

During the pandemic, we expanded these services to ensure the well-being of employees during this challenging time. We focused particularly on helping employees stay physically and psychologically healthy during the lockdown. We have adapted health coverage to new circumstances and needs.

We maintained and adapted, in 2021, the package of measures within the scope of Covid-19:

1. Salaries — all employees, whether they were in telework, in quarantine, in isolation, or because they belong to risk groups, or were taking advantage of their holidays as a result of their children's academic and non-academic activities being suspended and of the closure of nursing homes, payment of everyone's salary and food allowance was ensured at 100%.

2. Christmas allowance - all employees with immediate liquidity needs were given the possibility of advancing up to 50% of their Christmas allowance.

3. Training credit — training credit of up to 50 thousand euros, with an interest rate of 0.25%, so that Employees could meet the expenses of paying for their children's university tuition fees.

4. Net Family Credit — acquisition of computer equipment, as well as office furniture at zero-rate, up to a maximum amount of €1,500.

5. Covid-19 tests for all employees with high-risk direct contact with infected people or with symptoms of the disease. Protocol with the Germano de Sousa Laboratory, so that Santander Employees could perform PCR tests. In cases where it is possible to perform the tests at the laboratory, the Bank bears the payment of the tests by reimbursing the Employee

   In 2021, we extended the measure, by including antigen tests, and provided the Santander Centre nursing office with antigen tests, so that Employees with symptoms, with direct contacts or if they needed to present a negative result to this test, could carry out the antigen test by directly calling the Nursing Office.

6. We maintained our Covid-19 medical hotlines: i) the Covid-19 medical hotline, and ii) the Covid-19 Psychologist Hotline, every day for 2 hours, to support Employees or family members in situations resulting from Covid-19.

7. In Communications:

   a. For employees in telework who needed to establish business contacts and who do not have a mobile phone provided by the Bank, payment of phone calls with a monthly limit of €20 was established.
   b. For commercials with a Bank's mobile phone, and which for reasons of commercial contacts, their communications ceiling was exceeded, the Bank also took up that payment.
   c. A hotspot was made available, whenever required, so that Employees could guarantee access to the Bank via WIFI.

8. To facilitate the return to work in-person in central buildings in 2021:

   a. we kept the 4 Minibus routes — 3 in Lisbon and 1 in Porto
   b. We signed protocols with Uber
   c. free access to the garage of the Santander Centre — while the occupancy rate of buildings was below 70% (practically throughout the whole year of 2021)

Excellence Awards

It is an acknowledgment made by the Bank to its employees' children that complete secondary education with averages equal to or above 16/20. This measure also came up in order to reward what is considered to be a reflection of the merit of parents who encourage meritocracy, and pass on to their children the importance of doing well.

The prizes awarded in 2021, materialized in a gift card delivered at the event, corresponding to the amount of 3, 2 and 1 year of university tuition fees, whose reference value is that announced by the General Directorate of Higher Education for each academic year, which for the year of 2021, was € 697.00. The total investment by the Bank was € 66,912.00.

The first 8 students were offered the amount of the tuition fees for a 3-year graduate degree (2,091 euros), those in second position (20), received 2 years of higher education tuition fees (1,394 euros), and those in third position (32), received the amount corresponding to 1 year of tuition fees (697 euros). Santander already has a history of being close to the academic world, and this award aims to reinforce what is already being done, and to meet the talent and excellence of its employees' children.

Christmas gift for employees' children

Yet another year in which the Bank offered its Employees' children (up to the age of 16) a Christmas gift — a rechargeable card with €25 — the STAR card.

3. Our way of working

The Santander Group promotes a good balance between professional and personal life, through flexible work, as well as health and well-being programmes for its employees.

FlexiWorking

Our global FlexiWorking model includes several formal and informal measures related to "where", "when" and "how much" we work.

We motivate Employees to improve their work-life balance.

We are committed to promoting practical time management and the use of technology that helps employees better organize their work and protect their right to "digitally disconnect" when away from their workplace.

In Portugal, FlexiWorking allowed more than **90% of Employees working at central services to work remotely during the peak of the pandemic**.

Methodologies *Agile*

We work with agile methodologies to promote collaboration, speed up decision making, and drive change through remote teams in multiple countries. In Portugal, more than one third of central services already work under the agile methodology.

4. Volunteering

Volunteering creates a strong team spirit and a sense of purpose, while supporting the communities we serve. The corporate volunteering model, included in the Corporate Culture Policy, allows employees to dedicate a certain number of working hours per month or per year to volunteering initiatives.

Annually, two important volunteering events are held for employees at Group level: the We're Santander week, observed in all countries at the same time, and the International Volunteering Day. Locally, the Group's subsidiaries organize various volunteer programmes as part of their community investment commitments.

We kept supporting communities despite the pandemic

We did not give up our collaboration and commitment to social organizations during the pandemic. Our volunteers continued to dedicate their time to promoting a more inclusive society.

Christmas 2021

The Bank's Executive Committee offered 25 euros per Employee to promote team spirit and sharing, allowing Christmas dinners to be held until the end of January.

5. Our Well-Being

Keeping our **employees safe, healthy, and well** has always been a **key priority for us.**

In addition to the measures we have taken to protect employees, we have collective bargaining agreements and other sectoral and banking sector agreements that include provisions on the prevention of occupational health and safety risks, such as regular check-ups and analyses or after prolonged absence.

We have a global head of health and safety to coordinate and centralize all initiatives related to employee well-being.

We also work to regularly review our **occupational risk prevention plans**, which we implement through:

On the question "Does my direct line manager help me maintain a good balance between my work and personal life" we received 81% favourable responses in the 2021 Global Commitment Survey.

Also, on the question "Is Santander taking the appropriate measures to ensure that its employees are safe and healthy during this pandemic stage", we received 82% of favourable responses.

BeHealthy *Programme*

BeHealthy Reach Your Potential |at Home|

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

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

We Are Santander 2021 Week

Every year the Santander Group — in all countries where it is present — holds the "Santander Week", where the main beneficiaries are employees, and under which numerous activities and events are held in order to increase one's pride of belonging. It is intended to strengthen ties between teams, hierarchies and employees. In 2021, this event was held remotely, in September, and was dedicated to the Bank's Culture - the "*Santander Way*." On each day of the week, focus was given to each of the 5 dimensions: 1) Values: Simple, Close and Fair; 2) Behaviours; 3) Risk Pro; 4) the 4 Leadership commitments; and 5) the *Santander Way*,

During this week we held several *events*:

- **Videos with the CRO, on "*risk pro*"** — Santander's risk culture, the "Collections and Recoveries" strategy, as well as the Cybersecurity challenges
- **Books & Company** — launching of a reading group to share books and opinion articles.
- ***Masterclass*** — by the Portuguese Rugby Federation, on leadership and teamwork.
- **Roundtable *#ThePlaceToBeYourself***, the importance of diversity in companies. Testimonies from various employees.
- **Chess Tournament** (online) **Poland vs. Portugal** — 12 Santander Portugal Employees played against Santander Poland Employees. Poland won.

ECONOMIC AND FINANCIAL INFORMATION

Consolidated business

At the end of 2021, Santander Totta achieved a consolidated net income attributable to BST shareholders of €270.5 million, compared to €257.7 million recorded in the same period of the previous year, up by 4.9%, in an economic environment constrained by the pandemic situation.

Return on Equity (ROE) stood at 6.6%, and the efficiency ratio at 40.8%. (5.3pp below the 2020 figure).

Loans and Advances to Customers (gross) totalled € 43.4 billion, representing a year-on-year rise of 1.7%. Loans to individuals increased by 5.6%, and loans to companies declined by 1.3%. State-guaranteed credit facilities amounted to € 1.8 billion. Altogether, over 16,000 customers were supported.

The Non-Performing Exposure ratio stood at 2.3%, decreasing by 0.3 pp, compared to the 2.6% recorded in 2020, with provisions coverage of 81.0% (8.7 p.p. more than in the same period last year).

Customers' resources reached € 47.4 billion, increasing by 9.0% over the same period last year, with an increase of 7.4% in deposits, and 16.6% in off-balance sheet resources.

The Common Equity Tier 1 ratio (fully implemented) amounted to 26.4%, increasing by 5.6 p.p. compared to the same period last year.

The MREL ratio stood at 26.5% (fully implemented), above the requirement of 17.8%, required from January 1, 2022.

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

In long-term financing, there are also €2.0 billion of mortgage bonds, and €0.5 billion of securitizations.

Short-term funding, either through repurchase agreements or through institutional deposits, was nil.

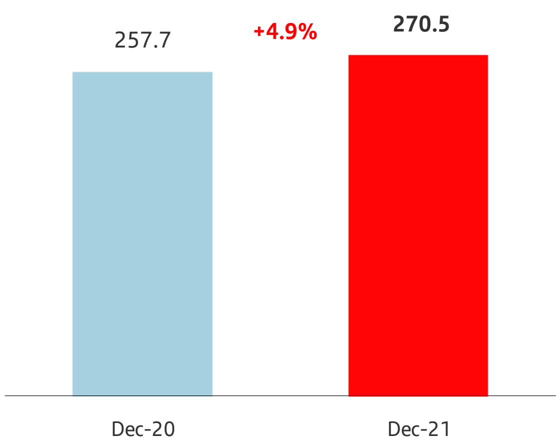
The liquidity reserve reached €17.1 billion.

The Liquidity Coverage Ratio (LCR), calculated in accordance with the CRD IV rules, stood at 131.6%, thus meeting the regulatory requirement on the fully-implemented basis.

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

CONSOLIDATED NET INCOME ATTRIBUTABLE TO BST SHAREHOLDERS

million euro



CONSOLIDATED INCOME STATEMENTS (million euro)	Dec-21	Dec-20	Var.
Net interest income	**728.7**	**785.0**	**-7.2%**
Income from equity instruments	1.5	1.7	-11.4%
Results from associates	4.2	5.6	-24.7%
Net fees	432.1	377.7	+14.4%
Other operating results	9.6	8.4	+15.1%
Commercial revenue	**1,176.2**	**1,178.3**	**-0.2%**
Gain/losses on financial assets	141.3	96.5	+46.4%
Net Income from Banking Activities	**1,317.5**	**1,274.8**	**+3.3%**
Operating costs	(472.6)	(519.4)	-9.0%
Staff expenses	(279.4)	(321.8)	-13.2%
Other Administrative Expenses	(193.2)	(197.6)	-2.2%
Cash contributions to resolution funds and deposit guarantee schemes	(37.7)	(35.6)	+5.8%
Depreciation	(49.3)	(52.0)	-5.2%
Net operating Income	**757.9**	**667.7**	**+13.5%**
Impairment, net provisions and other results	(354.8)	(299.2)	+18.6%
Income before taxes and non-controlling interests	**403.1**	**368.5**	**+9.4%**
Taxes	(132.6)	(110.7)	+19.8%
Income after taxes and before non-controlling interests	**270.5**	**257.7**	**+4.9%**
Non-controlling interests	0.0	0.0	-100.0%
Consolidated net income attributable to BST shareholders	**270.5**	**257.7**	**+4.9%**

At the end of 2021, net interest income stood at € 728.7 million, down by 7.2% from the € 785.0 million recorded in the same period of 2020, as a result of negative market interest rates, the reduction of credit spreads, in the context of a very competitive sector, and the management of the public debt securities portfolio.

The results from associates amounted to €4.2 million, decreasing by 24.7%, compared to the €5.6 million recorded in the same period last year.

Net fees amounted to € 432.1 million, representing an increase of 14.4%, compared to € 377.7 million recorded a year earlier, with special emphasis on account commissions, with the offer of bundled accounts with a set of associated services and means of payment, due to the greater volume of transactions, given the progressive reopening of economic activity, of funds and of insurances, reflecting the diversification of customer resources, and the strategic focus on the distribution of autonomous insurance and credit, due to the commercial dynamics of the new concession.

Other operating results stood at €9.6 million, 15.1% above the €8.4 million in the same period last year.

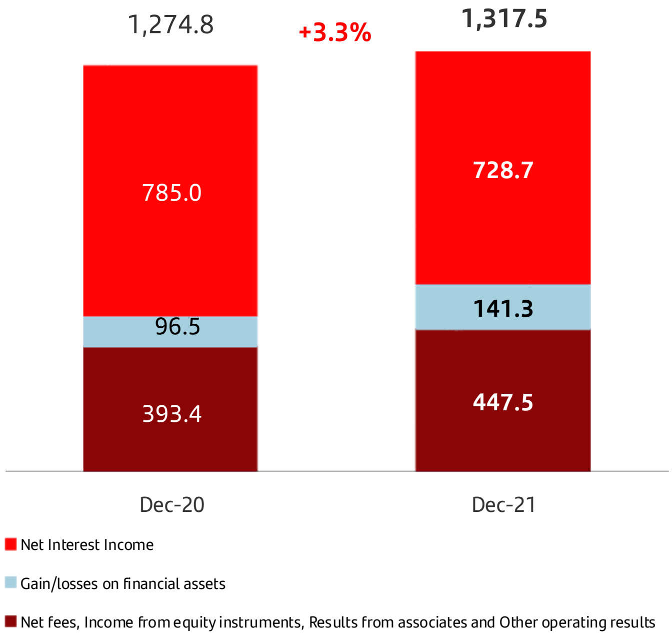
The commercial revenue reached €1,176.2 million, 0.2% less than the €1,178.3 million recorded in the same period of 2020, with the favourable evolution of commissions, mitigated by the reduction in net interest income.

Gain/Losses on financial assets amounted to €141.3 million, up by 46.4% compared to the €96.5 million obtained a year earlier, influenced by the result generated in the management of the public debt securities portfolio.

Net income from banking activities amounted to €1,317.5 million, up by 3.3% from the €1,274.8 million at the end of 2020.

NET INCOME FROM BANKING ACTIVITIES

million euro



Operating costs stood at € 521.9 million, down by 8.7% from the € 571.5 million recorded in the same period last year.

In 2021, the Bank implemented an operational and commercial transformation plan to adapt to a more competitive and digital context, with a significant investment in organizational simplification, process automation, and technological capacity, aimed at improving the quality of service provided, customer satisfaction and loyalty, which led to the reduction of 84 branches and 1,193 employees.

Staff expenses totalled €279.4 million, down by 13.2%, compared to the €321.8 million in the same period last year.

Other administrative expenses reached €193.2 million, 2.2% less compared to the € 197.6 in 2020.

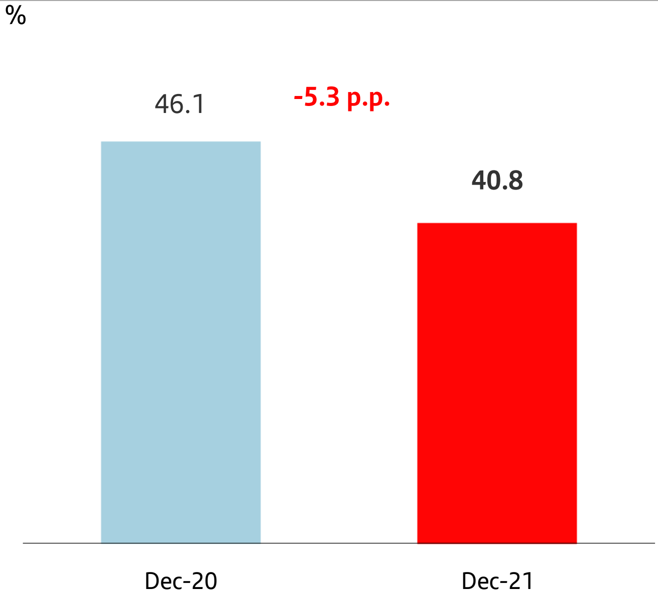
Depreciations totalled €49.3 million, down by 5.2%, compared to the € 52.0 million at the end of 2020.

In the operating cost structure, staff expenses account for 54% of the total, followed by other administrative expenses at 37%, and depreciations at 9%.

OPERATING COSTS (million euro)	Dec-21	Dec-20	Var.
Staff expenses	(279.4)	(321.8)	-13.2%
Other Administrative Expenses	(193.2)	(197.6)	-2.2%
Depreciation	(49.3)	(52.0)	-5.2%
Operating costs	**(521.9)**	**(571.5)**	**-8.7%**
Efficiency ratio	**40.8%**	**46.1%**	**-5.3 p.p.**

At the end of 2021, the efficiency ratio stood at 40.8%, which corresponds to a decrease of 5.3 pp, compared to 46.1% in the previous year, given the 3.3% increase in Net Income from Banking Activities, and an 8.7% decrease in operating costs.

EFFICIENCY RATIO



The cost of cash contributions to the Resolution Fund and the Deposit Guarantee Fund amounted to € 37.7 million, +5.8%, compared to the cost of € 35.6 million incurred in the previous year.

Net Operating Income reached € 757.9 million, up by 13.5% from the € 667.7 million recorded in the same period last year, reflecting the positive evolution of revenues and the decrease in operating costs.

Impairment, net provisions and other results recorded a cost of € 354.8 million, up by 18.6%, when compared to the cost of € 299.2 million in the same period of the previous year.

Net impairment of financial assets at amortized cost totalled a cost of € 73.5 million, 60.8% less than the cost of € 187.7 million recorded a year earlier, when an additional overlay provision had been established, following the inclusion of the forward looking component of the macroeconomic scenario associated with the pandemic context. The recovery of economic activity and the prudent conduct adopted in the event of a possible degradation of the loan portfolio, allowed the partial reversal of the overlay provision previously established.

Net provisions and other results include an extraordinary provision of € 235.0 million for the Bank's transformation plan, through the optimization of the branch network and investments in processes, digitalisation, and technology. A cost of € 22.5 million was also recorded, referring to the initial allocation to the Santander Portugal Foundation, whose purpose is based on intervention in the education, employability, ecology, and social fields.

The regulatory cost with the Banking Sector Contribution and the Solidarity Contribution in the amount of € 35.1 million, increased by 1.7%, compared to the € 34.5 million, observed last year.

Income before taxes and non-controlling interests totalled € 403.1 million, up by 9.4% compared to the € 368.5 million in the same period last year.

Taxes amounted to € 132.6 million, a 19.8% increase compared to the € 110.7 million recorded a year earlier.

At the end of the financial year of 2021, Santander Totta recorded a consolidated net income attributable to BST shareholders of € 270.5 million, 4.9% more than the € 257.7 million recorded in the same period of 2020.

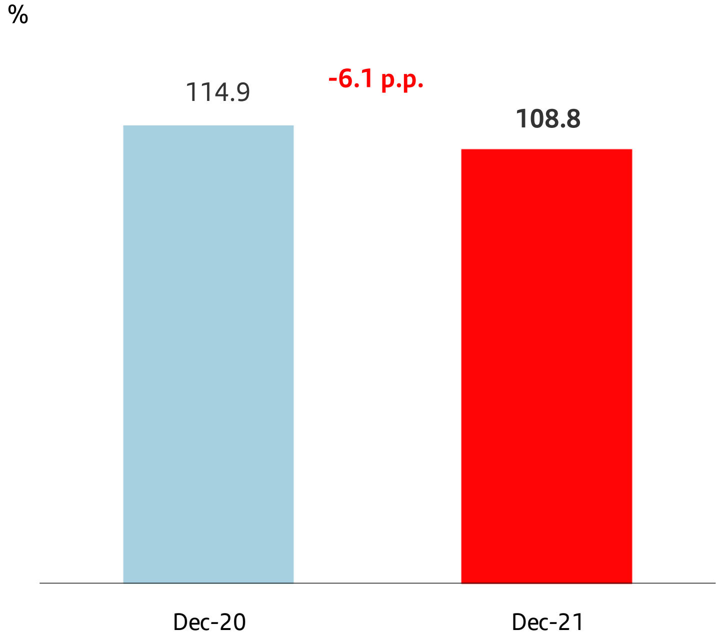
Balance Sheet and Business

At the end of 2021, the business volume amounted to € 90.9 billion, up by 5.4%, compared to the amount of € 86.2 billion in the same period in 2020, resulting from the 1.7% increase in Loans and advances to customers (gross), and the 9.0% increase in customer resources.

BUSINESS VOLUME (million euro)	Dec-21	Dec-20	Var.
Business Volume	**90,854**	**86,220**	**+5.4%**
Loans and advances to customers (gross)	43,416	42,681	+1.7%
Customers' Resources	47,438	43,539	+9.0%

The loans / deposits ratio, measured by the ratio of loans and advances to customers (net) to deposits, stood at 108.8% in December 2021, 6.1 pp less than in the same period last year, given the lower growth in credit than in deposits.

LOANS / DEPOSITS RATIO (Transformation ratio)



At the end of 2021, the loans and advances to customers (gross) portfolio amounted to € 43.4 billion, 1.7% more than in the same period of the previous year, reflecting the favourable evolution of the production of mortgage credit, of credit facilities guaranteed by the State, and of public and private investment projects, within the scope of European Funds.

LOANS (million euro)	Dec-21	Dec-20	Var.
Loans and advances to customers (gross)	**43,416**	**42,681**	**+1.7%**
of which			
Loans to individuals	24,035	22,768	+5.6%
of which			
Mortgage	21,921	20,671	+6.0%
Consumer	1,716	1,681	+2.1%
Loans to corporates	16,159	16,371	-1.3%

Loans to individuals totalled € 24.0 billion, corresponding to a 5.6% increase, compared to the € 22.8 billion in the same period last year.

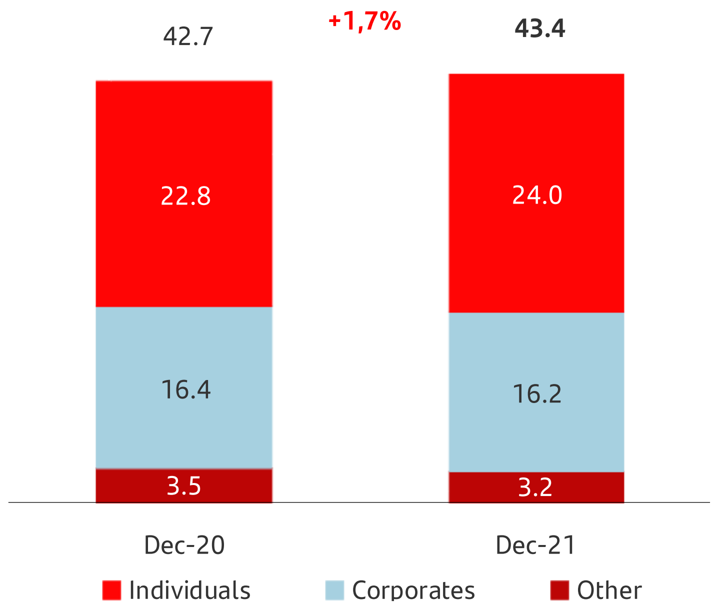
Housing Credit, amounting to € 21.9 billion, grew by 6.0%, year on year. Santander Portugal followed the upturn in the housing credit market, with a strong commercial dynamic, and the production of new housing credits reaching a market share above 20%.

Consumer credit, in the amount of € 1.7 billion, showed a year-on-year growth of 2.1%, reflecting the increase in expenditures, in the context of the reopening of economic activity.

Loans to companies stood at € 16.2 billion, down by 1.3% year-on-year, due to the maturity of operations in large companies' segment in the last quarter of the year, in a context of high liquidity. Santander Portugal maintained its strong commitment in supporting the Portuguese business community, namely by providing companies with state-guaranteed credit facilities (more than 16,000 customers were supported, totalling € 1.8 billion), and by supporting public and private investment projects within the scope of European Funds.

LOANS AND ADVANCES TO CUSTOMERS (GROSS)

billion euro



The Non-Performing Exposure (NPE) ratio, calculated in accordance with the EBA definition (in relation to balance sheet exposures), stood at 2.3% in December 2021, recording a reduction of 0.3 pp compared to 2.6% year-on-year, with impairment coverage of 81.0% (72.3% in December 2020).

The cost of credit stood at 0.17%, 0.28 pp less than the 0.45% recorded in the same period last year.

In the last quarter of 2021, after the end of the legal credit moratorium, normal compliance with payment plans was resumed by the Bank's customers, with no relevant implications for the quality of the credit portfolio, while the usual follow-up was naturally carried out in these adjustment stages, after a long moratorium period.

CREDIT RISK RATIOS	Dec-21	Dec-20	Var.
Non-performing exposure Ratio	2.3%	2.6%	-0.3 p.p.
Non Performing Exposure coverage ratio	81.0%	72.3%	+8.7 p.p.
Cost of credit	0.17%	0.45%	-0.28 p.p.

At the end of the financial year of 2021, customers' resources amounted to € 47.4 billion, a growth of 9.0% compared to the same period in 2020, with a 7.4% growth in deposits, and of 16.6% in off-balance sheet resources.

RESOURCES (million euro)	Dec-21	Dec-20	Var.
Customers' resources	**47,438**	**43,539**	**+9.0%**
On-balance sheet resources	38,959	36,270	+7.4%
Deposits	38,959	36,270	+7.4%
Off-balance sheet resources	8,479	7,269	+16.6%
Investment funds marketed by the Bank	4,340	3,252	+33.4%
Insurance and other resources marketed by the Bank	4,139	4,017	+3.1%

Deposits amounted to € 39.0 billion, up by 7.4%, compared to the € 36.3 billion in the same period last year, constituting the main source of funding of the balance sheet, and reflecting the increase in the savings rate of families, as well as the trust and connection of customers with the Bank, in a context of interest rates at historic lows.

Customers' off-balance sheet resources stood at € 8.5 billion, up by 16.6%, when compared with the € 7.3 billion in 2020.

Investment funds managed or marketed by the Bank, in the amount of € 4.3 billion, rose by 33.4%, compared to € 3.3 billion in the same period last year. Insurance and other resources, in the amount of € 4.1 billion, grew by 3.1% year-on-year. This evolution reflected the Bank's investment policy, with a more flexible and global portfolio management, with the objective of maximizing return, and the launching of innovative products, in a context marked by favourable feelings by investors, with a strong dynamic in the search for investment funds and financial insurance, through the strategy pursued to diversify resources, in a context of negative market interest rates.

Solvency Ratios

At the end of 2021, the Common Equity Tier 1 (CET 1) ratio — calculated according to CRR / CDR IV standards — stood at 26.4% (fully implemented), an increase of 5.6 p.p. compared to the 20.8% in the same period last year, reflecting the Bank's ability to generate organic capital and the management of risk-weighted assets.

Considering the recommendation of the European Central Bank (ECB/2020/19) of March 27, 2020, the Board of Directors of Santander Portugal decided not to distribute dividends in 2021.

Santander Totta has a very high capitalization rate, above the minimum requirements set by the European Central Bank within the scope of the Supervisory Review and Evaluation Process (SREP). In 2021, CET1 ratio was 8.3%, Tier 1 ratio was 10.1%, and Total Capital ratio was 12.5%, fully implemented).

The 26.5% MREL ratio (Minimum Requirement for Own Funds and Eligible Liabilities) was above the fully implemented requirement of 17.8%, required from January 1, 2022.

CAPITAL (million euro)	Dec-21	Dec-20	Var.
Common Equity Tier 1	**3,797**	**3,729**	**1.8%**
Tier 1 Capital	3,797	3,729	+1.8%
Total Capital	4,178	4,138	+1.0%
Risk Weighted Assets (RWA)	**14,408**	**17,954**	**-19.8%**
CET 1 ratio	26.4%	20.8%	+5.6 p.p.
Tier 1 ratio	26.4%	20.8%	+5.6 p.p.
Total Capital Ratio	29.0%	23.1%	+5.9 p.p.

RELEVANT FACTS AFTER THE CLOSE OF THE PERIOD

On the night of the 23rd to the 24th of February 2022, Russia launched a military offensive in Ukraine, resulting in a conflict that again brings a war scenario to Europe, which is still ongoing at the time of approval of this Report. Negotiations are taking place between the parties, while hostilities are going on, and it is not possible to assess when the conflict will end.

Most of the international community reacted by condemning the military aggression, in support of Ukraine, and the G7 imposed heavy economic sanctions on Russia. These, however, will also, predictably, have adverse effects on the main developed economies, and, in particular, on the European Union, aggravated by the escalation of commodity prices, which reached maximums of more than a decade, as in the case of oil.

OUTLOOK FOR 2022

As mentioned in the chapter “Main risks and uncertainties for 2022”, the evolution of Santander's activity in Portugal will depend on the impact, upon the Portuguese economy, of the two factors mentioned therein.

The different impacts contribute to increased uncertainty, together with the possibility of a reduction in purchasing power on the part of families, resulting from higher inflation rates, which could be amplified if the European Central Bank reacts by increasing reference interest rates.

In such a context of uncertainty, Santander Portugal remains focused on pursuing its well defined strategic lines, namely support to families and companies, with a special orientation to adopting the necessary initiatives, for its part, to mitigate the effects on income and the ability to service debt.

The risks to economic activity are, therefore, biased downwards, thus having implications for the Bank's activity, and, consequently, for profitability. The Bank's revenues may be affected by a lower demand for credit, while costs may be under upward pressure, with higher inflation. Additionally, the context of uncertainty keeps requiring close monitoring of the credit quality of customers, with a potential impact on impairments, especially considering that some sectors of activity have not yet fully recovered to pre-pandemic levels.

Notwithstanding these factors, the Bank will keep pursuing its digital and commercial transformation process, seeking to further simplify processes and improve the interaction channels with customers, whose behaviour, in terms of relationship with banks, was already changing — a process that was accelerated by the pandemic.

The Bank will continue to develop its strategy and deepen its transformation, essentially based on: i) the continuous optimization of processes, namely through greater innovation in digital channels and the strengthening of the multichannel distribution model, in order to provide a more complete and accessible service to its customers; ii) simplifying and continually adapting the commercial offer to customer needs; iii) organic growth, with a special focus on increasing market shares in segments where adequate remuneration on allocated capital is obtained; iv) strict control over credit quality; and, by v) maintaining a solid capital and liquidity position, in line with regulatory requirements.

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

RISK MANAGEMENT

Risk Management and Monitoring Model

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

A. Risk Principles and Culture

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

- A solid risk culture (Risk Pro), which is part of the "*Santander Way*," and which is followed by all employees, covering all risks and promoting socially responsible management, contributing to the Bank's long-term sustainability;
- All employees are responsible for risk management and must know and understand the risks generated by their daily activities, avoiding taking risks whose impact is unknown or exceeds the Bank's risk appetite limits;
- Involvement of Senior Management ensuring consistent risk management and control through its conduct, actions, and communications. In addition, it shall promote a risk culture within the Bank, assessing its degree of implementation and checking that the risk profile remains within the levels defined in the Company's risk appetite;
- Independence of risk management and control functions, according to our model with three lines of defence defined in more detail in the Risk 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 our risk appetite statement, risk profile assessment, scenario analysis, and the structure of risk reports, plus budgetary processes, form a holistic control structure for the entire Bank.

B. Risk Identification and Management

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

- Credit risk: is the risk of financial loss resulting from the default or deterioration in the credit quality of a given customer or counterparty, to whom the Bank has granted credit directly or for which it took on a contractual obligation;
- Market Risk: it is the risk incurred as a result of the effects that changes in market factors, interest rates, exchange rates, variable income and commodities, among others, may have on income or capital;
- Liquidity risk: it 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: it is the risk of changes in the value or margin creation of banking book assets or liabilities as a result of changes in market factors and in the behaviour of the balance sheet. It also includes the risks associated with insurance and pensions, and the risk of the Bank not having sufficient capital, either in quantity or quality, to fulfil its internal business goals, regulatory requirements or market expectations;
- Operational Risk: it is defined as the risk of loss due to the inadequacy or failure of internal or personnel processes and systems or due to external events, including legal risk and risk of conduct;
- Regulatory Compliance Risk: it is the risk due to 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 economic consequences;
- Model Risk: it is the risk of loss resulting following 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: it is risk of immediate or potential negative economic impact for the Bank due to damages on the perception of the Bank's image by employees, customers, shareholders / investors and society in general;
- Strategic Risk: it 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 our main stakeholders, or that result from an inability to adapt to external developments.

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

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

C. Risk Governance

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

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

Defence lines

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

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

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

First Line of defence: Risk Management

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

The first line of defence is responsible for:

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

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

Second Line of Defence: Risk Control and Supervision

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

The second line of defence is responsible for:

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

Within the Bank's structure, the second line of defence includes the Risks and the Compliance and Conduct areas, although the organizational structures within the second line of defence may vary 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 processes and systems of internal control, risk management (current or emerging), and governance, thus contributing to protecting the organisation's value, solvency and reputation. To this end, the 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 Committees Structure

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

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

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

- *Executive Risk Committee (ERC)*

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

  Chair: Chairman of the Executive Committee (CEO).

- *Risk Control Committee (RCC)*

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

  Chair: *Chief Risk Officer (CRO)*.

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

D. Management Processes and Tools

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

Risk appetite and limit structure

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

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

Business Model and Risk Appetite Fundamentals

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

- A medium-low, predictable risk profile based on a business model centred on commercial banking, with an internationally diversified presence and significant market shares, with a wholesale banking business model that gives priority to customer relations in the main markets of the Group;
- Production of stable and 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 senior management involvement 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 Bank 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 Bank's risk appetite, and is consistent with the Bank's long-term performance.

General Principles of Risk Appetite

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

- **Responsibility of the Board and Top Management.** The Board of Directors is ultimately responsible for defining the Bank's risk appetite, as well as for monitoring compliance therewith;
- **Enterprise wide risk, comparing and questioning the risk profile.** The risk appetite must consider all significant risks, facilitating an aggregated view of the risk profile through the use of quantitative metrics and qualitative indicators;
- **Forward-looking view. Risk appetite should consider the desirable risk profile in the short and medium term, taking into account both the most likely circumstances, and the adverse or stress scenarios)**;
- **Linked to strategic and business planning.** Risk appetite is a fundamental component of strategic and business planning, and it is integrated into management through its translation into management policies and limits, as well as through the participation of all lines of defence in key appetite processes;
- **Common principles and a common risk language for the entire organization.** The risk appetite of the various units, including that of the Bank, is in line with the Group's risk appetite.
- **Periodic review, comparison and adaptation to best practices and regulatory requirements.** Follow-up and control mechanisms to maintain the risk profile, and thus adopt the necessary corrective and mitigating measures in case of non-compliance.

Limit, follow-up and control structure

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

- Income volatility: Maximum loss that the Bank is willing to take in the face of a chronic stress scenario;
- Solvency: Minimum capital position and maximum leverage level that the Bank is prepared to take in a scenario of chronic stress;
- Liquidity: Minimum structural liquidity position, minimum liquidity horizons that the Bank is willing to take in the face of various chronic stress scenarios, and minimum liquidity coverage position;
- Concentration: per individual customer; concentration on non-investment grade counterparties; concentration on large exposures;
- Non-Financial Risks: Qualitative indicators on non-financial risks (fraud; technology; security and cyber risk; litigation and others), maximum losses from operational risk and maximum risk profile.

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

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

Risk Profile Assessment (RPA)

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

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

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

Scenario analysis

Another fundamental instrument used by the Bank to ensure robust risk management and control is the analysis of the possible impacts arising from different scenarios related to the environment in which the Bank operates. These scenarios are expressed both in terms of macroeconomic variables, as well as through other variables that affect the Bank's risk profile.

In order 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 2021

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

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

Credit Risk - Main vectors of the business

The year of 2021 was marked by the continued careful management of the pandemic in the day-to-day commercial and risk management of our customers.

The intensity of the customer monitoring and follow-up work was maintained, namely through the first line of defence (Commercial Area), jointly with the second line of defence (Risk Area).

Periodic analyses of the most critical and worrisome sectors were conducted, based on the study and analysis of customer portfolios, consisting of 4 chapters:

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

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

Customers (private individuals and small companies) whose credit decision is made mostly through decision-making models considered as “automatic”, have been incorporated in the same factors that help mitigate and anticipate potential future problems arising from the pandemic and after the end of the moratoria.

The analyses and monitoring of behavioural metrics in these customers were strengthened in order to detect in advance the possible deterioration in their real payment capacity.

The maturity of private moratoria was monitored on a daily basis, monitoring the maturities of instalments and their respective settlement.

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

- Maintaining the principle of segmentation in the processing of credit risk, differentiating the approach to risks in the light of the characteristics of the customers and of the products;
- Maintaining the strictness of the admission criteria and, consequently, of the quality of Risk admitted in each segment, with a view to preserving the good quality of the loan portfolio;
- In terms of Portfolioed Risks, the policy of proximity to customers was reinforced, in order to anticipate their credit needs, to review their credit facilities, and foretell possible problems in their repayment ability;
- This action and the loan quality level of the Bank's customers, allowed non-performing loans and credit at risk to be kept under control and at acceptable levels;
- We are still improving our admission processes in order to respond to customer requests in a quicker and more effective way.
- Customer monitoring and review meetings were intensified, which is the Bank's usual practice, and which is included in its internal policies, for the early detection of loan-portfolio alerts, but due to the Pandemic we feel the need to do it more frequently, in order to assess the potential structural or current difficulties of our customers.
- In Standardised (or Not Portfolioed) Risks, with a view to ongoing improvement and efficiency of the admission process, and bearing in mind the objective of portfolio quality, the Bank conducted the update and maintenance of the automatic decision models, particularly the scoring and behavioural systems used in the Private and Corporate segments.
- Also, in the matter of Standardised Risks, the focus continued to be centred on ensuring portfolio quality, acting on Non-Performing Exposure (NPE) and Overdue Loans, while always seeking to anticipate the deterioration of the credit quality of the credit portfolio;
- To this end, the defined admission strategies were maintained in the Bank’s decision-making systems, as was recourse to behavioural systems for the identification of

preventative and roll-over measures to be offered to its customers.

- In terms of Corporate Risk Management, the permanent focus on knowledge and monitoring of the loan portfolio was maintained, with a view to strictly control its risk, seeking to provide adequate and timely management information, in order to allow measures to be taken with a view to proper management of the Bank's Risks;
- Attention was also maintained in respect of the Bank's in-house models, almost all of which have already been recognised (by the regulators) as advanced (IRB) models for the calculation of the equity requirement, as well as their increasing inclusion in the management;

Credit Risk

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

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

Portfolioed customers are those that, fundamentally due to their level of risk, are assigned a risk analyst. This group includes Wholesale Banking companies, Financial Institutions and some of the Retail Banking companies. The assessment of these customers' risk is performed by the 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 Private Customers, Individual Entrepreneurs and non-portfolioed Retail Banking companies. Assessment of these risks is based on in-house valuation and automatic decision-making models, complemented by specialised risk-analyst teams whenever required.

Risk measurement metrics and tools

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

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

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

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

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

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 major credit-risk parameters, and, taken jointly, allow a calculation of the expected loss and the unexpected loss.

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

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

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

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

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

Credit-risk Cycle

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

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

Planning and establishing limits

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

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

In 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, by 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, transaction decision, and monitoring and control

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

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

In order to maintain adequate quality control 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.

Irregularities and Recoveries Management

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

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

Recoveries activity is structured in keeping with the commercial segmentation of customers: Private Individuals, Businesses and Companies, with specific management models. The management of recoveries, so segmented, also respects the different management stages: preventive management, management of irregularities, and management of non-performing loans and bankruptcies, each of which has specific models, strategies and circuits. All this activity is shared with the business areas.

In May 2020, the Bank initiated the development of an End to End transformation project, called “Collections and Recoveries,” which aims at the massive, pre-emptive management of (non-portfolioed) customers, through the development of strategies, procedures and commercial offers in an omnichannel environment (differentiated communication channels according to the type of customer), constituting a sophisticated approach that helped minimize the impacts after the end of the moratoria on the segment of private customers and businesses, through the speed of response to treasury difficulties of customers that showed such difficulties.

Counterparty risk

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

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

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

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

Throughout 2021 current exposure of transactions on interest-rate indexes (Euribor) decreased sharply, reflecting the evolution of medium- and long-term market rates. With regard to exposure to Financial Groups, structural interest-rate risk hedging transactions were maintained, having the LCH Clearnet as clearing house. BANIF's securitization operations were maintained. The amount of exposure of derivatives with the Financial Groups dropped significantly due to the increase of the risk coefficient of the long-term interest-rate operations with the correct calculation methodology.

Trading, structural and liquidity market risk

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

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

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

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

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

The methodology applied in 2021 within the scope of Bank Santander Portugal for the negotiation activity is the Value at Risk (VaR). Used as the basis is the historic simulation methodology with a 99% confidence level and a one-day time horizon, statistical adjustments were applied that allow swift and effective inclusion of more recent events that condition the risk levels assumed.

Additionally, Stress Testing is used, which consists of defining 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).

The 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 — result associated with the revaluation of the closing portfolios of the previous day at the closing prices of the next day), where the specific/episodic deviations of the results found, compared to the estimated measurements, are analysed.

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

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

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

The VaR remained at very low levels, standing at €8,000 euros on Dec. 31, 2021.

Control of the Balance-Sheet Structural Risk

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

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

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

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

Liquidity risk consists on the risk of the Bank not having the liquid financial resources required to meet its obligations when due or that it incurs an excessive cost to meet them. 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 estimated on the current items of the balance sheet that 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 131.62% on Dec. 31, 2021.

Control of the balance-sheet risks is ensured by applying a structure of quantitative limits that aim to keep exposures within the authorised levels. The limits focus on the following indicators:

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

Operational Risk

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

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

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

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

The organisational model of Santander Totta, in terms of management and control of the Operational Risk results from the Group's adaptation to the Basel II approach.

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

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

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

The various stages of the management and control model help:

- Identify the operational risk inherent in all the Bank's activities, products, processes and systems;
- Definition of the operational risk profile, by collecting metrics and indicators by area and time horizon, and establishment of tolerance limits and risk appetite.
- Drawing up and following the operational risk budget.
- Promote the involvement and integration of all employees in the operational risk culture by conducting training in the matter of operational risk.
- Measure and assess operational risk in an objective, continuous and consistent manner, based on regulatory and other requirements (Basel, Bank of Portugal, among others).
- Continuously and systematically monitor the sources of exposure to risk and implement the respective control mechanisms to minimize possible losses.
- Establish mitigation measures and actions that reduce and mitigate the operational risk.
- Make periodic operational risk presentations and reports, and disclose them to the various management and supervision bodies (internal and external).

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

- Promotes the development of 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 the database.
- Database of external events that provides quantitative and qualitative information and simplifies a more detailed and structured analysis of relevant events that may occur in the sector.
- Scenario analysis, in which various business areas, second line and operational-risk co-ordinators take part, with the objective of identifying potential events entailing low probability and high severity for the institution. The possible impact is assessed and, if necessary, additional controls and/or mitigation measures are identified that will minimise their impact.

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

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

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

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

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

The Bank implemented an advanced operational-risk management programme, with the main objectives of involving all employees and management bodies in the control and mitigation of operational risk. The implementation and disclosure of Santander Portugal's risk culture enable a more efficient evaluation and monitoring of operational risk and simplify decision-making by the business areas and Management.

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

Compliance and Reputational Risk

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

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

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

Without prejudice to all other aspects arising from what has been exposed, the Global Policy on Compliance Risk, as well as the Policy on Reputational Risk, cover, namely, the instruments identified in the list below, which are referred to by their particular impact in risk prevention and management.

Compliance Risk policies and instruments

- Corporate values that translate into concrete "behaviour", which govern the conduct of all employees;
- Compliance Policy;
- Prevention of Money Laundering and the Financing of Terrorism;
- Codes of conduct (with three dimensions: general; the relationship with customers; and relating to and for the stock market);
- Marketing and Product Follow-up Policies and Procedures;
- Policy for the Prevention, Communication, and Remediation of Conflicts of Interest;
- Personal Data Protection and Processing Policy;
- Employee training policy, which includes mandatory, as well as additional, regulatory training;
- Corruption Protection and Corporate Defence Policies (Santander has a Corporate Corruption Prevention Policy, including, among others: i) A whistleblowing channel (Open Channel), through which any employee can confidentially and anonymously report possible breaches of the Codes of Conduct and/or the Corruption Prevention Policy and ii) other possible irregularities);
- Monitoring and follow-up of new regulations;
- Liaison with the supervisory authorities and follow-up of actions undertaken by them.

Reputational risk policies

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

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

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

PROPOSAL FOR THE APPROPRIATION OF NET INCOME

The Net Income for the Year, in separate terms, in respect of 2021, was € 303,342,559.00 (three hundred and three million, three hundred and forty-two thousand, five hundred and fifty-nine Euros), and the Consolidated Result in 2021 was € 270,493,858.00 (two hundred and seventy million, four hundred and ninety-three thousand, eight hundred and fifty-eight Euros).

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

- Legal Reserve: € 30,334,255.90 (thirty million, three hundred and thirty-four thousand, two hundred and fifty-five Euros and ninety cents);

- Distribution of Dividends: € 273,008,303.10 (two hundred and seventy-three million, eight thousand, three hundred and three Euros and ten cents).

Lisbon, March 29, 2022

THE BOARD OF DIRECTORS

ADDITIONAL INFORMATION

Money laundering prevention

Bank Santander Portugal's compliance function in terms of money laundering and financing of terrorism (AML/CFT) is embodied in the AML/CFT area, integrated in the Compliance and Conduct area, which materializes the compliance function and that works independently and permanently.

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

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

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

The Head of Regulatory Compliance in this matter is responsible for:

- Participating in the definition and issuance of a prior opinion on AML/CFT policies, procedures and controls;
- Permanently monitoring the adequacy, sufficiency and timeliness of PBCFT 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 PBCFT area and for assessing the situations submitted to him by the Head of Regulatory Compliance.

In 2021, the following reports were made to Supervisors:

i) A PBCFT 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 PBCFT.

Shareholder Structure

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

Treasury shares

In keeping with the resolution passed by the Annual General Meeting held on May 25, 2021, 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.

Taking into account European Central Bank recommendation (ECB/2020/19) of March 27, 2020, the purchase of treasury shares is suspended until this recommendation has lapsed (September 30, 2021)[2].

On December 31, 2020, Santander Totta S. A., held 416,525 treasury shares corresponding to 0.033% of its Share Capital. Throughout the year of 2021, Banco Santander Totta S. A. purchased 6,535 treasury shares, corresponding to 0.0005% of its Share Capital, closing the year with a total of 423,060 treasury shares.

TRANSACTION WITH OWN SHARES - 2021

Banco Santander Totta, S.A.	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31-12-2020	416,525	5.23	2,177,699	0.033%
Purchases	6,535	4.66	30,424	0.0005%
Disposals	0	0.00	0	0.000%
31-12-2021	423,060	5.22	2,208,122	0.034%

[2] https://www.bankingsupervision.europa.eu/press/pr/date/2021/html/ssm.pr210723~7ef2cdf6b7.en.html

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

	Entity	Position at 31/Dec/2020	Transactions in 2021	Position at 31/Dec/2021
José Carlos Brito Sítima	Banco Santander, SA	**146,571**	23.02.2021 - shares deposit (corporate allocation): 8,660 - 2.91€	**155,231**
Pedro Aires Coruche Castro e Almeida	Banco Santander, SA	**110,175**	23.02.2021 - shares deposit (corporate allocation): 46,001 - 2.91€	**156,176**
Amilcar da Silva Lourenço	Banco Santander, SA	**37,855**	23.02.2021 - shares deposit (corporate allocation): 12,788 - 2.91€ 07.09.2021 - sale: 25,000 - 2.61€	**25,643**
Ana Isabel Abranches Pereira de Carvalho Morais	-	**0**	-	**0**
Andreu Plaza Lopez	Banco Santander, SA	**241,063**	16.02.2021 - shares deposit (corporate allocation): 25,425 - 2.91€	**266,488**
Daniel Abel Monteiro Palhares Traça	-	**0**	-	**0**
Inês Oom Ferreira de Sousa	Banco Santander, SA	**45,042**	23.02.2021 - shares deposit (corporate allocation): 16,397 - 2.91€	**61,439**
Isabel Cristina da Silva Guerreiro	Banco Santander, SA	**35,611**	23.02.2021 - shares deposit (corporate allocation): 15,511 - 2.91€ 04.05.2021 - sale: 11,500 - 2.61€	**39,622**
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	-	**0**	-	**0**
Manuel António Amaral Franco Preto	Banco Santander, SA	**199,792**	23.02.2021 - shares deposit (corporate allocation): 34,171 - 2.91€	**233,963**
Manuel de Olazábal y Albuquerque	-	**0**	-	**0**
Maria Manuela Machado Farelo Ataíde Marques	-	**0**	-	**0**
Miguel Belo de Carvalho	Banco Santander, SA	**46,026**	15.02.2021 - Sale: 6,358 - 2.90€ 19.02.2021 - Sale: 1,909 - 2.97€ 22.02.2021 - Sale: 12,850 - 2.90€ 23.02.2021 - shares deposit (corporate allocation): 22,638 - 2.90€	**47,547**
Remedios Ruiz Maciá	Banco Santander, SA	**85,799**	04.01.2021 - shares deposit (corporate allocation): 3,709 - 2.50€ 16.02.2021 - shares deposit (corporate allocation): 17,112 - 2.83€	**106,620**

Duties performed by members of the Board of Directors of Santander Totta at other companies

Other Positions of Note

	Within the consolidation perimeter	Outside the consolidation perimeter
José Carlos Brito Sítima	**Santander Totta SGPS** (Chairman of the Board of Directors | NE)	Portal Universia Portugal – Prestação de Serviços Informáticos, S.A. (Chairman General Meeting); Câmara Comércio Luso Espanhola (Deputy Chairman)
Pedro Aires Coruche Castro e Almeida	**Santander Totta SGPS** (Deputy-Chairman of the Board of Directors; Chairman of the ExCo | CEO) **Fundação Santander Portugal** Chairman of the Board of Trustees	ACEGE - Associação Cristã de Empresários e Gestores (Strategy Council Member); Centro Paroquial São Francisco de Paula (NE Director); ISEG - Lisbon School of Economics & Management, Universidade de Lisboa (Advisory Council Member); Fundação Alfredo de Sousa (Board of Trusttees Member); Associação Portuguesa de Bancos (Board Member on behalf of Banco Santander Totta, SA)
Amilcar da Silva Lourenço	-	-
Ana Isabel Abranches Pereira de Carvalho Morais	-	ISEG - Lisbon School of Economics & Management, Universidade de Lisboa (Associate Dean); EPAL, Empresa Portuguesa das Águas Livres (Chairwoman of the Supervisory Board); Águas do Vale do Tejo, S.A. (Chairwoman of the Supervisory Board)
Andreu Plaza Lopez	-	-
Daniel Abel Monteiro Palhares Traça	-	Nova School of Business and Economics (Dean); Fundação Alfredo de Sousa (NE Board Member, on behalf of Nova SBE); Casa de Investimentos- Gestão de Património e Fundos de Investimento – SGOIC, SA (Chairman General Meeting)
Inês Oom Ferreira de Sousa	-	Portal Universia Portugal – Prestação de Serviços Informáticos, S.A. (Non-Executive Chairwoman); SIBS- FPS, SA (NE Board Member); SIBS SGPS, SA (NE Board Member); Unicre - Instituição Financeira de Crédito S.A. (NE Board Member); Associação EPIS - Empresários pela Inclusão Social (Advisory Council Member); Associação GRACE – Grupo de Reflexão e Apoio à Cidadania Empresarial (Advisory Council Member); Fundação Santander Portugal (Executive Chairwoman)
Isabel Cristina da Silva Guerreiro	**Banco Santander SA** Head of Digital Europe	Santander Bank Polska, S.A. (NE Supervisory Board Member)
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	-	Fundação Calouste Gulbenkian (Chairwoman); Member of various non-profit entities
Manuel António Amaral Franco Preto	**Santander Totta SGPS** Board Member; ExCo Member **Taxagest - Sociedade Gestora de Participações Sociais, S.A.** Chairman	-
Manuel Maria de Olazábal Albuquerque	-	Fulham Consulting S.L. (NE Board Member)
Maria Manuela Machado Farelo Ataíde Marques	-	Católica Lisbon School of Business & Economics, Catholic University of Portugal (Assistant Professor); Gerefinança - Consultores de Gestão, Lda (Manager Partner); European Money Markets Institute (NE Board Member | Supervisory and Risk Board Member)
Miguel Belo de Carvalho	**Fundação Santander Portugal** NE Board Member	Fundação Económicas - Fundação Para o Desenvolvimento das Ciências Económicas, Financeiras e Empresariais (NE Board Member, on behalf of Banco Santander Totta, SA); Universidade Lusíada - Faculdade de Ciências da Economia e da Empresa (Advisory Council Member)
Remedios Ruiz Maciá	**Banco Santander SA** Global Head EWRM	UCI SA (NE Board Member, on behalf of banco Santander, SA); UCI SA (EFC) (NE Board Member); Tresmares Capital Corporate SL (NE Board Member, on behalf of Banco Santander, SA); Deva Capital Holding Company, SL | Deva Capital Management Company, SL (NE Board Member); Servicios de Cobranza, Recuperación y Seguimiento, SA de CV (SECORSE) (NE Board Member, on behalf of Deva Capital Servicer Company, S.L.U)

ALTERNATIVE PERFORMANCE INDICATORS

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

For management analysis the Bank uses a set of indicators to measure profitability, efficiency and turnover dynamics. Most of these indicators are derived from the financial information disclosed in accordance with the accounting standards in force (IFRS information), but others are calculated using management information (MIS information), not directly relatable to the IFRS information. Similarly, some indicators might be calculated by correcting non-recurrent movements, aiming to translate the underlying dynamics of the Bank's business, profitability and efficiency.

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

Net interest income

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

Income from equity instruments

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

Results from associates

In 2020 corresponds to "Investments in subsidiaries, joint ventures and associates accounted for using other than equity method" and in 2021 corresponds to "Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method", as presented in the Statement of Profit or Loss for each period.

Net fees

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

Other Operating Results

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

Commercial Revenue

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

Gain/losses on financial assets

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

Net income from banking activities

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

Operating Costs

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

Net Operating Income

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

Impairment, net provisions and other results

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

Income before taxes and non-controlling interests

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

Taxes

“Tax expense or income related to profit or loss from continuing operations”, as presented in the Statement of Profit or Loss.

Income after taxes and before non-controlling interests

"Income before taxes and non-controlling interests" less "Taxes", as presented in the Statement of Profit or Loss.

Non-controlling Interests

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

Consolidated Net Income Attributable to BST Shareholders

“Income after taxes and before non-controlling interests” less "Non-controlling interests", also mentioned as “Profit or loss for the year – attributable to owners of the parent”, as presented in the Statement of Profit or Loss.

Efficiency Ratio

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

Loans / Deposits Ratio (transformation ratio)

Calculated in accordance with Bank of Portugal Instruction 23/2011.

Business Volume

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

Loans and advances to customers (gross)

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

Net loans and advances to customers

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

Loans to individuals (mortgage and consumer) and corporates

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

Non-Performing Exposure Ratio

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

Cost of Credit

Ratio between “Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss (from the Statement of Profit or Loss) and the average of “Loans and advances to customers (gross)” (from the statement of financial position).

Non-Performing Exposure Coverage Ratio

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

Deposits

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

Off-balance sheet resources

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

Customer’s Resources

Sum of “Deposits” and "Off-balance sheet resources".

Liquidity Coverage Ratio (LCR)

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

Return on Equity (RoE)

Ratio between "Consolidated Net Income Attributable to BST Shareholders" and "Total equity" at the beginning of the period, as presented in the statement of financial position.

Return on Assets (RoA)

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

Table of non-financial indicators

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

CORPORATE GOVERNANCE REPORT

I- Introduction

With this Corporate Governance Report for the year 2021, Santander Totta S. A. complies with the duty to provide annual information on the corporate governance structure and practices in accordance with Article 70.2 sub-paragraph b) of the Commercial Companies Code (CCC), and Article 29-A of the Securities Code.

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

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

II – Shareholder Structure

As of the date of this Report, the Bank's Share Capital is € 1,256,723,284, corresponding to one billion, two hundred and fifty-six million, seven hundred and twenty-three thousand, two hundred and eighty-four common shares, with a par value of one euro.

The Bank's Share Capital is 98.763% held by Santander Totta SGPS, S. A., which is directly controlled by Banco Santander, S. A., which holds a 99.85% stake in it.

Of the remaining capital of the Bank, there is also a percentage of 1.161% that belongs to the Taxagest – Sociedade Gestora de Participações Sociais, SA, a company also under the full control, either direct or indirect, of Santander Totta SGPS, S. A., and Banco Santander, S. A.

Of the remaining capital, 0.0432% is dispersed among several shareholders and 0.032% corresponds to Banco Santander Totta, S. A.'s own shares.

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

There are, therefore, no privileged shares of any kind. Likewise, there are no restrictions of any kind on the transferability of shares, which is completely free.

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

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

Under the terms of the Company's Articles of Association, one vote is assigned to each share.

In order for shareholders to have the right to participate in the General Meeting, they must prove before the Chairman of the Board of the General Meeting, at least 10 days before the date established for the AGM, the registration or deposit of shares in financial intermediaries by the fifteenth business day prior to the AGM date.

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

However, within the scope of the normal performance of banking activity, in its various components, certain agreements give the counterparty the right to terminate them in the event of changes in the Bank's shareholder control, in line with what is current and common in banking practice.

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

The indication of the number of shares and bonds held by members of the management and supervisory bodies can be found in the "Additional Information" chapter of the management report.

III. Governing Bodies

The Company is organically structured in the manner provided for in Art. 278.1 sub-paragraph a) of the Commercial Companies Code.

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

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

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

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

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

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

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

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

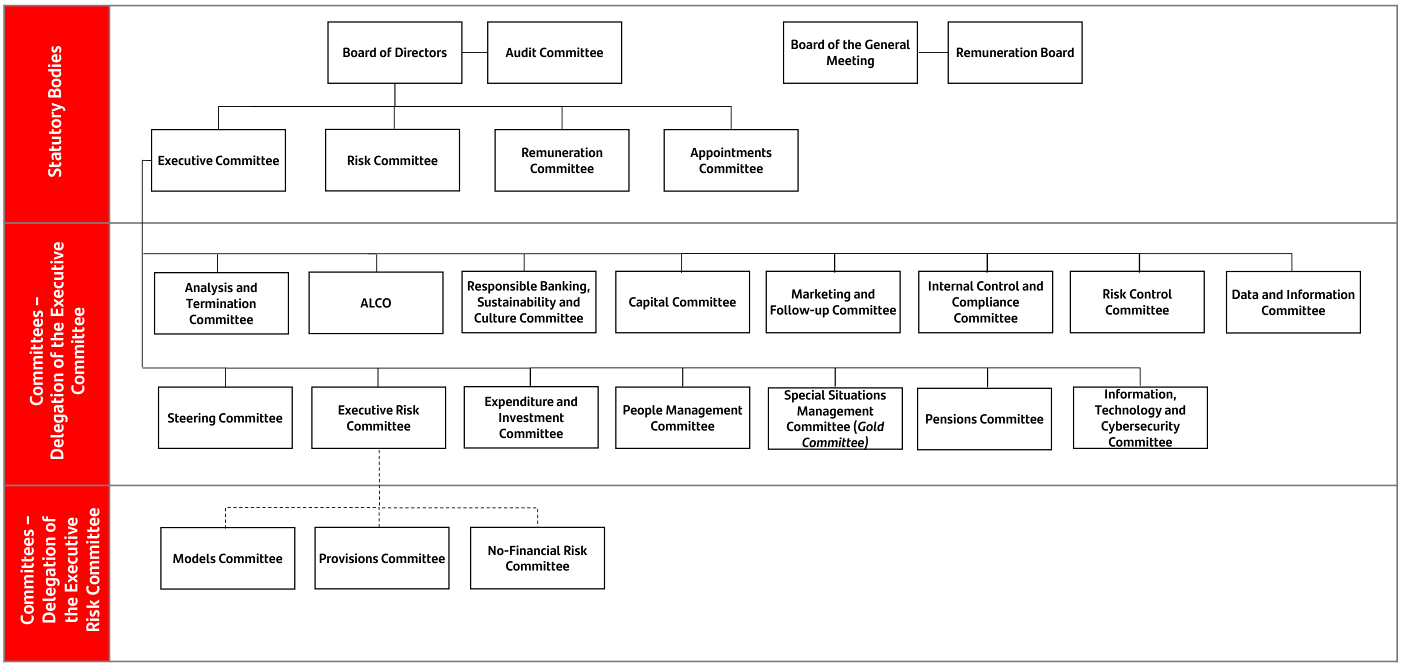
Minutes are drawn up from the meetings of the Governing Bodies and of the Committees, which help identify its participants in an adequate manner, including its Secretary, as well as adequately understand the matters dealt with therein, the deliberations adopted, any recommendations made, or matters that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

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

The organizational structure of the **Bank's Governance Model** in 2021 was as follows:

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

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


Statutory Bodies
Board of Directors
Audit Committee
Board of the General Meeting
Remuneration Board
Executive Committee
Risk Committee
Remuneration Committee
Appointments Committee
Committees – Delegation of the Executive Committee
Analysis and Termination Committee
ALCO
Responsible Banking, Sustainability and Culture Committee
Capital Committee
Marketing and Follow-up Committee
Internal Control and Compliance Committee
Risk Control Committee
Data and Information Committee
Steering Committee
Executive Risk Committee
Expenditure and Investment Committee
People Management Committee
Special Situations Management Committee (Gold Committee)
Pensions Committee
Information, Technology and Cybersecurity Committee
Committees – Delegation of the Executive Risk Committee
Models Committee
Provisions Committee
No-Financial Risk Committee

During the financial year of 2021, the composition of the governing bodies of the Bank was as follows:

BOARD OF THE GENERAL MEETING

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

BOARD OF DIRECTORS

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

AUDIT COMMITTEE

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

STATUTORY AUDITOR

PricewaterhouseCoopers & Associados, SROC, LDA., represented by José Manuel Henriques Bernardo(2)

(1) Lead Independent Director

(2) The Statutory Auditor in office, PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda., by communication dated May 11, 2021, appointed as its new representative, Mr Jose Manuel Henriques Bernardo

EXECUTIVE COMMITTEE

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

RISK COMMITTEE

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

REMUNERATION COMMITTEE

Chair:	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota
Members:	Daniel Abel Monteiro Palhares Traça
	Manuel Maria de Olazábal Albuquerque
	Maria Manuela Machado Costa Farelo Ataíde Marques
	Remedios Ruiz Macia

APPOINTMENT COMMITTEE

Chair:	Daniel Abel Monteiro Palhares Traça
Members:	Ana Isabel Abranches Pereira de Carvalho Morais
	Andreu Plaza Lopez
	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota
	Manuel Maria de Olazábal Albuquerque

SALARIES COMMITTEE

Chair:	Jaime Pérez Renovales
Member:	Roberto di Bernardini

COMPANY SECRETARY

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

On November 23, 2021, the General Shareholders' Meeting of Santander Totta, S. A. was held, and the election of the governing bodies was approved, including the members of the Board of the General Meeting, the Board of Directors, the Audit Committee, and the Audit Firm, for the three-year period 2022/2024.

These new members of the governing bodies will take office after the appropriate authorization or non-opposition is issued by the competent supervisory bodies.

As of the date of preparation of this report [March 29, 2022], the aforementioned authorization procedure had not yet been completed.

The governing bodies of Banco Santander Totta, S. A. for the three-year period 2022/2024 are the following:

BOARD OF THE GENERAL MEETING	
Chair	António Maria Pinto Leite
Deputy-Chair	Ricardo Andrade Amaro
Secretary	Company Secretary
BOARD OF DIRECTORS	
Chair	José Carlos Brito Sítima
Deputy-Chair	Pedro Aires Coruche Castro e Almeida
Members	Amílcar da Silva Lourenço
	Ana Isabel Abranches Pereira de Carvalho Morais
	Cristina Alvarez
	Daniel Abel Monteiro Palhares Traça
	João Pedro Cabral Tavares
	Isabel Cristina da Silva Guerreiro
	Manuel António Amaral Franco Preto
	Manuel Maria de Olazabal y Albuquerque
	Maria Manuela Machado Farelo Ataíde Marques
	Miguel Belo de Carvalho
	Remedios Ruiz Macia
	Ricardo Lopes da Costa Jorge
AUDIT COMMITTEE	
Chair	Ana Isabel Abranches Pereira de Carvalho Morais
Members	Daniel Abel Monteiro Palhares Traça
	João Pedro Cabral Tavares
	Manuel Maria de Olazabal y Albuquerque
	Maria Manuela Machado Farelo Ataíde Marques
STATUTORY AUDITOR	PricewaterhouseCoopers & Associados, Sociedade de Revisores Oficiais de Contas, Lda. represented by José Bernardo (Statutory Auditor)

General Meeting

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

All its members were elected by the Annual General Assembly held on December 13, 2018, for the 2019/2021 term, thus fulfilling the third and last year of their current term.

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

Voting by correspondence or sending by e-mail the information details referred to in Article 288.4 of the CCC, is not permitted.

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

On May 25, 2021, the Bank's Annual General Meeting was held. At this meeting, the management report, the balance sheet, and the separate and consolidated accounts for the financial year of 2020, including the corporate governance report and the non-financial statement were approved (Report of Responsible Banking).

The proposal for the application of profits for the same financial year was also approved, in the amount of € 275,209,923.92 (two hundred and seventy-five million, two hundred and nine thousand, nine hundred and twenty-three Euro and ninety-two cents), as follows:

- Legal Reserve: € 27 520 992,39 (twenty-seven million, five hundred and twenty thousand, nine hundred and ninety-two Euros and thirty-nine cents);

- Retained Earnings: € 247,688,931.53 (two hundred and forty-seven million, six hundred and eighty-eight thousand, nine hundred and thirty-one Euro and fifty-three cents).

It was also approved not to distribute dividends corresponding to the financial year of 2020, in accordance with the terms set out in the recommendation of the European Central Bank of December 15, 2020.

The following were approved: (i) the statement of the company's remuneration policy under the terms of Article 115-C.4 of the Legal Framework for Credit Institutions and Financial Companies; (ii) the internal policy for the selection and assessment of suitability, pursuant to Article 30-A of the Legal Framework for Credit Institutions and Financial Companies, and (iii) the Policy for the selection and appointment of Statutory Auditors and Audit Firms, and for contracting non-prohibited services different from auditing.

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

On November 23, 2021, the Bank held another General Shareholders' Meeting to approve the election of the Governing Bodies and the Audit Firm for the three-year period 2022 / 2024.

Board of Directors

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

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

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

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

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

There are also no special rules regarding the appointment and replacement of Directors, as well as regarding amendments to the Articles of Association, the General Law being applied to these matters.

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

All the members of the Board of Directors, in office in the financial year of 2021, were elected by the Annual General Meeting held on December 13, 2018, for the 2019/2021 term of office.

The Company Secretary was nominated by the Board of Directors on January 2, 2019, for the 2019/2021 term of office.

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

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

During 2021, the Bank's Board of Directors was comprised of fourteen members, eight non-executive (57%), and six executive (43%) members.

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

In 2021, the Board of Directors included six female members, representing 43% of the total of 14 members, and the Chairman of the Audit Committee — the Bank's supervisory body, which includes 5 members —, is a woman, thus the Bank fulfils the gender balance requirements and criteria regarding the composition of its Board of Directors.

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

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

Board of Directors	Body and Position	Capacity
José Carlos Brito Sítima	Board of Directors - Chairman	Non-Executive | Not independent
Pedro Aires Coruche Castro e Almeida	Board of Directors - Vice-Chairman Executive Committee - Chairman	Executive | Not independent
Amilcar da Silva Lourenço	Board of Directors - Member Executive Committee - Member	Executive | Not independent
Ana Isabel Abranches Pereira de Carvalho Morais	Board of Directors - Member Audit Committee - Chairman Appointment Committee - Member	Non-Executive | Independent
Andreu Plaza Lopez	Board of Directors - Member Appointment Committee - Member	Non-Executive | Not independent
Daniel Abel Monteiro Palhares Traça	Board of Directors - Member Audit Committee - Member Risk Committee - Member Remuneration Committee - Member Appointment Committee - Chairman	Non-Executive | Independent
Inês Oom Ferreira de Sousa	Board of Directors - Member Executive Committee - Member	Executive | Not independent
Isabel Cristina da Silva Guerreiro	Board of Directors - Member Executive Committee - Member	Executive | Not independent
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	Board of Directors - Member Audit Committee - Member Remuneration Committee - Chairman Appointment Committee - Member	Non-Executive | Independent
Manuel Maria de Olazábal Albuquerque	Board of Directors - Member Audit Committee - Member Risk Committee - Chairman Remuneration Committee - Member Appointment Committee - Member	Non-Executive | Independent
Maria Manuela Machado Farelo Ataíde Marques	Board of Directors - Member Audit Committee - Member Risk Committee - Member Remuneration Committee - Member	Non-Executive | Independent
Manuel António Amaral Franco Preto	Board of Directors - Member Executive Committee - Vice-Chairman	Executive | Not independent
Miguel Belo de Carvalho	Board of Directors - Member Executive Committee - Member	Executive | Not independent
Remedios Ruiz Maciá	Board of Directors - Member Risk Committee - Member Remuneration Committee - Member	Non-Executive | Not independent

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

And under the terms of Article 407 of the Commercial Companies Code, and of Article 17 of the Bank's Articles of Association, it has also appointed three other specialized committees to permanently monitor specific matters: the Risk Committee, the Remuneration Committee, and the Appointment Committee.

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

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

- Approval of the Bank's business strategy and objectives;
- Approval of budgets and medium-term financial planning instruments;
- Expansion of the Bank's business to new geographies or markets;

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

Although the Board meetings follow a calendar defined annually (FLA), new topics can be added to the agenda, and extraordinary meetings can be called, in accordance with its Regulation.

Without prejudice to the provisions of the Bank's Articles of Association and of the Regulations of the Board of Directors, throughout 2021, the members of the Board of Directors were regularly informed about the evolution of the coronavirus pandemic - Covid-19 in the Bank, and about the decisions taken to mitigate its impact on the Bank, as well as on the global economy, on employees, customers, and on the general public.

Likewise, and because in 2021 the Bank continued to develop its strategic plan for digital transformation, and intensified the Group's process of One Europe Santander, the Board of Directors ensured that it was regularly informed on the activities carried out by the Bank to achieve its goals, as set within the scope of its strategic plans.

In February 2021, the Board of Directors updated its Regulations in accordance with Bank of Portugal Notice No. 3/2020.

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

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

During the financial year of 2021, it met twelve times, and for reasons arising from the pandemic situation, the meetings were held through telematic means.

The Company Secretary acted as the secretary of all such meetings. The minutes of all these meetings were duly prepared, approved and signed.

The Regulations of the Board of Directors are available on the Bank's intranet and website at: https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade

Audit Committee

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

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

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

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

The members of the Bank's Audit Committee were elected by the Annual General Assembly held on December 13, 2018, for the 2019/2021 term, thus fulfilling the third and last year of their current term.

During the financial year of 2021, the Audit Committee was comprised of 5 members, a Chairwoman plus four members, all of its members being qualified as independent.

As the Bank's supervisory body, it is awarded the powers provided for in Article 423-F of the CCC, in Article 18 of the Articles of Association, and in its own Regulation.

The Audit Committee is responsible for, among other aspects:

a) Monitoring and supervising the Bank's management;
b) Monitoring compliance with the legal and corporate rules that govern the Bank's activity;
c) Monitoring and supervising the process of preparation and disclosure of financial information, including the regularity and accuracy of accounting books, records and documents, as well as for submitting recommendations to ensure their reliability;
d) Checking whether the accounting policies and valuation criteria adopted by the Bank lead to a correct assessment of assets and results;
e) Supervising and monitoring the effectiveness of activities within the scope of organizational culture and government and internal control systems, in conjunction with internal control functions, regularly reviewing and monitoring the risk information reports prepared by the Chief Risk Officer (CRO), the follow-up reports on Compliance activity, prepared by the CCO, the internal audit plan and its execution, as prepared by the CAE;
f) Receiving reports on irregularities submitted by shareholders, Bank employees and others, and carrying out the respective monitoring;
g) Supervising the activity of the Statutory Auditor (ROC) related to auditing the Bank's accounting documents, and supervising the independence of the Statutory Auditor, namely in the provision of additional services.

Pursuant to Article 4 of the Audit Committee Regulations, the Chairman must annually report to the Board of Directors on the various activities carried out by the Committee and the expenses it incurs.

Likewise, the Audit Committee must inform the Board of Directors of the relevant accounting changes and their effects, and on the conclusions and recommendations obtained from the internal audit function, including any recommendations related to the scarcity of resources allocated to certain functions.

The Audit Committee is also responsible for reviewing, along with the Board of Directors and/or the Executive Committee, any relevant matters related to compliance of the Bank's activity and business with the applicable legal, regulatory and statutory provisions, as well as with the instructions, recommendations, and guidelines issued by the competent authorities.

The Audit Committee meets regularly with the External Auditors, with the Chief Audit Officer (CAE), the Chief Risk Officer (CRO), the Chief Compliance Officer (CCO), and with the Controller (the head of Accounting). Without prejudice to the administrative and hierarchical reporting to the Chairman of the Board of Directors, the CAE functionally reports to the Audit Committee.

In the financial year of 2021, the Audit Committee had the following composition:

Chair: Ana Isabel Abranches Pereira de Carvalho Morais

Members: Daniel Abel Monteiro Palhares Traça

Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota

Manuel Maria de Olazábal Albuquerque

Maria Manuela Machado Costa Farelo Ataíde Marques

The main activities of the Audit Committee in 2021 were the following:

Monitoring the management and evolution of the Bank's business	The Audit Committee monitored the Bank's management, operations and business developments during its meetings; by attending meetings of the Board of Directors; by accessing all quarterly and annual documentation and information on the Bank's activity and results, and other relevant documentation; and through regular contacts with its various officers.
	It also monitored the following topics: variable remuneration of control functions, response letter to the European Central Bank on Identification and Measurement of Credit Risk within the context of COVID-19; underlying vision of the Cyber 2025 strategy; climate change and trends in non-financial information; models; stress scenarios that the Bank uses in each of its financial years.
Monitoring and inspection of the process of preparing and disclosing financial information	It monitored, on a quarterly basis, the process of preparing and disclosing the Bank's financial information, the management report and accounts for the year ended on December 31, 2020, and the Committee also assessed the Legal Certification of Accounts and the Additional Report submitted by the Statutory Auditor; it issued its opinion on the 2020 Annual Report and Accounts; and approved the Audit Committee's Annual Report for the financial year of 2020.
	A status report on accounting and financial management matters was regularly submitted, including: analysis of the credit portfolio and credit impairment, namely the classification of credits by stages and the impact of the pandemic; analysis of moratoria and recoveries; deficiencies detected in the internal financial control system and accounting system, and status of implementation of corrective measures; disclosure duties and prudential reporting; analysis of the main management judgments and estimates, namely those relating to deferred taxes and pension funds.
	The Audit Committee also reviewed the Bank's liquidity, capital and efficiency ratios.
Supervision of the effectiveness of activities within the scope of organizational culture and governance and internal control systems, covering risk management and control, compliance, and internal audit.	It monitored the effectiveness of the internal control system. It reviewed the self-assessment report, including the reports of the risk management, compliance and internal audit functions, and the activity plans of the control functions, and issued its assessment, in accordance with Article 56.1 subparagraph c), of Notice No. 3/2020 of the Bank of Portugal.
	It monitored the Risk Management activity, appreciating the activity carried out by the CRO, namely that reflected in the reports on the evolution of the main risk indicators (the main indicators, Top Risks, risk profile, and risk appetite). The CISO (Chief Information Security Officer) also presented the investment plan and general cybersecurity governance, metrics, and general risk limits. The Audit Committee also took note of the results of the Assessment and Certification of Risks and Controls of the Internal Control Model.
	It monitored the evolution of the Compliance area's activity, including the new products approved; the implementation of the General Data Protection Regulation; the review of the General Code of Conduct and of the Securities Market and Global Compliance Policy; the transformation and strategy of the area devoted to Prevention of Money Laundering and Financing of Terrorism (KYC, WLM, and ALM) — Follow-up of recommendations and determinations regarding sanctions (WLM); the summary of legal contingencies; the Related Party Transactions Policy, and the list of related parties and related party transactions (submitted every quarter); the Remuneration policy for credit intermediaries;

	the Policy for granting and restructuring credits to debtors or groups of debtors at increased risk; the Credit risk management policy — moratoria; and the social, environmental and climate risk management policy, and the updating of the regulatory risk tree.
	It monitored the status of customer complaints on a quarterly basis.
	It monitored the Internal Audit activity, in particular: it supervised the internal audit function, ensuring its independence and effectiveness; it was informed about the execution of the internal audit plan, allowing for an extensive control over the internal audit's recommendations; it was informed about the reports issued by internal audit, it assessed the conclusions of the audits carried out, and monitored the deadlines and the degree of compliance with the recommendations; it was informed of the results of the Internal Audit Internal Quality Management System.
	It was regularly informed of the most relevant correspondence exchanged between the Bank and the national and European supervisory entities, having asked the Executive Committee and the relevant Committees for clarifications deemed necessary. It also followed up on the progress reports on initiatives to mitigate short comings and discrepancies on the implementation of recommendations identified by supervisors.
Supervision and monitoring of the Statutory Auditor's activity	It was informed of the Audit Plan submitted by PwC; it carried out a critical analysis of the procedures implemented by the auditors and the respective conclusions regarding the closure of accounts for the financial year of 2020, in accordance with the Portuguese Securities Market Commission (CMVM) Circular Letter to the supervisory bodies of entities of public interest, dated December 18, 2020; it issued a positive opinion regarding the review of the Policy for the Selection and Appointment of Statutory Auditors and Audit Firms, and for the Contracting of Non-Prohibited Services Different from Auditing; it carried out the annual monitoring of the professional performance of external auditors; it was informed about the status of the recommendations made by external audit and regulators; it reviewed the scope and approach of the internal control work for 2021, under Notice No. 3/2020 of the Bank of Portugal.
	It approved the provision of additional services, other than auditing services, under the terms of paragraphs 10 and 11 of Article 77 of the Statute of Statutory Auditors, after prior verification of their suitability. In particular, it considered: (i) that the services in question could not be included in the list of prohibited services, and would not constitute a threat to the independence and objectivity of the Statutory Auditor within the context of the statutory audit work; (ii) that the amounts of fees proposed did not exceed the limits of fees for services other than auditing legally provided for; (iii) that the services different from auditing contracted to PwC were justified by their experience in the development of similar works, and thus the conditions were met for such work to be provided with independence and objectivity.
Reappointment of the Statutory Auditor	Under the terms of the Policy for the selection and appointment of Statutory Auditors and Audit Firms, and for contracting non-prohibited services by the Bank, other than auditing, the Audit Committee endeavoured to assess the performance of the Bank's Statutory Auditor and reviewed its adequacy, having concluded that a proposal be submitted to the Annual General Meeting for renewing the mandate of the Bank's Statutory Auditor, namely PricewaterhouseCoopers & Associados - Sociedade de Revisores Oficiais de Contas, Lda., represented by José Bernardo, Statutory Auditor, for the three-year period 2022-2024.
Reporting of irregularities	It assessed the proper functioning of the irregularities reporting channel on a regular basis. The Audit Committee followed up on the complaints received. Detailed information on the complaints received and the respective processing are included in a specific report, in accordance with the provisions of Article 116-AA.7, of the Legal Framework for Credit Institutions and Financial Companies.

The Audit Committee meets at least once every two months, and whenever the Chairman or any of the other members so requests.

During the financial year of 2021, it met nineteen times, and for reasons arising from the pandemic situation, the meetings were held through telematic means.

The Bank's Internal Government served as the secretary for this Committee, and provided it with logistical and technical support. Minutes of all meetings were duly drafted, approved and signed.

The Regulations of the Audit Committee, upadated in February 2021, are available on the Bank's intranet and website at: https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade

Executive Committee

Pursuant to Article 16 of the Articles of Association, the Board of Directors appointed an Executive Committee composed of six of its members and entrusted on it the management of the Bank, while safeguarding the powers that the Law or the Articles of Association keep for the Board of Directors, plus those that the Board of Directors reserves for its competence (those contained in the Regulations of the Board of Directors), and those that are delegated to other committees (Risk, Remuneration and Appointment Committee).

The Executive Committee meets weekly or whenever called by its Chairman, by two other members, or by the Chairman of the Board of Directors.

As part of its internal organization, the Executive Committee assigned certain matters (Portfolios) to each of its members.

And to assist the Executive Committee, several Committees and subcommittees have been appointed which, in addition to one or two Executive Directors, also include the Bank's first-line reporting officers on a permanent basis.

As of December 31, 2021, the distribution of Portfolios among the members of the Executive Committee was as follows:

Pedro Castro e Almeida **Chairman of the Executive Committee | CEO**	Communication and Corporate Marketing; CEO Staff; People Management; New Normal; General Secretariat; Compliance[1] and Risk Management[1]. *Add the area identified below in Agile Areas*
Manuel Franco Preto **Deputy Chairman | CFO**	Accounting and Management Control; Strategy, Financial Planning and Economic Research; Tax; Financial and Capital Management; Procurement and Costs; Real Estate; Organization. *Add the areas identified below in Agile Areas .*
Miguel Belo de Carvalho	North Commercial Area; South and Islands Commercial Area; Corporate & Investment Banking. *Add the areas identified below in Agile Areas and Standard Areas with Agile blocks.*
Inês Oom de Sousa	Payments; Savings and Investment; Responsible Banking; Marketing; Private Banking; Public Relations; Universities. Relationship with Grupo Santander Totta Seguros and Santander Asset Management. *Add the areas identified below in Agile Areas and Standard Areas with Agile blocks.*
Isabel Guerreiro	Technology and Operations. *Add the areas identified below in Agile Areas*
Amílcar Lourenço	Inspection; Responsible for money laundering prevention issues. *Add the areas identified below in Agile Areas and Standard Areas with Agile blocks.*

[1] Risks and Compliance and Conduct report administratively and operationally to the Chairman of the Executive Committee and report functionally to the Risk Committee and Santander Group

AGILE AREAS

Business Tribes

a) **Distribution *Omnichannel***: portfolio shared between Miguel Belo de Carvalho and Isabel Guerreiro (Próximo), Manuel Preto and Miguel Belo de Carvalho (Distribution Structure, Customer Knowledge and Digital Performance).

b) **Commercial Management and Effectiveness**: Miguel Belo de Carvalho

c) **House Buying**: Manuel Preto

d) **Personal loans**: Manuel Preto

e) **Protection**: portfolio shared between Inês Oom de Sousa and Isabel Guerreiro;

f) ***Daily Banking***: portfolio shared between Inês Oom de Sousa and Manuel Preto;

Building Block Tribes

a) **Irregularities, Recoveries and Divestment (I&R)**: portfolio shared between Amílcar Lourenço and Isabel Guerreiro, and with the participation of Alfredo Fernández, CRO;

b) ***Data and Analytics***: Isabel Guerreiro;

c) **Models**: Isabel Guerreiro;

d) **Customer Experience**: Pedro Castro e Almeida;

e) **Digital Channels and Squad Management**: Isabel Guerreiro.

Centres of Excellence

a) **End-to-End**: Isabel Guerreiro

b) **Automation**: Isabel Guerreiro

c) **Processes**: Isabel Guerreiro and Manuel Preto

STANDARD AREAS WITH AGILE BLOCKS

a) **Corporate Segment**: shared portfolio between Miguel Belo de Carvalho, Amílcar Lourenço and Inês Oom de Sousa, including the areas of:

(i) Corporate and Protocoled Credit,
(ii) Factoring and Confirming,
(iii) Transactional Banking,
(iv) International Business,
(v) Promotion of Construction and
(vi) Special Projects.

The Executive Committee looks after the Bank's day-to-day management as assigned to it by the Board of Directors. Thus, the assignment of portfolios only implies the responsibility of monitoring each area indicated for the purposes of administrative, functional or hierarchical reporting, and does not imply delegating any concrete powers for performing any management acts, which are decided within the Bank's own committees or by the Executive Committee or Board of Directors.

The Chairman of the Executive Committee conducts the respective meetings, has a casting vote, and in addition to the responsibility for the respective areas of responsibility, he/she must:

- Ensure that all information is provided to the other members of the Board of Directors regarding the activity and the resolutions of the Executive Committee;
- Ensure compliance with the limits of the delegation of powers, with the company's strategy, and with the duties of collaboration before the Chairman of the Board of Directors.
- Coordinate the activities of the Executive Committee, conducting the respective meetings and watching over the implementation of the resolutions.

During the financial year of 2021, the Executive Committee met 46 times and the Company Secretary served as its secretary. Minutes of all meetings were duly drafted, approved and signed.

The Regulations of the Executive Committee, updated in March 2021, are available on the Bank's intranet and website at: https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade

Committees created within the Board of Directors

The Board of Directors also includes the Risk Committee, comprised of four members of the Board of Directors without executive functions, the Remuneration Committee and the Appointment Committee, each composed of five members of the Board of Directors without executive functions.

The committees were established by the Board of Directors in accordance with Articles 115-L, 115-B and 115-H of the General Regulation of Credit Institutions and Financial Companies, and each has its own Regulation, duly approved by the Board of Directors.

a. Risk Committee

The Risk Committee is composed of non-executive members from the Board of Directors, with a minimum of three and a maximum of seven. The members of the Committee, including its Chairman, are appointed by the Board of Directors, the majority of whom must qualify as independent and must have relevant experience in matters related to risk management. Its Chairman will not take on the position of Chairman of the Board of Directors, or Chairman of any other committee. But all members will be able to integrate other Bank Committees, compatible with their position.

The *Chief Risk Officer* and the *Chief Compliance Officer* are present at all Risk Committee meetings, to which they report functionally, without prejudice to their administrative and operational reporting to the Chairman of the Executive Committee.

Among the Risk Committee's competences, the following stand out: advising the Board of Directors on the Bank's general, current and future risk appetite and risk strategy; supporting and advising the Board of Directors on the definition and assessment of risk policies that affect the Bank; supporting and advising the Board of Directors in matters of Regulation and Supervision, by monitoring the statements or reports issued by supervisory entities, by reviewing the capital planning exercises, by participating in the approval and changes to the Compliance policy, to the General Code of Conduct, to procedures related to the prevention of money laundering and the financing of terrorism and of other Models, Policies or Procedures, which must be approved by the Board of Directors.

The Committee, through its Chairman, shall submit periodic written reports on its activities to the Board of Directors.

The main activities of the Risk Committee in 2021 were the following:

- Balance of activity of the Risk Area 2020
- Risk Appetite 2021 - Annual Formulation 2021
- Analysis of the conditions of products and services offered to customers according to the Bank's business model and risk strategy.
- Variable remuneration of the control functions
- Executive Risk Report, submitted monthly
- Status of Regulatory Models
- Credit Risk Management Policy - Moratoria
- Annual self-assessment report on the organizational culture, governance and internal control systems
- Compliance Executive Summary, submitted monthly
- Balance of activity of the Compliance Area 2020
- IT Strategy: Technology Development Programme
- Policy for Granting and Restructuring Credits to Debtors or Groups of Added Risk Debtors
- ESG Risk Management
- Objectives of the Chief Compliance Officer - CCO
- Resource analysis of the Compliance Function and of the Risk Management Function
- Summary of Reputational Risk management activity
- Status of Supplier Risk
- Capital Self-Assessment and Liquidity Self-Assessment Reports (ICAAP/ILAAP)
- Risk Regulations Status
- Social, Environmental and Climate Risk Management Policy
- Status of the Credit Portfolio
- Remuneration policy incentives taking into account risk, capital, liquidity, and expectations regarding results

- Updating the code of conduct and corporate policies on compliance
- Status of implementation of the General Data Protection Regulation
- Transformation and strategy of the Prevention of Money Laundering and Financing of Terrorism area
- Status of Moratoria
- Status of Strategic Plans 2021
- Status of the Climatic Stress Test
- Report of the Head of the Risk Management function
- Compliance Report
- Annual CRO and CCO assessment
- Annual self-assessment report on the organizational culture, governance and internal control systems,
- and of internal control (Notice 03/2020)

In 2021, the Risk Committee had the following composition:

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

The Risk Committee meets at least four times a year. In 2021 it met twelve times, the Bank's Internal Government served as the secretary for this Committee, and provided it with logistical and technical support. Minutes of all meetings were duly drafted, approved and signed.

The Regulations of the Risk Committee, updated in February 2021, are available on the Bank's intranet and website at: https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade

b. Remuneration Committee

The Committee is composed of non-executive members of the Board of Directors, with a minimum of three and a maximum of seven. The members of the Committee, including its Chairman, are appointed by the Board of Directors, the majority of whom must qualify as independent and have professional experience and adequate knowledge for the performance of their duties, namely in remuneration, management and risk control policies, with regard to the mechanism for aligning the remuneration structure with the Bank's risk and capital profile. All its members are allowed to belong to other Bank Committees, compatible with their position.

The Remuneration Committee is generally responsible for assessing the remuneration policy and practices. Among its competences, the following stand out: it is responsible for preparing decisions on remunerations that will be adopted by the competent bodies, namely with regard to the fixed and variable remunerations of the members of the management body and other identified employees; for providing support and advice on the design of the institution's remuneration policy, presenting proposals on its content; for ensuring the adequacy of the information provided to shareholders on remuneration policies and practices, namely in terms of a higher ratio; for directly supervising the remuneration of senior management positions.

The Committee, through its Chairman, shall submit periodic written reports on its activities to the Board of Directors.

The main activities of the Remuneration Committee in 2021 were the following:

- Guidelines on Good Practices for Variable Remuneration of the Sales Force
- Annual review of the implementation of the Bank's remuneration policy
- Evaluation of the mechanisms that ensure the correct implementation of the remuneration system
- Annual review of the remuneration policies of subsidiaries
- Definition of the identified collective
- Approval of declarations and proposals to be submitted to the General Meeting regarding remunerations
- Remuneration policy for the Bank's Directors and leading managers
- Annual report of indicators of the Remuneration Policy of the sales force
- Review of the remuneration of members of the Executive Committee
- Monitoring of the application of Malus and Clawback clauses

- Assessment of the Chief Executive Officer (CEO)

In 2021, the Remuneration Committee was composed as follows:

Chair: Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota

Member: Daniel Abel Monteiro Palhares Traça

Manuel Maria de Olazábal Albuquerque

Maria Manuela Machado Costa Farelo Ataíde Marques

Remedios Ruiz Macia

The Remuneration Committee meets at least four times a year. In 2021 it met twelve times, the Bank's Internal Government served as the secretary for this Committee, and provided it with logistical and technical support. Minutes of all meetings were duly drafted, approved and signed.

The Regulations of the Remuneration Committee, updated in February 2021, are available on the Bank's intranet and website at: https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade

c. Appointments Committee

The Committee is composed of non-executive members of the Board of Directors, with a minimum of three and a maximum of seven. The members of the Committee, including its Chairman, are appointed by the Board of Directors, the majority of whom must qualify as independent and have adequate knowledge to perform the duties of their position, namely in terms of the Bank's business and strategy, on selection and appointment processes, both internally and externally, as well as in the preparation of adequacy processes with the supervisor.

The Appointments Committee is generally responsible for periodically evaluating the members of the management and supervisory bodies, as well as their succession. Among its competences, the following stand out: identification and recommendation of candidates to carry out positions in the management and supervisory body and its Committees; setting a goal in terms of gender representation; periodically evaluate the structure, size, composition, and performance of the management bodies, at least annually; ensuring that the members of the Board of Directors comply with the duties established in the laws and regulations that directly apply to them; advising the Board of Directors regarding matters of internal governance, assisting in the process of adapting the entity's internal governance systems.

The main activities of the Appointment Committee in 2021 were the following:

- Final review of the Bank's Succession Plans
- Monitoring of individual training plans for the Board of Directors
- Monitoring of Policies and Procedures
- Individual and collective assessment of the Governing Bodies
- Review of the CEO succession plan
- Review of the suitability of the members proposed for the 2022-2024 term

In 2021, the Appointments Committee was composed as follows:

Chair: Daniel Abel Monteiro Palhares Traça

Members: Ana Isabel Abranches Pereira de Carvalho Morais

Andreu Plaza Lopez

Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota

Manuel Maria de Olazábal Albuquerque

The Appointments Committee meets at least four times a year. In 2021 it met five times, the Bank's Internal Government served as the secretary for this Committee, and provided it with logistical and technical support. Minutes of all meetings were duly drafted, approved and signed.

The Regulations of the Appointments Committee, updated in February 2021, are available on the Bank's intranet and website at: https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade.

Committees of the Executive Committee

Committees are internal structures for the delegation of powers by the Executive Committee, which also approves their name, structure, composition and powers.

There are several interdisciplinary Committees that monitor and control the entire activity of the institution at executive level:

- Analysis and Termination Committee: whose responsibilities are the Prevention of Money Laundering and Financing of Terrorism.

  Chair: Amílcar Lourenço | Executive Director

- Assets and Liabilities Committee (ALCO Committee): its aim is to manage structural market and liquidity risk, establish contingency plans, promote hedging strategies, decide on strategic positions, in order to optimize the financial margin and return on equity.

  Chairman: Pedro Castro e Almeida | CEO

- Responsible Banking, Sustainability and Culture Committee: ensures the integration of sustainability into the Bank's business model, defining and monitoring the strategic plans for social responsibility, in conjunction with the Group's corporate plans.

  Chairman: Pedro Castro e Almeida | CEO

- Capital Committee: ensures the supervision, authorization and evaluation of all aspects related to the Bank's capital and solvency.

  Chairman: Pedro Castro e Almeida | CEO

- Internal Control and Compliance Committee: its aim is to monitor and supervise Internal Control, Compliance and Risk Management policies, being responsible for compliance with the applicable laws and regulations, and with the rules, principles and objectives set by the Board, and to follow up on recommendations within the scope of Internal Control.

  Chairman: Pedro Castro e Almeida | CEO

- Risk Control Committee: It is responsible for supervising and controlling risks, ensuring that they are managed according to the degree of risk appetite approved by the Board of Directors, while permanently ensuring a comprehensive view of the risks identified in the General Risk Framework, considering to this end, the identification and monitoring of current and future risks and their impact on the risk profile of the Santander Portugal Group.

  Chairman: Alfredo Fernandez | CRO

- Data and Information Committee: It is responsible for overseeing and ensuring the creation of business value through the responsible use of data and the strict management and governance of data, monitoring the quality of such data.

  Chair: Isabel Guerreiro | Executive Director

- Steering Committee: Its main objective is the general monitoring of the Bank's activity.

  Chairman: Pedro Castro e Almeida | CEO

- Executive Risk Committee: It is the highest risk decision-making body, in accordance with the risk governance model approved by the Board of Directors, exercising the powers delegated on it by the Executive Committee.

  Chairman: Pedro Castro e Almeida | CEO

- People Management Committee: its main objective is to implement the Bank's People Management strategy.

  Chairman: Pedro Castro e Almeida | CEO

- Special Situations Management Committee (*Gold Committee*): Its main objectives are the management of Special Situations within the scope of assigned responsibilities, and providing support to the competent authorities in a Termination event.

  Chairman: Pedro Castro e Almeida | CEO

- Models Committee: It is responsible for monitoring the exposure and profile of the risk model at Grupo Santander in Portugal, with a view to ensuring that it fits within the approved risk appetite. Its powers are delegated by the Executive Risk Committee.

  Chairman: Pedro Castro e Almeida | CEO

- Pensions Committee: It monitors the Bank's responsibilities with retirement and survivors' pensions and the management of assets of associated funds, in accordance with the legislation applicable to the corporate pension policy.

  Chairman: Pedro Castro e Almeida | CEO

- Provisions Committee: Its aim is to ensure that the financial statements reflect the best estimate of provisions for each closure of accounts, conducting the supervision and coordination of the actors involved in their calculation. Its powers are delegated by the Executive Risk Committee.

  Chairman: Pedro Castro e Almeida | CEO

- Non-Financial Risks Committee: It is responsible for monitoring the operational risk exposure and profile at the Santander Portugal Group, with a view to ensuring that it fits within the approved risk appetite. Its powers are delegated by the Executive Risk Committee.

  Chairman: Alfredo Fernandez | CRO

- Information Technology and Cybersecurity Committee: It assesses and / or approves IT strategy proposals; monitors the strategic IT plan; monitors cybersecurity risk and evaluates initiatives to mitigate risks.

  Chair: Isabel Guerreiro | Executive Director

IV - Internal Control and Risk Management System

The Bank has implemented Notice No. 3/2020 and Instruction No. 18/2020 of the Bank of Portugal, and Regulation No. 9/2020 Risks of the Securities Market Commission (CMVM), taking into account the requirements relating to the Risk Management System contained in those rules, and related to Internal Control, as well as those established by Directive No. 2013/36/EU, of June 26 2013 (CRD IV)· which were transposed to the Legal Framework for Credit Institutions and Financial Companies, and the guidelines of the European Banking Authority (EBA) regarding their application.

Since 2006, the Bank, like the Group to which it belongs, has been complying with the requirements of the United States of America Sarbanes Oxley Law (the SOX Law), a rule that the Securities Exchange Commission (SEC) has made mandatory for entities listed on the New York Stock Exchange, and which is one of the most demanding in terms of requirements for an adequate and reliable Internal Control Model.

It should also be noted that the Bank is implementing the revised EBA Internal Governance guidelines (EBA/GL/2021/05).

An adequate Internal Control Model requires the complete documentation and regular updating of operational procedures, with a detailed description thereof from the beginning to the recording and accurate accounting, the identification of relevant risks associated with those procedures, and the identification of key mitigating control procedures. Periodic tests of effectiveness are carried out to identify failures in the Internal Control System, and to take the appropriate corrective measures, allowing the continued focus on the main objectives in this area.

The system implemented by the Bank is organized in such a way as to promote an appropriate control environment and a solid risk management system, and allows the continued focus on the main objectives in this area, namely:

- The existence of an adequate, effective organizational culture based on high ethical and conduct standards for its employees;
- The existence of an organizational structure that includes the Bank's governing bodies and respective committees, ensuring that it is defined in an integrated, objective, transparent and understandable way;
- The definition of a long term sustainable strategy for the Bank's activity, for its risk profile, and for the internal control system;
- Control of risks arising from the institution's activity, namely credit, market, interest rate, operational, liquidity, business financing model, and internal governance risks, as well as other risks, namely reputational and compliance risks;
- Ensure the existence and security of assets;
- Compliance with the prudential rules in force;

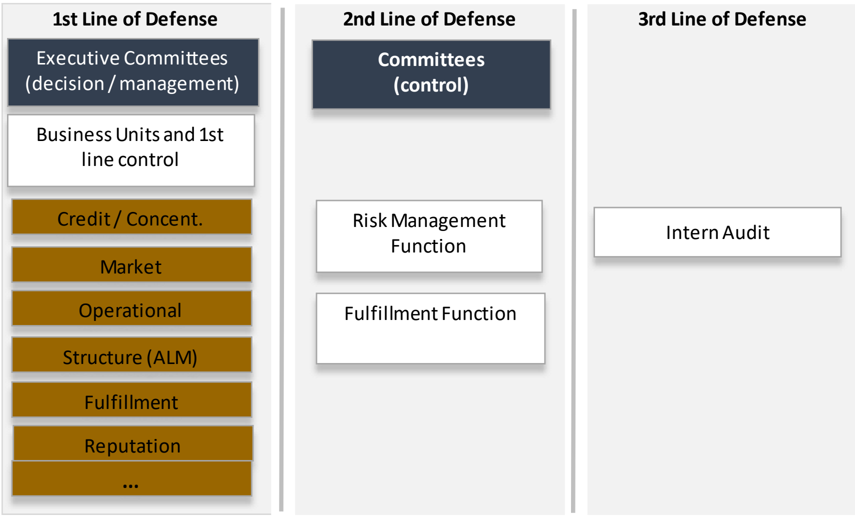
- The existence of complete, reliable and timely accounting and financial information, in particular with regard to its registration, conservation and availability;
- The provision of reliable, complete and timely financial information to supervisory authorities;
- The prudent and adequate valuation of assets and liabilities, namely for the purpose of setting up provisions;
- The adequacy of the operations carried out by the institution regarding other applicable legal, regulatory and statutory provisions, internal rules, guidelines of the governing bodies, rules and professional uses and ethics, and regarding other rules relevant to the institution;
- The adequacy of the remuneration policies.

The Board of Directors is responsible for promoting a risk management system, an internal control environment, and a risk culture which, more than complying with legal requirements for conducting its business, are essential to ensure effective management.

Policies and procedures are specifically defined and implemented with respect to all risks referred to in the aforementioned Bank of Portugal Notice.

Such policies and procedures are available and are easily accessible to all employees through their disclosure in a dedicated area of the Bank's Intranet system.

The Bank is organised based on **three lines of defence**, the first of which consists of the business and support areas responsible for managing, approving, following-up on and properly reporting the risks generated. The second line consists of the internal control functions (Compliance and Risk Management), which, together with the governance model organisms dedicated to risk control and supervision, seek to ensure the monitoring and smooth functioning of the risk management system so that risk remains within the limits defined by the risk appetite. The third line consists of Internal Audit.



In accordance with this Governance Model, **top management** is the first guarantor of internal control, checking and monitoring its operation with metrics and controls, which they report to the Executive Committees. These Executive Committees have, as a rule, delegated powers from the EC or CER, and decisions are always collegial. The first heads of each business or control area also make periodic reports, usually on a monthly basis, to the EC.

In addition, but by departments of the **second line of defence**, several reports of aggregated information are monitored in various Control / Follow-up Committees. These Committees, in addition to being primarily responsible for the first line control areas, generally include the presence and intervention of one or more control functions (Compliance, Risk Management, and Internal Audit).

The Control/Monitoring Committees also monitor the recommendations made by all internal or external entities, even if they are recommendations for improvement. Thus, an important reinforcement of activity control is achieved, which greatly contributes to the internal control environment. The Risk Management and Compliance Functions closely monitor the activities, areas or projects they deem necessary with complete freedom of action.

Also, within the scope of the second line of defence, reference should be made to the objective of seeking to test the material impact of adverse economic situations such as stress test exercises, self-assessment of internal capital (ICAAP), self-assessment of liquidity (ILAAP), and Liquidity Recovery or Contingency Plans, which seek to assess the Bank's resilience in terms of liquidity adequacy and capital sufficiency.

The internal audit activity is performed in the **third line of defence**, which, with an action plan and own processes, checks the robustness of the systems and controls implemented, making suggestions for improvement and monitoring their implementation.

It is also worth considering the contribution of the remarks and recommendations emanating from external entities such as the External Auditors, Regulators and Supervisors in their inspection activities, which, on the one hand, contribute to strengthening internal control, and, on the other hand, certify the quality thereof.

Main players in the Internal Control System

Risk Management Function

The Risk Management Function (RMF) is horizontal across the entire Santander Totta Group. This function is embodied in the so-called Risk Area, under the exclusive responsibility of the Chief Risk Officer (CRO).

The general mission of this function is the effective implementation of the risk management system, aiming to assess the relevance of the risks incurred and the degree of effectiveness of the measures adopted to control, mitigate and overcome them. EBA's Internal Government guidelines (EBA/GL/2021/05), in turn, reinforce and deepen in detail the main attributions of the Risk Management Function (RMF) and its responsible head within the scope of the internal control functions. In addition, Capital Requirements Regulation (CRR) No. 575/2013 (EU), Capital Requirements Directive 2013/36/EU (CRDIV), and Directive 2014/59/EU constitute the basis of the legal framework for the activity of credit institutions and financial companies, and has been transposed to the General Regime of Credit Institutions and Financial Companies (RGICSF). More specifically, Article 115-M of the RGICSF determines the role of the Risk Management Function in ensuring the identification, assessment and appropriate reporting of all material risks, in reporting the strategy and decisions regarding the management of material risks, and in the independence and exemption from conflicts of interest of the person responsible for the RMF.

The RMF was established and performs its duties with the highest level of independence, that is, without being directly responsible for any business function, or for first-line control or execution over the activities to be assessed.

This function was given the broadest powers in order to conduct its supervisory activity, which is based on the law and on the application of the following principles and duties:

- It has significant influence on decisions that affect the Bank's exposure to different Risks, being provided with sufficient internal recognition, authority, autonomous judgment and independence of business activities. It takes part in key decision-making processes, providing a risk perspective and ensuring the existence of effective risk management processes;
- It has direct, independent access to the Risk Committee, to the Board of Directors, to the Audit Committee, and to the committees reporting to those bodies on its own initiative or on the initiative of any member of these bodies;
- It performs its functions in an independent, exclusive way, as part of Top Management, reporting directly to the Chairman of the Executive Committee;
- It is the highest responsible for the risk management function, and for supervising the General Risk Framework;
- It was appointed by the Board of Directors on a proposal made by the Executive Committee, and may only be removed with the prior approval of the Risk Committee. Its appointment or dismissal must be formally communicated to the supervisory authorities, indicating the respective reasons;
- It is the main interlocutor with Santander Group and third parties (including with supervisors and regulatory bodies) in terms of risks;
- It has access to all business lines and companies that could potentially give rise to material risks, including subcontracted functions, processes and activities, own facilities or those of service providers, goods and employees, information, accounting records, systems, computer files, and company data.

Responsibilities of the CRO

- Promote a prudent risk control and management environment that covers identified needs, and meets the requirements of internal and external regulations;
- Regularly inform the Board of Directors, the Risk Committee, and the Executive Committee on the risk profile, its evolution and future perspectives, as well as on the adequacy of the systems, policies, processes, models and instruments used for managing and controlling risks, immediately reporting any non-compliance, incidents or deficiencies;
- Ensure that risk levels and business processes are consistent with risk appetite, risk policies, and regulatory requirements, promoting the necessary measures to ensure effective management and, where applicable, the mitigation of risks considered as inadequate;

- Promote the dissemination of an adequate risk culture;
- Participate in planning processes, in establishing strategic objectives; and promote the approval of a clear risk appetite consistent with the long-term strategy and risk appetite of the Santander Group;
- Coordinate robust risk identification and assessment procedures;
- Provide top management with an integrated view of the risks taken up at any given moment.

As part of the second line of defence, under the exclusive responsibility of the Chief Risk Officer, the RMF has a structure unit responsible for the supervision and horizontal consolidation of all risks, and units specialized in certain types of risk or processes, according to the required knowledge and technical skills, jointly constituting the so-called Risk Area of Santander Totta (hereinafter the "Risk Area").

Regarding the Risk Management Function, it should be noted that it:

- It is independent and organically segregated from the activities it monitors and controls, and is endowed with sufficient status and authority to carry out its duties objectively and independently;
- It has an activity plan prepared every year in January, which is approved by the Board of Directors at its February meeting, after receiving a prior opinion statement from the Audit Committee;
- It has the appropriate human and material resources for the effective performance of its responsibilities. In Sep. 2021, it had 221 employees, of which 188 with higher education degrees, and 34 with secondary education.
- Which are made available, in particular through the e-learning platform, reinforced since the beginning of the pandemic with several Webinars, plus a set of optional training initiatives that allow employees in the Risk Area to expand their skills.

In addition to the Committees that make up the governance model for risk management and control, the RMF also takes part in several committees of the internal governance model, of which the CRO is a permanent member, ensuring an independent analysis and/or validation of the matters, procedures, and proposals submitted.

The activity carried out by the Risk Management Function is documented in a specific annual report, the "RMF Report."

In 2021, two reports were prepared, in accordance with the provisions of Bank of Portugal Notice No. 3/2020, the last one dated from November 2021.

This document is intended to support the risk management system of Banco Santander Totta, S. A. In the last report it is worth highlighting the following conclusions:

- Based on the assessment presented in this report, the CRO, as its manager, is convinced that the Risk Management Function (RMF) keeps performing its duties objectively and independently with regard to the functional areas subject to evaluation, with full autonomy and freedom. There are no situations or constraints that compromise it or that may possibly compromise it, and it has full access to all activities and all the information required for the performance of its duties, and it also has direct access to the Management Body, in particular to the Risk Committee, and, whenever justified, to the Audit Committee.
- The CRO is also convinced that all potential material risk situations are duly monitored by the Risk Management Function, and properly documented and reported to the appropriate management levels, in order to enable the timely adoption of corrective measures, while the organization continues to have an environment of internal control favourable to the control and mitigation of risks.

Chief Risk Officer: Alfredo Fernandez Diez

Compliance Function

The Bank has since long preferred the autonomisation, monitoring and control of risks that result in the contingency of incurring in sanctions of a legal or regulatory nature, as well as in financial or reputational losses, as a result of non-compliance with any regulatory provisions applicable to it, whether of a legal, regulatory or normative nature, and also due to the breach of Codes of Conduct or procedures that infringe ethical standards or required good practices.

The independence of the Compliance Function involves four essential, distinct, but related elements:

i. formal status at the institution;

ii. existence of a compliance officer (*head of compliance*);

iii. employees assigned to the compliance function must not be subject to possible conflicts of interest between the performance of their duties and any other responsibilities towards the Institution;

iv. employees assigned to the compliance function must have unrestricted access to information and to any employees in order to be able to properly perform their duties.

All the aforementioned elements are duly safeguarded and formalized at the Bank.

In fact, the Bank's organization includes the compliance function as part of the Compliance and Conduct area, which operates independently and on a permanent basis.

The Compliance and Conduct Area is a first-line area, directly and exclusively dependent on the Board of Directors, independent from all other areas, namely those dedicated to business;

It is endowed with its own staff, which is included in the institution's permanent staff, exclusively assigned to carrying out the duties committed to the Compliance and Conduct Area, hierarchically and functionally dependent upon the respective Chief Compliance Officer (CCO);

The Compliance and Conduct Area, in carrying out its duties, acts as a second line of defence, in monitoring, controlling and managing the risk of default, and has free access to all information and details that it requests or that it needs related to the Bank's activity, as well as to the institution's facilities and equipment;

The CCO communicates unlimitedly with the Board, and, within the scope of its duties, it executes, proposes and recommends what it deems convenient with a view to preventing legal, reputational and compliance risks, and, if applicable, for repairing any incidents;

The Compliance and Conduct Area, which includes, within its core, an area specifically dedicated to the prevention of money laundering and the financing of terrorism, with dedicated staff with their own duties, and with an area specifically responsible for promoting and ensuring compliance with regulations regarding the protection and processing of personal data, under the direction of the Data Protection Officer (DPO).

The Bank has a General Code of Conduct, a specific Code of Conduct for the Stock Market, and a Code of Conduct for its Relationships with Customers, which establish the ethical principles and procedures that govern the actions of the relevant persons, and that, among other relevant aspects, favour the prevention and resolution of conflicts of interest. Compliance with the Code of Conduct for the Stock Market is specifically monitored by the Compliance and Conduct Area, which also supports and follows-up on the compliance with the General Code, whose control is, however, the responsibility of the People Management Area.

In addition to the provisions of the General Code in this regard, the Bank also has a Corruption Prevention Programme that reinforces the corporate commitment to an absolute rejection of any corrupt practices, involving the entire corporate organization in this regard.

In this context, specific duties are assigned to the Compliance and Conduct Area for monitoring and controlling the execution of the programme and the policies that support it.

Within the framework of the General Code of Conduct and the Corruption Prevention Programme, a Complaints Channel has been made available, freely accessible to all employees, which, duly guaranteeing the confidentiality of communications and any subsequent procedures, gives them the possibility and urges them to report irregular situations of which they become aware.

It is also worth mentioning, in this context, the institutionalized articulation with the Customer Experience area - responsible for the follow-up and processing of customer complaints - in order to, on the one hand, monitor the evolution of any issues at this level, and, mainly, to scrutinize - starting from the type of complaints - any omissions or inappropriate practices that they may indicate, with a view to providing the appropriate adjustments or corrections.

Policies and procedures for the marketing of products are approved and instituted, as well as the process and bodies responsible for the respective approval and follow-up, which aim, on the one hand, is to ensure the prior verification of all the necessary requirements for such marketing of products to function without legal, reputation and compliance risks, and, on the other hand, to ensure the follow-up of incidents that may occur, assessing their meaning and, if applicable, introducing remediation measures that may be justified, which may include the suspension or termination of such marketing when circumstances so dictate or advise. In this context, the assessment and monitoring of the reputational risk inherent in the products or that may be generated during their lifetime by the occurrence of occasional issues that, in some way, affect them, or that project themselves relevantly in the relationship with the customers, is of particular importance.

Although counting on the executive support and direction of local units, the compliance policy is extended, in all its breadth, to subsidiaries and branches abroad. Some of these have local enforcement officials who perform the corresponding functions there. In other cases, in which the type and mode of exercise of the activity do not justify this option, the unit's operational manager himself ensures the procedure in accordance with the applicable laws and regulations, both the local ones and those that must be complied with through the impositions to which the Bank is subject in Portugal. Within the scope of its functions, the Compliance and Conduct Area controls the fulfilment of its purpose by those unto whom the responsibility is entrusted.

At another level, and with a view to ensuring its mission in a more efficient and effective manner, the Compliance and Conduct Area promoted the institutionalization of specific compliance committees especially dedicated to the areas considered most sensitive, namely those more directly related to financial markets; that operate periodically - as a rule, on a monthly basis -; that help assess the established practices, check their conformity with the applicable legal and regulatory standards, keep the areas informed about the innovations that have occurred and ensure their execution, control the fulfilment of information and other applicable obligations; identify any incidents; and, if applicable, consider and implement the appropriate measures to mitigate and prevent them. These Committees are directed and coordinated by the Compliance and Conduct Area, with the participation of those responsible for the areas involved.

On the other hand, both within and outside these Committees, the CCO keeps a regular relationship of articulation with all other control areas (Audit and Risk Management Function), in order to enhance the approach to, follow-up, and global control of risks, and it is a permanent member of the Bank's various governance committees whose objective is risk control, with emphasis on the Internal Control and Compliance Committee.

Without prejudice to constant and systematic contacts with the Bank's Executive Committee, especially with the Director specifically in charge of the portfolio, there are established mechanisms for regular interaction of the CCO with the Audit Committee and with the Risk Committee of the Board of Directors.

The activity carried out within the scope of the compliance function is documented in a specific annual report, namely, the "Annual Report on Compliance."

In 2021, two reports were prepared, in accordance with the provisions of Bank of Portugal Notice No. 3/2020, the last one dated from November 2021, and from which it is worth highlighting that the CCO is convinced that:

- The compliance control system established at the Bank is properly adjusted to its size and to the activity carried out, and is in compliance with the applicable regulatory regime.
- Without prejudice, both in terms of relevant normative and regulatory activity, and in terms of the normal development and evolution of the Bank's activity, there is a dynamic that, naturally, also has an impact on the compliance function.
- Therefore, permanent attention to the possible need for adjustments is justified, always bearing in mind the concern to ensure compliance with the applicable legal rules and regulations, with regard to the organization and functioning of the Compliance and Conduct area.

Chief Compliance Officer: Pedro Boullosa Gonzalez.

Audit Function

The authority with which Internal Audit is empowered comes directly from the Board of Directors. As an independent unit, it reports periodically to the Board of Directors, and has direct access to the Board whenever required, as well as to the Audit Committee, and attends to the information requirements it receives from it in the performance of its duties.

The head of the internal audit function (Chief Audit Executive – CAE) is appointed by the Board, reports directly to the Chairman of the Board of Directors and functionally to the Group's CAE, while also keeping the Chairman of the Executive Committee of the Bank regularly informed of all internal audit activities.

The CAE is granted all the powers required to carry out its duties in an independent manner, with free access to all relevant information.

The Audit staff is distributed among the Financial Risks, Credit Risks, Operational Risks and Technological Risks areas, with all employees having higher academic education degrees.

Internal Audit subscribes the definition of the Institute of Internal Auditors, being a permanent function, independent from any other function or unit, whose mission is to provide the Board of Directors and Senior Management with independent assurance on the quality and effectiveness of internal control processes and systems, risk management (current or emerging) and governance, thus contributing to the protection of the organization's value, its solvency and reputation. For this purpose, Internal Audit assesses:

- The effectiveness and efficiency of the aforementioned processes and systems;
- Compliance with applicable supervisor regulations and requirements;
- Reliability and integrity of financial and operational information;
- Patrimonial integrity.

Internal Audit is the third line of defence, independent of the others. In order to develop their mission and achieve the established objectives, Internal Audit teams have complete, free, unrestricted access to all information.

The Internal Audit field of action comprises:

- All entities that are part of the Group over which it holds actual control;
- The separate assets (for example, investment funds) managed by the entities mentioned in the previous item;
- Any entity (or separate assets) not included in the previous items, with which there is an agreement for the performance of the Group's internal audit function.

The scope defined subjectively in the previous items includes, in any case, the activities, businesses and processes developed (either directly or through outsourcing), the existing organization, and, if applicable, the commercial networks.

Additionally, and also within the performance of the established mission, Internal Audit may carry out audits on other affiliates not included in the previous items, when the Group has reserved itself this right as a shareholder.

Internal Audit bases its action on the following principles:

- Independence, objectivity and impartiality: all opinions will be based upon an objective analysis of the facts, unchanged by influences, pressures or interests of any kind;
- Integrity, ethical behaviour and confidentiality of the information managed, and the conclusions obtained. Auditors' performance will be in accordance with the principles and rules of conduct established, both in the Group's codes of conduct and in the Internal Audit Code of Ethics, which must be known and accepted by all its members, upon signature thereof;
- Competence and professional qualification of auditors. To this end, we will seek to continually update their knowledge;
- Quality of work, based on reasoned, documented and supported conclusions, namely by audit evidence, carried out with standard criteria, using a common and appropriate methodology and work tools, and with due professional care;
- Creating value, making relevant and truthful reports, supporting the management of audited units in a spirit of collaboration and contribution from improvement measures;
- Adequate collaboration with the rest of the Group's existing controls and with external auditors and other providers involved in the organization, holding periodic meetings and sharing with them the results of the reviews carried out and the audit reports issued;
- Fluid relationship with supervisors: fluid relationship with supervisors, responding to their requests in time and form;
- Compliance with international standards, especially with the "International Standards for the Professional Practice of Internal Auditing" issued by the Institute of Internal Auditors and the principles established by the Basel International Bank of Payments in this matter.

The CAE is responsible for:

- Designing and implementing an appropriate methodology;
- Developing an Audit Plan based on an assessment of the Group's existing risks;
- Executing the various works included in the Audit Plan, adequately preparing and distributing the reports provided for in the plan;
- Communicating the conclusions of the various audits to the auditees as well as the respective recommendations; and for defining a schedule for their implementation and follow-up to confirm their implementation;
- Assessing, with the appropriate regularity, the sufficiency of resources for the performance of its duties;
- Periodically communicating with the Audit Committee, namely on the development of the approved Audit Plan;
- Periodically and monthly reporting to the Chairman of the Board of Directors;
- Informing the Board of Directors on the work carried out by the Internal Audit in accordance with its Plan;
- Reporting to the Governing Bodies the situations that, in its opinion, need special attention;
- Carrying out all those audits, special works, reports and other duties required by the Board of Directors or the Audit Committee;
- Confirming, with the Audit Committee, at least once a year, that the work is carried out independently and that it is not compromised by any impediment that has affected the independence or objectivity of Internal Audit;
- Developing and maintaining a quality and continuous improvement programme, which covers all aspects of the Internal Audit activity;
- Developing and implementing a training plan for internal auditors.

The activity carried out within the scope of the audit function is documented in a specific report, published annually, called the "Internal

Audit Function Report", which in 2021 was dated from November.

Chief Audit Executive: Ignácio Garcia Marquez

V - Consultation Site

Banco Santander Totta S. A. makes available at its Internet address https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade the essential information on the Bank's activity and general corporate information, such as the Bank's Articles of Association, the members of the governing bodies, the organizational structure of the Bank's Governance Model, the Regulations of the Board of Directors and of its Committees, the Representative for market relations, as well as all main policies.

The Bank has a broad, well detailed internal set of rules and regulations that establish clear rules, is widely disseminated, and is permanently available to all employees on the Bank's Intranet portal.

Information on half-yearly and annual accounts is available at the following link: https://www.santander.pt/institucional/investor-relations/santander-totta-sa/relatorios-e-contas.

VI - Transactions with Related Parties

The Bank has a Policy in place on Transactions with Related Parties, whose aim is to establish the rules and procedures to be observed by the Bank in transactions with related parties, including, but not limited to, credit operations, transactions with real estate and supply of goods and services, in order to ensure transparency in said transactions, as well as full compliance with applicable laws and regulations.

In preparing this Policy, regulator guidelines and various legal provisions establishing rules and requirements aimed at preventing risks arising from certain types of relationships between the subjects of the transactions were duly considered. In particular, but not limited to, the EBA Guidelines on Internal Government (EBA/GL/2017/11, of March 21, 2018, especially No. 103 and 114; Articles 85 ("Credit to members of the governing bodies"), 86 (Other operations"), and 109 ("Credit to qualified holders") of the General Regime of Credit Institutions and Financial Companies (RGICSF); Article 397 ("Business with society") of the Commercial Companies Code; and Notice No. 3/2020 of the Bank of Portugal, in particular Article 33.

The Group's policy for admitting, authorizing and monitoring financing operations of the directors and members of Banco Santander, S. A.'s senior management was also taken into account as a reference policy.

The Bank has duly implemented internal rules that operationalize this Policy on Transactions with Related Parties, and the people and entities that are part of the different types of Related Parties are duly identified and marked in the Bank's computer systems through a register of Related Parties.

The Policy on Transactions with Related Parties is available on the Bank's website at: https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade.

Remuneration Policy of the Members of the Management and Supervisory Bodies

The Remuneration Committee submitted the following statement on the remuneration policy of the members of the respective management and supervisory bodies for approval by the Bank's Shareholders' General Meeting, held on May 25, 2021.

The Remuneration Policy of the Members of the Management and Supervisory Board is available at the Bank's website, at: https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade.

DECLARATION ON THE REMUNERATION POLICY FOR MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODY OF BANCO SANTANDER TOTTA, S. A.
(The «Declaration»)

The following statement on the remuneration policy of the members of the Management and Supervisory Board of Banco Santander Totta, S. A. (the "Bank"), effective in 2021, is proposed to the General Meeting of shareholders for approval of the accounts for the financial year of 2020.

1. Framework

Grupo Santander approved a remuneration policy addressed to all its employees (the "Policy"), which establishes the fundamental principles relating to the payment of remunerations, both fixed or variable (the unofficial translation into Portuguese of the Policy in its version in force constitutes Annex 1 of the Declaration, which is an integral part of it for all purposes and intents).

In accordance with the Policy, Santander Group adopts consistent remuneration practices that comply with the regulations applicable in the jurisdictions where it operates.

Remuneration is defined to promote a high performance culture, in which people are rewarded and recognized for their performance, competence, and for the impact they have on the success of the Group and / or its subsidiaries.

The remuneration practices of the Santander Group shall always be aligned with the interests of its shareholders, employees, customers and society, and, in particular, they shall promote good conduct. The Group also ensures that the remuneration policies are consistent with adequate and effective risk management, and will not assign incentives that may contribute to exceeding the level of tolerated risk or that may endanger or limit the Group's ability to keep a solid capital base.

This Declaration informs about the fulfilment, by the Policy, of the various requirements imposed by Portuguese law, proposing its formal approval to the Bank's shareholders.

2. Application of the Policy to the Bank

2.1. Remuneration of the Bank's corporate bodies

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

a) **General Meeting.** Its Chairman earns a fixed remuneration, paid in the following terms: annual amount, paid 12 times a year.

b) **Audit Committee.** Its members earn a fixed remuneration, paid in the following terms: annual amount, paid 12 times a year.

c) **Board of Directors / non-executive members.** Non-executive members of the Board of Directors, who are not part of the Audit Committee, earn a fixed remuneration, paid in the following terms: annual amount, paid 12 times a year. In duly justified and legally admitted situations, the payment of an additional amount may be authorized by the competent bodies.

Non-executive directors who, however, carry out management or other functions at Banco Santander S. A. or at other entities of Santander Group, may or may not earn a remuneration for carrying out that position at the Bank.

2.2. Remuneration of the Bank's Executive Directors

The members of the Executive Committee earn a fixed remuneration, paid 14 times a year, which is determined taking into account the criteria used in the Santander Group; the Bank's results; performance assessment and market references; and is not expected to represent, in 2021, a share of less than 33% of the total remunerations.

A variable remuneration may be added to the fixed remuneration, defined in accordance with the Policy, and defined on an individual basis by the Remuneration Committee, after due consideration by the Remuneration Committee, and in compliance with the procedures provided for in the Policy.

2.2.1. Calculation of Variable Remuneration

The variable remuneration of Executive Directors is determined based on a standard reference corresponding to the fulfilment of 100% of the established objectives, with a reference value being set every year for each member.

The final amount of the performance bonus and inherent variable remuneration will be determined at the beginning of the year following the performance of duties, on the basis of a reference value, and according to the actual fulfilment of the goals established in the framework of the pool available for that purpose, in the terms defined in the Policy as set out in Annex 1, namely in Section 5.4.

The general objectives for the year 2021 are those set out in Annex 2, which are part of the Declaration for all due purposes.

The maximum ratio between the amount of all components of the variable remuneration of the members of the Executive Committee and the total amount of the fixed remuneration cannot exceed 200%.

2.2.2. Variable Remuneration - Composition and Regulation

The variable portion of the remuneration is subject to partial deferral of the respective payment, aiming at a balance between the short and the medium term.

a) Variable remuneration is due 50% in cash and 50% in shares, partly paid in 2022, and partly deferred over three or five years, subject to the following parameters:

a. 60% (or whatever is defined according to the applicable situation) of this remuneration will be paid in 2022, in cash and in shares;

b. The remainder will be paid annually, in three or five equal portions (as applicable), in cash and in shares, subject to the conditions provided for.

b) The assigned shares do not benefit from any risk coverage agreement, and are subject to a maintenance condition for one year.

c) In addition, the Board of Directors of the Santander Group has approved a corporate share retention policy, applicable to Santander Group's Executive Directors and other Santander Group Directors (including, in Portugal, the Country Head), which will oblige the employees concerned to retain - after a given period has elapsed -ownership over a volume of Banco Santander shares defined in their own internal regulations, and currently determined as the equivalent of twice their net annual fixed remuneration.

d) The deferred part of the variable remuneration, relating to the third year, and also the fourth and fifth years, if applicable, is subject - in addition to the malus and claw-back conditions - to the fulfilment of the Group's long-term objectives for the period 2020-2022, according to the general criteria applicable within the Santander Group, under which the value of the variable remuneration can only decrease (by reducing the payment in cash or in shares), as defined for the current year under the terms of Annex 3.

e) Payment of the variable remuneration will respect the deferral rules and the reduction (malus) or reversion (claw-back) mechanisms in force in the Policy, in order to comply with the legal and regulatory requirements, as well as observe the recommendations and guidelines issued by the competent supervisory bodies. The ability to reduce (malus), either totally or partially, the payment of deferred remuneration and whose payment is not yet an acquired right, as well as to retain in whole or in part variable remuneration whose payment constitutes an acquired right (claw-back), is limited to extremely significant, duly identified events, in which the persons concerned have had a direct participation in the identified events.

2.2.3. Identification of deferred and paid instalments of variable remuneration

For the financial year of 2016, the fifth part of the deferred variable remuneration remains to be paid, in cases where it is applicable.

For the financial year of 2017, the last third of the deferred variable remuneration was paid, and the fourth and fifth part of the deferred variable remuneration has yet to be paid.

Of the variable remuneration for 2018, one third and the fourth and fifth part (when applicable) of the deferred variable remuneration are unpaid.

Of the variable remuneration for 2019, two thirds and the fourth and fifth part (when applicable) of the deferred variable remuneration are unpaid.

Of the variable remuneration for 2020, the non-deferred portion was paid in 2021. The remaining payment is deferred for three years or five years, as applicable.

2.2.4. Digital Transformation Award — DTA

The financial sector is currently undergoing major changes. With the move towards the development of digital solutions, Grupo Santander is taking steps to transform its culture, employees and business in line with this new paradigm.

The objective of the Digital Award is to attract and retain talent that contributes to advance, accelerate and deepen the aforementioned digital transformation, which, simultaneously, will lead to the creation of long-term share value through the fulfilment of essential digital steps. With this program, the Santander Group offers a remuneration element that is competitive with the remuneration systems offered by other market players competing in the area of digital talent.

The Award is subject to the fulfilment of certain objectives related to digital transformation, and, consequently, aims to foster the creation of long-term share value.

This Award will be implemented as 50% in Banco Santander shares and 50% in Banco Santander share options, based on the fair value of the share options when they are granted. It is aimed at certain members of the Identified Collective (excluding Banco Santander Directors, but may include Bank Directors), and at workers of the Santander Group who are not part of the Identified Collective, but whose activity is critical for the digital growth and transformation of the Santander Group. The respective Regulation is attached hereto as Annex 4, and it will be ensured that any amounts that may be attributed in this way to the Bank's Executive Directors will be considered as variable remuneration and included in all applicable information disclosure limits, procedures and duties.

2.2.5. Retirement

The executive directors who at the merger date were Directors of Banco Totta & Açores, benefit from an old age or disability complementary retirement plan, whose terms and conditions were set in accordance with the regulations approved by the Bank's General Meeting on May 30, 2007, and amended at the General Meeting of December 13, 2018, in accordance with the provisions of Article 25.4 of the Bank's Articles of Association, and which adopts, globally, the provision contained in the regulation that was originally approved by the General Meeting of Banco Totta & Açores on October 30, 1989. The requirements of this plan are, namely, taking the position for given a minimum period, and the amount of the supplementary benefit varies according to the director's seniority.

The changes introduced at the General Meeting of December 13, 2018, specifically aimed at accepting the possibility of redemption of the amount of the supplementary pension in capital, granting the respective beneficiaries an option that will imply, whenever exercised, the neutralization for the Bank of the risk of changes in the global amount of the supplementary pension, definitively exonerating itself - and upon delivery of the accounting amounts related to the fulfilment of this pension - of any additional responsibilities vis-à-vis the beneficiaries who exercise this option.

In addition, the situation of executive directors who exercise the right to the old-age or disability pension supplement and subsequently perform other non-executive functions at the Bank has been clarified.

The executive directors with an employment agreement with the Bank, and notwithstanding the suspension of the aforementioned agreement, are covered by a supplementary retirement plan established by the Santander Group for all management staff and whose terms were approved by the respective Boards of Directors. Such resolutions do not award voting rights to the Directors who would benefit from such plan.

2.2.6. Other Regulations

Executive Directors also benefit from health insurance and from the benefits resulting from collective regulations applicable to workers, including being able to contract mortgage loans.

Executive Directors benefit from life insurance, whose covered capital is equivalent to twice the amount of the annual fixed remuneration of the holder in question;

No risk hedge mechanisms or the like may be used by the Executive Director or by the Bank in his/her favour. This rule is observed and must be confirmed annually by the same before the Group.

It is not expected that in 2020, any amounts will be paid to Executive Directors by other companies in a controlling or group relationship with the Bank.

3. COMPLEMENTARY ASPECTS

3.1. Policy Approval Procedures

The Policy was approved by the Santander Group, by adopting a set of national and international guidelines on the matter, and the Bank subsequently adopted the Policy on January 31, 2017, after making its presentation to the Bank's Remuneration Committee and to the Board of Directors, and was successively updated since that date.

The Policy, in the terms in which it was approved, will be complemented by a set of additional guidelines, of an essentially interpretative nature.

Since May 2020 the Bank's Remuneration Committee includes Isabel Mota (Chair), Daniel Traça, Manuel Olazábal, Manuela Ataíde Marques and Remedios Ruiz (Members), with the majority of its members legally qualifying as independent (namely, Isabel Mota, Daniel Traça, Manuel Olazábal, and Manuela Ataíde Marques).

For its part, the Remuneration Committee as provided for in the Commercial Companies Code, which determines the actual amounts of remuneration to be paid to all members of the corporate bodies, is composed of Jaime Pérez-Renovales and Roberto di Bernardini, both senior officers of the Santander or Group.

Mercer Portugal assisted the Bank (in 2017) as an external consultant, in the work of transposing the implementation of the Policy to the Bank.

3.2. Other Aspects

It is not foreseeable that in 2021 any indemnities will be paid for early termination of functions of any member of the corporate bodies.

Option plans are not expected to be allocated in 2021, except for what is foreseen regarding the Digital Award.

There are no non-pecuniary benefits or other forms of remuneration other than those referred to in the Declaration.

4. Compliance with the rules on remuneration policy defined by Banco de Portugal

The Bank's Policy is in its entirety in line with the principles inherent in the regulations applicable in Portugal, based on simplicity, transparency and adaptation to medium and long-term objectives.

In this way, the determination of the total remuneration, composed of fixed and variable parts, as well as the articulation of these two components, as explained in this Declaration and in the attached Policy, allow to conclude by the adoption, in general, of the material rules contained in the regulations Portuguese.

The fact that the Bank is part of the Santander Group, which holds more than 99% of the capital, implies the necessary coherence of the respective corporate policies, which, in turn and taking into account the global nature of the Group, respect international regulations in this area.

The applicable regulation also determines that a review is carried out, at least annually, of the Bank's remuneration policy and its implementation, in order to ensure that it is effectively applied, that remuneration payments are adequate and that the profile risk and the institution's long-term objectives are being adequately reflected, and that the policy is in accordance with the legislation and regulations in force, as well as with the applicable national and international principles and recommendations.

This annual review should also include an assessment of the remuneration practices of subsidiaries abroad and off-shore establishments, in particular on the respective effect on the institution's risk, capital and liquidity management.

The referred assessment was carried out, in compliance with the applicable regulations, by the Bank's remuneration committee, with the units responsible for exercising control functions being actively involved, with no shortcomings being detected.

5. Information on the performance of the Remuneration Committee's duties

The members of the Remuneration Committee were elected at the General Meeting on December 13, 2018, with no objections from the Regulator for conducting their role as of January 2019.

The functions performed by the Committee correspond to those provided for in the respective internal regulations, and include the formulation of informed and independent judgments on the remuneration policy and practices, as well as on the incentives created for the purposes of risk, capital and liquidity management, while it is also responsible for the preparation of remuneration decisions.

Lisbon, April 15, 2021

VII - Internal Policy for Selecting and Assessing Adequacy

The Board of Directors submitted to the approval of the Bank's General Shareholders Meeting held on May 25, 2021, the Internal Policy for Selecting and Assessing Adequacy, whose purpose is the establishment of procedures for the selection and assessment of suitability, professional qualification and experience, independence and availability (jointly known as “Adequacy”») of the members of the Management and Supervisory bodies, and of other holders of essential functions for the daily development of the Bank's activity, as defined in the applicable regulations.

Under the terms of the applicable regulation, the Policy shall contain the identification of those responsible for adequacy assessment, the assessment procedures adopted, the required adequacy requirements, the rules on prevention, communication and resolution of conflicts of interest, and the professional training means available.

The Internal Policy for Selecting and Assessing Adequacy is available on the Bank's website at:
https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade

VIII – Remuneration and other benefits assigned to members of the Management and Supervisory bodies

This information is provided to comply with the provisions of Article 3 of Law 28/2009 of June 19, and Article 17 of Notice No. 10/2011 of the Bank of Portugal, of December 29 (Official Gazette, 2nd Series, of January 9, 2012), in the part that refers to the disclosure of the annual amount of remuneration earned by the members of the management and supervisory bodies.

Fixed and variable remuneration, in aggregate terms for 2021, for the members of the Board of Directors and the Audit Committee, were, respectively, € 3,228k for fixed, and € 3,335k for variable remunerations.

As at December 31, 2021, the cumulative and current set of loans granted to members of the Board of Directors under Article 85 of the Legal Framework for Credit Institutions and Financial Companies was € 1,070k, with the following breakdown:

Name	Mortgages
	thousand euro
Pedro Aires Coruche Castro e Almeida	348
Inês Oom Ferreira de Sousa	303
Miguel Belo de Carvalho	49
Amilcar Silva Lourenco	257
Daniel Abel Monteiro Palhares Traça	113
Total	**1,070**

The individual remuneration paid and deferred for 2021 is shown in the tables below.

Annual remuneration

Board of Directors

Name		Fixed remuneration (thousand euro)
José Carlos Brito Sítima	Chairman	350
Pedro Aires Coruche Castro e Almeida	Deputy-Chairman	513
Amílcar da Silva Lourenço	Member	200
Ana Isabel Abranches Pereira de Carvalho Morais	Member	150
Andreu Plaza Lopez	Member	150
Daniel Abel Monteiro Palhares Traça	Member	150
Inês Oom Ferreira de sousa	Member	250
Isabel Cristina da Silva Guerreiro	Member	300
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	Member	150
Manuel António Amaral Franco Preto	Member	465
Manuel Maria Olazabal Albuquerque	Member	150
Maria Manuela Machado Costa Farelo Ataíde Marques	Member	150
Miguel Belo de Carvalho	Member	250
Remedios Ruiz Macia	Member	-
		3,228

Variable annual remuneration

Cash portion

Board of Directors

Name	Position	Bonuses 2021 (cash) thousand euro
Pedro Aires Coruche Castro e Almeida	Deputy Chairman	261
Amílcar da Silva Lourenço	Member	80
Inês Oom Ferreira de sousa	Member	84
Isabel Cristina da Silva Guerreiro	Member	144
Manuel António Amaral Franco Preto	Member	209
Miguel Belo de Carvalho	Member	153
		930

Shares portion

Board of Directors

Name	Position	Bonuses 2021 (retained by one year) thousand euro
Pedro Aires Coruche Castro e Almeida	Deputy Chairman	278
Amílcar da Silva Lourenço	Member	85
Inês Oom Ferreira de sousa	Member	90
Isabel Cristina da Silva Guerreiro	Member	154
Manuel António Amaral Franco Preto	Member	222
Miguel Belo de Carvalho	Member	163
		992

This amount corresponds to 299,459 shares of Banco Santander, S. A., at a value per share of €3.31, as this is the market value (listed on the stock exchange) on the date of the respective allocation.

Deferred remuneration

The cash portion of the deferred remuneration for 2021 is as follows:

Board of Directors

		Bonuses - 2021				
		2019	2020	2021	2022	2023
Name	Position	Cash	Cash	Cash	Cash	Cash
Pedro Aires Coruche Castro e Almeida	Deputy Chairman	52	52	52	52	52
Amílcar da Silva Lourenço	Member	18	18	18	-	-
Inês Oom Ferreira de Sousa	Member	19	19	19	-	-
Isabel Cristina da Silva Guerreiro	Member	32	32	32	-	-
Manuel António Amaral Franco Preto	Member	46	46	46	-	-
Miguel Belo de Carvalho	Member	34	34	34	-	-
		201	201	201	52	52

The shares portion of the deferred remuneration regarding 2021, is as follows:

Board of Directors

		Bonuses - 2021				
		2019	2020	2021	2022	2023
Name	Position	Shares (#)	Shares (#)	Shares (#)	Shares (#)	Shares (#)
Pedro Aires Coruche Castro e Almeida	Deputy Chairman	16,817	16,817	16,817	16,817	16,817
Amílcar da Silva Lourenço	Member	5,692	5,692	5,691	-	-
Inês Oom Ferreira de Sousa	Member	6,014	6,014	6,013	-	-
Isabel Cristina da Silva Guerreiro	Member	10,310	10,310	10,308	-	-
Manuel António Amaral Franco Preto	Member	14,927	14,927	14,927	-	-
Miguel Belo de Carvalho	Member	10,920	10,920	10,918	-	-
		64,680	64,680	64,674	16,817	16,817

As of the present date, two thirds of the deferred variable remuneration for 2020 are deferred (with the exception of the Deputy-Chairman's variable remuneration, which is deferred in four fifths), while the 2022 portion of this remuneration has already been paid.

Board of Directors

		Bonuses - 2020 paid in February 2022		
Name	Position	Inflation adjust.	Cash	Shares
Pedro Aires Coruche Castro e Almeida	Deputy Chairman	1	30	37
Amílcar da Silva Lourenço	Member	0	8	10
Inês Oom Ferreira de Sousa	Member	0	8	10
Isabel Cristina da Silva Guerreiro	Member	0	11	13
Manuel António Amaral Franco Preto	Member	1	21	26
Miguel Belo de Carvalho	Member	0	13	16
		2	91	112

The shares amount corresponds to 33,738 shares of Banco Santander, S. A., at a value per share of €3.31, as this is the market value (listed on the stock exchange) on the date of the respective allocation.

Board of Directors

		Bonuses - 2020							
		2023		2024		2025		2026	
Name	Position	Shares (#)	Cash	Shares (#)	Cash	Shares (#)	Cash	Shares (#)	Cash
Pedro Aires Coruche Castro e Almeida	Deputy Chairman	11,173	30	7,910	21	7,910	21	7,910	21
Amílcar da Silva Lourenço	Member	2,917	8	2,431	7	-	-	-	-
Inês Oom Ferreira de Sousa	Member	2,917	8	2,431	7	-	-	-	-
Isabel Cristina da Silva Guerreiro	Member	3,973	11	3,309	9	-	-	-	-
Manuel António Amaral Franco Preto	Member	7,781	21	6,482	17	-	-	-	-
Miguel Belo de Carvalho	Member	4,977	13	4,146	11	-	-	-	-
		33,738	91	26,709	72	7,910	21	7,910	21

As of the present date, one third of the deferred variable remuneration for 2019 is deferred (with the exception of the former Chairman's variable remuneration, which is deferred in two fifths), while the 2022 portion of this remuneration has already been paid.

Board of Directors

		Bonuses - 2019 paid in February 2022		
Name	Position	Inflation adjust.	Cash	Shares
Pedro Aires Coruche Castro e Almeida	Deputy Chairman	1	37	34
Amílcar da Silva Lourenço	Member	0	17	15
Inês Oom Ferreira de Sousa	Member	1	20	18
Isabel Cristina da Silva Guerreiro	Member	1	20	18
Manuel António Amaral Franco Preto	Member	1	39	35
Miguel Belo de Carvalho	Member	1	22	20
		4	155	140

The shares amount corresponds to 42,210 shares of Banco Santander, S. A., at a value per share of €3.31, as this is the market value (listed on the stock exchange) on the date of the respective allocation.

Board of Directors

		Bonuses - 2019					
		2023		2024		2025	
Name	Position	Shares (#)	Cash	Shares (#)	Cash	Shares (#)	Cash
Pedro Aires Coruche Castro e Almeida	Deputy Chairman	4,766	17	4,766	17	4,766	17
Amílcar da Silva Lourenço	Member	2,167	8	-	-	-	-
Inês Oom Ferreira de Sousa	Member	2,599	10	-	-	-	-
Isabel Cristina da Silva Guerreiro	Member	2,599	10	-	-	-	-
Manuel António Amaral Franco Preto	Member	5,091	19	-	-	-	-
Miguel Belo de Carvalho	Member	2,816	10	-	-	-	-
		20,038	74	4,766	17	4,766	17

On this date, one third of the variable remuneration for 2018 has been paid.

Board of Directors

		Bonuses - 2018 paid in February 2022		
Name	Position	Inflation adjust.	Cash	Shares
José Carlos Brito Sítima	Presidente	1	17	13
Pedro Aires Coruche Castro e Almeida	Deputy Chairman	1	16	12
Amílcar da Silva Lourenço	Member	0	9	7
Inês Oom Ferreira de Sousa	Member	0	9	7
Isabel Cristina da Silva Guerreiro	Member	0	3	2
Manuel António Amaral Franco Preto	Member	1	13	10
Miguel Belo de Carvalho	Member	0	16	12
		3	82	63

The shares amount corresponds to 19,055 shares of Banco Santander, S. A., at a value per share of €3.31, as this is the market value (listed on the stock exchange) on the date of the respective allocation.

Other Benefits

With regard to post-retirement benefits, the members of the Board of Directors who have an employment tie with the Bank are included in the pension plan of the collective bargaining agreement for the banking sector subscribed by the Bank.

The Shareholders' General Meeting of the Bank on May 30, 2007, approved the "Regulation on the supplementary 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 what had previously been defined in the former Totta Regulation. Members of the Board of Directors whose length of service is at least fifteen consecutive or interpolated years will be entitled to a pension supplement amounting to 80% of their gross annual salary. For terms of office less than fifteen years, the amount of the retirement pension supplement will be determined by the Remuneration Committee. For these persons, it is currently determined that the retirement pension supplement shall be 65% of the annual gross salary, for terms of office equal to or greater than ten years, and 75% of the annual gross salary for terms of office equal to or greater than twelve years. This defined-benefit pension plan is a supplementary plan and is dependent on the General Social Security Regime.

As at December 31, 2021, and 2020, liabilities with this plan amounted to €14,268k and €14,201k, respectively, and were covered by a provision of the same amount carried under "Provisions - Pensions and other post-employment defined-benefit obligations" (Note 17).

With regard to termination of employment benefits, as provided for in the 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.

Contract Terminations

In 2021, there were no payments of indemnities for early termination of functions of holders of governing bodies.

REMUNERATION POLICY FOR 2022

The remuneration policy of the members of the Management and Supervisory Bodies of Banco Santander Totta, for the year 2022, will be the subject of a resolution at the Annual General Meeting, in compliance with applicable regulation.

X – Managers' Remuneration Policy

The Managers' Remuneration Policy is available on the website: https://www.santander.pt/institucional/investor-relations/santander-totta-sa/governo-sociedade.

X.1. DECLARATION ON THE REMUNERATION POLICY FOR THE MANAGERS OF BANCO SANTANDER TOTTA, S. A., (the "Bank")

(The "Declaration")

For the purposes of this Declaration, the workers who are part of any of the collectives specified below, and are not, simultaneously, members of the management body, are considered as Managers of the Bank and designated as the "Identified Collective" or as the "Managers":

a) Responsible officers for the Group called "Faro", under the terms of the Santander Group's remuneration policy (the "Policy"), as approved on January 24, 2017, and its subsequent revisions;
b) Top management and those responsible for carrying out functions with responsibility for risk-taking on behalf of the Bank or its customers, with a material impact on the Bank's risk profile; and
c) Responsible officers that carry out their professional activity within the scope of the control functions provided for in Bank of Portugal Notice No. 3/2020, of June 29th, namely those responsible for the Audit Areas, the Bank's Compliance and General Risk Function, as well as those in charge of other areas equivalent to control functions by the Santander Group, namely the top person in charge of the Management Control area (the "Managers of Control Functions").

The updated identification of the functions included in the Identified Collective is included as Annex 1 of the Declaration, which is an integral part of it for all legal purposes and intents.

1. Framework

The Policy is addressed to all Santander Group employees, and it establishes the fundamental principles relating to the payment of remunerations, either fixed or variable (the unofficial translation into Portuguese of the Policy in its version in force constitutes Annex 2 of the Declaration, which is an integral part of it for all purposes and intents).

The Policy is applicable to all branches of the Santander Group, including the Bank. The Board of Directors has formally adopted the Policy in its updated version in April 2021.

In accordance with the Policy, the Santander Group adopts consistent remuneration practices that comply with the regulations applicable in the jurisdictions where it operates.

Remuneration is defined to promote a high performance culture, in which people are rewarded and recognized for their performance, competence, and for the impact they have on the success of the Group and / or its subsidiaries.

Santander Group's remuneration practices shall always be aligned with the interests of its shareholders, employees, customers and society, and, in particular, they shall promote good conduct. The Santander Group ensures, through the Policy, that the remuneration policies foster and are consistent with solid, effective risk management and with keeping a solid capital base.

This Declaration provides information on the adequacy of the Policy to the different requirements placed by Portuguese law.

2. Application of the Policy to the Bank

Fixed Remuneration

a) The fixed remuneration is paid 14 times a year;

b) The fixed remuneration consists of the basic remuneration and some cash benefits that are attributed to all Bank employees, such as seniority payments or other subsidies, due under legal or contractual terms;

c) The fixed remuneration is determined taking into account the criteria used in the Santander Group, the Bank's results, performance assessment, collective labour regulations, and market references, safeguarding the different specificities and dimensions;

d) The fixed remuneration of the Identified Collective has the limits that are set annually by the Executive Committee, and is not expected to represent, in 2021, a portion below 67% of the Total Remuneration.

2.2.1. Calculation of Variable Remuneration

The variable remuneration is determined based on a standard reference corresponding to the fulfilment of 100% of the established goals, with a reference value being set every year for each member.

The final amount of the performance bonus and inherent variable remuneration will be determined at the beginning of the year following the performance of duties, on the basis of a reference value, and according to the actual fulfilment of the goals established in the framework of the pool available for that purpose, in the terms defined in the Policy as set out in Annex 1, namely in Section 5.4.

The general objectives for the year 2021 are those set out in Annex 3, which are part of the Declaration for all due purposes.

The maximum ratio between the value of all components of the variable remuneration and the total value of the fixed remuneration cannot exceed 200%.

Regarding Managers of Control Functions, the calculation of the variable remuneration follows the following criteria: (i) individual assessment of the employee taking into account the specific objectives related to the functions performed by him/her; (ii) overall performance of the Bank and of the economic group it belongs to.

The maximum ratio between the value of all components of the variable remuneration of the members of the Managers of the control functions and the total value of their fixed remuneration cannot exceed 100%.

The performance assessment of Managers —to be conducted annually — is carried out by the respective hierarchical superiors or directly by the Executive Directors with the respective portfolio when there is a direct reporting relationship. Whenever such Managers are subject to a double reporting obligation, the assessment is also made by the Group head responsible for the area in question.

Without prejudice to the internal provisions regarding the setting of objectives and the annual evaluation of Managers of the Control Functions, the Remuneration Committee is responsible for evaluating the execution and compliance with the principles set out in this Policy.

2.2.2. Composition and regulation of variable remuneration

The variable portion of the remuneration is subject to partial deferral of the respective payment, aiming at a balance between the short and the medium term.

a) Variable remuneration is due 50% in cash and 50% in shares, partly paid in 2022, and partly deferred over three or five years, subject to the following parameters:

    a. 60% (or whatever is defined according to the applicable situation) of this remuneration will be paid in 2022, in cash and in shares;

    b. The remainder will be paid annually, in three or five equal portions (as applicable), in cash and in shares, subject to the conditions provided for. However, the Bank (through its competent bodies and in a logic of consistency within the Group) reserves the possibility of not applying such deferral when the amount of the total variable remuneration does not exceed 50,000 euros, and provided that such possibility is not prevented by applicable legal or regulatory determination.

b) The assigned shares do not benefit from any risk coverage agreement, and are subject to a maintenance condition for one year

c) The deferred part of the variable remuneration, relating to the third year, and also the fourth and fifth years, if applicable, is subject, in addition to the malus and claw-back conditions, to the fulfilment of the Group's long-term objectives for the period 2021-2023, according to the general criteria applicable within the Santander Group, under which the value of the variable remuneration can only decrease (by reducing the payment in cash or in shares), as defined for the current year under the terms of Annex 4.

d) Payment of the variable remuneration will respect the deferral rules and the reduction (malus) or reversion (claw-back) mechanisms in force in the Policy, in order to comply with the legal and regulatory requirements, as well as observe the recommendations and guidelines issued by the competent supervisory bodies. The ability to reduce (malus), either totally or partially, the payment of deferred remuneration and whose payment is not yet an acquired right, as well as to retain in whole or in part variable remuneration whose payment constitutes an acquired right (claw-back), is limited to extremely significant, duly identified events, in which the persons concerned have had a direct participation in the identified events.

2.2.3. Identification of deferred and paid instalments of variable remuneration

For the year 2017, the last third of the deferred variable remuneration has been paid.

For the year 2018, one third of the deferred variable remuneration remains to be paid.

Of the variable remuneration for 2019, two thirds of the deferred variable remuneration remains to be paid.

Of the variable remuneration of 2020, the non-deferred portion was paid in 2021. The remaining payment is deferred for three years.

2.2.4. Digital Transformation Award — DTA

The financial sector is currently undergoing major changes. With the move towards the development of digital solutions, Grupo Santander is taking steps to transform its culture, employees and business in line with this new paradigm.

The objective of the Digital Award is to attract and retain talent that contributes to advance, accelerate and deepen the aforementioned digital transformation, which, simultaneously, will lead to the creation of long-term share value through the fulfilment of essential digital steps. With this program, the Santander Group offers a remuneration element that is competitive with the remuneration systems offered by other market players competing in the area of digital talent.

The Award is subject to the fulfilment of certain objectives related to digital transformation, and, consequently, aims to foster the creation of long-term share value.

This Award will be implemented as 50% in Banco Santander shares and 50% in Banco Santander share options, based on the fair value of the share options when they are granted. It is aimed at certain members of the Identified Collective (excluding Banco Santander Directors, but may include Bank Directors), and at workers of the Santander Group who are not part of the Identified Collective, but whose activity is critical for the digital growth and transformation of the Santander Group. The respective Regulation is attached hereto as Annex 4, and it will be ensured that any amounts that may be attributed in this way to the Bank's Executive Directors will be considered as variable remuneration and included in all applicable information disclosure limits, procedures and duties.

2.2.5. Benefits

The allocation of benefits is made in order to ensure compatibility with the Bank's business strategy, objectives, values, and long-term interests.

Without prejudice to assignments of a casuistic and residual scope, resulting from measures taken in the past by primitive employers (Crédito Predial Português, Banco Totta & Açores, Banco Santander Portugal and Banco Santander de Negócios Portugal), all Managers enjoy the following benefits:

a) Supplementary health insurance to the Social-Medical Assistance Service (SAMS) provided for in the collective regulation of the banking sector;

b) Personal accident insurance, as defined in the collective regulation of the banking sector.

Some workers benefit from life insurance, as a result of a contractual connection with the extinct Banco Santander Portugal or Banco Santander Negócios Portugal.

Some workers benefit from a supplementary retirement plan, pursuant to the resolution of the Bank's Board of Directors of February 25, 2010.

There are no pension benefits attributed on a discretionary basis.

No risk hedge mechanisms or the like may be used by the Manager or by the Bank in his favour. This rule is observed and must be confirmed annually by the Manager before the Group.

3. COMPLEMENTARY ASPECTS

3.1. Policy Approval Procedures

The Policy was approved by the Santander Group, by adopting a set of national and international guidelines on the matter, and the Bank subsequently adopted the Policy on January 31, 2017, as well as is updates, after making its presentation to the Bank's Remuneration Committee and to the Board of Directors.

The Policy, in the terms in which it was approved, will be complemented by a set of additional guidelines, of an essentially interpretative nature.

3.2. Other Aspects

Option plans are not expected to be allocated in 2021, except for what is foreseen regarding the Digital Award.

There are no non-pecuniary benefits or other forms of remuneration other than those referred to in the Declaration.

4. Compliance with the rules on remuneration policy defined by Banco de Portugal

The Bank's Policy is in its entirety in line with the principles inherent in the regulations applicable in Portugal, based on simplicity, transparency and adaptation to medium and long-term objectives.

In this way, the determination of the total remuneration, composed of fixed and variable parts, as well as the articulation of these two components, as explained in this Declaration and in the attached Policy, allow to conclude by the adoption, in general, of the material rules contained in the regulations Portuguese.

The fact that the Bank is part of the Santander Group, which holds more than 99% of the capital, implies the necessary coherence of the respective corporate policies, which, in turn and taking into account the global nature of the Group, respect international regulations in this area.

The applicable regulation also determines that a review is carried out, at least annually, of the Bank's remuneration policy and its implementation, in order to ensure that it is effectively applied, that remuneration payments are adequate and that the profile risk and the institution's long-term objectives are being adequately reflected, and that the policy is in accordance with the legislation and regulations in force, as well as with the applicable national and international principles and recommendations.

This annual review should also include an assessment of the remuneration practices of subsidiaries abroad and off-shore establishments, in particular on the respective effect on the institution's risk, capital and liquidity management.

The referred assessment was carried out, in compliance with the applicable regulations, by the Bank's remuneration committee, with the units responsible for exercising control functions being actively involved, with no shortcomings being detected.

Lisbon, June 18, 2021

Annex 1

Collective Identified

EXECUTIVE DIRECTOR OF CORPORATE & INVESTMENT BANKING

EXECUTIVE DIRECTOR OF TECHNOLOGY & OPERATIONS

EXECUTIVE DIRECTOR OF THE GENERAL SECRETARIAT

EXECUTIVE DIRECTOR OF COMMERCIAL MANAGEMENT AND EFFECTIVENESS

EXECUTIVE DIRECTOR OF THE COMMERCIAL AREA - NORTH

EXECUTIVE DIRECTOR OF DISTRIBUTION ST. AND CUSTOMER KNOWLEDGE, DAILY BANKING AND PROTECTION

EXECUTIVE DIRECTOR OF THE SOUTHERN AND ISLANDS COMMERCIAL AREA

EXECUTIVE DIRECTOR OF OPERATIONS

EXECUTIVE DIRECTOR OF RECOVERIES AND DIVESTMENT

EXECUTIVE DIRECTOR OF UNIVERSITIES

EXECUTIVE DIRECTOR OF THE COMPANIES SEGMENT

EXECUTIVE DIRECTOR OF PRIVATE BANKING

EXECUTIVE DIRECTOR OF THE LEGAL AREA

EXECUTIVE DIRECTOR OF PEOPLE MANAGEMENT

EXECUTIVE DIRECTOR OF STRATEGY AND FINANCIAL PLANNING

EXECUTIVE DIRECTOR OF INDIVIDUALS & BUSINESSES NETWORK – NORTH

EXECUTIVE DIRECTOR OF FINANCIAL AND CAPITAL MANAGEMENT

EXECUTIVE DIRECTOR OF DISTRIBUTION MODELS

DIRECTOR OF CONSTRUCTION PROMOTION

DIRECTOR OF SPECIAL PROJECTS

DIRECTOR OF INTERNATIONAL BUSINESS

EXECUTIVE DIRECTOR OF THE COMPANIES NETWORK - NORTH

DIRECTOR OF TAX

EXECUTIVE DIRECTOR OF THE COMPANIES NETWORK - SOUTH

EXECUTIVE DIRECTOR OF INDIVIDUALS AND BUSINESSES NETWORKS - SOUTH AND ISLANDS

HEAD OF ECONOMIC RESEARCH AND RELATIONS WITH INVEST.

EXECUTIVE DIRECTOR OF ANALYTICS AND DATA

DIRECTOR OF INFORMATION SYSTEMS

HEAD OF COMMERCIAL AREA - AZORES AND MADEIRA

DIRECTOR OF INDIVIDUALS AND BUSINESSES NETWORK - AZORES

EXECUTIVE DIRECTOR OF RISK

EXECUTIVE DIRECTOR OF ACCOUNTING AND MANAGEMENT CONTROL

EXECUTIVE DIRECTOR OF INTERNAL AUDIT

EXECUTIVE DIRECTOR OF ACCOUNTING

DIRECTOR OF ENTERPRISE RISK MANAGEMENT

EXECUTIVE DIRECTOR OF CREDIT RISKS

DIRECTOR OF MARKET, CAP., MODEL & TECHNICAL RISK

HEAD OF COMMERCIAL BANKING RISKS

EXECUTIVE DIRECTOR OF COMPLIANCE AND CONDUCT

DIRECTOR OF PORTFOLIO MANAGER

X.2. REMUNERATION AND OTHER BENEFITS ASSIGNED TO MANAGERS AND OTHER OFFICERS

This information is provided in compliance with the provisions of Article 17 of Notice No. 10/2011, of the Bank of Portugal, of December 29 (Official Gazette, 2nd Series, of January 9, 2012), namely in the section referring to the disclosure, in aggregate terms, of the annual amount of remuneration earned by employees who, while not being members of the management or supervisory bodies of Banco Santander Totta, S. A., carry out their professional activity within the scope of control functions provided for in Notice No. 5/2008, of the Bank of Portugal, of July 1, or perform duties with responsibilities in terms of assumption of risks on behalf of the Bank or of its customers, with a material impact on the Bank's risk profile (hereinafter, the "Leading Managers").

Annual Remuneration

Amount of fixed remuneration:	
Control functions	€ 655k
Other functions	€ 4,933k
Amount of variable remuneration:	
Control functions	€ 115k
Other functions	€ 1.405k
Number of beneficiaries:	
Control functions	3
Other functions	41

Performance bonus for 2021, retained for one year in the amount of € 1,507k corresponds to 455,162 shares of Banco Santander, S. A., at a value per share of € 3.31, as this is the market value (stock exchange quotation) on the date of the respective award.

On the present date, the following amounts are deferred:

	Bonuses - 2021					
	2023		2024		2025	
	Shares (#)	Cash	Shares (#)	Cash	Shares (#)	Cash
Control functions	9,519	30	9,519	30	9,520	30
Other functions	92,937	288	92,937	288	92,938	288

On the present date, two thirds of the deferred variable remuneration for 2020 are deferred, while one third of this remuneration has already been paid.

	Bonuses - 2020						
	Paid in 2022			2023		2024	
	Inflation adjust.	Shares	Cash	Shares (#)	Cash	Shares (#)	Cash
Control functions	0	11	9	3,908	10	3,472	9
Other functions	2	111	90	33,394	90	31,956	86

The shares amount delivered corresponds to 36,626 shares of Banco Santander, S. A., at a value per share of € 3.31, as this is the market value (listed on the stock exchange) on the date of the respective allocation.

As of the present date, one third of the deferred variable remuneration for 2019 is deferred, and one third of that remuneration has been paid.

	Bonuses - 2019				
	Paid in 2022			2023	
	Inflation adjust.	Shares	Cash	Shares (#)	Cash
Control functions	0	15	17	4,541	13
Other functions	6	182	202	54,953	180

The value of the shares delivered corresponds to 59,494 shares of Banco Santander, S. A., at a value of € 3.31 per share, as this is the market value (quoted on the stock exchange) on the date of the respective allocation.

The variable remuneration paid for 2018 was as follows:

Bonuses - 2018			
	Paid in 2022		
	Inflation adjust.	Shares	Cash
Control functions	1	13	17
Other functions	6	136	182

The value of the shares delivered corresponds to 45,123 shares of Banco Santander, S. A., at a value of € 3.31 per share, as this is the market value (quoted on the stock exchange) on the date of the respective allocation.

Other Benefits

Leading Managers benefit from health insurance complementary to the Medical and Social Assistance Services (SAMS) provided for in the collective regulation of the banking sector, as well as a personal accidents insurance, as defined in the collective regulation of the banking sector.

Some Leading Managers benefit from life insurance, as a result of a contractual connection with the former Banco Santander Portugal or Banco Santander, S. A.

Some Leading Managers benefit from a supplementary retirement plan, under the terms of the Resolution of the Board of Directors of the Bank of February 25, 2010.

X.3. REMUNERATION POLICY FOR 2021

The Remuneration policy in force for Banco Santander Totta's Managers and Managers was approved by the Board of Directors at the meeting of June 18, 2021.

Declaration to which Article 245(1) sub-paragraph c) of the Securities Code refers

Article 245(1)(c) of the Securities Code determines that each of the persons in charge of the company issue a declaration, the content of which is defined therein.

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

"I hereby declare, under the terms and for the purposes set out in Article 29-G.1 subparagraph c) of the Securities Code that, to the best of my knowledge, the Management Report, the Annual Accounts, the Legal Certification of Accounts, and all other documents for rendering accounts of Banco Santander Totta, S. A., all related to the financial year of 2021, were prepared in accordance with the applicable accounting standards, providing a true and fair view of the Company's assets and liabilities, financial situation, and results, as well as of the companies included in the Company's consolidation perimeter, and that the management report faithfully sets out the evolution of the business, performance and position of the Company and of the companies included in the Company's consolidation perimeter, containing a description of the main risks and uncertainties that they face."

Board of Directors

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

Audit Committee Statement on Compliance of the Financial Information Presented

Article 29-G.1 sub-paragraph c) of the Securities Code determines that each of the persons in charge of the company issue a declaration, the content of which is defined therein.

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

“I hereby declare under the terms and for the purposes provided for in Article 29-G.1 sub-paragraph c) of the Securities Code that, as far as I am aware of, the Management Report, the Annual Accounts, the Legal Certification of Accounts and other Santander Totta, S. A.'s accounting documents, all relating to the year 2021, were prepared in accordance with the applicable accounting standards, conveying a true and appropriate image of the assets and liabilities, the financial situation and results of that company and of the companies included within its consolidation perimeter, and that the Management Report faithfully depicts the evolution of the business, performance and position of that company and of the companies included within its consolidation perimeter, containing a description of the main risks and uncertainties they face.”

Audit Committee

Chair: Ana Isabel Abranches Pereira de Carvalho Morais

Members: Daniel Abel Monteiro Palhares Traça

Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota

Manuel Maria de Olazabal y Albuquerque

Maria Manuela Machado Farelo Ataíde Marques

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2021 AND 2020

(Amounts expressed in thousands of Euros - tEuros)

	Notes	31-12-2021	31-12-2020
ASSETS			
Cash, cash balances at central banks and other demand deposits	5	**8,711,389**	**4,535,815**
Financial assets held for trading	6	**587,772**	**916,039**
Non-trading financial assets mandatorily at fair value through profit or loss	7	**99,167**	**132,905**
Equity instruments		99,167	132,905
Financial assets at fair value through other comprehensive income	8	**5,339,913**	**7,704,190**
Equity instruments		72,520	72,634
Debt securities		2,288,091	4,491,485
Loans and advances		2,979,302	3,140,071
Financial assets at amortised cost	9	**40,373,867**	**39,820,582**
Debt securities		3,458,792	3,965,219
Loans and advances		36,915,075	35,855,363
Derivatives – Hedge accounting	10	**7,447**	**23,719**
Investments in subsidiaries, joint ventures and associates	11	**38,161**	**62,582**
Tangible assets	12	**497,500**	**584,451**
Investment property		213,731	250,531
Property, Plant and Equipment		283,769	333,920
Intangible assets	12	**33,648**	**36,573**
Tax assets	13	**254,508**	**370,942**
Other assets	14	**148,336**	**164,151**
Non-current assets and disposal groups classified as held for sale	15	**74,911**	**51,460**
TOTAL ASSETS		**56,166,619**	**54,403,409**
LIABILITIES			
Financial liabilities held for trading	6	**605,331**	**941,528**
Financial liabilities at amortised cost	16	**49,988,573**	**47,723,787**
Deposits		46,762,551	44,610,781
Debt securities issued		3,006,747	2,907,350
Other financial liabilities		219,275	205,656
Derivatives – Hedge accounting	10	**294,108**	**522,283**
Provisions	17	**201,810**	**231,324**
Commitments and guarantees given		51,178	57,466
Other provisions		150,632	173,858
Tax liabilities	13	**344,847**	**374,991**
Share capital repayable on demand	18	**54,805**	**64,692**
Other liabilities	19	**426,256**	**433,448**
TOTAL LIABILITIES		**51,915,730**	**50,292,053**
EQUITY			
Capital	20	**1,256,723**	**1,256,723**
Share premium	20	**193,390**	**193,390**
Equity instruments issued other than capital	20	**135,000**	**135,000**
Accumulated other comprehensive income	20	**(139,544)**	**(7,360)**
Items that will not be reclassified to profit or loss		(609,005)	(658,910)
Items that may be reclassified to profit or loss		469,461	651,550
Retained earnings	20	**1,608,681**	**951,973**
Other reserves	20	**969,610**	**1,367,315**
Treasury shares	20	**(44,091)**	**(44,061)**
Profit or loss attributable to owners of the parent	21	**270,494**	**257,749**
Minority interests [Non-controlling interests]	22	**626**	**627**
TOTAL EQUITY		**4,250,889**	**4,111,356**
TOTAL LIABILITIES AND EQUITY		**56,166,619**	**54,403,409**

The accompanying notes form an integral part of the consolidated statement of financial position for the year ended December 31, 2021

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

AS OF DECEMBER 31, 2021 AND 2020

(Amounts expressed in thousands of Euros - tEuros)

	Notes	31-12-2021	31-12-2020
Interest income	24	1,012,164	1,113,306
Interest expenses	24	(283,508)	(328,356)
NET INTEREST INCOME		**728,656**	**784,950**
Dividend income	25	1,537	1,734
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	26	4,231	5,617
Fee and commission income	27	533,691	484,475
Fee and commission expenses	27	(101,547)	(106,815)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	28	129,180	90,879
Gains or losses on financial assets and liabilities held for trading, net	28	(4,409)	(9,299)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	28	2,991	3,577
Gains or losses on hedge accounting, net	28	-	-
Exchange differences, net	28	13,505	11,192
Gains or losses on derecognition of investments in subsidiaries, joint ventures and associates, net		63	-
Gains or losses on derecognition of non-financial assets, net	29	(43)	132
Other operating income	30	19,612	20,057
Other operating expenses	30	(9,989)	(11,699)
TOTAL OPERATING INCOME, NET		**1,317,478**	**1,274,800**
Administrative expenses	31	**(472,611)**	**(519,433)**
Staff expenses		(279,418)	(321,795)
Other administrative expenses		(193,193)	(197,638)
Cash contributions to resolution funds and deposit guarantee schemes	32	**(37,679)**	**(35,624)**
Depreciation	12	**(49,300)**	**(52,016)**
Provisions or reversal of provisions	17	**(243,411)**	**(65,849)**
Commitments and guarantees given		6,288	(4,217)
Other provisions		(249,699)	(61,632)
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss	17	**(73,523)**	**(187,683)**
Financial assets at fair value through other comprehensive income		(38)	75
Financial assets at amortised cost		(73,485)	(187,758)
Impairment or reversal of impairment of non-financial assets	17	**(16,777)**	**(16,208)**
Other profit or loss, net	1.3 l)	**(35,075)**	**(34,495)**
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	33	**14,006**	**4,990**
PROFIT OR LOSS BEFORE TAX FROM CONTINUING OPERATIONS		403,108	368,482
Tax expense or income related to profit or loss from continuing operations	13	**(132,614)**	**(110,733)**
PROFIT OR LOSS FOR THE YEAR		**270,494**	**257,749**
Attributable to minority interest [non-controlling interests]	22	-	-
Attributable to owners of the parent		**270,494**	**257,749**

The accompanying notes form an integral part of the consolidated statement of profit and loss for the year ended December 31, 2021

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

AS OF DECEMBER 31, 2021 AND 2020

(Amounts expressed in thousands of Euros - tEuros)

		2021		2020	
	Notes	Attributable to the shareholders of BST	Attributable to non-controlling interests	Attributable to the shareholders of BST	Attributable to non-controlling interests
Profit or loss for the year		**270,494**	-	**257,749**	-
Other comprehensive income	20	**(130,920)**	**-**	**218,758**	**-**
Items that will not be reclassified to profit or loss					
Actuarial gains or losses on defined benefit pension plans	20				
. Gross amount		49,918	-	(5,514)	-
. Tax effect		-	-	(19)	-
Fair value changes of equity instruments measured at fair value through other comprehensive income					
. Gross amount	8	(814)	-	(238)	-
. Tax effect		-	-	-	-
Items that may be reclassified to profit or loss					
Cash flow hedges	20				
. Fair value		43,623	-	8,387	-
. Tax effect		(13,523)	-	(2,600)	-
Debt instruments at fair value though other comprehensive income					
Valuation gains or (-) losses taken to equity					
. Fair value	8	(238,961)	-	(178,470)	-
. Tax effect		73,973	-	55,221	-
Loans and advances carried at fair value through other comprehensive income					
Gains or losses on valuation imputed to net equity					
Change in business model (Note 1.3 c))					
. Initial impact					
. Gross amount		-	-	373,172	-
. Tax effect		-	-	(115,683)	-
Fair value changes					
. Gross amount	8	(68,779)	-	121,266	-
. Tax effect		21,322	-	(37,593)	-
Share of other recognised income and expense of Investments in subsidiaries, joint ventures and associates					
. Gross amount		2,262	-	1,113	-
. Tax effect		59	-	(284)	-
Total comprehensive income for the year		**139,574**	**-**	**476,507**	**-**

The accompanying notes form an integral part of the consolidated statement of other comprehensive income for the year ended December 31, 2021

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS ENDED DECEMBER 31, 2021 AND 2020

(Amounts expressed in thousands of Euros - tEuros)

	Capital	Share premium	Equity instruments issued other than capital	Accumulated other comprehensive income: Fair value	Accumulated other comprehensive income: Taxes	Retained earnings	Other reserves	Treasury shares	Profit or loss attributable to owners of the parent	Minority interests	Total
Balances as at December 31, 2019	**1,256,723**	**193,390**	**135,000**	**(237,522)**	**13,099**	**513,134**	**1,314,979**	**(44,065)**	**489,451**	**627**	**3,634,816**
Appropriation of net income											
. Transfer to reserves (Note 20)	-	-	-	-	-	438,839	50,612	-	(489,451)	-	-
Acquisition of own shares (Note 20)	-	-	-	-	-	-	-	4	-	-	4
Sale of equity instruments at fair value											
through other comprehensive income	-	-	-	(2,275)	580	-	1,699	-	-	-	4
Other	-	-	-	-	-	-	25	-	-	-	25
Consolidated comprehensive income in 2020	-	-	-	319,716	(100,958)	-	-	-	257,749	-	476,507
Balances as at December 31, 2020	**1,256,723**	**193,390**	**135,000**	**79,919**	**(87,279)**	**951,973**	**1,367,315**	**(44,061)**	**257,749**	**627**	**4,111,356**
Appropriation of net income											
. Transfer to reserves (Note 20)	-	-	-	-	-	656,708	(398,959)	-	(257,749)	-	-
Acquisition of own shares (Note 20)	-	-	-	-	-	-	-	(30)	-	-	(30)
Sale of equity instruments at fair value											
through other comprehensive income	-	-	-	(1,499)	235		1,264	-	-	-	-
Other	-	-	-	-	-	-	(10)	-	-	(1)	(11)
Consolidated comprehensive income in 2021	-	-	-	(212,751)	81,831	-	-	-	270,494	-	139,574
Balances as at December 31, 2021	**1,256,723**	**193,390**	**135,000**	**(134,331)**	**(5,213)**	**1,608,681**	**969,610**	**(44,091)**	**270,494**	**626**	**4,250,889**

The accompanying notes form an integral part of the consolidated statement of changes in shareholders' equity for the year ended December 31, 2021

BANCO SANTANDER TOTTA, S.A. CONSOLIDATED STATEMENTS OF CASH

FLOWS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

(Amounts expressed in thousands of Euros - tEuros)

	Notes	31-12-2021	31-12-2020
CASH FLOW FROM OPERATING ACTIVITIES:			
Interest and commissions received		1,507,892	1,520,490
Payments of interest and commissions		(422,918)	(381,592)
Payment to staff and suppliers		(573,499)	(534,340)
Pension Fund contributions	35	(23,860)	(19,400)
Foreign exchange and other operating results		(14,551)	(16,074)
Recovery of uncollectable loans	17	3,735	7,317
Operating results before changes in operating assets and liabilities		476,799	576,401
(Increase) / Decrease in operating assets:			
Loans and advances to credit institutions		(10,293)	751,463
Financial assets held for trading		328,267	169,888
Credit granted and other balances receivable at amortised cost		(693,769)	(2,997,582)
Assets and liabilities at fair value through profit or loss		15,737	24,731
Non-current assets held for sale		72,874	(48,149)
Investment properties		36,801	1,981
Other assets		(92,375)	52,104
		(342,758)	(2,045,564)
Increase / (Decrease) in operating liabilities:			
Resources from financial institutions		(464,243)	2,083,719
Resources from customers and other debts		2,687,039	407,697
Financial liabilities held for trading		(336,197)	(173,175)
Other liabilities		(59,899)	(9,344)
		1,826,700	2,308,897
Net cash flow from operating activities before income taxes		1,960,741	839,734
Income tax paid		(10,075)	(192,813)
Net cash flow from operating activities		1,950,666	646,921
CASH FLOW FROM INVESTING ACTIVITIES:			
Dividends received	25	1,537	1,734
Purchase of financial assets at fair value through other comprehensive income		(823)	(153,454)
Sale of financial assets at fair value through other comprehensive income		2,050,752	1,396,626
Other financial assets mandatorily at fair value through profit or loss	7	33,738	12,093
Income from financial assets at fair value through other comprehensive income		73,769	83,566
Purchase of tangible and intangible assets	12	(33,257)	(50,920)
Sale of tangible assets		10,932	7,341
Investments in subsidiaries, joint ventures and associates	11	26,235	-
Net cash flow from investing activities		2,162,883	1,296,986
CASH FLOW FROM FINANCING ACTIVITIES:			
Issuance of securities and subordinated debt	16	183,000	320,000
Redemption of securities and subordinated debt		(85,719)	(1,149,845)
Interest paid on bonds issued and other		(35,256)	(26,601)
Dividends paid		-	-
Net cash flow from financing activities		62,025	(856,446)
Net Increase / (Decrease) in cash and cash equivalents		4,175,574	1,087,461
Cash and cash equivalents at the beginning of the period	5	4,535,815	3,448,354
Cash and cash equivalents at the end of the period	5	8,711,389	4,535,815

The accompanying notes form an integral part of the consolidated statement of cash flows for the year ended December 31, 2021

INTRODUCTION

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

As from December 2000, the Bank joined the Santander Group, following the acquisition of Banco Totta & Açores, S.A. (totta) by the latter. The main balances and transactions maintained with companies of the Santander Group during 2021 and 2020 are detailed in Note 37. The Bank is included in the Banco Santander, S.A. (ultimate parent) consolidation.

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

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

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

On December 20, 2015, following the resolution measure applied by the Bank of Portugal to Banif – Banco Internacional do Funchal, S.A. (Banif), the Bank acquired the banking business and a set of assets, liabilities, off-balance sheet items and assets under management of this entity.

Following the decision of the Single Resolution Board with regard to the application of a resolution measure to Banco Popular Español, S.A., taken on June 7, 2017, through the instrument for the sale of the whole of the business, with the transfer of the entirety of the shares representing the share capital of Banco Popular Español, S.A., to Banco Santander, S.A., the latter came to hold, indirectly, the entire share capital and voting rights of Banco Popular Portugal, S.A. (BAPOP). In this regard, on December 27, 2017, the Bank purchased the entire capital and voting rights of BAPOP, carrying out on that date the merger by incorporation.

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

The Bank has a nationwide network of 358 branches (434 branches as at December 31, 2020). It also has several branches and representation offices abroad, and holdings in subsidiaries and associated companies.

The Bank's financial statements for financial year ended December 31, 2021, were approved at the Board of Directors meeting on March 29, 2022. These financial statements are also subject to approval by the Shareholders' General Meeting, but the Board of Directors is convinced that they will be approved with no significant changes.

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Bases of Presentation of the Accounts

The Group's consolidated financial statements have been prepared on a going concern basis, based on the books and accounting records maintained in accordance with the principles enshrined in the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Union, in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, of July 19, and effective as from January 1, 2020, transposed into Portuguese law by Decree-Law 35/2005, of February 17, and by Bank of Portugal Notice No. 5/2005, of December 30. As regards Group companies that use different accounting standards, adjustments are made for conversion to the IAS/IFRS.

The accounting policies used by the Bank in preparing the consolidated financial statements as at December 31, 2021, are consistent with those used in preparing the consolidated financial statements with reference to December 31, 2020.

As from financial year 2020, the Bank presents its financial statements according to the Regulation guidelines (EU 2017/1443, of June 29, 2017).

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

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

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

The Bank's financial statements have been prepared on a going concern basis, as the Board of Directors considers that the Bank has the necessary resources to continue operating. The assessment made by the Board of Directors is based on a wide range of information related to current and future conditions, including projections of future profitability, cash flows, capital requirements and sources of financing. The projections made are based on different scenarios, and also include the impact on the Bank's activity of the uncertainty caused by the Covid - 19 pandemic.

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

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, 2021:

- **IFRS 16** (amendment), 'Leases - COVID-19 related rent concessions'. This amendment introduces a practical expedient for lessees (but not for lessors), which exempts them from assessing whether the rent concessions granted by lessors due to the COVID-19 pandemic are a modification to the lease contract, when three criteria are cumulatively met: i) the change in lease payments results in a revised fee for the lease that is substantially equal to, or less than, the fee immediately prior to the change; ii) any reduction in lease payments only affects payments due on or before June 30, 2021; and iii) there are no substantive changes to other lease terms and conditions. Lessees that qualify ad elect to apply this practical expedient, recognise the change in rent payments, as variable rents in the period(s) in which the event or condition that triggers the reduced payment occurs. This amendment is applied retrospectively with the impacts reflected as an adjustment to retained earnings (or another equity component, as appropriate) at the beginning of the annual reporting period in which the lessee applies this amendment for the first time.

- **IFRS 4** (amendment), 'Insurance contracts – deferral of IFRS 9'. This amendment addresses the temporary accounting consequences of the different effective dates of IFRS 9 Financial Instruments and the forthcoming IFRS 17 Insurance Contracts. In particular, the amendments to IFRS 4 extend the expiry date of the temporary exemption from applying IFRS 9 until 2023 in order to align the effective date of IFRS 9 with the new IFRS 17.

- **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** (amendment) 'Interest rate benchmark (IBOR) reform – phase 2'. These amendments address issues that arise during the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one, providing exemptions like: i) changes to designations and hedging documentation; ii) amounts accumulated in the cash flow hedge reserve; iii) assessment of retrospective effectiveness on a hedge relationship under IAS 39; iv) amendments to hedge relationships for groups of items; v) presumption that an alternative benchmark rate designated as a non-contractually specified risk component is separately identifiable and qualifies as a hedged risk; and vi) update the effective interest rate, with no gain or loss recognised, for financial instruments measured at amortised cost with changes in the contractual cash flows as a result of IBOR reform, including leases that are indexed to an IBOR.

  Within the scope of the "Reform of the reference interest rates - phase 1" and in order to manage and control the revision of reference interest rates (which include, among others, EONIA, LIBOR and EURIBOR: The EONIA will be discontinued in January 2022, LIBOR should be discontinued in December 2021, and EURIBOR remains a valid index), the Santander Group created a working group, which includes the Bank, to ensure a smooth transition in all entities and assess possible impacts.

  The following table presents the main captions of the statement of financial position impacted by the benchmark rates:

	Loans and advances	Deposits	Debt securities (assets)	Debt securities issued	Trading derivatives (assets)	Hedging derivatives (assets)	Trading derivatives (liabilities)	Hedging derivatives (liabilities)	Credit commitments
referenced to EONIA	606,484	614,946	-	-	-	-	-	-	-
referenced to EURIBOR	31,145,421	750,799	2,921,180	182,884	20,777	1,946	218,877	288,657	-
referenced to LIBOR	36,162	95,395	15,665	-	17,172	5,501	17,281	5,451	-
of which: USD	33,890	78,784	10,992	-	17,172	5,501	-	5,343	- .
of which: GBP	2,273	6,930	-	-	-	-	-	107	-
referenced to a fixed interest rate	8,048,666	37,692,808	2,810,038	2,823,863	549,823	-	369,173	-	6,944,748
referenced to other indices - base rate	57,644	7,608,603	-	-	-	-	-	-	-
	39,894,377	46,762,551	5,746,883	3,006,747	587,772	7,447	605,331	294,108	6,944,748

As regards the application of IAS 39 followed by the Bank for hedge accounting, the main assumptions assumed in the context of this Benchmark Interest Rate Reform were:

- In cash flow coverage, the Bank assumed that covered cash flows were not affected by this reform, and thus continue to comply with the requirements. In the Bank there is no cash flow derivative that has been affected by the benchmark interest rate reform.

- In assessing the prospective effectiveness of the fair value coverage, the Bank concluded that the economic relationship between the covered element and the hedging instrument continues to exist since the benchmark interest rate on which that relationship is based is not altered by that reform.

The notional value of hedging derivative financial instruments that were affected by the substitution of benchmark rates represents 4% of the total notional value of the hedging derivatives.

For financial instruments designated as covered elements that have been affected by the transition introduced by the benchmark interest rate reform, their value represents 4.2% of the total notional value of the elements covered.

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

Standards (new and amendments) published, which application is mandatory for annual periods beginning on or after January 1, 2022, and that the European Union has endorsed:

- **IAS 16** (amendment), 'Proceeds before intended use'. This amendment changes the accounting treatment of the proceeds obtained from the sale of products that resulted from the production test phase of property, plant and equipment, prohibiting their deduction to the acquisition cost of assets. This amendment is applied retrospectively without restating comparatives.

- **IAS 37** (amendment), 'Onerous Contracts – Cost of Fulfilling a Contract'. This amendment specifies that when assessing whether a contract is onerous or not, only expenses directly related to the performance of the contract, such as incremental costs related to direct labour and materials and the allocation of other expenses directly related to the allocation of depreciation expenses of tangible assets used to carry out the contract, can be considered. This amendment must be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include contractual obligations to be satisfied, without restating comparatives.

- **IFRS 3** (amendment), 'Reference to the Conceptual framework'. This amendment updates the references to the Conceptual Framework in the text of IFRS 3, without changing the accounting requirements for business combinations. This amendment also clarifies the accounting treatment to be given to contingent liabilities and liabilities under IAS 37 and IFRIC 21, incurred separately versus within a business combination. This amendment is applied prospectively.

- **IFRS 16** (amendment), 'Leases – COVID-19 related rent concessions beyond 30 June 2021'. This amendment extends the date of application of the IFRS 16 – 'Leases – COVID-19 related rent concessions' amendment from 30 June 2021 to 30 June 2022. The conditions required to apply the practical expedient remain unchanged, such that: i) if the lessee already applied the 2020 practical expedient it is required to continue to apply the practical expedient consistently, to all lease contracts with similar characteristics and in similar circumstances; and ii) If the lessee did not apply the 2020 practical expedient to eligible lease concessions, it is prohibited from applying the extension of the practical expedient, as per this amendment. This amendment is applied retrospectively with the impacts reflected as an adjustment to the opening balance of retained earnings of the annual reporting period in which the lessee applies this amendment for the first time.

- **IFRS 17** (new), 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2023). This new standard replaces IFRS 4 and applies to all entities issuing insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical liabilities at each reporting date. The current measurement can be based on a general model "building block approach" or a simplified one "premium allocation approach". The "building block approach" is based on discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ('CSM'), which represents the unearned profit of the contract. Subsequent changes in estimated cash flows are adjusted against the contractual service margin, unless it becomes negative. IFRS 17 is applied retrospectively.

- **IFRS 17** (amendment), 'Insurance contracts'. This amendment includes specific changes in eight areas of IFRS 17, such as: i) scope; ii) level of aggregation of insurance contracts; iii) recognition; iv) measurement; v) modification and derecognition; vi) presentation of the Statement of Financial Position; vii) recognition and measurement of the Income statement; and viii) disclosures. This amendment also includes clarifications, which aim to simplify some of the requirements of this standard and ease transition. IFRS 17 is applied retrospectively. On the issue this amended the end date for applying IFRS 9 (temporary exemption or overlay approach) under the IFRS 4 standard, was extended to 1 January 2023, aligned with the effective date of IFRS 17.

- **IAS 1** (amendment), 'Presentation of financial statements – classification of liabilities'. This amendment intends to clarify that liabilities are classified as either current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists but should not consider whether or not the entity will exercise that right), or by events occurring after the reporting date, such as the non-compliance with a given "covenant". This amendment also introduces a new definition of "settlement" of a liability. This amendment is applied retrospectively.

- **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 an 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'. Introduction of the concept 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).

- **Improvements to the 2018-2020** standards**.** The 2018-2020 annual improvements impact: IFRS 1, IFRS 9, IFRS 16 and IAS 41.

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

- **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. These 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 no longer subject to the initial recognition exemption for deferred taxes. The cumulative effect of initially applying the amendment is recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the earliest comparative period presented.

- **IFRS 17** (amendment), 'Initial Application of IFRS 17 and IFRS 9 – Comparative Information'. This amendment relates only to insurers' transitioning to the 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.

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

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

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

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

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

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

On the other hand, the Group manages assets held by investment funds, which units are held by third parties. The financial statements of investment funds are not included in the Group's consolidation perimeter, except when the latter holds control of these investment funds, namely when it has more than 50% of its investment units, in which case those funds are consolidated by the full consolidation method. In accordance with IAS 32 and IFRS 10, the amount corresponding to third-party participation in investment funds consolidated by the full consolidation method is presented as a liability in the caption “Share capital redeemable at sight”. Non-controlling interests in the profit or loss of the Novimovest Fund are recognised as a deduction from the caption “Other operating income / expenses”, considering the nature of the main income earned by that fund.

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

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

Goodwill corresponds to the positive difference between the acquisition cost of the business and the actual equivalent percentage in the fair value of the assets, liabilities and contingent liabilities of the subsidiaries and associates acquired, as well as any equity instruments issued by the Group. With a minimum annual frequency, the Group performs goodwill impairment tests in accordance with the requirements of IAS 36 – Impairment of assets. For this purpose, goodwill is allocated to cash-flow generating units, never greater than the group of assets comprising each of the Group's operational segments, with the determination of the respective recoverable amount being based on estimates of future cash flows, updated using discount rates considered appropriate by the Group, and relying on appropriate and accepted methods. Impairment losses related to goodwill are recorded in profit or loss for the year and cannot be reversed. The goodwill of associated companies is included in the carrying amount of the holding, which is subject to impairment tests.

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

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

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

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

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

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

1.3. Summary of the Main Accounting Policies

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

a) Accrual accounting

The Bank uses the accrual-accounting principle for most captions of the financial statements. Thus, expenses and income are recorded as and when generated, regardless of the time of payment or receipt.

b) Foreign currency transactions

The Bank's accounts are prepared in the currency of the economic environment in which it operates ("functional currency") and are stated in Euros.

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

As of December 31, 2021 and 2020, the exchange rates of the main currencies other than the functional currency were:

2021	2020
1.13260	1.2271
0.84028	0.89903

c) Financial instruments

The classification of **financial assets** follows three main criteria:

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

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

- A financial debt instrument that (i) is managed under a business model which objective involves keeping the financial assets in the portfolio and receiving all of their contractual cash flows and (ii) has contractual cash flows on specific dates that correspond exclusively to the payment of principal and of interest on the outstanding principal – must be measured at amortised cost unless designated at fair value through profit or loss under the fair value option – "Hold to Collect".

- A financial debt instrument that (i) is managed under a business model which objective is achieved either through the receipt of contractual cash flows or through the sale of financial assets and (ii) include contractual clauses that give rise to cash flows that correspond exclusively to the payment of principal and of interest on the outstanding principal – must be measured at fair value through other comprehensive income ("FVTOCI"), unless it is designated at fair value through profit or loss under the fair value option – "Hold to Collect & Sale".

- All other financial debt instruments must be measured at fair value through profit or loss ("FVTPL").

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

The other financial instruments, specifically equity instruments and derivatives, the latter by definition, are classified at fair value through profit or loss. For equity instruments, there is the irrevocable option of designating that all fair-value variations are recognised under other comprehensive income, in which case, only the dividends are recognised in profit or loss, because gains and losses are not reclassified to profit or loss even when they are derecognised/sold.

Reclassifications between financial instrument portfolios

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

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

In March 2020, due to the events mentioned in Note 8, the Bank's Management made the decision to discontinue the activity of granting loans that require stable financing and imply large amounts and extended terms; within this activity is direct financing to the Portuguese State. This decision was (i) duly documented internally, (ii) disseminated throughout the Bank's structure, and (iii) duly communicated to all stakeholders. Management considers that loans affected by changes in the business model have a significant impact on the Bank's statement of financial position, as can be seen in Note 8.

In view of the above, and since all the requirements defined in IFRS 9 were met, the Bank proceeded to reclassify the respective contracts, and these are now measured at fair value through other comprehensive income, when they were previously measured at amortised cost. The difference between the fair value and the respective statement of financial position value on the reclassification date, was recognised in other comprehensive income, as shown:

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

Sale of loans

Gains and losses obtained on the sale of loans on a definitive basis are recorded in the statement of profit or loss caption "Impairment of financial assets at amortised cost". These gains or losses correspond to the difference between the selling price that was set and the carrying amount of those assets, net of impairment losses.

Securitised loans not derecognised

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

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

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

Maintenance of the risk and/or benefit is represented by bonds of a higher risk issued by the securitisation vehicle. The amount carried under assets and liabilities represents the proportion of the risk/benefit held by the Bank (ongoing involvement).

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

Derecognition

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

Guarantees provided and irrevocable commitments

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

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

Recognition of income and expenses from fees and commissions

Income from fees and commissions obtained in the execution of a significant act, such as commissions on loan syndications, are recognised in profit or loss when the significant act has been finalised.

Income from fees and commissions obtained as the services are provided are recognised in profit or loss for the year to which it refers.

Income from fees and commissions that form an integral part of the remuneration of financial instruments are recorded in profit or loss using the effective interest rate method.

Recognition of expenses with fees and commissions is measured using the same criteria adopted for income.

Financial assets at fair value through other comprehensive income

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

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

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

Financial assets and liabilities held for trading and non-trading financial assets and liabilities mandatorily at fair value through profit or loss

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

Financial assets and liabilities held for trading and non-trading financial assets and liabilities mandatorily at fair value through profit or loss are initially recognised at fair value, with the expenses associated with the transactions being recognised in profit or loss at the initial moment. Gains and losses arising from subsequent valuation at fair value are recognised in the statement of profit or loss, under the captions "Gains or losses on financial assets and liabilities held for trading, net value" and "Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net value", respectively.

The fair value of financial assets held for trading and traded on active markets is their most representative bid-price, within the bid-ask interval, or their closing price on the reporting date. If a market price is not available, the fair value of the instrument is estimated based on valuation techniques, including price valuation models or discounted cash flow techniques. When discounted cash flow techniques are used, the future financial flows are estimated in keeping with management's expectations, and the discount rate used corresponds to the market rate for financial instruments of similar characteristics. In the price valuation models, the data used correspond to information on market prices.

The fair value of derivative financial instruments that are not traded on the stock market, including the credit risk component assigned to the parties involved in the transaction (Credit Value Adjustments and Debit Value Adjustments), is estimated based on the amount that would be received or paid to settle the contract on the date in question, considering current market conditions, as well as the credit rating of the parties involved.

Financial liabilities at amortised cost

Financial liabilities are initially recognised at their fair value, which normally corresponds to the consideration received, net of transaction costs, and are measured at amortised cost, in accordance with the effective interest rate method.

Financial liabilities correspond mainly to resources of central banks and of other credit institutions, customers' deposits and bond issues.

Repo Operations

Securities sold with repurchase agreement are kept in the portfolio where they were originally recorded. Funds received are recorded on the settlement date, in a specific account under liabilities, with accrual of the respective interest payable.

Secondary market transactions

The Bank repurchases bonds issued in the secondary market. Purchases and sales of own bonds are included proportionally under the respective bonds issued captions (principal, interest and commissions) and the differences between the amount settled and the respective carrying amount.

Hedge accounting

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

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

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

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

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

Hedge accounting is only applied when all those requirements are met. Likewise, if at any time the hedge effectiveness ceases to be in the range between 80% and 125%, hedge accounting is discontinued.

Fair-value hedges

Gains or losses on the revaluation of a hedging derivative financial instrument are recognised in profit or loss. Should the hedge be effective, the gains or losses resulting from the fair value changes of the hedged item relative to the risk being hedged are also recognised in profit or loss.

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

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

Cash-flow hedges

Cash-flow hedges are understood to be the hedge of an exposure relating to the variability of future cash flows, which may be assigned to a specific risk associated with a recognised asset or liability, or to a highly probable future transaction, and may affect profit or loss.

In this sense, the Bank contracted financial derivatives to hedge the future interest flows of part of its mortgage loan portfolio remunerated at a floating rate. It also contracted derivative financial instruments to hedge future flows from the sale of part of its portfolio at fair value through other comprehensive income.

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

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

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

- The accumulated change in the fair value of the hedging instrument from the start of the hedge; and
- The accumulated change in the fair value of the hedged item, related to the risk hedged, from the start of the hedge.

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

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

Loan impairment

IFRS 9 determines that the concept of impairment based on expected losses is to be applied to all financial assets except for financial assets at fair value through profit or loss and equity instruments measured at fair value through other comprehensive income.

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

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

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

- or expected credit-risk loss to maturity, that is, the total estimated loss resulting from all possible default events throughout the life of the financial instrument (referred to as Stage 2 and Stage 3). A provision for expected credit-risk loss to maturity is required for a financial instrument if the credit risk of that financial instrument has increased significantly since the initial recognition or if the financial instrument is impaired.

The expected credit-risk loss is an estimate weighted by the probability of the present value of the loan losses. This estimate results from the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the effective interest rate of the financial instruments.

The Bank measures the expected loss individually or on a collective basis for portfolios of financial instruments that share similar risk characteristics. The measurement of the provision for losses is based on the present value of the expected cash flows of the asset determined using the original effective interest rate of the asset, regardless of being measured individually or collectively.

<u>Impaired financial assets</u>

A financial asset is impaired when one or more events that have a negative impact on the estimated future cash flows of the financial asset have occurred. Financial assets with a reduction of the recoverable amount of the loans are referred to as Stage 3 assets. The Bank adopted in 2021 the new definition of default as the criterion for the identification of Stage 3 loans, following the recommendation of EBA GL 2017/06. The internal definition of non-performing loans is governed by objective and subjective criteria and is used for the calculation of the regulatory capital using advanced credit-risk methods.

Purchased or originated credit-impaired (POCI) financial assets

Financial assets classified as POCI are treated differently, in that they are in an impaired situation. In the revaluation of the assets, the expected loss to maturity is applied. The associated interest is calculated by applying the effective interest rate to the net amount.

Significant increase of the credit risk

The Bank monitors all financial assets to assess whether there has been a significant increase of the credit risk since their initial recognition. If there has been a significant increase of the credit risk, the Bank estimates the provision for expected credit-risk loss to maturity (PDLT (lifetime)) and not over 12 months.

The Bank uses scoring and rating systems for internal credit-risk management. These notations 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 notations are defined using qualitative and quantitative factors that are indicative of the risk of default. The notations consider current characteristics and past events, and their significance for the level of risk is studied.

The Bank uses different criteria to determine if the credit risk has increased significantly per asset portfolio, in particular:

- Limits of relative variation of the accumulated PD for the residual maturity of the transaction. The limits of relative variation are differentiated by PD level to the extent that variations of risk in very low risk transactions may not represent a significant increase of the risk. It should be noted that customers with no alteration of the credit-risk rating can have a significant deterioration (accumulated PD variation above the defined limit) due to the evolution of the residual term (sensitivity of the transactions differentiated over time) or due to changes in future expectations regarding the economy.

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

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

Credit risk parameters

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

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

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

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

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

EAD is an estimate of exposure on a date of future default, considering the expected changes in the exposure after the reporting date. The Bank's modelling approach for EAD reflects the expected changes in the outstanding balance over the loan's lifetime exposure allowed by the current contractual terms, such as amortisation profiles, total or partial early repayment, and changes in the use of unused commitments before entry into default.

The Bank assesses the expected credit-risk loss for impairment-loss purposes, considering the risk of default during the maximum contractual period during which the entity is exposed to the credit risk. However, for financial instruments such as credit cards, credit lines and overdraft facilities that include a loan and an unused commitment component, the Bank’s contractual ability to demand repayment and to cancel the unused commitment does not limit the Bank’s exposure to loan losses during the contractual notice period. For such financial instruments, the Bank measures the expected credit-risk loss for the period historically observed to be the average life of these instruments.

Collective analysis

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

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 in 2021 and Euros 0.5 million in 2020) Stage 3 exposure (assets impaired and in default).

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

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

Incorporation of forward-looking information

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

For impairment-loss purposes, a pessimistic scenario (18.5%), the base scenario (63.1%) and an optimistic scenario (18.4%) are used. The Bank applies probabilities to the forecast scenarios identified. The base scenario is the most likely outcome and consists of information used by the Bank for strategic planning and budgeting. The estimates are updated at least once a year and are subject to annual monitoring exercises.

d) Leases

Right of use and lease liability measurement method

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

i. The lease liability is measured at the present value of the future rents to be incurred during the term of the contract, using a discount rate differentiated by maturity. Fixed payments, variable payments that depend on a rate or index, values relating to the exercise of the call option, are considered when estimating the liability, when the Bank is reasonably certain that it will exercise its right.

The lease liability is remeasured whenever a contractual change occurs, and the moment the lease liability is revalued the effects of the revaluation are recognised against the right-of-use (asset). If there is a change in the term of the contract or a change in the assessment of the exercise of the option, a new discount rate must be estimated, and the liability is consequently remeasured.

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

e) Property, plant and equipment

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

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

	Years of useful life
Premises	50
Equipment	4 to 10

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

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

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

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

Gains and losses on the sale of these assets are recognised under Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations.

f) Intangible assets

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

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

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

g) Investment property

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

Investment property is measured at fair value, determined by periodic valuations performed by specialised independent entities. Changes in the fair value of investment property is recognised directly in the statement of profit or loss for the year.

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

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

The Bank essentially recognises under the caption "Non-current assets and disposal groups classified as held for sale" real estate, equipment and other assets received by way of payment in kind or auction for the payment of overdue loan transactions when they are available for immediate sale in their present condition and there is a likelihood of their sale within a one-year period. If they do not meet these criteria, those assets are carried under the caption "Other assets" (Note 14).

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

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

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

The Bank does not recognise potential gains on these assets.

i) Provisions

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

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

j) Employee post-employment benefits

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

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

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

Employees of the former totta have always been enrolled in Social Security, and therefore the Bank's liability regarding the defined-benefit plan in respect of those employees has consisted of the payment of retirement supplements.

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

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

Following the approval by the Government of Decree-Law 127/2011, of December 31, a Tripartite Agreement has been established between the Government, the Portuguese Banks Association and the Bank Employees Union on the transfer to the sphere of Social Security of the liabilities for pensions payable to retirees and pensioners as at December 31, 2011.

This Decree-Law established that the liabilities to be transferred correspond to pensions payable as at December 31, 2011, at constant values (update rate of 0%) in the component provided for in the CBA. The liabilities in respect of the updates of the pensions, supplementary benefits, contributions to the SAMS on retirement and survivor pensions, death allowances and deferred survivor pensions are still the responsibility of the institutions.

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

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

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

On August 8, 2016, the Ministry of Labour published a new CBA in the Work and Employment Bulletin (BTE). The most significant changes were the following:

i) Change in the formula for determining the employer's contribution to the SAMS, which is no longer a percentage of the pension but rather a fixed amount (Euros 89.28 per beneficiary and Euros 38.64 in the case of pensioners); and
ii) Introduction of a new benefit called “End of career bonus” (pension bonus). This benefit, because it is allocated on the date of retirement or in the event of death, is considered a post-employment benefit and therefore comes to form part of the retirement liabilities.

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

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

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

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

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

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

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

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

k) Corporate Tax

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

Following the enactment of Law No. 2/2014, of January 16 (IRC Reform) and the wording given by the State Budget Law for 2021 (Law No. 75-B/2020, of December 31), the taxation of corporate profits for financial years 2021 and 2020, is as follows:

- CIT rate of 21% on taxable income;
- Municipal surcharge at a rate between 0% and 1.5% on taxable income;
- State surcharge at a variable rate on taxable income according to the following levels:
  - Up to Euros 1,500 thousand - 0%
  - between Euros 1,500 thousand and Euros 7,500 thousand - 3%
  - between Euros 7,500 thousand and Euros 35,000 thousand - 5%
  - more than Euros 35,000 thousand - 9%.

Therefore, the aforementioned changes implied that the tax rate used by the Bank in calculating and recording deferred taxes was 31%.

With the publication of the Supplementary Budget for 2020 (Law No. 27-A / 2020, of July 24), tax losses recorded in the tax years of 2020 and 2021 may be used in the subsequent twelve tax years. Additionally, the counting of the period for the tax loss carry forward is suspended for two tax years.

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

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

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

Since this new system is of an optional nature during a five-year adjustment period commencing on or after January 1, 2019, the expected adherence to the new tax regime, applicable in the matter of impairments of credit and other financial institutions, is dependent on a communication addressed to the Director General of the Tax and Customs Authority by the end of the tenth month of the current tax year (see Article 4.1 of this law). In this sense, the Bank adhered to the definitive regime established in Articles 2 and 3 of this law, in 2019.

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

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

Deferred tax liabilities are recognised on all taxable timing differences, except those related to: i) the initial recognition of goodwill; or ii) the initial recognition of assets and liabilities, which do not result from a business combination, and which at the date of the transaction do not affect the accounting or tax profit or loss.

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

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

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

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

The Board of Directors periodically reviews the position assumed in the preparation of the tax returns in relation to situations in which the application of the tax regime is subject to interpretation and assesses whether it is likely that the Tax Administration will accept the adopted tax treatment. The Bank measures the assets / liabilities arising from uncertain income tax positions, considering the most likely value or the expected value, whichever is more appropriate in each circumstance.

l) Banking sector contribution and Solidarity tax on the banking sector

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

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

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

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

   - Elements which in accordance with the applicable accounting standards are recognised as equity;
   - Liabilities associated with the recognition of defined benefit plan liabilities;
   - Liabilities for provisions;
   - Liabilities resulting from the revaluation of derivative financial instruments;
   - Deferred income, without considering those related to liability transactions and;
   - Liabilities for assets not derecognised in securitisation transactions.

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

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

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

m) Treasury shares

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

n) Equity instruments

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

Costs directly attributable to the issuance of equity instruments are recorded against equity as a deduction from the amount of the issuance. Amounts paid and received for purchases and sales of equity instruments are recorded under equity, net of transaction costs. Distributions made on account of equity instruments are deducted from equity as dividends when declared.

o) Earnings per share

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

For the calculation of diluted earnings per share, the weighted average number of outstanding common shares is adjusted to reflect the effect of all potential diluting common shares.

p) Provision of insurance brokerage services

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

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

q) Cash and cash equivalents

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

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

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

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

Employee post-employment benefits (Note 35)

Retirement and survivor pensions are estimated based on actuarial valuations carried out by external experts certified by the Insurance and Pension Fund Supervisory Authority (ASF). These estimates incorporate a set of financial and demographic assumptions, including the discount rate, mortality and invalidity tables, pension and salary growth, among others. The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities. Estimated salary and pension growths consider the country's current situation and the consequent prospect of smaller increases in the future, or even maintenance of current values. The mortality table used was based on the recommendation of the actuary.

The assumptions adopted correspond to the best estimate of the Bank's Board of Directors as to the future behaviour of the above variables.

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

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

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

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

Determination of impairment losses (Notes 9, 17 and 38)

Impairment losses on loans are calculated as indicated in Note 1.3 (c). In this way, the determination of impairment through individual analysis corresponds to the judgement of the Board of Directors regarding the economic and financial situation of its customers, and to its estimate of the value of the guarantees associated with the respective loans, with the consequent impact on expected future cash flows. The determination of impairment through collective analysis is performed based on parameters for comparable types of operations, such as instrument type, customer type, credit-risk level as measured by the rating or scoring system, type of collateral, date of initial recognition, relationship between loan and value of the guarantee (LTV), and inclusion of prospective information.

Non-current assets and disposal groups classified as held for sale and other assets (Notes 14 and 15)

Properties, equipment and other goods received as payment in kind or auction for the payment of overdue loan transactions are measured at the amount agreed by negotiation or judicial means, after deduction of the expenses the Bank expects to incur with their sale, or their quick-sale value, if lower. Properties are subject to periodic valuations conducted by independent evaluators that incorporate various assumptions, namely as regards the evolution of the property market and, where applicable, expectations as to the development of real-estate projects. The assumptions used in the valuation of these properties have an impact on their valuation and hence on the determination of the impairment. Whenever the value resulting from these valuations (net of selling expenses) is lower than the value at which the properties are accounted for, impairment losses are recorded.

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

Taxes (Note 13)

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

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

A provision is recognised where there is a present (legal or constructive) obligation resulting from past events in respect of which there will be a probable outflow of funds that can be determined reliably. The outcome of the legal proceedings in progress, as well as the respective amount of the provision corresponding to the best estimate of the amount to be disbursed to settle the liability on the statement of financial position date, is assessed in accordance with the opinion of the Bank's lawyers/legal advisers and decisions of the courts to date, which, however, might not come about. Regarding the restructuring plans, the charges arising from the constructive obligation of reorganising were considered, with the definition of the actions to be developed supported by a detailed formal plan with minimum elements of approach and quantification and identification of the impacted factors.

3. DISCLOSURES BY SEGMENTS

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

Corporate Investment Banking:

Essentially includes the Bank's business on the financial markets and with large enterprises, involving provision of financial advisory services, namely Corporate and Project Finance, as well as brokering, custody and settlement of securities services.

Retail Banking:

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

Corporate Banking:

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

Corporate Activities:

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

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

The breakdown of the statement of profit or loss by operating segment as at December 31, 2021 and 2020, is as follows:

	2021				
	Corporate Investment Banking	Retail Banking	Corporate Banking	Corporate Activities	Total
Net interest income	51,390	435,792	84,905	156,569	728,656
Dividend income	-	-	-	1,537	1,537
Share of the profit or loss of investments in subsidiaries, joint ventures and associates, accounted for under the equity method	-	-	-	4,231	4,231
Net fee and commission income	48,271	372,289	24,896	(13,312)	432,144
Gains/Losses on financial operations a)	9,175	6,528	634	124,950	141,287
Other operating income, net		2,685		6,938	9,623
Total operating income, net	**108,836**	**817,294**	**110,435**	**280,913**	**1,317,478**
Administrative expenses	(25,195)	(417,190)	(26,423)	(3,803)	(472,611)
Cash contributions to resolution funds and deposit guarantee schemes	-	-	-	(37,679)	(37,679)
Depreciation	(3,353)	(45,542)	(405)	-	(49,300)
Profit or loss before impairment and provisions	**80,288**	**354,562**	**83,607**	**239,431**	**757,888**
Impairment and provisions, net of reversals b)	(379)	(153,235)	(16,311)	(163,786)	(333,711)
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	14,006	14,006
Other profit or loss, net	-	-	-	(35,075)	(35,075)
Profit or loss before tax from continuing operations	**79,909**	**201,327**	**67,296**	**54,576**	**403,108**
Tax expense or income related to profit or loss from continuing operations	(24,771)	(62,412)	(20,862)	(24,569)	(132,614)
Profit or loss for the year	**55,138**	**138,915**	**46,434**	**30,007**	**270,494**

	2020				
	Corporate Investment Banking	Retail Banking	Corporate Banking	Corporate Activities	Total
Net interest income	74,074	469,195	85,280	156,401	784,950
Dividend income	-	-	-	1,734	1,734
Share of the profit or loss of investments in subsidiaries, joint ventures and associates, accounted for under the equity method	-	-	-	5,617	5,617
Net fee and commission income	45,927	340,836	23,389	(32,493)	377,660
Gains/Losses on financial operations a)	9,757	5,569	499	80,656	96,481
Other operating income, net	-	2,564	-	5,794	8,358
Total operating income, net	**129,758**	**818,164**	**109,168**	**217,710**	**1,274,800**
Administrative expenses	(23,387)	(454,310)	(37,845)	(3,891)	(519,433)
Cash contributions to resolution funds and deposit guarantee schemes	-	-	-	(35,624)	(35,624)
Depreciation	(3,265)	(46,891)	(1,860)	-	(52,016)
Profit or loss before impairment and provisions	**103,106**	**316,963**	**69,463**	**178,195**	**667,727**
Impairment and provisions, net of reversals b)	(2,024)	(4,373)	5,760	(269,104)	(269,740)
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	-	-	-	4,990	4,990
Other profit or loss, net	-	-	-	(34,495)	(34,495)
Profit or loss before tax from continuing operations	**101,082**	**312,591**	**75,223**	**(120,415)**	**368,482**
Tax expense or income related to profit or loss from continuing operations	(31,336)	(96,938)	(23,319)	40,860	(110,733)
Profit or loss for the year	**69,747**	**215,653**	**51,904**	**(79,555)**	**257,749**

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

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

b) This aggregate includes the following captions in the statement of profit or loss
- Provisions or reversal of provisions;
- Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss;
- Impairment or reversal of impairment of non-financial assets.

As at December 31, 2021 and 2020, the breakdown of the assets and liabilities allocated to each operational segment, in accordance with information used by the Bank's Management for decision-making, is as follows:

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

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

	31-12-2020				
	Corporate Investment Banking	Retail Banking	Corporate Banking	Corporate Activities	Total
Assets					
Financial assets at fair value through other comprehensive income - loans and advances	-	-	-	3,140,071	3,140,071
Financial assets at amortised cost					
Mortgage loans	-	20,669,687	-	-	20,669,687
Consumer loans	-	1,680,477	-	-	1,680,477
Other loans	3,742,161	6,326,349	6,121,296	20,170	16,209,975
Other balances receivable	-	52,845	-	1,207,598	1,260,443
Total allocated assets	**3,742,161**	**28,729,358**	**6,121,296**	**4,367,839**	**42,960,653**
Total non-allocated assets					11,442,756
Total Assets					**54,403,409**
Liabilities					
Financial liabilities at amortised cost					
Deposits - Central banks	-	-	-	6,791,820	6,791,820
Deposits - Credit institutions	-	-	-	1,548,969	1,548,969
Deposits - Customers	1,331,680	29,070,914	5,529,016	338,382	36,269,992
Debt securities issued	-	-	-	2,907,350	2,907,350
Total allocated liabilities	**1,331,680**	**29,070,914**	**5,529,016**	**11,586,521**	**47,518,131**
Total non-allocated liabilities					2,773,922
Total Liabilities					**50,292,053**
Guarantees and sureties given	**180,289**	**520,765**	**911,701**	**-**	**1,612,755**

As at December 31, 2021 and 2020, the Bank did not have relevant business in any geography besides that of the domestic business.

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

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

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE YEAR

As at December 31, 2021 and 2020, the subsidiaries and associated companies, and their most significant financial data, taken from the respective financial statements, excluding IAS/IFRS conversion adjustments, can be summarised as follows:

	Shareholding (%) Direct		Shareholding (%) Effective		Net assets		Shareholders' equity		Profit or loss for the year	
Company	31-12-2021	31-12-2020	31-12-2021	31-12-2020	31-12-2021	31-12-2020	31-12-2021	31-12-2020	31-12-2021	31-12-2020
BANCO SANTANDER TOTTA, S.A.	Holding	Holding	Holding	Holding	58,900,196	57,448,833	4,160,679	3,990,610	303,343	275,210
TOTTA (IRELAND), PLC (2)	100.00	100.00	100.00	100.00	568,046	536,675	460,490	461,336	1,088	1,455
TOTTAURBE - EMP. ADMIN. E CONSTRUÇÕES, S.A. (1)	100.00	100.00	100.00	100.00	99,856	134,313	96,928	127,726	(4,748)	583
TAXAGEST, SGPS, SA	99.00	99.00	99.00	99.00	55,737	55,746	55,732	55,744	(12)	(3)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	78.74	78.74	78.71	78.71	263,711	311,513	257,792	304,335	3,960	341
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	100.00	100.00	100.00	100.00	7,304	7,249	7,134	6,810	323	63
HIPOTOTTA NO. 4 PLC	-	-	-	-	511,024	562,050	(4,286)	(3,564)	(806)	1,088
HIPOTOTTA NO. 5 PLC	-	-	-	-	521,706	572,173	(12,849)	(10,508)	(2,307)	923
HIPOTOTTA NO. 4 FTC	-	-	-	-	450,577	500,515	447,251	499,365	1,928	168
HIPOTOTTA NO. 5 FTC	-	-	-	-	457,596	504,601	455,913	503,853	2,490	398
Operações de Securitização geridas pela GAMMA, STC	-	-	-	-	2,467,826	2,804,742	-	-	-	-
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.86	21.86	21.86	21.86	409,384	368,375	118,845	110,136	19,510	23,919
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	-	25.76	-	25.76	-	107,131	-	101,807	-	1,210

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

As at December 31, 2021 and 2020, the business, the location of the registered office, and the consolidation method used for the companies included in the consolidation were as follows:

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

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

(2) Due to this subsidiary having closed its financial year on November 30, the amounts reflected in the "Profit or loss for the year" columns correspond to the Net income determined between December 1 and December 31, 2021 (December 1 and December 31, 2020).

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

As at December 31, 2021 and 2020, the Novimovest Fund statement of financial position was as follows:

	31-12-2021	31-12-2020
Real estate portfolio	213,731	250,531
Accounts receivable	6,972	8,070
Cash and banks	42,901	52,874
Accruals and deferrals	107	38
	263,711	311,513
Fund capital	257,792	304,335
Adjustments and provisions	2,667	3,867
Accounts payable	1,037	1,461
Accruals and deferrals	2,215	1,850
	263,711	311,513

As at December 31, 2021 and 2020, the consolidated net income includes a profit of Euros 3,118 thousand and Euros 268 thousand, respectively, attributable to the Novimovest Fund.

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

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

The composition of this caption is as follows:

	31-12-2021	31-12-2020
Cash	341,297	336,121
Demand deposits at Central banks		
European Central Bank	8,141,015	3,932,058
Other demand deposits at credit institutions		
Demand deposits	229,077	267,636
	8,711,389	4,535,815

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

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

6. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

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

	31-12-2021	31-12-2020
Financial assets held for trading		
Derivatives with positive fair value	587,772	916,039
Financial liabilities held for trading		
Derivatives with negative fair value	605,331	941,528

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

As at December 31, 2021 and 2020, the following derivatives are recorded:

	31-12-2021				31-12-2020			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
OTC Markets								
Forwards								
Purchases	308,284	4,737	4,390	347	401,114	6,820	6,736	84
Sales	307,801				401,024			
Swaps								
Currency swaps								
Purchases	974,114	704	1,141	(437)	1,084,783	512	3,335	(2,823)
Sales	974,444				1,086,821			
Interest rate swaps	25,580,771	523,864	541,203	(17,339)	26,590,746	840,596	863,588	(22,992)
Equity swaps	686,516	37,864	38,006	(142)	705,726	26,014	25,869	145
Options								
Currency swaps								-
Purchases	120,523	1,559	1,571	(12)	7,961	309	311	(2)
Sales	120,523				7,961			
Equity swaps								
Purchases	16,262	1,177	1,180	(3)	46,765	2,115	2,113	2
Sales	16,262				46,765			
Caps & Floors	913,972	17,867	17,840	27	961,240	39,673	39,576	97
	30,019,472	587,772	605,331	(17,559)	31,340,906	916,039	941,528	(25,489)

As at December 31, 2021, the assets and liabilities captions relating to "Derivative financial instruments" are reduced by the amounts of, approximately, Euros 3,977 thousand and Euros 715 thousand "Credit Value Adjustments" and "Debit Value Adjustments", respectively (Euros 5,300 thousand and Euros 5,053 thousand as at December 31, 2020, respectively), in accordance with the method described in Note 38.

As at December 31, 2021 and 2020, almost all the trading derivative financial instruments were hedged back-to-back with Banco Santander, S. A..

7. NON-TRADING FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of this caption is as follows:

	Fair value	
Description	31-12-2021	31-12-2020
Equity instruments - residents	99,167	132,905

The movement under this caption during 2021 and 2020 was as follows:

	31-12-2020	Purchases	Amortisations/ Liquidations/Sales	Unrealised gains/losses	Realised gains/losses	31-12-2021
				(Note 28)		
Equity instruments - residents	132,905	498	(35,731)	1,137	358	99,167
	132,905	498	(35,731)	1,137	358	99,167

	31-12-2019	Purchases	Amortisations/ Liquidations/Sales	Unrealised gains/losses	Realised gains/losses	31-12-2020
				(Note 28)		
Debt instruments - residents	-	-	(3,013)	-	3,013	-
Equity instruments - residents	144,998	528	(13,185)	(2,209)	2,773	132,905
	144,998	528	(16,198)	(2,209)	5,786	132,905

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

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The composition of this caption is as follows:

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

	31-12-2020								
				Fair Value Reserve					
	Purchase cost	Interest receivable	Hedge adjustment	Positive	Negative	Total (Note 20)	Other	Impairment (Note 17)	Carrying amount
Debt instruments									
Issued by residents									
Public residents	3,527,984	62,248	58,098	463,036	(45)	462,991	36,676	-	4,147,997
Other residents	1,603	-	-	-	(78)	(78)	-	(14)	1,511
Issued by non-residents									
Public non-residents	309,246	1,416	-	31,315	-	31,315	-	-	341,977
	3,838,833	63,664	58,098	494,351	(123)	494,228	36,676	(14)	4,491,485
Equity instruments	72,154	-	-	480	-	480	-	-	72,634
	3,910,987	63,664	58,098	494,831	(123)	494,708	36,676	(14)	4,564,119
Loans and advances	2,300,000	31,153	314,480	494,438	-	494,438	-	-	3,140,071
	6,210,987	94,817	372,578	989,269	(123)	989,146	36,676	(14)	7,704,190

On December 31, 2020, the column “Other” included an amount of Euros 39,198 thousand, relating to an adjustment of a discontinued hedge, which underlying asset was sold in 2021 and the amount reclassified to profit or loss.

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

The movement under this caption during 2021 was as follows:

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

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

The public issuers' captions had the following characteristics:

	31-12-2021				31-12-2020			
Description	Purchase cost	Interest receivable	Gains/Losses and other	Carrying amount	Purchase cost	Interest receivable	Gains/Losses and other	Carrying amount
National public issuers								
. Maturing in up to three years	-	-	-	-	22,217	185	929	23,331
. Maturing between three and five years	1,797,461	49,681	268,459	2,115,601	593,309	3,379	44,735	641,423
. Maturing between five and ten years	155,129	1,848	13,918	170,895	2,911,971	58,680	512,146	3,482,797
. Maturing in more than ten years	487	4	(41)	450	487	4	(45)	446
Foreign public issuers								
. Maturing in up to three years	-	-	-	-	1,503	4	17	1,524
. Maturing between five and ten years	-	-	-	-	307,743	1,412	31,298	340,453
	1,953,077	51,533	282,336	2,286,946	3,837,230	63,664	589,080	4,489,974

As at December 31, 2021 and 2020, the Group's portfolio contained Portuguese Treasury Bonds in the amounts of Euros 99,868 thousand and Euros 535,499 thousand, respectively, used as collateral in funding operations (Note 16).

9. FINANCIAL ASSETS AT AMORTISED COST

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

	31-12-2021	31-12-2020
Securitised credit		
. Commercial paper	2,738,472	2,725,510
. Bonds	712,548	1,200,150
Interest receivable	11,122	15,704
Value adjustments of hedged assets	3,202	36,021
Commissions associated with amortised cost (net)	(930)	(1,021)
	3,464,414	3,976,364
Impairment of debt securities (Note 17)	(5,622)	(11,145)
	3,458,792	3,965,219

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

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

	31-12-2021	31-12-2020
Loans and advances - Customers		
To corporate customers		
Discounts and other securitised credit	337,554	412,444
Loans	8,420,936	8,085,223
Current account loans	796,595	826,486
Overdrafts	87,133	89,114
Factoring	1,689,031	1,675,690
Finance leasing	1,080,724	1,086,732
Other loans	30,554	47,989
To individuals		
Mortgage loans	21,852,263	20,603,727
Consumer loans and other	2,266,939	2,236,858
	36,561,729	35,064,263
Overdue loans and interest	386,389	451,255
Interest receivable	37,602	56,694
Values adjustments of hedged assets	2,605	21,143
Deferred expenses	134,381	108,086
Commissions associated with amortised cost (net)	(150,653)	(136,721)
	410,324	500,457
	36,972,053	35,564,720
Other balances receivable		
Margin accounts	587,536	865,734
Checks collectible	38,927	52,845
Sundry debtors and other cash equivalents	299,848	345,540
	926,311	1,264,119
Loans and advances - Credit institutions		
Deposits	13,174	13,173
Loans	17,242	7,127
Other applications	14	-
Purchase operations with resale agreement	26	-
Interest receivable	1	3
Deferred expenses/Deferred income	130	(7)
	30,587	20,296
Loans and advances	37,928,951	36,849,135
Impairment of loans and advances - customers and other balances receivable	(1,013,759)	(993,646)
Impairment of loans and advances - credit institutions	(117)	(126)
Impairment of loans and advances (Note 17)	(1,013,876)	(993,772)
	36,915,075	35,855,363

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

In the financial years ended December 31, 2021 and 2020, portfolios of loans granted to individuals and companies were sold, with a carrying amount of Euros 96,698 thousand and Euros 114,639 thousand, respectively. As a result of these transactions, in 2021 and 2020, gains were recorded in the net amount of Euros 6,376 thousand, and Euros 2,620 thousand, respectively (Note 17).

As at December 31, 2021 and 2020, the caption "Loans and advances - Customers – To individuals – Mortgage loans" included loans assigned to the autonomous property of the covered bonds issued by the Bank in the amounts of Euros 9,965,945 thousand and Euros 10,278,006 thousand, respectively (Note 16).

The movement under impairment losses during 2021 and 2020 is presented in Note 17.

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

	31-12-2021			31-12-2020		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Stage 1	33,733,999	(65,342)	0.19%	35,182,147	(92,478)	0.26%
Stage 2	6,400,716	(280,518)	4.38%	4,252,383	(163,132)	3.84%
Stage 3	1,258,650	(673,638)	53.52%	1,390,969	(749,307)	53.87%
	41,393,365	(1,019,498)		40,825,499	(1,004,917)	

As at December 31, 2021 and 2020, the non-productive assets, net of impairment, are detailed as follows by counterpart and default date:

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

31-12-2020					
Counterparties	Non-performing exposures, net	With reduced probability of payment, but not overdue or overdue by <= 90 days	Overdue > 90 days <= 180 days	Overdue > 180 days <= 5 years	Overdue > 5 years
Debt securities	**478**	**478**	-	-	-
Non-financial companies	478	478	-	-	-
Loans and advances	**641,184**	**388,861**	**11,675**	**194,753**	**45,895**
Public sector	1	1	-	-	-
Credit institutions	197	197	-	-	-
Other financial companies	71	20	2	39	10
Non-financial companies	442,821	294,685	4,172	122,413	21,551
Individuals	198,094	93,958	7,501	72,301	24,334
Total financial assets at amortised cost	**641,662**	**389,339**	**11,675**	**194,753**	**45,895**

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

The evolution that occurred in the exposure and in the impairment of financial assets at amortised cost in financial years 2021 and 2020, was as follows:

	Loans and advances at amortised cost				Impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 31-12-2019	37,343,803	2,022,691	1,622,680	40,989,174	64,526	72,855	784,127	921,508
Transfers:								
Stage 1 to 2	(755,816)	755,816	-	-	(2,576)	16,815	-	14,239
Stage 1 to 3	(42,407)	-	42,407	-	(319)	-	9,694	9,375
Stage 2 to 3	-	(55,117)	55,117	-	-	(3,716)	21,766	18,050
Stage 2 to 1	466,874	(466,874)	-	-	1,432	(20,191)	-	(18,759)
Stage 3 to 2	-	49,114	(49,114)	-	-	3,963	(18,141)	(14,178)
Stage 3 to 1	4,731	-	(4,731)	-	51	-	(1,777)	(1,726)
Change of business model	(2,331,153)	-	-	(2,331,153)	-	-	-	-
Idiosyncratic overlay	(2,433,000)	2,433,000	-	-	-	57,000	-	57,000
Macroeconomic overlay	-	-	-	-	39,400	46,700	47,300	133,400
Write-offs and sales	-	-	(133,327)	(133,327)	-	-	(91,621)	(91,621)
Origination, net of amortisations	2,929,115	(486,247)	(142,063)	2,300,805	(10,036)	(10,294)	(2,041)	(22,371)
Balance as at 31-12-2020	35,182,147	4,252,383	1,390,969	40,825,499	92,478	163,132	749,307	1,004,917
Transfers:								
Stage 1 to 2	(3.391.468)	3.391.468	-	-	(5,538)	128,291	-	122,753
Stage 1 to 3	(83,436)	-	83,436	-	(377)	-	21,856	21,479
Stage 2 to 3	-	(75,291)	75,291	-	-	(4,850)	29,986	25,136
Stage 2 to 1	847,539	(847,539)	-	-	2,311	(18,159)	-	(15,848)
Stage 3 to 2	-	46,146	(46,146)	-	-	6,436	(17,651)	(11,215)
Stage 3 to 1	3,003	-	(3,003)	-	129	-	(466)	(337)
Macroeconomic overlay	-	-	-	-	(39,400)	(46,700)	(47,300)	(133,400)
Overlay re-rating	(300,000)	300,000	-	-	-	15,000	-	15,000
Idiosyncratic overlay	378,700	(378,700)	-	-	-	11,900	-	11,900
Other	-	-	-	-	-	8,000	3,000	11,000
Write-offs and sales	-	-	(98,662)	(98,662)	-	-	(72,295)	(72,295)
Origination, net of amortisations	1,097,514	(287,751)	(143,235)	666,528	15,739	17,468	7,201	40,408
Balance as at 31-12-2021	33,733,999	6,400,716	1,258,650	41,393,365	65,342	280,518	673,638	1,019,498

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

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

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

- Bearing in mind an expected deterioration in companies' financial year 2020 accounts, a new re-rating overlay was recorded. This overlay led to a reclassification of Euros 300 million of exposure from stage 1 to stage 2 and an increase in impairment of Euros 15 million;
- The idiosyncratic overlay was updated, having been endowed with a new increase in impairment of Euros 11.9 million, essentially in the portfolio clients (clients with a risk manager) 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;

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

- At the end of the financial year, the Bank recalibrated the IFRS9 model (PD, LGD and EAD) and included the new macroeconomic scenarios in all PD and LGD models. With this update the model began to incorporate the expectations of the evolution of the economy and with this the macroeconomic overlay ceased to apply, with the corresponding impairment values being allocated to the respective exposures.

10. DERIVATIVES - HEDGE ACCOUNTING

The composition of this caption is as follows:

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

	31-12-2020					
	Carrying amount		Notional amount			
Type of financial instrument	Assets	Liabilities	Up to 3 months	Between 3 months and 1 year	More than 1 year	Total
Hedging derivative instruments						
Fair value hedging						
Interest rate swaps						
Liabilities and loans	250	85,727	441	329,362	2,752,466	3,082,269
Financial assets at fair value through other comprehensive inco	-	374,018	-	-	3,380,000	3,380,000
Equity swaps	563	-	10,512	20,503	15,750	46,765
Cash flow hedging						
Interest rate swaps						
Cash flows	22,906	-	-	3,000,000	-	3,000,000
Forward sale	-	62,538	2,049,092	-	-	2,049,092
	23,719	522,283	2,060,045	3,349,865	6,148,216	11,558,126

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

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

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

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

The derivatives contract may also include a collateralisation agreement of the credit risk generated by the transactions governed by it. It should be noted that the derivatives contract between two parties usually covers all OTC derivative transactions carried out between these two parties, be they used for hedging or not.
In accordance with the standard, parts of operations commonly known as "embedded derivatives" are also separated and accounted for as derivatives, in a manner such as to recognise the fair value of these operations in profit or loss.

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

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

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

11. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

The composition of this caption is as follows:

	31-12-2021		31-12-2020	
	Effective shareholding (%)	Carrying amount	Effective shareholding (%)	Carrying amount
Lusimovest - Fundo de Investimento Imobiliário	-	-	25.76	26,235
Unicre - Instituição Financeira de Crédito, S.A.	21.86	38,161	21.86	36,347
		38,161		62,582

As at December 31, 2021 and 2020, the financial investments held in Unicre included goodwill. The impairment test conducted on the goodwill at Unicre revealed no impairment losses in this financial investment.

Since the Bank did not vote in favour of extending the period of the Lusimovest Fund for a further five years, it requested the redemption of the 431,203 participation units which it held, which occurred in July 2021.

As of this day, there are no liabilities to be met vis-à-vis the associated companies, nor are there any contingent liabilities to be recognised by the Company arising from the holdings therein.

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

12. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The composition of this caption is as follows:

Investment property

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

As at December 31, 2021 and 2020, the properties held by the Novimovest Real Estate Fund had the following characteristics:

	31-12-2021	31-12-2020
Land		
Urbanised	21,044	13,485
Non-urbanised	1,015	1,141
Finished constructions		
Leased	142,239	172,173
Not leased	49,433	39,824
Other construction projects	-	23,908
	213,731	250,531

On the other hand, during the 2021 and 2020 years, the properties held by the Novimovest Real Estate Fund generated, among other, the following annual income and expenses:

	31-12-2021	31-12-2020
Lease rentals (Note 30)	10,287	9,991
Taxes	(798)	(485)
Condominium charges	(992)	(938)
Maintenance and repairs	(584)	(841)
Insurance	(137)	(132)
	7,776	7,595

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

The movement under the caption "Investment property", in 2021 and 2020, was as follows:

	2021				
	Balance as at 31-12-2020	Additions	Fair value adjustment	Sales	Balance as at 31-12-2021
Property held by Novimovest Fund	250,531	346	(654)	(36,492)	213,731

	2020				
	Balance as at 31-12-2019	Additions	Fair value adjustment	Sales	Balance as at 31-12-2019
Property held by Novimovest Fund	252,513	6,854	(2,564)	(6,272)	250,531

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

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

As at December 31, 2021 and 2020, the form of the determination of the fair value of the investment property in accordance with the levels set out in IFRS 13 is as follows:

	Level 3	
	31-12-2021	31-12-2020
Investment property	213,731	250,531

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

In accordance with the requirements established by IFRS 13, a summary of their main characteristics, the valuation techniques adopted and the most relevant inputs used in determining their fair value are presented below for the investment property with the highest value in the Group's portfolio as at December 31, 2021 and 2020:

Description of the property	Use	Value on 31-12-2021	Value on 31-12-2020	Valuation technique	Relevant inputs
Stª Cruz do Bispo - Lots 1, 2 & 3 Retail Park in Matosinhos	Leased	48,656	47,905	Comparative market method / Residual value method	Lease value per m2 Capitalisation rate
Galerias Saldanha Residence Shopping Centre in Lisbon	Leased	-	26,439	Income method / Comparative market method	Lease value per m2 Capitalisation rate
Armazém em Perafita Warehouse in Matosinhos	Leased	15,967	15,820	Income method / Comparative market method	Lease value per m2 Capitalisation rate
Av. Antero de Quental, 9 Offices and shop in Ponta Delgada	Leased	11,397	11,464	Income method / Comparative market method	Lease value per m2 Capitalisation rate
Estrada da Outurela, 119, Carnaxide Offices in Oeiras	Leased	11,141	11,072	Income method / Comparative market method Income method / Cost method	Lease value per m2 Capitalisation rate
Campos de Golf Vila Sol - G1 & G2 Golf Courses in Loulé	Leased	12,147	13,537	Income method / Cost method	Lease value per m2 Capitalisation rate
Land in Valongo	Under construction	10,185	10,426	Comparative market method / Cost method Residual value method	Land value and Construction and marketing cost per m2
		109,493	**136,663**		

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

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

OTHER PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The movement under these captions during financial years 2021 and 2020 can be presented as follows.

	2021														
	31-12-2020				Write-offs and sales		Transfer to/from other assets		Other			31-12-2021			
	Gross amount	Accumulated depreciation	Impairment	Acquisition	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Impairment	Depreciation	Gross amount	Accumulated depreciation	Impairment	Carrying amount
			(Note 17)				(Note 14)			(Note 17)				(Note 17)	
Property, plant and equipment															
Property															
. Property for own use	402,826	(141,579)	(23,623)	818	(3,910)	1,648	(64,161)	20,862	-	17,477	(7,910)	335,573	(126,979)	(6,146)	202,448
. Leasehold expenditure	26,770	(21,871)	-	206	(14,377)	14,192	(3,437)	1,215	-	-	(585)	9,162	(7,049)	-	2,113
. Rights of use (Note 16)	37,155	(12,335)	-	5,345	(1,101)	-	-	-	-	-	(4,519)	41,399	(16,854)	-	24,545
. Other property	167	(80)	-	-	-	-	-	-	-	-	(1)	167	(81)	-	86
	466,918	(175,865)	(23,623)	6,369	(19,388)	15,840	(67,598)	22,077	-	17,477	(13,015)	386,301	(150,963)	(6,146)	229,192
Equipment	170,388	(106,007)	-	12,048	(19,995)	12,153	(3,653)	1,240	(32)	-	(13,664)	158,756	(106,278)	-	52,478
Other equipment	2,184	(75)	-	-	(8)	-	-	-	-	-	(2)	2,176	(77)	-	2,099
	172,572	(106,082)	-	12,048	(20,003)	12,153	(3,653)	1,240	(32)	-	(13,666)	160,932	(106,355)	-	54,577
	639,490	(281,947)	(23,623)	18,417	(39,391)	27,993	(71,251)	23,317	(32)	17,477	(26,681)	547,233	(257,318)	(6,146)	283,769
Intangible assets															
Software	111,955	(77,235)	-	17,375	-	-	-	-	3,012	-	(22,619)	132,342	(99,854)	-	32,488
Other intangible assets	5,079	(4,386)	-	2,287	(2,377)	2,377	-	-	(2,980)	-	-	2,009	(2,009)	-	-
Goodwill	1,160	-	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	118,194	(81,621)	-	19,662	(2,377)	2,377	-	-	32	-	(22,619)	135,511	(101,863)	-	33,648

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

	2020														
	31-12-2019				Write-offs and sales		Transfer to/from other assets		Other			31-12-2020			
	Gross amount	Accumulated depreciation	Impairment	Acquisition	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Impairment	Depreciation	Gross amount	Accumulated depreciation	Impairment	Carrying amount
			(Note 17)				(Note 14)			(Note 17)				(Note 17)	
Property, plant and equipment															
Property															
. Property for own use	413,714	(137,398)	(6,146)	4,110	(15)	-	(14,983)	4,340	-	(17,477)	(8,521)	402,826	(141,579)	(23,623)	237,624
. Leasehold expenditure	28,211	(22,336)	-	404	(1,845)	1,860	-	-	-	-	(1,395)	26,770	(21,871)	-	4,899
. Other property	167	(79)	-	-	-	-	-	-	-	-	(1)	167	(80)	-	87
. Rights of use (Note 16)	41,288	(6,190)	-	2,037	(6,170)	-	-	-	-	-	(6,145)	37,155	(12,335)	-	24,820
	483,380	(166,003)	(6,146)	6,551	(8,030)	1,860	(14,983)	4,340	-	(17,477)	(16,062)	466,918	(175,865)	(23,623)	267,430
Equipment	159,795	(96,547)	-	16,774	(5,987)	4,652	(194)	81	-	-	(14,193)	170,388	(106,007)	-	64,381
Other equipment	2,184	(70)	-	-	-	-	-	-	-	-	(5)	2,184	(75)	-	2,109
	161,979	(96,617)	-	16,774	(5,987)	4,652	(194)	81	-	-	(14,198)	172,572	(106,082)	-	66,490
	645,359	(262,620)	(6,146)	23,325	(14,017)	6,512	(15,177)	4,421	-	(17,477)	(30,260)	639,490	(281,947)	(23,623)	333,920
Intangible assets															
Software	84,819	(55,479)	-	24,044	-	-	-	-	3,092	-	(21,756)	111,955	(77,235)	-	34,720
Other intangible assets	4,620	(4,386)	-	3,551	-	-	-	-	(3,092)	-	-	5,079	(4,386)	-	693
Goodwill	1,160	-	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	90,599	(59,865)	-	27,595	-	-	-	-	-	-	(21,756)	118,194	(81,621)	-	36,573

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

13. TAX ASSETS AND LIABILITIES

The composition of these captions is as follows:

	31-12-2021	31-12-2020
Current tax assets	2,459	47,924
Deferred tax assets	252,049	323,018
	254,508	370,942
Current tax liabilities	79,161	1,677
Deferred tax liabilities	265,686	373,314
	344,847	374,991
Deferred taxes	(13,637)	(50,296)

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

	31-12-2021	31-12-2020
Current taxes	(87,501)	(52,770)
Deferred taxes	(45,113)	(57,963)
	(132,614)	(110,733)

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

The movement under deferred tax assets and liabilities during the years ended December 31, 2021 and 2020, is as follows:

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

	Balance as at 31-12-2019	Other comprehensive income	Statement of profit or loss	Other	Balance as at 31-12-2020
Provisions/Impairment temporarily not accepted for tax purposes:					
. Deferred tax assets	188,261	-	(28,697)	-	159,564
. Deferred tax liabilities	(5,222)	-	-	-	(5,222)
Revaluation of tangible fixed assets:					
. Deferred tax assets	1,568	-	(138)	-	1,430
. Deferred tax liabilities	(2,123)	-	143	-	(1,980)
Tax losses carried forward	185,508	-	(15,000)	(157,699)	12,809
Pensions:					
. Change in accounting policy related to pensions	34,045	-	(17,022)	-	17,023
. Early retirement pensions	39,803	-	947	-	40,750
. Retirement pensions	4,113		508		4,621
. Transfer of pension liabilities to Social Security	3,878		(323)		3,555
Financial assets at fair value through other comprehensive income	(226,051)	(98,055)	(2,814)	-	(326,920)
Hedging derivatives - cash flows	16,436	(2,600)	-	-	13,836
Financial assets at fair value through profit or loss	37,517	-	8,270	-	45,787
Securitisation operations	(24,120)	-	143	-	(23,977)
Integration costs	10,530	-	(3,972)	-	6,558
Other	1,879	-	(8)	(1)	1,870
	266,022	(100,655)	(57,963)	(157,700)	(50,296)

To use the deferred taxes carried over from BANIF, on May 29, 2018, the Bank submitted a replacement Model 22 (Corporate Income Tax) return, regarding the 2015 financial year. The submission of that tax return was motivated by the calculation of the result of BANIF's 2015 financial year and the approval, by the Minister of Finance, of the request for the transfer of BANIF's deferred taxes to the Bank (as per Order No. 138/2018/MF, of March 9, 2018). However, by Order of the Deputy Director of the Major Taxpayers Unit dated November 26, 2019 ("Order of the Tax Authority"), the Bank was only recognised the right to use BANIF's deferred taxes for the years 2009 through 2014. As it disagreed with the Order of the Tax Authority, on January 13, 2020 the Bank filed a hierarchical appeal to the Minister of Finance. On June 30, 2020, the Sub-Director-General of the Tax Management - Income Taxes area decided to dismiss the hierarchical appeal submitted. Since the Order of the Tax Authority and the Order of the Sub-Director-General only recognised the Bank's right to take advantage of BANIF's deferred taxes in the total amount of Euros 92,301 thousand, the Bank may demand - under the agreement with the Portuguese authorities involved in Banif's resolution proceedings - a compensation of Euros 157,699 thousand, either in cash or treasury bills. To comply with this decision, the Bank transferred the amount in question, from this caption to the caption "Other balances receivable" (Note 9).

Dividends distributed to the Bank by subsidiaries and associated companies located in Portugal or in a European Union Member State are not taxed within the sphere of the prior as a result of the application of the arrangements provided for in Article 51 of the Corporate Tax Code that provides for the elimination of double taxation of distributed profits.

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

The Bank was subject to a tax inspection up to and including financial year 2018. As a result of the inspection of financial year 2017, it was subject to an additional Corporate Tax assessment. To cover for this assessment, the Bank created a provision in the amount of Euros 17,705 thousand (Note 17). In the matter of Stamp Duty, the Bank was also subject to an additional assessment. The corrections made to taxable income covered various matters and most are merely timing corrections.

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

The Santander Group decided to apply, as from 2017, the Special Taxation of Groups of Companies Regime (RETGS). This new regime is reflected in the algebraic sum of the tax profit or loss determined in the separate periodic returns of each company. The companies covered by this scheme are: Santander Totta, SGPS - the controlling company; and Taxagest, Banco, Santander Totta Seguros, TottaUrbe and Gamma - controlled companies.

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

14. OTHER ASSETS

The composition of this caption is as follows:

	31-12-2021	31-12-2020
Gold, other precious metals, coins and medals	3,145	3,145
Promises of payment in kind, auctions and other assets received as payment in kind	181,281	233,479
Income receivable and deferred income	24,232	20,947
Prepayments	3,117	1,486
Asset operations pending settlement	38,649	8,379
	250,424	267,436
Impairment losses of assets received as payment in kind (Note 17)	(102,088)	(103,285)
	148,336	164,151

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

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

	31-12-2021		31-12-2020	
	Other assets	Other liabilities (Note 19)	Other assets	Other liabilities (Note 19)
Values in transit and other transactions to be settled	19,080	(52,826)	1,885	(5,842)
SEPA transfers	48	(126,642)	30	(110,761)
Balances to be settled - ATM's	2,598	(69)	1,991	-
Other	16,923	(29,354)	4,473	(77,663)
	38,649	(208,891)	8,379	(194,266)

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

The movement under the caption “Promises of payment in kind, auctions and other assets received as payment in kind” during 2021 and 2020 was as follows:

	December 31, 2020					Transfers to/from NCAHS		Transfers/ property, plant	Impairment (Note 17)				December 31, 2021		
	Gross amount	Impairment	Net amount	Additions	Sales/ write-offs	Capital	Impairment	and equipment	Increases	Reversals	Use	Other	Gross amount	Impairment	Net amount
		(Note 17)				(Note 15)		(Note 12)						(Note 17)	
Assets received as payment in kind															
Real estate	51,356	(29,489)	21,867	-	-	(14,025)	5,299	-	-	-	-	-	37,331	(24,190)	13,141
Promises of payment in kind	1,856	(64)	1,792	147	(860)	(806)	-	-	(1,317)	183	861	-	337	(337)	-
Auctions	15,783	(6,316)	9,467	5,283	(2,287)	(11,966)	-	-	(1,681)	3,534	1,539	-	6,813	(2,924)	3,889
Other	32,546	(25,942)	6,604	5,308	(8,979)	(1,026)	-	-	(2,819)	3,371	1,371	-	27,849	(24,019)	3,830
Own real estate properties for sale	47,071	(29,980)	17,091	376	(18,086)	(37,457)	-	47,934	(1,183)	4,178	6,942	(5,728)	39,838	(25,771)	14,067
Other property for sale	84,867	(11,494)	73,373	-	(15,754)	-	-	-	(14,740)	-	1,387	-	69,113	(24,847)	44,266
	233,479	(103,285)	130,194	11,114	(45,966)	(65,280)	5,299	47,934	(21,740)	11,266	12,100	(5,728)	181,281	(102,088)	79,193

	December 31, 2019					Transfers to/from NCAHS		Transfers/ property, plant	Other		Impairment (Note 17)			December 31, 2020		
	Gross amount	Impairment	Net amount	Additions	Sales/ write-offs	Capital	Impairment	and equipment	Capital	Impairment	Increases	Reversals	Use and other	Gross amount	Impairment	Net amount
		(Note 17)				(Note 15)		(Note 12)							(Note 17)	
Assets received as payment in kind																
Real estate	64,026	(28,141)	35,885	-	-	(12,670)	(1,348)	-	-	-	-	-	-	51,356	(29,489)	21,867
Promises of payment in kind	1,976	(86)	1,890	193	-	(313)	-	-	-	-	(8)	30	-	1,856	(64)	1,792
Auctions	16,474	(5,203)	11,271	6,322	-	(7,013)	-	-	-	-	(1,181)	68	-	15,783	(6,316)	9,467
Other	33,454	(26,911)	6,543	4,453	(5,156)	(205)	-	-	-	-	(1,123)	1,013	1,079	32,546	(25,942)	6,604
Own real estate properties for sale	42,407	(27,467)	14,940	145	(6,237)	-	-	10,756	-	(4,061)	(1,842)	688	2,702	47,071	(29,980)	17,091
Other property for sale	97,206	(384)	96,822	-	(19,404)	-	-	-	7,065 a)	-	(11,961)	395	456	84,867	(11,494)	73,373
	255,543	(88,192)	167,351	11,113	(30,797)	(20,201)	(1,348)	10,756	7,065	(4,061)	(16,115)	2,194	4,237	233,479	(103,285)	130,194

A) Under the promissory purchase / sale agreement signed in November 2018 with Cerberus Capital Management (Tagus Project), the last sales deed was signed in March 2020; 143 properties were not sold and were returned to the portfolio of TottaUrbe as other assets, having an purchase cost of Euros 7,065 thousand.

As at December 31, 2021 and 2020, the typology of properties in the portfolio of assets received as payment in kind - real estate, is as follows:

	2021				2020			
Typology	No. properties	Gross amount	Impairment	Carrying amount	No. properties	Gross amount	Impairment	Carrying amount
Properties								
Urban land	5	1,094	(440)	654	16	2,014	(877)	1,137
Rural land	20	1,513	(810)	703	21	1,220	(862)	358
Constructed buildings								
.Residential	304	22,478	(14,845)	7,633	339	30,922	(18,072)	12,850
.Commercial	67	12,246	(8,095)	4,151	128	17,200	(9,678)	7,522
	396	37,331	(24,190)	13,141	504	51,356	(29,489)	21,867
Other properties for sale								
Urban land	591	34,127	(11,389)	22,738	757	39,220	(2,661)	36,559
Rural land	94	22,844	(12,348)	10,496	103	23,684	(7,065)	16,619
Constructed buildings								
.Residential	122	3,534	(76)	3,458	121	5,075	(16)	5,059
.Commercial	47	8,608	(1,034)	7,574	165	16,888	(1,752)	15,136
	854	69,113	(24,847)	44,266	1,146	84,867	(11,494)	73,373
	1,250	106,444	(49,037)	57,407	1,650	136,223	(40,983)	95,240

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

As at December 31, 2021 and 2020, the manner of determining the fair value of assets received as payment in kind in accordance with the levels defined in IFRS 13 is as level 3.

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

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

The movement under this caption during the years ended December 31, 2021 and 2020, was as follows:

	December 31, 2020				Transfers		Impairment (Note 17)			December 31, 2021		
	Gross amount	Accumulated impairment (Note 17)	Additions	Sales	Capital (Note 14)	Impairment (Note 17)	Increases	Reversals	Use and other	Gross amount	Accumulated impairment (Note 17)	Carrying amount
Assets received as payment in kind												
Real estate	92,345	(41,292)	5,474	(46,625)	27,823	(5,299)	(9,505)	3,903	10,320	79,017	(41,873)	37,144
Equipment	2,006	(1,599)	1,770	(1,369)	-	-	(878)	177	200	2,407	(2,100)	307
From own-use assets	-	-	-	-	37,457	-	-	-	-	37,457	-	37,457
	94,351	(42,891)	7,244	(47,994)	65,280	(5,299)	(10,383)	4,080	10,520	118,881	(43,973)	74,908

	December 31, 2019				Transfers		Impairment (Note 17)				December 31, 2020		
	Gross amount	Accumulated impairment (Note 17)	Additions	Sales	Capital (Note 14)	Impairment	Increases	Reversals	Use and other	Other transfers of impairment	Gross amount	Accumulated impairment (Note 17)	Carrying amount
Assets received as payment in kind													
Real estate	74,822	(31,223)	35,322 a)	(38,000)	20,201	1,348	(9,894)	7,750	12,514	(21,787) a)	92,345	(41,292)	51,053
Equipment	2,047	(1,603)	697	(738)	-	-	(269)	126	147	-	2,006	(1,599)	407
	76,869	(32,826)	36,019	(38,738)	20,201	1,348	(10,163)	7,876	12,661	(21,787)	94,351	(42,891)	51,460

a) Under the promissory purchase / sale agreement signed in November 2018 with Cerberus Capital Management (Tagus Project), the last sales deed was signed in March 2020; 269 properties were not sold and were returned to the Bank's portfolio as non-current assets held for sale, having an purchase cost of Euros 32,426 thousand and provisions of Euros 21,788 thousand.

In January 2022, the Bank entered into a promissory purchase / sale agreement of a central building (Ramalho Ortigão), which is on the statement of financial position for Euros 35 million.

As at December 31, 2021 and 2020, the typology of properties in the portfolio of assets received as payment in kind - real estate, is as follows:

	2021				2020			
Typology	No. properties	Gross amount	Impairment	Carrying amount	No. properties	Gross amount	Impairment	Carrying amount
Urban land	146	16,131	(9,094)	7,037	197	17,374	(6,711)	10,663
Rural land	84	19,214	(12,743)	6,471	89	20,584	(11,867)	8,717
Constructed buildings								
.Residential	233	27,352	(10,313)	17,039	202	34,981	(11,379)	23,602
.Commercial	72	16,323	(9,723)	6,600	147	19,406	(11,335)	8,071
	535	79,020	(41,873)	37,147	635	92,345	(41,292)	51,053

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

Real estate is subject to periodic valuations performed by independent appraisers. Whenever the amount arising from these valuations (net of selling expenses) is lower than the amount at which the properties are measured, impairment losses are recorded. If, on a subsequent date, the facts that led the Bank to record impairment losses no longer exist, the Bank will reverse the impairment losses, up to the limit of the amount that the assets would have, had they not been reclassified to non-current assets held for sale.

The valuations of these properties are carried out in accordance with one of the following methods, applied according to the specific situation of the asset:

a) Market method
The market comparison criterion is based on real-estate transaction figures for similar properties comparable to the property constituting the object of the study, obtained through market research conducted in the area where the property is located.

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

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

As at December 31, 2021 and 2020, 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.

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

16. FINANCIAL LIABILITIES AT AMORTISED COST

The “Deposits” sub-caption has the following composition:

	31-12-2021	31-12-2020
Deposits - Central banks		
Resources from Bank of Portugal - Deposits	7,401,255	6,781,961
Resources from other Central banks - Deposits	8,987	9,859
	7,410,242	6,791,820
Deposits - Credit institutions		
Resources from Credit institutions		
Short-term resources	130,673	52,970
Deposits	245,971	228,329
Sale operations with repurchase agreement	33	1,255,805
Other resources	16,598	11,571
Interest payable/prepayments	130	294
	393,405	1,548,969
Deposits - Customers		
Term deposits	14,062,767	14,533,260
Demand deposits	24,278,923	20,977,020
Structured deposits	8,231	38,643
Saving deposits	573,104	686,479
Other	30,840	27,421
Interest and charges payable	4,988	6,932
Value adjustments for hedging operations	51	237
	38,958,904	36,269,992
Deposits	**46,762,551**	**44,610,781**

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

As at December 31, 2021 and 2020, "Deposits – Credit institutions – Resources from Credit institutions - Sales operations with repurchase agreement", is broken down, by type of asset underlying the repo operations, as follows:

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

	31-12-2020			
	Capital	Interest	Prepayments	Total
Government Bonds - Portugal	535,640	(120)	(22)	535,498
Non-subordinated debt	669,696	(145)	(116)	669,435
Bonds issued by non-residents	50,872	-	-	50,872
	1,256,208	(265)	(138)	1,255,805

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

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

	31-12-2021			31-12-2020		
	Issued	Reacquired	Balance	Issued	Reacquired	Balance
Mortgage bonds						
Opening balance	8,800,000	(6,800,000)	2,000,000	8,050,000	(5,300,000)	2,750,000
Issued	-	-	-	1,500,000	-	1,500,000
Reacquired	-	-	-	-	(1,500,000)	(1,500,000)
Redeemed	(200,000)	200,000	-	(750,000)	-	(750,000)
Closing balance	8,600,000	(6,600,000)	2,000,000	8,800,000	(6,800,000)	2,000,000
Interest payable	-	-	9,339	-	-	9,314
Cost-related commissions	-	-	(18,674)	-	-	(23,161)
	8,600,000	(6,600,000)	1,990,665	8,800,000	(6,800,000)	1,986,153
Bonds issued in the scope of securitisation operations						
Opening balance	3,806,917	(3,192,235)	614,682	4,269,015	(3,525,534)	743,481
Redeemed	(432,759)	354,395	(78,364)	(462,098)	333,299	(128,799)
Closing balance	3,374,158	(2,837,840)	536,318	3,806,917	(3,192,235)	614,682
Interest payable	-	-	-	-	-	676
Cost-related commissions	-	-	(41,992)	-	-	(48,659)
	3,374,158	(2,837,840)	494,326	3,806,917	(3,192,235)	566,699
Structured bonds						
Opening balance	8,227	-	8,227	8,227	-	8,227
Issued	183,000	-	183,000	-	-	-
Reacquired	-	(116)	(116)	-	-	-
Closing balance	191,227	(116)	191,111	8,227	-	8,227
Interest payable	-	-	2,796	-	-	97
Value adjustments for hedging operations	-	-	100	-	-	250
	191,227	(116)	194,007	8,227	-	8,574
Subordinated liabilities						
Opening balance	554,791	(209,100)	345,691	522,099	(225,362)	296,737
Issued	-	-	-	320,000	-	320,000
Redeemed	(227,192)	209,100	(18,092)	(287,308)	16,262	(271,046)
Closing balance	327,599	-	327,599	554,791	(209,100)	345,691
Interest payable	-	-	150	-	-	233
	327,599	-	327,749	554,791	(209,100)	345,924
	12,492,984	(9,437,956)	3,006,747	13,169,935	(10,201,335)	2,907,350

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

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

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

Between May 2008 and December 2021, the Bank undertook twenty-six covered bond issuances under the "€ 12,500,000,000 Covered Bonds Programme". As at December 31, 2021 and 2020, the covered bonds had an autonomous set of net assets consisting of:

	31-12-2021	31-12-2020
Loans and advances (Note 9)	9,965,945	10,278,006
Loan interest	5,082	6,682
Derivatives	(54,776)	(184,234)
	9,916,251	10,100,454

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

	31-12-2021	31-12-2020
Cheques and orders payable	49,323	62,261
Creditors and other resources		
Creditors for futures operations	21,347	8,494
Contributions to other health systems	1,610	1,788
Public sector	34,537	31,222
Creditors under factoring contracts	62,137	47,418
Creditors for supplies of goods	1,969	2,266
Creditors for values payable	16,858	21,612
Other	6,664	5,363
Commitments for future rents (application of IFRS 16)	24,830	25,232
	219,275	205,656

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

Commitments for future rents corresponds to the adoption of IFRS 16, and their movement during the 2021 and 2020 years was as follows:

	Lease liability	Right of use (Note 12)
Balance as at December 31, 2019	**35,356**	**35,098**
Depreciation 2020	(6,557)	(6,145)
Outs	(5,604)	(6,170)
Ins	1,617	1,617
Rent extensions and modifications	420	420
Balance as at December 31, 2020	**25,232**	**24,820**
Depreciation 2021	(4,575)	(4,519)
Outs	(1,172)	(1,101)
Ins	2,345	2,345
Rent extensions and modifications	3,000	3,000
Balance as at December 31, 2021	**24,830**	**24,545**

As at December 31, 2021 and 2020, the contractual cash flows are as follows:

	31-12-2021	31-12-2020
.Up to 1 year	4,663	3,801
.Up to 2 years	4,402	3,584
.Up to 3 years	4,160	3,372
.Up to 4 years	3,116	2,810
.Up to 5 years	3,005	2,621
.More than 5 years	5,484	9,044
	24,830	25,232

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

17. MOVEMENT UNDER PROVISIONS AND IMPAIRMENT

The movement under Provisions during the 2021 and 2020 years was as follows:

	2021					
	31-12-2020	Increases	Reversals	Use	Transfers/Other	31-12-2021
Impairment for guarantees and commitments given (Note 23)	57,466	4,645	(10,933)	-	-	51,178
Restructuring	54,369	220,000		(187,165)	-	87,204
Other provisions	119,489	70,015	(40,316)	(56,909)	(28,851)	63,428
	231,324	294,660	(51,249)	(244,074)	(28,851)	201,810

	2020					
	31-12-2019	Increases	Reversals	Use	Transfers/Other	31-12-2020
Impairment for guarantees and commitments given (Note 23)	53,249	6,289	(2,072)	-	-	57,466
Restructuring	62,277	20,000	-	(27,908)	-	54,369
Other provisions	107,503	49,150	(7,518)	(10,864)	(18,782)	119,489
	223,029	75,439	(9,590)	(38,772)	(18,782)	231,324

The amount presented under the restructuring concept as at December 31, 2021 is intended to cover the commitments already assumed and disclosed to employees.

As at December 31, 2021 and 2020, the breakdown of Other Provisions was as follows:

	31-12-2021	31-12-2020
Pensions and other post-employment defined benefit obligations	14,268	14,201
Tax issues (Note 13)	17,955	10,642
Legal issues and pending tax disputes	2,065	32,990
Other provisions	29,140	61,656
	63,428	119,489

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

In 2021, the Bank undertook a profound operational and commercial transformation plan, adapting to the new competitive, more digital context, with a significant investment in process simplification and technology, oriented to the improvement of the quality of service, and which allowed the optimisation of the branch network (-79), and consequent reduction of staff numbers (-1,175). To implement this transformation plan, a provision of Euros 235 million (Euros 220 million under the restructuring concept and Euros 15 million under the concept of other provisions) was recorded in the first quarter, which was added to the one already constituted at the end of 2020 in the amount of Euros 66 million (Euros 20 million under the concept of restructuring and Euros 46 million under the concept of other provisions). The amounts concerned were used to reduce the staff numbers, Euros 187 million, to optimise the branch network, Euros 23 million, and for the operational and commercial transformation, Euros 36 million.
In addition, in 2021 the Bank transferred Euros 22.5 million as first allocation to the Fundação Santander Portugal (Foundation).

The movement under Impairment during the 2021 and 2020 years was as follows:

	2021						
	31-12-2020	Increases	Reversals of impairment losses	Use and others	31-12-2021	Recoveries of past due loans and other	Gain/loss from loan sales
Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss:							
Impairment of debt securities (Note 9)	11,145	8,576	(14,099)		5,622	-	-
Impairment of loan and advances (Note 9)	993,772	435,181	(346,062)	(69,015)	1,013,876	(3,735)	(6,376)
Impairment of financial assets at fair value through other comprehensive income (Note 8)	14	73	(35)		52	-	-
	1,004,931	443,830	(360,196)	(69,015)	1,019,550	(3,735)	(6,376)
Impairment or reversal of impairment of non-financial assets:							
Property, plant and equipment (Note 12)	23,623	-	-	(17,477)	6,146	-	-
Other assets (Note 14)	103,285	21,740	(11,266)	(11,671)	102,088	-	-
Non-current assets held for sale (Note 15)	42,891	10,383	(4,080)	(5,221)	43,973	-	-
	169,799	32,123	(15,346)	(34,369)	152,207	-	-

	2020						
	31-12-2019	Increases	Reversals of impairment losses	Use and others	31-12-2020	Recoveries of past due loans and other	Gain/loss from loan sales
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss:							
Impairment of debt securities (Note 9)	4,057	7,088	-	-	11,145	-	-
Impairment of loan and advances (Note 9)	917,451	492,170	(301,563)	(114,286)	993,772	(7,317)	(2,620)
Impairment of financial assets at fair value through other comprehensive income (Note 8)	89	56	(131)	-	14	-	-
	921,597	499,314	(301,694)	(114,286)	1,004,931	(7,317)	(2,620)
Impairment or reversal of impairment of non-financial assets:							
Property, plant and equipment (Note 12)	6,146	-	-	17,477	23,623	-	-
Other assets (Note 14)	88,192	16,115	(2,194)	1,172	103,285	-	-
Non-current assets held for sale (Note 15)	32,826	10,163	(7,876)	7,778	42,891	-	-
					-	-	
	127,164	26,278	(10,070)	26,427	169,799	-	-

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

18. SHARE CAPITAL REPAYABLE ON DEMAND

As at December 31, 2021 and 2020, this caption represented the participation units of the Novimovest Fund not owned by the Group.

19. OTHER LIABILITIES

The composition of this caption is as follows:

	31-12-2021	31-12-2020
Staff expenses		
Holiday pay and subsidy	36,152	41,294
Other variable remuneration	27,858	20,226
End of career award (BAPOP)	1,111	1,377
Other staff expenses	3,141	3,918
Other charges	69,181	94,018
Deferred income	10,163	9,687
Liabilities with pensions and other benefits (Note 35)		
Santander liabilities	1,155,946	1,123,784
Santander Pension Fund book value	(1,164,211)	(1,143,046)
London Branch liabilities	52,915	56,628
London Branch Pension Fund book value	(49,938)	(48,718)
Banif liabilities	167,108	160,544
Banif Pension Fund book value	(92,220)	(93,369)
BAPOP liabilities	185,616	181,921
BAPOP Pension Fund book value	(194,073)	(186,718)
Liability operations to be settled	8,616	17,636
Other (Note 14)	208,891	194,266
	426,256	433,448

As at December 31, 2021, "Other charges" correspond, essentially, to expenses related to the normal activity of the Bank.

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

20. EQUITY

As at December 31, 2021 and 2020, the Bank's share capital was represented by 1,256,723,284 shares, each with a par value of Euro 1, fully subscribed and paid up by the following shareholders:

	31-12-2021			31-12-2020		
	Number of shares	Shareholding %	Amount	Number of shares	Shareholding %	Amount
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%	1,241,180	1,241,179,513	98.76%	1,241,180
Treasury shares	15,016,375	1.19%	15,016	15,009,840	1.19%	15,009
Other	527,396	0.04%	527	533,931	0.04%	534
	1,256,723,284	100.00%	1,256,723	1,256,723,284	100.00%	1,256,723

During 2021, the Bank purchased 6,535 treasury shares for Euros 30 thousand.

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

The "Equity instruments issued other than share capital" refer to the ancillary capital contributions granted by the shareholder Santander Totta, SGPS, S.A., which neither bear interest nor have a defined reimbursement period. Those contributions can be reimbursed only by resolution of the Board of Directors, upon prior authorisation of the Bank of Portugal.

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

As at December 31, 2021 and 2020, the breakdown of the Accumulated other comprehensive income reserves was as follows:

	31-12-2021	31-12-2020
Other accumulated comprehensive income		
Other comprehensive income - Gross amount		
Financial assets at fair value through other comprehensive income (Note 8)	680,592	989,146
Revaluation reserves of companies under the equity method	1,406	2,413
Cash-flow hedging instruments	(1,008)	(44,631)
Actuarial gains or losses (Note 35)		
BST Pension Fund	(758,860)	(795,764)
London Branch Pension Fund	(11,530)	(16,573)
Banif Pension Fund	(41,238)	(43,248)
BAPOP Pension Fund	(1,503)	(7,464)
Actuarial gains or losses of companies under the equity method	(2,190)	(3,960)
	(134,331)	79,919
Other comprehensive income - Tax effect		
For timing differences		
Reserves resulting from the fair value valuation of:		
Financial assets at fair value through other comprehensive income	(210,410)	(305,705)
Revaluation reserves of companies under the equity method	(358)	(615)
Cash-flow hedging instruments	313	13,836
Tax effect of actuarial gains or losses	204,286	204,286
Tax effect of actuarial gains or losses of companies under the equity method	956	919
	(5,213)	(87,279)
	(139,544)	(7,360)

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

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

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

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

	31-12-2021	31-12-2020
Retained earnings	1,608,681	951,973
Other reserves		
Legal reserve	539,357	511,836
Reserves of companies consolidated	157,654	161,092
Reserves of companies under the equity method	11,729	8,045
Merger reserves		
By incorporation of totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
By incorporation of BAPOP	(8,411)	(8,411)
Other reserves	(397,978)	27,494
	969,610	1,367,315

Retained earnings

As at December 31, 2021, this caption recognises profits or losses of prior years not distributed (see “Other reserves”).

Legal reserve

In accordance with the provisions of Decree-Law 298/92, of December 31, amended by Decree-Law 201/2002, of September 26, the Bank sets aside a legal reserve until it equals the share capital or the sum of the free reserves formed and of the retained earnings, if greater. To this end, a fraction of not less than 10% of the profit or loss for the year of the Company’s separate business is annually transferred to this reserve, until said amount is achieved. This reserve may only be used to cover accumulated losses or to increase the share capital.

Merger reserve

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

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

Other reserves

This caption includes the revaluation reserves. In 1998, under Decree-Law 31/98, of February 11, the Bank revalued its Property, Plant and Equipment, increasing their value, net of accumulated depreciation, by approximately Euros 23,245 thousand, which was recorded in revaluation reserves. The net amount resulting from the revaluation carried out can only be used for share capital increases or to cover losses, as and when they are used (amortised) or the assets to which they relate are sold. Additionally, this caption includes, since 2021, the impacts of accounting policy changes and the impacts originated by the sale of equity instruments. As at December 31, 2020, these amounts were recorded under the caption "Retained earnings".

21. PROFIT OR LOSS ATTRIBUTABLE TO OWNERS OF THE PARENT

In financial years 2021 and 2020, the determination of the consolidated profit can be summarised as follows:

	31-12-2021		31-12-2020	
	Profit or loss for the year	Contribution to the consolidated profit or loss	Profit or loss for the year	Contribution to the consolidated profit or loss
Profit or loss of the Bank (individual basis)	303,343	303,343	275,210	275,210
Profit or loss of other Group companies:				
Totta (Ireland), Plc.	8,278	8,278	9,214	9,214
Novimovest - Fundo de Investimento Imobiliário Aberto	3,960	3,118	341	268
Unicre, Instituição Financeira de Crédito, S.A.	19,510	4,265	23,919	5,229
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	323	323	63	63
Totta Urbe, Empresa de Administração e Construções, S.A.	(4,748)	(4,748)	583	583
Lusimovest Fundo de Investimento Imobiliário	-	-	1,210	312
Taxagest, S.A.	(12)	(11)	(3)	(3)
	27,312	11,225	35,327	15,666
Elimination of intragroup dividends received:				
Totta (Ireland), Plc.		(9,124)		(6,853)
Unicre, Instituição Financeira de Crédito, S.A.		(4,704)		(3,192)
Totta Urbe, Empresa de Administração e Construções, S.A.		(26,270)		
		(40,098)		(10,045)
Adjustments related to securitisation operations		(2,421)		(18,635)
Other		(1,555)		(4,447)
Consolidated profit or loss attributable to the shareholders of the parent		270,494		257,749

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

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

	31-12-2021	31-12-2020
Consolidated profit or loss attributable to the shareholders of the parent	270,494	257,749
Weighted average number of ordinary shares issued	1,256,723,284	1,256,723,284
Weighted average number of treasury shares	15,016,375	15,009,857
Weighted average number of ordinary shares outstanding	1,241,712,110	1,241,713,427
Basic earnings per share attributable to the shareholders of the Bank (Euros)	0.22	0.21

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

22. MINORITY INTERESTS [NON-CONTROLLING INTERESTS]

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

	31-12-2021	31-12-2020
Taxagest, S.A.	557	557
Other	69	70
	626	627

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

23. OFF-BALANCE SHEET ACCOUNTS

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

	31-12-2021	31-12-2020
Guarantees given and other contingent liabilities		
Guarantees and sureties	330,997	648,253
Commitments for credit granted		
Revocable	6,378,768	6,140,567
Irrevocable	565,980	949,459
	6,944,748	7,090,026
Other commitments granted		
Non-financial guarantees and sureties	1,346,113	964,502
Documentary credits outstanding	315,004	363,131
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	6,736	7,507
Other commitments granted	-	200,215
	1,736,822	1,604,324
	9,012,567	9,342,603
Assets pledged as guarantee		
Bank of Portugal	152,926	148,206
Deposit Guarantee Fund	78,205	87,998
Investor Indemnity System	8,342	8,516
Assets pledged as guarantee in monetary policy operations	16,496,874	15,995,107
	16,736,347	16,239,827
Liabilities for services provided		
Deposit and custodianship services	41,779,767	40,923,924
Instruments received for collection	617,382	444,411
Other values	151,679	113,603
	42,548,828	41,481,938

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

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 and other commitments granted have the following exposure per stage:

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

	31-12-2020							
	Exposure				Impairment (Note 17)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commitments for credit granted	6,485,022	596,264	8,740	7,090,026	4,618	658	13	5,289
Financial guarantees	570,269	36,870	41,114	648,253	541	434	25,587	26,562
Other commitments granted	1,400,980	52,668	150,676	1,604,324	361	149	25,105	25,615
	8,456,271	685,802	200,530	9,342,603	5,520	1,241	50,705	57,466

Deposit Guarantee Fund

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

Until 2011, as permitted by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Deposit Guarantee Fund, having also entered an irrevocable commitment to the Deposit Guarantee Fund to pay up the 10 % of the annual contribution, if and when so requested. The accumulated unpaid amount, in respect of which this commitment was entered into, totalled Euros 68,969 thousand. The assets pledged to the Bank of Portugal are reflected under off-balance sheet captions at their market value. In 2021 and 2020, the Bank paid 100% of the annual contribution in the amounts of Euros 50 thousand and Euros 48 thousand, respectively (Note 32).

Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as expenses. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at December 31, 2021 and 2020, these liabilities amounted to Euros 6,736 thousand and Euros 7,507 thousand, respectively.

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

24. NET INTEREST INCOME

The composition of this caption is as follows:

	2021	2020
Interest income		
Interest on cash and deposits at Central banks and Credit institutions	-	133
Interest on non-trading financial assets mandatorily at fair value through profit or loss	322	288
Interest on financial assets at fair value through other comprehensive income	134,965	148,044
Interest on financial assets at amortised cost		
Loans and advances - Credit institutions	127	1,440
Debt securities	53,243	59,458
Loans and advances - Customers	544,566	602,497
Interest on resources at Central banks and other Credit institutions	72,911	24,984
Interest on hedging derivatives	205,090	274,477
Other	940	1,985
	1,012,164	1,113,306
Interest expense		
Interest on financial liabilities at amortised cost		
Deposits - Credit institutions	(5,002)	(5,522)
Deposits - Customers	(6,360)	(19,824)
Debt securities issued	(37,225)	(34,574)
Interest on assets of Central banks and Credit institutions	(21,646)	(8,299)
Interest on assets of Individuals	(2,428)	(925)
Interest on hedging derivatives	(202,820)	(244,512)
Interest on lease liabilities	(398)	(565)
Other	(7,629)	(8,163)
	(283,508)	(328,356)
	728,656	784,950

25 DIVIDEND INCOME

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

	2021	2020
SIBS – Sociedade Interbancária de Serviços, S.A.	1,533	1,733
Other	4	1
	1,537	1,734

26. SHARE OF THE PROFIT OR LOSS OF INVESTMENTS IN SUBSIDARIES, JOINT VENTURES AND ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The composition of this caption is as follows:

	2021	2020
Unicre - Instituição Financeira de Crédito, S.A.	4,194	5,305
Lusimovest - Fundo de Inv. Imobiliario	37	312
	4,231	5,617

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

27. INCOME AND EXPENSES FROM FEES AND COMMISSIONS

The composition of this caption is as follows:

	2021	2020
Fee and commission income		
On guarantees given	16,795	17,189
On commitments to third parties	6,708	4,849
On banking services rendered		
Deposit and custodianship services	6,142	6,067
Collection and administration of values	15,112	15,137
Real estate and mutual fund management	33,088	24,159
Transfers of svalues	1,942	1,542
Card management	130,370	119,034
Loan operations	52,201	48,612
Other services rendered	11,315	11,785
On operations carried out on behalf of third parties		
On securities	15,177	15,471
Other	77	82
Other commissions received		
Intermediation for insurance companies (Note 34)	114,291	100,783
Demand deposits	101,441	93,870
Checks	5,180	5,565
Other	23,852	20,330
	533,691	484,475
Fee and commission expenses		
On guarantees received	(4,193)	(4,313)
On banking services rendered by third parties		
Collection and administration of values	(1,674)	(4,860)
Card management	(67,101)	(64,132)
Loan operations	(4,192)	(2,739)
Other services rendered	(7,803)	(2,615)
On operations carried out on behalf of third parties		
On securities	(3,520)	(3,390)
Other	(6,451)	(7,016)
Other commissions paid	(6,613)	(17,750)
	(101,547)	(106,815)

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

28. GAINS OR LOSSES ON FINANCIAL ASSETS AND LIABILITIES

The composition of these captions is as follows:

	2021	2020
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or	**129,180**	**90,879**
Gains or losses of financial assets at fair value through other comprehensive income - Debt instruments	126,898	89,757
Financial assets at amortised cost - Debt securities	2,242	-
Other	40	1,122
Gains or losses on financial assets and liabilities held for trading, net	**(4,409)**	**(9,299)**
Derivative instruments	(4,409)	(9,299)
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss, net	**2,991**	**3,577**
Debt securities	-	3,013
Equity instruments	1,495	564
Other	1,496	-
Gains or losses from hedge accounting, net	**-**	**-**
Hedging derivatives	(171,854)	(202,144)
Hedged element	171,854	202,144
Exchange differences, net	**13,505**	**11,192**

In financial years ended December 31, 2021 and 2020, the gains recorded in the caption "Financial assets at fair value through other comprehensive income" were justified, essentially, by the sale of public debt bonds. The Bank had forward sales operations in the amount of Euros 62,538 million (Note 10), with the amount recorded in this caption reflecting the contracted value.

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

The composition of this caption is as follows:

	2021	2020
Gains on investment property	665	383
Losses on investment property	(708)	(251)
	(43)	132

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

30. OTHER OPERATING INCOME AND EXPENSES

The composition of this caption is as follows:

	2021	2020
Other operating income		
Income from services rendered	2,323	2,303
Rents earned	10,290	10,296
Fair value changes of investment property	2,455	3,997
Other	4,544	3,461
	19,612	20,057
Other operating expenses		
Fair value changes of investment property	(3,109)	(6,561)
Charges with customers	(3,017)	(3,339)
Other	(3,863)	(1,799)
	(9,989)	(11,699)

During 2021 and 2020, the caption "Rents earned" included the amounts of Euros 10,287 thousand and Euros 9,991 thousand, respectively, in respect of the rents earned by the Novimovest Real Estate Fund (Note 12).

In the caption "Charges with customers" are recorded expenses with internal and external fraud.

31. ADMINISTRATIVE EXPENSES

The composition of this caption is as follows:

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

Staff expenses

	2021	2020
Remuneration		
Management and supervisory boards	6,563	4,684
Employees	200,735	222,244
Other variable remuneration	24,731	14,600
	232,029	241,528
Mandatory social charges		
Charges on remuneration	30,709	61,165
Pension Funds (Note 35)	7,889	8,178
Other	1,068	1,119
	39,666	70,462
Other staff expenses		
Complementary pension plan (Note 35)	370	537
Staff transfers	1,162	1,247
Other	6,191	8,021
	7,723	9,805
	279,418	321,795

Other administrative expenses

	2021	2020
External services:		
Specialised services	71,549	73,659
Maintenance of software and hardware	68,935	58,623
Other lease operations (short-term and low-value leases)	4,287	4,287
Communications	6,747	7,716
Advertising and publishing	6,134	12,419
Travel, lodging and representation expenses	2,162	2,875
Maintenance and repairs	3,756	4,755
Transportation	3,972	4,599
Insurance	1,887	2,396
Other services	5,849	5,681
External supplies	7,431	9,947
Subscriptions and donations	6,767	6,600
Other taxes	3,717	4,081
	193,193	197,638

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

Statutory Audit Firm

The fees billed or to be billed by the audit firm and respective firms in the same network, in 2021 and 2020, excluding the Value Added Tax, were as follows:

	2021			2020		
	Bank	Group	Total	Bank	Group	Total
Audit and statutory audit	1,655	70	1,724	1,350	69	1,419
Other assurance services	1,128	-	1,128	998	-	998
Tax consulting services	-	-	-	-	-	-
Other services	389	-	389	190	-	190
	3,172	70	3,241	2,538	69	2,607

The above amounts correspond to those contracted for the financial year, irrespective of their billing date.

"Other assurance services" include fees for the following services:

i) Assessment of the impairment of the loan portfolio, as required by Bank of Portugal Instruction No. 5/2013;
ii) Limited review of the quarterly financial information (1st and 3rd quarters of 2021 and 2020) prepared for the consolidation of Banco Santander, S. A.;
iii) Review of procedures for the safeguarding of customer assets, as required under Article 304-C of the Securities Code;
iv) Verification of the information on covered bonds, as required by Article 34 of Decree-Law 59/2006, of March 20;
v) Verification of the information on monetary policy operations, as required by Article 101 A of Bank of Portugal Instruction 3/2015;
vi) Verification of the information on monetary policy operations, as required by Articles 100 and 100A of Bank of Portugal Instruction 3/2015;
vii) Review of the Internal Control System for the prevention of money laundering and financing of terrorism, as required by Bank of Portugal Notice 2/2018.
viii) Procedures for validating the annual financial flows report for the purposes of the IFRRU 2020 certification;
ix) Support provided to the Bank's Audit Committee in the context of its self-assessment report required by Notice no. 3/2020 of the Bank of Portugal under the terms provided for in no. 3 of Article 56 of the aforementioned Notice; and
x) Verification of the information related to the reporting on long-term directed refinancing operations (TLTRO III).

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

“Other services” includes fees related to the following services:

i) Issuance of comfort letter for updating the prospectus regarding the covered bonds and EMTN programme;
ii) Review of the information presented in the 2020 and 2021 Sustainability Reports;
iii) Access to the Inforfisco database containing information on tax law, doctrine and court decisions.
iv) Agreed upon procedures on loans and advances information included in synthetic securitisation operations; and
v) Agreed upon procedures on the ex-ante report to the Single Resolution Fund.

32. CASH CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

The composition of this caption is as follows:

	2021	2020
Contributions to the Resolution Fund		
National Resolution Fund	(12,853)	(12,875)
Single Resolution Fund	(24,776)	(22,701)
Contributions to the Deposit Guarantee Fund	(50)	(48)
	(37,679)	(35,624)

Decree-Law 24/2013, of February 19, established the regime governing bank contributions to the new Resolution Fund, created for the purpose of prevention, mitigation and containment of systemic risk. According to Bank of Portugal Notice No. 1/2013 and Instructions Nos. 6/2013 and 7/2013, payment is laid down of an initial contribution and of periodic contributions to the Resolution Fund.
Within the scope of the single Resolution mechanism, the annual contributions will be transferred to the Single Resolution Fund, in accordance with Article 3(3) of the agreement on the transfer and pooling of the contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014. The Bank of Portugal, as the resolution authority, determines the amount of the contribution of each institution depending on the risk profile of each entity. In 2021 and 2020, and as provided for in a Bank of Portugal letter, the Single Resolution Council (CUR) allowed banking institutions, in these years, to opt for the use of irrevocable payment commitment, in the proportion of 15% of the amount of the annual contribution. The annual contribution amounted to Euros 29,149 thousand and Euros 26,707 thousand, respectively.

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

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

The composition of this caption is as follows:

	2021			2020		
	Gains	Losses	Net	Gains	Losses	Net
Assets received as payment in kind	7,172	(273)	6,899	6,840	(6,807)	33
Other non-financial assets	25,419	(18,312)	7,107	17,030	(12,073)	4,957
	32,591	(18,585)	14,006	23,870	(18,880)	4,990

34. PROVISION OF INSURANCE BROKERAGE SERVICES

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

	2021			2020		
	Life Products	Non-Life Products	Total (Note 27)	Life Products	Non-Life Products	Total (Note 27)
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	39,762	-	39,762	39,772	-	39,772
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	45,156	-	45,156	36,811	-	36,811
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	-	27,324	27,324	-	22,783	22,783
Other		2,049	2,049	-	1,417	1,417
	84,918	29,373	114,291	76,583	24,200	100,783

As at December 31, 2021 and 2020, the caption “Other assets – Income receivable and deferred income” (Note 14) includes mainly commissions receivable from insurers as detailed hereunder:

	2021	2020
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	10,019	9,706
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	4,233	3,063
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	2,521	2,025
Other	645	12
	17,418	14,806

These amounts refer, essentially, to the commissions determined and not yet paid in respect of premiums of insurance marketed during the last quarters of 2021 and 2020.

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

35. EMPLOYEE POST-EMPLOYMENT BENEFITS

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

The Bank's liabilities for retirement pensions, healthcare and death allowances as at December 31, 2021 and 2020, as well as the respective coverage, are detailed as follows:

	Santander		BAPOP	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Estimate of liabilities for past services:				
- Pensions:				
.Current employees	237,145	303,442	86,279	64,619
.Pensioners	59,716	52,496	7,444	7,806
.Retired staff and early retired staff	679,673	583,248	78,691	95,972
	976,534	939,186	172,414	168,397
- Healthcare systems (SAMS)	166,240	169,721	12,505	12,782
- Death allowance	6,162	6,399	697	742
- Retirement bonus	7,010	8,478	-	-
	1,155,946	1,123,784	185,616	181,921
Coverage of liabilities:				
- Net assets of the Fund	1,164,211	1,143,046	194,073	186,718
Excess/insufficient funding (Note 19)	8,265	19,262	8,457	4,797
Actuarial and financial deviations generated in the perioc				
- Change in assumptions	-	-	-	-
- Experience adjustments:				
.Other actuarial gains or losses	8,430	4,984	1,077	(80)
.Financial gains or losses	(45,334)	(8,445)	(7,038)	(493)
	(36,904)	(3,461)	(5,961)	(573)
	(36,904)	(3,461)	(5,961)	(573)

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

As at December 31, 2021 and 2020, the main assumptions used by the Bank to determine its liabilities for retirement pensions were as follows:

Mortality Table	
Female	TV 88/90$^{(-1)}$
Male	TV 88/90
Rate of return on pension fund assets	1.10%
Technical actuarial rate (discount rate)	1.10%
Salary growth rate	0.75%
Pension growth rate	0.50%
Inflation rate	0.45%

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

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

The movement under liabilities for past services in financial years 2021 and 2020, can be detailed as follows:

	Santander		BAPOP	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Liabilities at beginning of period	1,123,784	1,131,980	181,921	181,503
Cost of current services	5,462	5,580	1,363	1,348
Interest expense	11,940	12,023	1,638	1,634
Actuarial gains or losses	8,430	4,984	1,077	(80)
Early retirements	81,386	21,682	10,139	785
Amounts paid	(60,193)	(54,946)	(4,182)	(3,889)
Other	(17,352)	-	(6,953)	-
Employee contributions	2,489	2,481	613	620
Liabilities at end of period	1,155,946	1,123,784	185,616	181,921

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

The expenses for the year relating to pensions include the cost of current services and interest expense, net of the expected return on the Pension Fund assets. In financial years 2021 and 2020, the expenses with pensions have the following composition (Note 31):

	31-12-2021	31-12-2020
Cost of current services	6,825	6,928
Interest expense	13,578	13,657
Income from assets calculated using the discount rate	(13,578)	(13,657)
Defined benefit plan	6,825	6,928
Defined contribution plan	938	1,131
London Branch plan	126	119
	7,889	8,178

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 93ª 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.

In 2022, the Bank expects to contribute Euros 8,937 thousand to the defined-benefit plan of Santander and BAPOP.

Estimated salary and pension growths consider the country’s current situation, and the consequent prospect of smaller increases in the future, or even maintenance of current values.

The average duration of pension liabilities of the employees of Santander, of BAPOP and of Banif is 15 years, including those in active service and pensioners.

The movement under actuarial deviations during 2021 and 2020 was as follows:

	Santander		BAPOP	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Deviations at beginning of period (Note 20)	795,764	799,225	7,464	8,037
Actuarial gains or losses	8,430	4,984	1,077	(80)
Financial gains or losses	(45,334)	(8,445)	(7,038)	(493)
Deviations at end of period (Note 20)	758,860	795,764	1,503	7,464

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

The Santander Pension Fund is managed by Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A., and the BAPOP Pension Fund is managed by Santander Totta Seguros – Companhia de Seguros de Vida, S.A. As at December 31, 2021 and 2020, the number of participants of the Funds was the following:

	Santander		BAPOP	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Current employees				
Defined benefit plan	3,272	3,885	673	722
Defined contribution plan	496	460	98	119
Pensioners	1,333	1,282	31	34
Retired staff and early retired staff	6,113	5,773	210	157
	11,214	11,400	1,012	1,032

The main demographic changes during 2021 and 2020 were as follows:

	Assets				Retired and early retired employees		Pensioners	
	Defined contribution plan		Defined benefit plan					
	Santander	BAPOP	Santander	BAPOP	Santander	BAPOP	Santander	BAPOP
Total number as at December 31, 2019	389	125	4,055	737	5,731	147	1,242	32
Leavers:								
. Current employees	(9)	(6)	(30)	(10)	-	-	(4)	-
. Due to mortality	-	-	(4)	(1)	(118)	-	(42)	-
Transfers	-	-	(137)	(4)	137	5	-	(1)
Joiners	80	-	1	-	23	5	86	3
Total number as at December 31, 2020	460	119	3,885	722	5,773	157	1,282	34
Leavers:								
. Current employees	(51)	(21)	(146)	(3)	-	-	(12)	(3)
. Due to mortality	-	-	(4)	-	(158)	-	(47)	-
Transfers	-	-	(463)	(46)	463	46	-	-
Joiners	87	-	-	-	35	7	110	-
Total number as at December 31, 2021	496	98	3,272	673	6,113	210	1,333	31

The movement under the Bank's Pension Fund during 2021 and 2020 was as follows.

	Santander		BAPOP	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Fund value at beginning of period	1,143,046	1,160,573	186,718	185,459
Bank contributions (monetary)	21,595	14,470	2,248	2,401
Employee contributions	2,489	2,481	613	620
Profit or loss of the fund:				
Income from assets calculated using discount rate	11,940	12,023	1,638	1,634
Income of the fund above the discount rate	45,334	8,445	7,038	493
Amounts paid	(60,193)	(54,946)	(4,182)	(3,889)
Fund value at end of period	1,164,211	1,143,046	194,073	186,718

The yields of the Pension Fund amounted in 2021 to 5.13% in Santander and 5.27% in BAPOP, and in 2020 to 1.92% in Santander and 2.06% in BAPOP.

The investments and allocation policy of the Pension Fund determines that the asset portfolio be structured in compliance with security, profitability and liquidity criteria, through a diverse set of investments, namely shares, bonds, other debt instruments, holdings in collective-investment institutions, bank deposits, other monetary assets, and land and buildings registered in the land registry.

On the other hand, that policy is guided by risk-diversification and profitability criteria, and the Managing Company may opt for a more or less conservative policy by increasing or decreasing the exposure to shares or bonds, according to its expectations as to the evolution of the markets, and in accordance with the defined investment limits.

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

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

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

As at December 31, 2021 and 2020, the composition of the Pension Fund was as follows:

	Santander		BAPOP	
	31-12-2021	31-12-2020	31-12-2021	31-12-2020
Debt instruments:				
. Rating A	46,393	88,135	9,672	19,894
. Rating AA	5,233	-	843	-
. Rating AAA	783	-	91	-
. Rating BBB	426,870	370,511	85,689	67,661
. Rating BB	40,584	13,764	8,046	3,476
. Without rating for the issuance and issuer	17,311	67,857	1,127	10,937
Real estate funds	118,103	125,008	926	913
Mutual funds	427,943	352,167	76,366	72,747
Deposits	37,521	53,779	7,101	7,382
Real estate				
. Commercial spaces	19,551	19,515	-	-
. Land	1,297	1,149	-	-
Equity instruments:				
. Portuguese shares – listed	-	136	-	-
. Foreign shares – listed	79	29,893	-	-
Derivative financial instruments	1,954	632	210	110
Other	20,589	20,500	4,002	3,598
	1,164,211	1,143,046	194,073	186,718

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

	31-12-2021				31-12-2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	624,204	-	18,438	642,642	563,441	-	78,794	642,235
Investment funds	504,309	-	119,029	623,338	424,914	-	125,921	550,835
Equity instruments	79	-	-	79	30,029	-	-	30,029
Derivative financial instruments	2,164		-	2,164	742	-	-	742
Real estate	-	-	20,848	20,848	-	-	20,664	20,664
Other	-	-	69,213	69,213	-	-	85,259	85,259
	1,130,756	-	227,528	1,358,284	1,019,126	-	310,638	1,329,764

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

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

	31-12-2021	31-12-2020
Leased real estate properties	14,253	13,028
Securities (including units in funds managed)	189,719	221,208
	203,972	234,236

In 2010, insurance was taken out at Santander Totta Seguros – Companhia de Seguros de Vida, S.A., to meet the liabilities of a new supplementary defined-contribution pension plan attributed to the Bank's senior management. The initial contribution to the new plan amounted to Euros 4,430 thousand. In financial years ended December 31, 2021 and 2020, the premium paid by the Bank amounted to Euros 370 thousand and Euros 537 thousand, respectively (Note 31).

This plan covers the contingencies of retirement, death and permanent absolute disability for customary work or invalidity.

For all these contingencies, the benefits to be received by the beneficiaries will equal the accumulated balance in the supplementary plan on the date on which these occur. In the case of the beneficiary's death, this amount will be further increased by Euros 6,000.

Defined-benefit pension plan – former London Branch

As at December 31, 2021 and 2020, the main assumptions used in the calculation of retirement pension liabilities related to the pension plan covering the employees of the former Bank's London Branch were as follows:

	31-12-2021	31-12-2020
Mortality table	100% S3NMA_Light / 100% S3NFA_Light	100% S3NMA_Light / 100% S3NFA_Light
Technical actuarial rate (discount rate)	1.8%	1.2%
Salary growth rate	3.2%	2.7%
Pension growth rate	2.2%	2.1%
Inflation rate	3.2%	2.7%

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

As at December 31, 2021 and 2020, the liabilities for the defined-benefit pension plan and their coverage were as follows:

	31-12-2021	31-12-2020
Estimated liabilities for past service	52,915	56,628
Coverage of liabilities	49,938	48,718
Excess/(insufficient) funding (Note 19)	(2,977)	(7,910)

The movement under liabilities for past services in financial years 2021 and 2020, can be detailed as follows:

	31-12-2021	31-12-2020
Liabilities at beginning of period	56,628	51,848
Cost of current services	25	17
Interest expense	718	921
Actuarial gains or losses	(2,445)	5,036
Amounts paid	(2,011)	(1,194)
Liabilities at end of period	52,915	56,628

The movement under the Fund during 2021 and 2020 was as follows:

	31-12-2021	31-12-2020
Book value at beginning of period	48,718	44,654
Profit or loss of the fund:		
. Income from assets calculated using discount rate	616	819
. Income of the fund above/(below) the discount rate	2,598	1,910
Bank contributions	17	2,529
Amounts paid	(2,011)	(1,194)
Book value at end of period	49,938	48,718

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

The movement under actuarial deviations during 2021 and 2020 was as follows:

	31-12-2021	31-12-2020
Deviations at beginning of period (Note 20)	16,573	13,447
Actuarial (gains)/losses	(2,445)	5,036
Financial (gains)/losses	(2,598)	(1,910)
Deviations at end of period (Note 20)	11,530	16,573

As at December 31, 2021 and 2020, the portfolio of the Pension Fund of the London Branch included the following assets:

	31-12-2021	31-12-2020
Debt instruments	20,243	25,299
Equity instruments	21,800	20,771
Other	7,895	2,648
Fund value	49,938	48,718

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.

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

As at December 31, 2021 and 2020, a sensitivity analysis performed on a variation of the main financial assumptions as at those dates led to the following impacts on the current value of the Bank's and BAPOP's past-service liabilities:

	2021		2020	
	(Decrease)/Increase		(Decrease)/Increase	
	in %	in amount	in %	in amount
Change in discount rate:				
. Increase of 0.5%	(6.6%)	(88,554)	(7.0%)	(91,485)
. Decrease of 0.5%	7.4%	99,685	7.9%	103,384
Change in salary growth rate:				
. Increase of 0.5%	7.1%	55,129	5.3%	60,240
. Decrease of 0.5%	(3.6%)	(46,502)	(5.3%)	(69,728)
Change in pension growth rate:				
. Increase of 0.5%	8.1%	108,769	8.2%	106,602
. Decrease of 0.5%	(7.3%)	(98,148)	(7.4%)	(96,595)
Change in mortality table:				
. Two more years	(6.6%)	(87,914)	(6.7%)	(88,061)
. Two less years	6.7%	89,342	6.9%	89,421

The sensitivity analyses presented above may not be representative of the changes that may occur in the future in the defined-benefit plan as a result of being considered in isolation and some of them being correlated.

Pension Fund – Banif

As a result of the resolution measure applied to Banif on December 20, 2015, several employees were transferred to the Bank, as were the corresponding liabilities for past services. Also transferred were the liabilities for retired employees, employees who retired early, pensioners and former participants with vested rights. On January 27, 2016, authorisation was requested to the Insurance and Pension Fund Supervisory Authority for the transfer to the Bank of Banif's position as associate of the Banif Pension Fund, regarding the defined-benefit pension plan, subpopulations A and B, and in defined-contribution pension plans II and III. By letter dated June 7, 2016, the Bank of Portugal stated that the parties should revise some of the terms of the Contract for the Termination of the Share of the Pension Fund. The process is undergoing final assessment by the Insurance and Pension Fund Supervisory Authority.

Banif employees were covered by different types of pension plans:

a) The first pension plan - the defined-benefit plan -, was subdivided between the Banif population and the population of the former Banco Banif e Comercial dos Açores (BBCA), with different benefits. Defined-benefit pension plan I – BANIF subpopulation: (i) payment of disability, presumable disability and survivor pensions complementing the Social Security scheme; (ii) future payment of mandatory contributions for post-employment healthcare (SAMS, the Social-Medical Assistance Services). For employees eligible for the retirement pension, the contribution of 6.5% was made on pensions, and for employees associated with the defined-contribution plan, the benefit was changed to a single capital payment on retirement, corresponding to 6.5% of the capital constituted, based on the initial contribution plus the amount of the future contributions. Future contributions to the SAMS were changed in accordance with the new CBA rules.

b) Defined-benefit pension plan I – former BBCA subpopulation (closed to new subscribers): (i) payment of retirement, disability, presumable disability and survivor pensions, in accordance with the CBA and the regimes introduced by Decree-Law 1-A/2011, of January 3, and Decree-Law 127/2011, of December 31; (ii) future payment of mandatory contributions relating to post-employment healthcare (SAMS), and (iii) death allowances, both under the terms of the CBA.

Banif also had two defined-contribution pension plans:

c) Pension plan II – monthly contribution by Banif of 4.5% of the remuneration to which the plan applies and an initial contribution on the date of constitution of the Plan, which included all employees taken on by Banif before January 1, 2007, except for those included following the merger by incorporation of the former BBCA, who are not covered by the Company Agreement. The initial contribution was calculated based on: (i) supplementary old-age pensions estimated in the valuation of liabilities performed by the Responsible Actuary of the Pension Plan on December 31, 2006; and (ii) of the current value of the future contributions.

d) Pension plan III - contribution by Banif of 1.5% of the remuneration to which the plan applies of employees taken on after January 1, 2007, provided they had not died, retired or terminated the contract by the date of entry into force of the Company Agreement.

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

The breakdown of the estimated liabilities for past services as at December 31, 2021 and 2020, using the Bank's assumptions, is as follows for the defined-benefit pension plan (considering both the Banif and the former BBCA subpopulations):

	31-12-2021				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death allowance	Retirement bonus	Total
Current employees	10,133	6,504	75	979	17,691
Retired employees, pensioners and early retired employees	128,607	12,085	522	-	141,214
Former participants with vested rights	6,052	2,151	-	-	8,203
Total liabilities for past services	144,792	20,740	597	979	167,108
Book value of the Pension Fund					92,220
Insufficient funding					(74,888)

	31-12-2020				
	Liabilities				
	Pensions	Healthcare	allowance	bonus	Total
Current employees	20,612	8,597	124	1,140	30,473
Retired employees, pensioners and early retired employees	112,917	10,680	482	-	124,079
Former participants with vested rights	3,530	2,462	-	-	5,992
Total liabilities for past services	137,059	21,739	606	1,140	160,544
Book value of the Pension Fund					93,369
Insufficient funding					(67,175)

The breakdown of the Banif Pension Fund portfolio associated with the defined-benefit pension plan, by asset type, is as follows:

	31-12-2021		31-12-2020	
Type of Asset	Total	Relative weight	Total	Relative weight
Debt instruments	47,366	49.88%	40,269	41.97%
Mutual fund	1,738	1.83%	3,294	3.43%
Real estate fund	2,952	3.11%	387	0.40%
Real estate	13,699	14.43%	13,734	14.31%
Equity instruments	21,599	22.75%	32,607	33.98%
Other	7,604	8.01%	5,663	5.90%
	94,958		95,954	
Net assets to be transferred	(2,738)		(2,585)	
	92,220		93,369	

The value of the assets to be transferred corresponds to the amount of the assets of the Pension Fund's portfolio to be allocated to the coverage of the liabilities relating to Banif employees who were not transferred to the Bank.

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

36. SECURITISATION OPERATIONS

Description of the operations

Between July 2003 and January 2018, the Bank securitised part of its mortgage-loan portfolio through thirteen operations, the initial amount of which was Euros 25,450,000 thousand. In the older transactions the loans were sold at par (book) value to loan securitisation funds denominated Fundos Hipototta FTC. A substantial part of the securitisations was repurchased by the Bank under said agreements, while Hipototta No. 4 and Hipototta No. 5 remain active. In January 2018, the Bank carried out a new securitisation in the amount of Euros 2,266,000 thousand, in which mortgage loans were assigned. The loans were assigned to Gamma – Sociedade de Titularização de Créditos (Gamma STC), which financed the transaction through the issue of Hipototta 13, classes A, B and C bonds, with different levels of subordination and rating and, consequently, remuneration. These bonds were acquired, in their entirety, by the Bank.

The Hipototta Funds (No. 4 and No. 5) are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S.A.. The Bank continues to manage the loan contracts, delivering to the Hipototta Funds (No. 4 and No. 5) all amounts received thereunder. The Santander Group has no direct or indirect holding in Navegator.

As a form of funding, the Hipototta Funds (No. 4 and No. 5) issued securitisation units of an amount identical to the loan portfolios acquired, which were subscribed, in their entirety, by Fundos Hipototta (nº 4 and nº 5) PLC, having its registered office in Ireland.
On the other hand, Fundos Hipototta (nº 4 and nº 5) FTC delivered all amounts received from the Bank and from the Directorate General of the Treasury to Fundos Hipototta (nº 4 and nº 5) PLC, separating the instalments into principal and interest.

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

As at December 31, 2021, bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC

Issued debt	Amount: Initial	Amount: Current	Rating: Fitch	Redemption date	Early redemption date	Remuneration: Up to early redemption date	Remuneration: After early redemption date
Class A	2,616,040	390,664	A	September, 2048	December, 2014	Euribor 3 months + 0.12%	Euribor 3 months + 0.24%
Class B	44,240	14,213	A	September, 2048	December, 2014	Euribor 3 months + 0.19%	Euribor 3 months + 0.40%
Class C	139,720	44,886	BB-	September, 2048	December, 2014	Euribor 3 months + 0.29%	Euribor 3 months + 0.58%
	2,800,000	449,763					
Class D	14,000	7,000	NR	September, 2048	December, 2014	Residual income of the securitised portfolio	
	2,814,000	456,763					

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

Hipototta nº 5 PLC

	Amount		Rating				Remuneration	
Issued debt	Initial	Current	S&P	Moody´s	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A1	200,000	-			February, 2060	February, 2014	Euribor 3 months + 0.05%	Euribor 3 months + 0.10%
Class A2	1,693,000	350,683	A	Aa2	February, 2060	February, 2014	Euribor 3 months + 0.13%	Euribor 3 months + 0.26%
Class B	26,000	26,000	A	Aa2	February, 2060	February, 2014	Euribor 3 months + 0.17%	Euribor 3 months + 0.34%
Class C	24,000	24,000	A	Aa2	February, 2060	February, 2014	Euribor 3 months + 0.24%	Euribor 3 months + 0.48%
Class D	26,000	26,000	A	A3	February, 2060	February, 2014	Euribor 3 months + 0.50%	Euribor 3 months + 1.00%
Class E	31,000	31,000	A	Ba2	February, 2060	February, 2014	Euribor 3 months + 1.75%	Euribor 3 months + 3.50%
	2,000,000	457,683						
Class F	10,000	6,000	CCC-	Ca	February, 2060	February, 2014	Residual income of the securitised portfolio	
	2,010,000	463,683						

The bonds issued by Fundos Hipototta nº 4 PLC earn interest quarterly on March, June, September and December 30 of each year. The bonds issued by Fundos Hipototta nº 5 PLC earn interest quarterly on February 28, and on May, August and November 30 of each year.

The Bank has the option to redeem the bonds in advance on the dates indicated above. For all the Hipototta, the Bank has call options to repurchase the loan portfolios at par when these are equal to or less than 10% of the initial amount of the operations.
Additionally, up to 5 days before the interest-payment dates in each quarter, the Hipototta are entitled to make partial repayments of bonds issued of classes A, B and C, as well as of classes D and E in the case of Fundos Hipototta nº 5 PLC, to adjust the amount of the liabilities to that of the assets (loan portfolio).

The Hipototta No. 4 class D bonds and the Hipototta No. 5 class F bonds constitute the last liabilities to be settled.

The remuneration of the bonds of these classes corresponds to the difference between the yield of the securitised loan portfolios and the sum of all the expenses of the operations, namely:

- Taxes;
- Expenses and commissions calculated on the value of the portfolios (custody and servicer fees charged by the Bank, and management fees, charged by the Funds);
- Interest on the bonds of the other classes;
- Losses due to default.

On the date on which the securitisations were contracted, subordinated loans were concluded between the Bank and Hipototta, which correspond to credit facilities/lines in the event of a need for liquidity on the part of Hipototta. Swap Agreements were also concluded between the Santander Group and the securitisation vehicles, and between the Bank and the Santander Group, intended to hedge the interest-rate risk.

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

Banif securitisation operations

In the wake of the resolution measure applied to Banif, the Bank acquired several securitisation operations issued by said entity, and the corresponding securitised loans and bonds issued were transferred.

Atlantes Mortgage No. 2

An operation carried out in March 2008, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issuance of Atlantes Mortgage No. 2, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 2

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	349,100	89,024	AA	AA	September, 2060	Euribor 3 months + 0.33%
Class B	18,400	11,083	AA	A+	September, 2060	Euribor 3 months + 0.95%
Class C	7,500	4,518	BBB+	A-	September, 2060	Euribor 3 months + 1.65%
	375,000	104,625				
Class D	16,125	9,422	NR	NR	September, 2060	Residual income of the securitised portfolio
	391,125	114,047				

Azor Mortgage No. 2

An operation carried out in July 2008, in which mortgage loans originated at the former BBCA were assigned to Gamma STC. To finance itself, Gamma STC issued Azor Mortgages No. 2 classes A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage nº 2

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	253,500	62,603	AA (sf)	A (sf)	December, 2065	Euribor 3 months + 0.3%
Class B	46,500	43,080	NR	NR	December, 2065	Euribor 3 months + 0.8%
	300,000	105,683				
Class C	6,750	6,750	NR	NR	December, 2065	Residual income of the securitised portfolio
	306,750	112,433				

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

Atlantes Mortgage No. 3

An operation carried out in October 2008, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issuance of Atlantes Mortgage No. 3, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 3

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	558,600	155,100	AA	AA	August, 2061	Euribor 3 months + 0.2%
Class B	41,400	22,243	NR	NR	August, 2061	Euribor 3 months + 0.5%
	600,000	177,343				
Class C	57,668	39,669	NR	NR	August, 2061	Residual income of the securitised portfolio
	657,668	217,012				

Atlantes Mortgage No. 4

An operation carried out in February 2009, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issuance of Atlantes Mortgage No. 4, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 4

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	514,250	172,713	AA	AA	December, 2064	Euribor 3 months + 0.15%
Class B	35,750	19,020	NR	NR	December, 2064	Euribor 3 months + 0.3%
	550,000	191,733				
Class C	74,250	53,021	NR	NR	December, 2064	Residual income of the securitised portfolio
	624,250	244,754				

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

Atlantes Mortgage No. 5

An operation carried out in December 2009, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the operation through the issuance of Atlantes Mortgage No. 5, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 5

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	455,000	140,337	AA	AA	November, 2068	Euribor 3 months + 0.15%
Class B	45,000	25,910	NR	NR	November, 2068	Euribor 3 months + 0.3%
	500,000	166,247				
Class C	66,250	44,995	NR	NR	November, 2068	Residual income of the securitised portfolio
	566,250	211,242				

Atlantes Mortgage No. 7

An operation carried out in November 2010, in which a portfolio of residential mortgage loans was assigned. The loans were assigned to Gamma STC, which financed the operation through the issuance of Atlantes Mortgage No. 7, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 7

	Amount		Rating			Remuneration
Issued debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	357,300	110,474	AA	AA-	August, 2066	Euribor 3 months + 0.15%
Class B	39,700	20,529	NR	NR	August, 2066	Euribor 3 months + 0.3%
	397,000	131,003				
Class C	63,550	42,993	NR	NR	August, 2066	Residual income of the securitised portfolio
	460,550	173,996				

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

Hipototta 13

In January 2018, the Bank carried out a new securitisation in the amount of Euros 2,266,000 thousand, in which mortgage loans were assigned. The loans were assigned to Gamma STC, which financed the transaction through the issuance of Hipototta 13, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration. These bonds were acquired, in their entirety, by the Bank.

Hipototta 13

Issued debt	Amount		Rating			Remuneration
	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	1,716,000	854,727	NR	A+(sf)	October, 2072	Euribor 3 m + 0.6%
Class B	484,000	484,000	NR	NR	October, 2072	Euribor 3 m + 1%
	2,200,000	1,338,727				
Class C	66,000	41,501	NR	NR	October, 2072	Residual income of the securitised portfolio
	2,266,000	1,380,228				
VFN	0.001	0.001	NR	NR	October, 2072	No remuneration

During 2021, the Azor Mortgage No. 1 operation was wound up.

37. RELATED ENTITIES

The Bank's related entities with which it maintained balances or transactions in 2021 are as follows:

Name of the related entity	Registered office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta (Ireland), PLC	Ireland
Tottaurbe - Emp. Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Unicre-Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Entities that directly or indirectly ate under common control by the Bank	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Bank Zachodni WBK SA	Poland
Caceis	France
CCPT - ComprarCasa Rede Serviços Imobiliários, S.A.	Portugal
Consulteam - Consultores de Gestão, Lda	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Open Bank Santander Consumer S.A.	Spain
Mafre Santander Portugal - Co. de Seguros S.A.	Portugal
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank, National Association	United States
Santander Consumer Bank AG	Germany
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Technology, S.L.	Spain
Santander Global Facilities, S.L.	Spain
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários, SA	Spain

The Bank's related entities with which it maintained balances or transactions in 2020 are as follows:

Name of the related entity	Registered office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta (Ireland), PLC	Ireland
Tottaurbe - Emp. Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Unicre-Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Entities that directly or indirectly ate under common control by the Bank	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Bank Zachodni WBK SA	Poland
Caceis	France
Consulteam - Consultores de Gestão, Lda	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Open Bank Santander Consumer S.A.	Spain
Mafre Santander Portugal - Co. de Seguros S.A.	Portugal
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank, National Association	United States
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Technology, S.L.	Spain
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários, SA	Spain

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

As at December 31, 2021 and 2020, the balances and transactions maintained during these financial years with related parties were as follows:

	31-12-2021		
	Entities that directly or indirectly control the Group	Entities significantly influenced by the Group	Entities under common direct or indirect control by the Group
Assets:			
Cash balances in other credit institutions	53,683	-	25,459
Financial assets held for trading	249,868	-	8,552
Financial assets at amortised cost			
Loans and advances	598,389	48,375	2,767
Derivatives - hedge accounting	5,904	-	-
Investments in subsidiaries, joint ventures and associates	-	38,161	-
Tax assets	3	-	-
Other assets	14	-	16,889
Liabilities:			
Financial liabilities held for trading	554,995	-	36,658
Financial liabilities at amortised cost			
Deposits - Credit institutions	24,238	-	857
Deposits - Customers	312,799	1	364,824
Debt securities issued	365,046	-	8,399
Derivatives - hedge accounting	48,990	-	-
Tax liabilities	78,189	-	-
Other liabilities	13,068	-	9,772
Expenses:			
Interest expense	209,568	-	374
Fee and commission expenses	3,176	-	1,389
Losses on financial assets and liabilities at fair value through profit or loss	370,481	-	100,325
Administrative expenses	8,006	-	46,300
Income:			
Interest income	178,173	328	84
Fee and commission income	853	339	116,831
Gains on financial assets and liabilities at fair value through profit or loss	471,315	-	83,650
Exchange differences, net	4,153	-	-
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for under the equity method	-	4,194	-
Other operating income	16	1	208
Off balance sheet items:			
Guarantees provided and other contingent liabilities	50,420	22	149,287
Guarantees received	1	-	-
Commitments to third parties	120,997	2,002	17,453
Foreign exchange operations and derivatives	27,305,868	-	460,312
Liabilities for services rendered	2,010,648	-	10,601,270

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

	31-12-2020		
	Entities that directly or indirectly control the Group	Entities significantly influenced by the Group	Entities under common direct or indirect control by the Group
Assets:			
Cash balances in other credit institutions	22,417	-	98,764
Financial assets held for trading	311,568	-	15,029
Financial assets at amortised cost			
Loans and advances	791,508	45,793	2,899
Derivatives - hedge accounting	813	-	-
Investments in subsidiaries, joint ventures and associates	-	62,582	-
Tax assets	33,287	-	-
Other assets	436	3,193	9,938
Liabilities:			
Financial liabilities held for trading	896,236	-	23,057
Financial liabilities at amortised cost			
Deposits - Credit institutions	6,489	-	2,371
Deposits - Customers	49,479	21,825	328,408
Debt securities issued	373,935	-	12,869
Derivatives - hedge accounting	97,877	-	-
Tax liabilities	450	-	-
Other liabilities	-	-	9,310
Expenses:			
Interest expense	213,028	-	2,335
Fee and commission expenses	3,077	-	1,410
Losses on financial assets and liabilities at fair value through profit or loss	767,415	-	187,401
Administrative expenses	7,872	-	44,063
Income:			
Interest income	192,088	263	65
Fee and commission income	340	444	42,085
Gains on financial assets and liabilities at fair value through profit or loss	680,132	-	191,515
Exchange differences, net	8,768	-	-
Share of profit or loss from investments in subsidiaries, joint ventures and associates accounted for under the equity method	-	5,617	-
Other operating income	-	-	97
Off balance sheet items:			
Guarantees provided and other contingent liabilities	54,890	22	190,060
Guarantees received	1	-	162
Commitments to third parties	114,170	1,971	106,877
Foreign exchange operations and derivatives	27,822,340	-	465,183
Liabilities for services rendered	1,634,922	-	10,061,165

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

GOVERNING BODIES

Board of Directors

As at December 31, 2021 and 2020, advances or loans granted to members of the governing bodies, considered key personnel of the Bank's management, amounted to Euros 1,069 thousand and Euros 945 thousand, respectively. Deposits of members of the governing bodies were granted at market conditions. As at December 31, 2021 and 2020, fixed and variable remunerations totalled Euros 6,563 thousand and Euros 4,684 thousand, respectively.

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

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

As at December 31, 2021 and 2020, liabilities with this plan amounted to Euros 14,268 thousand and Euros 14,201 thousand, respectively, and were covered by a provision of the same amount carried in the caption "Provisions and other post-employment defined-benefit obligations".

Regarding employment-termination benefits, as provided for in the Commercial Companies Code, whenever, by decision of the Bank, the term of office of a member of the governing bodies ends early, the Bank shall compensate the member of the governing body with the future remuneration to which he or she is entitled up until the end of his or her term of office.

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

38. DISCLOSURES WITHIN THE SCOPE OF THE APPLICATION OF THE IFRS 7 AND IFRS 13 STANDARDS

Fair value

The following table summarises, for each group of financial assets and liabilities, their fair values with reference to December 31, 2021 and 2020:

	31-12-2021			
	Measured at fair value	Measured at amortised cost	Book Value	Measured at fair value
Assets				
Cash, cash balances at central banks and other demand deposits	-	8,711,389	8,711,389	8,703,673
Financial assets held for trading	587,772	-	587,772	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	99,167	-	99,167	99,167
Financial assets at fair value through other comprehensive income	5,339,913	-	5,339,913	5,339,913
Financial assets at amortised cost	-	40,373,867	40,373,867	40,149,005
Derivatives – Hedge accounting	7,447	-	7,447	7,447
	6,034,299	49,085,256	55,119,555	54,886,977
Liabilities				
Financial liabilities held for trading	605,331	-	605,331	605,331
Financial liabilities at amortised cost				
Deposits	-	46,762,551	46,762,551	46,713,455
Debt securities issued	-	3,006,747	3,006,747	3,096,295
Other financial liabilities	-	219,275	219,275	219,275
Derivatives – Hedge accounting	294,108	-	294,108	294,108
	899,439	49,988,573	50,888,012	50,928,464

	31-12-2020			
	Measured at fair value	Measured at amortised cost	Book Value	Measured at fair value
Assets				
Cash, cash balances at central banks and other demand deposits	-	4,535,815	4,535,815	4,626,255
Financial assets held for trading	916,039	-	916,039	916,039
Non-trading financial assets mandatorily at fair value through profit or loss	132,905	-	132,905	132,905
Financial assets at fair value through other comprehensive income	7,704,190	-	7,704,190	7,704,190
Financial assets at amortised cost	-	39,820,582	39,820,582	39,968,932
Derivatives – Hedge accounting	23,719	-	23,719	23,719
	8,776,853	44,356,397	53,133,250	53,372,040
Liabilities				
Financial liabilities held for trading	941,528	-	941,528	941,528
Financial liabilities at amortised cost				
Deposits	-	44,610,781	44,610,781	44,535,723
Debt securities issued	-	2,907,350	2,907,350	3,048,179
Other financial liabilities	-	205,656	205,656	205,656
Derivatives – Hedge accounting	522,283	-	522,283	522,283
	1,463,811	47,723,787	49,187,598	49,253,369

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

As at December 31, 2021 and 2020, the carrying amount of the financial instruments measured at fair value, by valuation methodology, was as follows:

	31-12-2021			
	Methodology to determine fair value			
	Quotations on active market (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	562,538	25,234	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	99,167	99,167
Financial assets at fair value through other comprehensive income	204,778	5,061,470	73,665	5,339,913
Derivatives – Hedge accounting	-	7,447	-	7,447
	204,778	5,631,455	198,066	6,034,299
Liabilities				
Financial liabilities held for trading	-	574,170	31,161	605,331
Derivatives – Hedge accounting	-	294,108	-	294,108
	-	868,278	31,161	899,439

	31-12-2020			
	Methodology to determine fair value			
	Quotations on active market (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	888,867	27,172	916,039
Non-trading financial assets mandatorily at fair value through profit or loss	778	-	132,127	132,905
Financial assets at fair value through other comprehensive income	2,334,516	5,295,529	74,145	7,704,190
Derivatives – Hedge accounting	-	23,719	-	23,719
	2,335,294	6,208,115	233,444	8,776,853
Liabilities				
Financial liabilities held for trading	-	911,551	29,977	941,528
Derivatives – Hedge accounting	-	522,283	-	522,283
	-	1,433,834	29,977	1,463,811

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.

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

As at December 31, 2021 and 2020, the carrying amount of the financial instruments measured at amortised cost, by valuation methodology, was as follows:

	31-12-2021			
	Methodology to determine fair value			
	Quotations on active market (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
Assets				
Cash, cash balances at central banks and other demand deposits	-	8,703,673	-	8,703,673
Financial assets at amortised cost	-	355,177	39,793,828	40,149,005
	-	9,058,850	39,793,828	48,852,678
Liabilities				
Financial liabilities at amortised cost				
Deposits	-	7,753,321	38,960,134	46,713,455
Debt securities issued	-	2,041,267	1,055,028	3,096,295
Other financial liabilities	-		219,275	219,275
	-	9,794,588	40,234,437	50,029,025

	31-12-2020			
	Methodology to determine fair value			
	Quotations on active market (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
Assets				
Cash, cash balances at central banks and other demand deposits	-	4,626,255	-	4,626,255
Financial assets at amortised cost	-	595,281	39,373,651	39,968,932
	-	5,221,536	39,373,651	44,595,187
Liabilities				
Financial liabilities at amortised cost				
Deposits	-	8,303,306	36,232,417	44,535,723
Debt securities issued	-	2,089,334	958,845	3,048,179
Other financial liabilities	-		205,656	205,656
	-	10,392,640	37,396,918	47,789,558

For the determination of the fair value of the financial instruments measured at amortised cost, the valuation methods used consisted of discounting the future cash flows.

The valuation at fair value of the Bank's financial assets and liabilities comprises three levels, under IFRS 7 and IFRS 13:

- Level 1 - Financial instruments recorded at fair value based on quotes published in active markets, mainly comprising public debt and some private debt.

- Level 2 - Financial instruments recorded at fair value using prices traded on markets that are not active or for which it is necessary to use valuation models or techniques with inputs that can be observed in the market, either directly (such as prices) or indirectly (derived from prices). This category includes some securities in the portfolio of other financial assets at fair value through other comprehensive income measured with indicative market bids or based on internal valuation models and the derivative financial instruments used for hedging and trading. It should be noted that the internal valuation models used mainly correspond to models for updating future cash flows and valuation methodologies based on the "Black-Scholes" model for options and structured products. The models for updating future cash flows ("present value method") update future contractual flows using the interest rate curves of each currency observable in the market, plus the credit spread of the issuer or entity with a similar rating.

For derivative financial instruments, the main valuation techniques are presented below:

Derivative financial instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate options	Black-Scholes model, Heath-Jarrow-Morton model
Options - other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

The Bank calculates the "Credit Value Adjustment" (CVA) and the "Debit Value Adjustment" (DVA) for derivative financial instruments held for trading and hedging derivatives from the perspective of aggregate exposure by counterparty. It simulates the evolution of the joint exposure of all derivatives, with a given counterparty, through stochastic processes. This evolution is grouped into time frames that represent the expected positive and negative future exposures (Positive and Negative Expected Future Exposures). To these exposures is applied an expected loss factor and the discount factor for the respective term. The CVA and DVA calculated for each counterparty thus result from the sum of the expected losses in each term.

Additionally, for the purposes of calculating Credit Value Adjustments and Debit Value Adjustments to derivative financial instruments, the following inputs were used:

- Counterparties with quoted credit default swaps - Quotes published in active markets;
- Counterparties without quoted credit default swaps:
- Quotes published in active markets for counterparties with similar risk; or
- Probability of default calculated considering the internal rating assigned to the customer (see credit risk section of these Notes) x loss given default (specific for project finance customers and 60% for other customers).

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

- Level 3 - The Bank classifies in this level financial instruments which are measured using internal models with some inputs that do not correspond to observable market data. In this category were classified, namely, securities not quoted in active markets for which the Bank uses extrapolations of market data and the derivatives entered in the scope of securitisation operations.

The main assumptions used in determining the fair value of the financial instruments measured at amortised cost, by type of financial instrument, were as follows:

- The future cash flows from applications and resources from credit institutions were discounted using interest rate curves for the monetary market;

- For the purposes of discounting future flows from the customer loan portfolio, the fair value of the credit granted was determined taking into account the average spread of the production carried out in the last quarter of the year;

- For customer demand deposits, it was considered that the fair value was equal to the statement of financial position value.

- In the case of debt securities issued, future cash flows were discounted based on the market conditions required for similar issuances at the end of the year;

- In the case of subordinated liabilities, to discount future cash flows, market interest rates applied to similar issuances were considered.

In financial years ended December 31, 2021 and 2020, the movement under financial instruments classified in Level 3 was as follows:

	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income
December 31, 2019	-	144,244	74,706
Purchases	-	528	3,689
Sales	-	(3,160)	(4,713)
Redemptions	-	(7,252)	(724)
Fair value changes	27,172	(2,233)	1,112
Impairment recognised in the year	-	-	75
December 31, 2020	27,172	132,127	74,145
Purchases	-	498	2,103
Sales	-	-	(1,407)
Redemptions	-	(34,654)	-
Fair value changes	(1,938)	1,196	(1,176)
December 31, 2021	25,234	99,167	73,665

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

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

	31-12-2021		31-12-2020	
	EUR	USD	EUR	USD
Overnight	-0.64%	0.20%	-0.53%	0.27%
1 month	-0.64%	0.20%	-0.53%	0.27%
3 months	-0.57%	0.21%	-0.52%	0.24%
6 months	-0.55%	0.31%	-0.52%	0.20%
9 months	-0.52%	0.42%	-0.52%	0.19%
1 year	-0.48%	0.53%	-0.52%	0.19%
3 years	-0.15%	1.17%	-0.51%	0.24%
5 years	0.02%	1.36%	-0.46%	0.44%
7 years	0.13%	1.47%	-0.39%	0.66%
10 years	0.30%	1.58%	-0.26%	0.94%

Hedge accounting

As at December 31, 2021 and 2020, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	31-12-2021					
	Hedged element				Hedging instrument	
	Nominal value	Amount net of impairment	Fair value changes	Carrying amount	Nominal value	Fair value
Fair value hedging:						
Financial assets at amortised cost	3,084,241	3,089,350	5,807	3,095,157	3,031,714	(35,315)
Financial assets at fair value through other comprehensive income	3,380,000	3,423,924	251,746	3,675,670	3,380,000	(253,238)
Financial liabilities at amortised cost						
Deposits - Customers	(9,560)	(9,609)	(51)	(9,660)	9,626	102
Debt securities issued	(8,111)	(8,299)	(100)	(8,399)	8,111	269
Cash flow hedging:						
Financial assets at amortised cost	10,000,000	10,000,000	-	10,000,000	10,000,000	1,521
	16,446,570	16,495,366	257,402	16,752,768	16,429,451	(286,661)

	31-12-2020					
	Hedged element				Hedging instrument	
	Nominal value	Amount net of impairment	Fair value changes	Carrying amount	Nominal value	Fair value
Fair value hedging:						
Financial assets at amortised cost	3,079,393	3,090,461	57,164	3,147,625	3,079,393	(85,641)
Financial assets at fair value through other comprehensive income	3,380,000	3,423,945	372,578	3,796,523	3,380,000	(374,018)
Financial liabilities at amortised cost						
Deposits - Customers	(41,353)	(41,552)	(237)	(41,789)	41,414	405
Debt securities issued	(8,227)	(8,324)	(250)	(8,574)	8,227	322
Cash flow hedging:						
Financial assets at fair value through other comprehensive income	1,819,500	1,819,500	-	1,819,500	2,049,092	(62,538)
Financial assets at amortised cost	3,000,000	3,000,000	-	3,000,000	3,000,000	22,906
	11,229,313	11,284,030	429,255	11,713,285	11,558,126	(498,564)

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

Cash-flow hedging

The expected periods for the occurrence of cash flows that will affect the profit or loss for the year present the following detail:

	31-12-2021					
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	More than 3 years	Total
Interest rate swaps	4,434	9,686	21,387	-33,986	-	1,521

	31-12-2020					
	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 3 years	More than 3 years	Total
Interest rate swaps	4,027	4,157	14,722	-	-	22,906

The gains and losses recognised in the 2021 and 2020 statements of profit or loss, with fair-value hedging transactions, presented the following detail:

	31-12-2021			31-12-2020		
	Hedged element	Hedging instrument	Net	Hedged element	Hedging instrument	Net
Financial assets at amortised cost	(51,357)	51,357	-	(161,976)	161,976	-
Financial assets at fair value through other comprehensive income	(120,832)	120,832	-	364,084	(364,084)	-
Financial liabilities at amortised cost						
Deposits - Customers	186	(186)	-	133	(133)	-
Debt securities issued	149	(149)	-	(97)	97	-
	(171,854)	171,854	-	202,144	(202,144)	-

RISK MANAGEMENT

CREDIT RISK

Credit-risk management at the Bank covers the identification, measurement, integration and evaluation of the various credit exposures, and an analysis of their profitability adjusted to the respective risk, both from an overall viewpoint, as well as within every area of activity.

Credit-risk management is carried out by an independent body, the Risks Area, which is responsible, namely, for managing the special customer monitoring system, for the segmentation of the credit risk in the light of the characteristics of the customers and of the products, and for the scoring (applicable to mortgage-loan and consumer-loan operations, and credit and business cards) and rating systems used at the Bank.

The counterparty risk consists of the latent credit risk in financial markets transactions corresponding to the possibility of default by the counterparties of the terms contracted and subsequent occurrence of financial losses for the Bank. The types of transactions covered include the purchase and sale of securities, the contracting of repos, securities lending and derivative instruments. Given the high complexity and volume of transactions, as well as the requirements necessary for an adequate control of the consolidated risks in certain customer segments, the control perimeter is defined in accordance with the segments at issue.

Control of these risks is performed daily in accordance with an integrated system that allows the recording of the approved limits and the real-time updating of positions and provides information on the availability of limits and aggregate exposure, also in real time, for the various products and maturities. The system also allows transverse control (at different levels) of risk concentration by groups of customers/counterparties.

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

For specific customer segments (namely global corporate customers) emphasis is given to the implementation of economic-capital limits, incorporating in the quantitative control the variables associated with the creditworthiness of each counterparty.

Risk analyses for customers or economic groups where the Bank has an exposure of more than Euros 500,000 are performed by risk analysts who monitor those customers and supported by rating models developed by the Bank and approved by the regulatory entities. Preparation of these models is mandatory. The assignment of various internal rating levels, ranging from 1.0 to 9.3, has subjacent the degree of risk inherent to the customer and a probability of default at one year that the Bank monitors and calibrates on a constant and regular basis.

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

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

Factor	Weighting
. Demand/Market;	20%
. Partners/Management;	15%
. Access to credit;	10%
. Profitability;	15%
. Flow generation;	25%
. Solvency.	15%

The rating is calculated by the analysts, based on information provided by the customer, general information about the sector and external databases. The final rating is introduced in each of the valuation areas in the Bank's information technology system.

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

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

As at December 31, 2021 and 2020, the maximum exposure to the credit risk and the respective carrying amount of the financial instruments was as follows:

	31-12-2021		31-12-2020	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Cash, cash balances at central banks and other demand deposits	8,711,389	8,711,389	4,535,815	4,535,815
Financial assets held for trading	587,772	587,772	916,039	916,039
Non-trading financial assets mandatorily at fair value through profit or loss	99,167	99,167	132,905	132,905
Financial assets at fair value through other comprehensive income	5,339,913	5,339,913	7,704,190	7,704,190
Financial assets at amortised cost	40,373,867	47,318,615	39,820,582	46,910,608
Derivatives – Hedge accounting	7,447	7,447	23,719	23,719
	55,119,555	62,064,303	53,133,251	60,223,277
Guarantees provided (Note 23)				
Financial guarantees and sureties	330,997	330,997	648,253	648,253
Non-financial guarantees and sureties	1,346,113	1,346,113	964,502	964,502
Documentary credits outstanding	315,004	315,004	363,131	363,131
	1,992,114	1,992,114	1,975,886	1,975,886

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

The maximum exposure in "Financial assets at amortised cost", as at December 31, 2021 and 2020, is as follows:

	31-12-2021	31-12-2020
Carrying amount	40,373,867	39,820,582
Other commitments granted (Note 23)		
Revocable	6,378,768	6,140,567
Irrevocable	565,980	949,459
Maximum exposure	47,318,615	46,910,608

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 reflect the behaviour of macroeconomic variables used in stress models, such as GDP, the unemployment rate, the housing price index (HPI), Euribor rates, inflation, among others, being updated at least once a year. For sensitivity analysis, a 100% weighting is assumed in extreme scenarios. In a 100% acid scenario the impact on impairment would be Euros +77.1 million, in an 100% optimistic scenario it would be Euros -43 million, which represents an impact on the total of the impairment recorded at the close of 2021 of +7.3% and -4% respectively.

The impacts on the portfolios are different due to the sensitivities of each portfolio to specific macroeconomic variables, for example, the housing (mortgage) loan portfolio is highly sensitive to the housing price index, just as business or portfolio clients (clients with a risk manager) are sensitive to developments in GDP, unemployment, inflation or the Bond Yield 10y.

In a 100% acid scenario, it is considered that the macroeconomic context remains surrounded by uncertainty factors that may have a future impact on the calculation of the ECL, and an increase in volatility may occur, namely, with changes in macroeconomic variable forecasts, uncertainty as to the longevity of the COVID-19 pandemic, increased pressure on the effectiveness of the European Central Bank's monetary policies, measures taken at government level or other support measures. This scenario considers that the increase in inflationary pressures, the rise in interest rates, conditions the evolution of housing prices, weakens the evolution of the labour market, factors that penalise the expansion of the economy and the dynamics of recovery, resulting in an increase in the impairment of loan portfolios such as the mortgage, business or portfolio clients (clients with a risk manager) portfolios, which is reflected in the amounts mentioned above.

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

In an 100% optimistic scenario it is considered that in the definition of its monetary policies, the monetary authority (ECB) controls both the cost of short-term loans and the monetary base, seeking to ensure price stability, aimed at an inflation rate or interest rate, generating confidence in the currency, contributing to the stability of GDP, to maintain low unemployment levels and predictable exchange rates, factors that contribute to a reduction in the impairment of loans portfolios such as the mortgage, business or portfolio clients (clients with a risk manager).

As at December 31, 2021, the concentration by activity sector of the portfolio of loans and advances at amortised cost, was as follows:

	31-12-2021			
Activity sector	**Gross amount**	**Impairment**	**Carrying amount**	**Concentration %**
Agriculture, animal husbandry, hunting, forestry and fisheries	280,236	(6,514)	273,722	0.72%
Extractive industries	25,361	(1,989)	23,372	0.06%
Manufacturing	2,120,772	(98,386)	2,022,386	5.33%
Electricity, gas, steam, hot and cold water and cold air	529,094	(285)	528,809	1.39%
Water catchment, treatment and distribution; sanitation, waste management and depollution	68,640	(1,822)	66,818	0.18%
Construction	958,136	(75,050)	883,086	2.33%
Wholesale and retail trade; motor vehicle and motorcycle repairs	1,964,401	(75,372)	1,889,029	4.98%
Transport and storage	608,178	(29,125)	579,053	1.53%
Accommodation, catering and similar	1,362,541	(81,132)	1,281,409	3.38%
Information and communication activities	108,576	(3,020)	105,556	0.28%
Real estate activities	1,319,954	(59,015)	1,260,939	3.32%
Consultancy, scientific, technical and similar activities	692,043	(25,701)	666,342	1.76%
Administrative and support activities	378,102	(37,701)	340,401	0.90%
Public administration and defence; mandatory social security	2,582	(14)	2,568	0.01%
Education	71,749	(1,244)	70,505	0.19%
Human healthcare and social support activities	272,813	(3,621)	269,192	0.71%
Artistic, shows, sports and recreational activities	91,335	(12,237)	79,098	0.21%
Other services	643,437	(134,007)	509,430	1.34%
Loans and advances - financial institutions	902,343	(791)	901,552	2.38%
Loans and advances - public sector	1,215,593	(10,292)	1,205,301	3.18%
Loans and advances - Individuals - secured by real estate	21,839,928	(219,768)	21,620,160	57.00%
Loans and advances - Individuals - other	2,473,137	(136,790)	2,336,347	6.16%
	37,928,951	**(1,013,876)**	**36,915,075**	**100.00%**

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

Thus, as at December 31, 2021 and 2020, the breakdown of performing and non-performing exposures was as follows:

	31-12-2021			31-12-2020		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Performing exposures	40,134,715	(345,860)	0.9%	39,434,530	(255,610)	0.6%
Non-performing exposures						
. Households	383,618	(198,428)	51.7%	408,592	(210,498)	51.5%
. Corporates	875,032	(475,210)	54.3%	982,377	(538,809)	54.8%
	1,258,650	(673,638)		1,390,969	(749,307)	
	41,393,365	(1,019,498)		40,825,499	(1,004,917)	

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

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

	31-12-2021			31-12-2020		
	Carrying amount	Collateral	Coverage	Carrying amount	Collateral	Coverage
Non-performing exposures						
. Households	185,190	144,819	78.2%	198,094	180,684	91.2%
. Corporates	399,822	266,368	66.6%	443,568	314,480	70.9%
	585,012	411,187		641,662	495,164	

Forborne exposures

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

As at December 31, 2021 and 2020, the breakdown of forborne exposures was as follows:

	31-12-2021			31-12-2020		
	Gross amount	Impairment	Coverage	Gross amount	Impairment	Coverage
Performing exposures	487,720	(45,137)	9.3%	446,717	(19,038)	4.3%
Non-performing exposures						
. Households	203,245	(90,033)	44.3%	255,007	(101,886)	40.0%
. Corporates	622,120	(324,329)	52.1%	738,656	(378,467)	51.2%
	825,365	(414,362)		993,663	(480,353)	
	1,313,085	(459,499)		1,440,380	(499,391)	

The movement during 2021 in forborne exposures was as follows:

	Gross amount	Impairment	Net amount
Balance as at December 31, 2020	1,440,380	499,391	940,989
Additions in year	224,514	42,403	182,111
Debt amortisations	(194,359)	(55,549)	(138,810)
Remedies	(116,045)	(8,946)	(107,099)
Portfolio sale	(46,131)	(31,374)	(14,757)
Other changes	4,726	13,574	(8,848)
Balance as at December 31, 2021	1,313,085	459,499	853,586

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

Encumbered assets

In accordance with the requirements set out in Bank of Portugal Instruction No. 28/2014, of January 15, 2015, the Bank now provides information on the encumbered assets.

An encumbered asset is considered to be an asset explicitly or implicitly constituted as collateral or subject to an agreement to guarantee, collateralise or improve credit quality in any transaction from which it cannot be freely withdrawn.

As at December 31, 2021 and 2020, the breakdown of encumbered and unencumbered assets is as follows:

	2021			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Demand deposits at central banks and other demand deposits at credit institutions	-	-	8,370,092	-
Equity instruments	-	-	171,687	171,687
Debt securities	1,703,462	1,674,830	4,043,421	3,952,244
Loans and advances	11,945,772	-	27,948,605	-
Other assets	-	-	1,983,580	-
	13,649,234	1,674,830	42,517,385	4,123,931

	2020			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Demand deposits at central banks and other demand deposits at credit institutions	-	-	4,199,694	-
Equity instruments	-	-	205,539	231,640
Debt securities	2,695,331	2,662,814	5,761,373	5,950,394
Loans and advances	11,550,890	-	27,444,544	-
Other assets	-	-	2,546,038	-
	14,246,221	2,662,814	40,157,188	6,182,034

As at December 31, 2021 and 2020, liabilities associated with encumbered assets and the collaterals received are as follows:

	2021		2020	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, collateral received and own debt securities issued excl. own covered bonds or ABS encumbered	Associated liabilities, contingent liabilities and borrowed securities	Assets, collateral received and own debt securities issued excl. own covered bonds or ABS encumbered
Carrying amount of financial liabilities	7,401,288	9,871,616	8,037,903	10,230,399
Other	631,752	523,924	212,476	287,687
	8,033,040	10,395,540	8,250,379	10,518,086

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

As at December 31, 2021 and 2020, the main captions of assets had the following breakdown by external rating (internal rating for credit granted), in keeping with the rating assigned by Standard & Poor's:

	31-12-2021	31-12-2020
Cash, cash balances at central banks and other demand deposits:		
Cash, cash balances at central banks		
Rating S&P		
AAA+ /AAA /AAA-	8,141,015	3,932,058
Not subject	341,297	336,121
	8,482,312	4,268,179
Other demand deposits		
Rating S&P		
A+ /A /A-	113,821	83,442
AA+ /AA /AA-	28,160	21,199
BBB+ / BBB / BBB-	72,885	11,598
BB+ / BB / BB-	1,112	1,039
CCC+/CCC/CCC-	1,150	-
No external rating	11,949	150,358
	229,077	267,636
	8,711,389	4,535,815
Financial assets at fair value through other comprehensive income		
Rating S&P		
A+ /A /A-	-	341,977
BBB+ / BBB / BBB-	5,266,247	7,288,068
No external rating	1,198	1,525
	5,267,445	7,631,570

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

	31-12-2021	31-12-2020
Financial assets at amortised cost		
Debt securities		
Rating S&P		
AA+ /AA /AA-	26,264	-
AAA+ /AAA /AAA-	50	-
BBB+ / BBB / BBB-	-	658,175
No external rating	3,438,100	3,318,189
of which with internal rating:		
Low credit risk	2,403,713	1,870,170
Medium credit risk	896,071	1,142,039
High credit risk	13,510	19,720
	3,464,414	3,976,364
Loans and advances - credit institutions		
Rating S&P		
A+ /A /A-	122	-
AA+ /AA /AA-	-	-
B+ / B / B-	-	190
BB+ / BB / BB-	1,275	343
BBB+ / BBB / BBB-	16,796	3,031
CCC+ / CCC / CCC-	1,247	-
No external rating	11,147	16,732
	30,587	20,296
Loans and advances - credit granted and other balances receivable		
Internal rating		
Low credit risk	28,972,321	27,697,277
Medium credit risk	5,646,379	6,021,564
High credit risk	1,612,541	1,782,456
No rating	1,667,123	1,327,542
	37,898,364	36,828,839
	41,393,365	40,825,499

For cases in which the Standard & Poor's rating was not available, the ratings issued by Moody's or Fitch were presented.

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

LIQUIDITY RISK

The balance-sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the Chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury and Commercial areas. Committee meetings are held monthly, and at these meetings the balance-sheet risks are analysed, and strategic options decided.

For the ALM area, the following balance-sheet management limits are defined:

- Limits intended to control the interest-rate risk, in particular, the sensitivity of the Net Interest Margin (NIM), and the sensitivity of the Market Value of Equities (MVE) to unexpected interest-rate variations; and
- Limits intended to control the liquidity risk through the net accumulated liquidity and illiquidity coefficient indicators.

The Bank's funding policy considers the evolution of the balance-sheet aggregates, the structural situation of the maturities of assets and liabilities, the net interbank debt level in the light of the available lines, maturity dispersal and minimisation of the costs associated with the funding activity.

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

As at December 31, 2021 and 2020, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their contractual maturities, was as follows:

	31-12-2021								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Undetermined	Derivatives	Total
Assets									
Cash, cash balances at central banks and other demand deposits	570,374	-	-	-	8,141,015	-	-	-	8,711,389
Financial assets held for trading	-	-	-	-	-	-	-	587,772	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	99,167	-	99,167
Financial assets at fair value through other comprehensive income	2	60,218	74,892	270,201	2,065,386	2,901,103	72,520	-	5,444,322
Financial assets at amortised cost	528,711	2,340,897	4,947,722	9,649,573	8,090,391	18,552,539	-	-	44,109,833
Derivatives – Hedge accounting	-	-	-	-	-	-	-	7,447	7,447
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	38,161	-	38,161
	1,099,087	2,401,115	5,022,614	9,919,774	18,296,792	21,453,642	209,848	595,219	58,998,091
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	605,331	605,331
Financial liabilities at amortised cost									
Deposits - Central banks	8,987	-	-	7,264,073	-	-	-	-	7,273,060
Deposits - Credit institutions	337,492	53,081	1,766	30	-	-	-	-	392,369
Deposits - Customers and other loans	24,446,657	6,248,443	6,154,935	1,115,679	896,499	63,300	-	-	38,925,513
Debt securities issued	-	43,924	154,748	1,381,479	120,872	1,674,021	-	-	3,375,044
Derivatives – Hedge accounting	-	-	-	-	-	-	-	294,108	294,108
	24,793,136	6,345,448	6,311,449	9,761,261	1,017,371	1,737,321	-	899,439	50,865,425

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

	31-12-2020								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	More than 5 years	Undetermined	Derivatives	Total
Assets									
Cash, cash balances at central banks and other demand deposits	603,758	-	-	-	3,932,057	-	-	-	4,535,815
Financial assets held for trading	-	-	-	-	-	-	-	916,039	916,039
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	-	132,905	-	132,905
Financial assets at fair value through other comprehensive income	1,299,742	620,270	74,873	270,190	300,190	4,801,198	72,634	-	7,439,097
Financial assets at amortised cost	607,876	1,971,950	5,528,160	10,125,880	7,274,485	18,773,061	-	-	44,281,412
Derivatives – Hedge accounting	-	-	-	-	-	-	-	23,719	23,719
Investments in subsidiaries, joint ventures and associates	-	-	-	-	-	-	62,582	-	62,582
	2,511,376	2,592,220	5,603,033	10,396,070	11,506,732	23,574,259	268,121	939,758	57,391,569
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	941,528	941,528
Financial liabilities at amortised cost									
Deposits - Central banks	9,859	-	-	6,593,892	-	-	-	-	6,603,751
Deposits - Credit institutions	621,415	857,756	64,727	3,706	-	-	-	-	1,547,604
Deposits - Customers and other loans	21,245,887	5,969,677	6,185,668	1,208,346	1,601,815	69,108	-	-	36,280,501
Debt securities issued	-	36,134	130,414	301,880	1,188,943	1,498,149	-	-	3,155,520
Derivatives – Hedge accounting	-	-	-	-	-	-	-	522,283	522,283
	21,877,161	6,863,567	6,380,809	8,107,824	2,790,758	1,567,257	-	1,463,811	49,051,187

Determination of the projected cash flows from financial instruments was based on principles and assumptions used by the Bank in the management and control of liquidity arising from its business, namely:

- The projected cash flows of assets and liabilities with variable remuneration associated with the interest rate curve are calculated considering the forward interest rate curve;

- Financial instruments classified as “non-structural” were considered to be payable “on demand” (cash, cash balances at credit institutions). Equity instruments carried as financial assets at fair value through other comprehensive income, were considered as having an indeterminate maturity. For non-trading financial assets mandatorily at fair value through profit or loss, and for financial assets and liabilities held for trading, their fair value was considered to be their transactional value on demand, given that their management is based on the control of their exposure to market risk.

- Operations relating to credit lines without defined maturity or periodically renewable, namely bank overdrafts and current account credit facilities, were considered as having an average maturity of 25 months;

- For the subordinated liabilities, the date on which the Bank may make early redemption of the bonds that make up this caption was considered;

- The projected flows relating to demand deposits have been considered as payable on demand.

MARKET RISK

Market risk generally consists of the potential variation of the value of a financial instrument due to unexpected changes of market variables, such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard method applied for the Bank's trading activity is Value at Risk (VaR). The Historic Simulation standard is used as the basis, with a confidence level of 99% and a time horizon of one day, statistical adjustments being applied to include the more recent events that condition the risk levels assumed.

The calculated VaR is a daily estimate of the maximum potential loss under normal market conditions (individually by portfolios/business areas, and for the entirety of the positions), within the assumptions defined in the construction of the model.

At the same time, other measures are implemented that allow additional monitoring of the market risk. For unusual market conditions, scenarios are analysed (Stress Testing), which consists of defining extreme scenarios for the behaviour of different financial variables and obtaining their potential impact on profit or loss. In short, the scenario analysis seeks to identify the potential risk under extreme market conditions, and in the fringes of probable occurrence not covered by the VaR.

In parallel, there is daily monitoring of the positions, and an exhaustive control is performed of the changes that occur in the portfolios, to detect the possible impacts that may exist for their correction. The daily preparation of the profit and loss account is intended to identify the impact of variations in the financial variables or of the alteration of the composition of the portfolios.

The Bank also uses sensitivity measures and equivalent positions. In the case of the interest rate, use is made of the Basis Point Value (BPV) – estimated impact on profit or loss for parallel movements in the interest-rate curves. For the control of derivatives activities, due to their atypical nature, specific daily sensitivity measures are carried out, including calculation and analysis of sensitivities to movements of the price of the underlying item (delta and gamma), volatility (Vega), and time (theta).

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

- Limits intended to control the volume of potential future losses (VaR, equivalent positions, and sensitivities); and

- Limits intended to control the volume of actual losses or to protect the profit or loss levels already achieved during the year (Loss Triggers and Stop Losses).

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

Regarding the structural interest-rate risk, it is measured through modelling the asset and liability positions sensitive to interest-rate variations in accordance with their indexing and repricing structure. This model allows the measurement and control of the risks originating directly from the movement of the income curve, namely their impact on net interest income and on the Bank's equity. Additionally, other risk indicators are calculated, such as Value at Risk (VaR) and scenario analysis (Stress Test).

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

INTEREST-RATE RISK

As at December 31, 2021 and 2020, the breakdown of financial instruments by exposure to interest-rate risk was as follows:

	31-12-2021				
	Exposure to		Not subject		
	Fixed rate	Floating rate	to interest rate risk	Derivatives	Total
Assets					
Cash, cash balances at central banks and other demand deposits	-	8,141,015	570,374	-	8,711,389
Financial assets held for trading	-	-	-	587,772	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	99,167	-	99,167
Financial assets at fair value through other comprehensive income	4,253,077	1,194	1,085,642	-	5,339,913
Financial assets at amortised cost	7,257,500	33,373,241	(256,874)	-	40,373,867
Derivatives – Hedge accounting	-	-	-	7,447	7,447
	11,510,577	41,515,450	1,498,309	595,219	55,119,555
Liabilities					
Financial liabilities held for trading	-	-	-	605,331	605,331
Financial liabilities at amortised cost					
Deposits - Central banks	7,501,017	-	(90,775)	-	7,410,242
Deposits - Credit institutions	211,956	181,319	130	-	393,405
Deposits - Customers and other loans	14,629,200	24,324,665	5,039	-	38,958,904
Debt securities issued	2,335,710	719,318	(48,281)	-	3,006,747
Other financial liabilities	-	-	219,275	-	219,275
Derivatives – Hedge accounting	-	-	-	294,108	294,108
	24,677,883	25,225,302	85,388	899,439	50,888,012

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

	31-12-2020				
	Exposure to		Not subject		
	Fixed rate	Floating rate	to interest rate risk	Derivatives	Total
Assets					
Cash, cash balances at central banks and other demand deposits	-	3,932,058	603,757	-	4,535,815
Financial assets held for trading	-	-	-	916,039	916,039
Non-trading financial assets mandatorily					
at fair value through profit or loss	-	-	132,905	-	132,905
Financial assets at fair value					
through other comprehensive income	6,137,230	1,603	1,565,357	-	7,704,190
Financial assets at amortised cost	6,942,978	32,932,979	(55,375)	-	39,820,582
Derivatives – Hedge accounting	-	-	-	23,719	23,719
	13,080,208	36,866,640	2,246,644	939,758	53,133,250
Liabilities					
Financial liabilities held for trading	-	-	-	941,528	941,528
Financial liabilities at amortised cost					
Deposits - Central banks	6,809,859	-	(18,039)	-	6,791,820
Deposits - Credit institutions	118,496	1,430,179	294	-	1,548,969
Deposits - Customers and other loans	15,257,392	21,005,431	7,169	-	36,269,992
Debt securities issued	2,335,826	632,774	(61,250)	-	2,907,350
Other financial liabilities	-	-	205,656	-	205,656
Derivatives – Hedge accounting	-	-	-	522,283	522,283
	24,521,573	23,068,384	133,830	1,463,811	49,187,598

As at December 31, 2021 and 2020, the breakdown of financial instruments by exposure to interest-rate risk, by interest rate ranges, was as follows:

	2021							
	Rate intervals					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
Assets								
Cash, cash balances at central banks and other demand deposits	8,141,015	-	-	-	-	570,374	-	8,711,389
Financial assets held for trading	-	-	-	-	-	-	587,772	587,772
Non-trading financial assets mandatorily								
at fair value through profit or loss	-	-	-	-	-	99,167	-	99,167
Financial assets at fair value								
through other comprehensive income	106,590	31,526	4,116,155	-	-	1,085,642	-	5,339,913
Financial assets at amortised cost	23,067,013	14,499,559	1,361,738	1,403,070	299,360	(256,874)		40,373,867
Derivatives – Hedge accounting	-	-	-	-	-	-	7,447	7,447
	31,314,618	14,531,085	5,477,893	1,403,070	299,360	1,498,309	595,219	55,119,555
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	605,331	605,331
Financial liabilities at amortised cost								
Deposits - Central banks	7,501,017	-	-	-	-	(90,775)	-	7,410,242
Deposits - Credit institutions	393,275	-	-	-	-	130	-	393,405
Deposits - Customers and other loans	38,916,684	37,181	-	-	-	5,039	-	38,958,904
Debt securities issued	1,544,429	1,320,000	-	190,599	-	(48,281)	-	3,006,747
Other financial liabilities	-	-	-	-	-	219,275	-	219,275
Derivatives – Hedge accounting	-	-	-	-	-	-	294,108	294,108
	48,355,405	1,357,181	-	190,599	-	85,388	899,439	50,888,012

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

	2020							
	Rate intervals					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
Assets								
Cash, cash balances at central banks and other demand deposits	3,932,058	-	-	-	-	603,757	-	4,535,815
Financial assets held for trading	-	-	-	-	-	-	916,039	916,039
Non-trading financial assets mandatorily								
at fair value through profit or loss	-	-	-	-	-	132,905	-	132,905
Financial assets at fair value								
through other comprehensive income	249,321	1,753,332	4,136,155	25	-	1,565,357	-	7,704,190
Financial assets at amortised cost	18,920,417	17,296,808	2,004,074	1,329,119	325,539	(55,375)		39,820,582
Derivatives – Hedge accounting	-	-	-	-	-	-	23,719	23,719
	23,101,796	19,050,140	6,140,229	1,329,144	325,539	2,246,644	939,758	53,133,250
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	941,528	941,528
Financial liabilities at amortised cost								
Deposits - Central banks	6,809,859	-	-	-	-	(18,039)	-	6,791,820
Deposits - Credit institutions	1,548,675	-	-	-	-	294	-	1,548,969
Deposits - Customers and other loans	36,129,775	128,836	3,148	1,064	-	7,169	-	36,269,992
Debt securities issued	1,953,873	1,014,727	-	-	-	(61,250)	-	2,907,350
Other financial liabilities	-	-	-	-	-	205,656	-	205,656
Derivatives – Hedge accounting	-	-	-	-	-	-	522,283	522,283
	46,442,182	1,143,563	3,148	1,064	-	133,830	1,463,811	49,187,598

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 statement of financial position and are renewed automatically;
- It assumes parallel variations in the interest-rate curve, not considering the possibility of specific movements for different periods of the interest-rate curve; and
- It does not consider the different elasticities between the various products.

From the perspective of variation of the net asset value, interest-rate increases entail a decrease of value in the intervals with positive gaps, and an increase of value in the negative gaps. Interest-rate decreases have the opposite effect.

General assumptions of this Interest-rate sensitivity analysis

- Balance-sheet evolution – a static balance-sheet is assumed, according to which the amounts of contracts that do not have a fixed maturity date or which renewal is presumed, are replaced with new transactions of the same amount, so that the balance-sheet balances remain constant during the year under analysis;
- Maturities and repricing – the real maturities and repricing of the transactions are considered. Assets and liabilities which contribution to net interest income and which carrying amount does not alter with the interest-rate variations are considered non-sensitive;
- Indices – the indices defined contractually are considered, and the spot curve of the date of analysis with the underlying forward curve is used for the simulation; and
- Characteristics of new business operations (term, repricing, volumes, spread, index, etc.) – the conditions entered in the budget for each product are used. When these characteristics begin to lie outside the market for certain products, the average conditions applied during the previous month or the new commercial guidelines for each of the products in question are used.

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

As at December 31, 2021 and 2020, the sensitivity of the net asset value of the Bank's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	31-12-2021		31-12-2020	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash, cash balances at central banks	(1,445)	416,249	(2,135)	59,081
Financial assets at fair value through other comprehensive income	(89,928)	94,045	(114,692)	36,461
Financial assets at amortised cost	(915,620)	1,109,594	(1,020,001)	553,086
	(1,006,993)	1,619,888	(1,136,828)	648,628
Derivatives – Hedge accounting	202,485	(231,190)	315,516	(182,329)
Liabilities				
Financial liabilities at amortised cost				
Deposits - Central banks	(3,203)	88,910	1,260	32,731
Deposits - Credit institutions	(79)	79	(1,230)	285
Deposits - Customers and other loans	(1,230,462)	1,302,594	(1,141,738)	379,403
Debt securities issued	(120,409)	143,837	(143,800)	58,577
Other financial liabilities	(20,519)	20,855	(25,028)	13,289
	(1,374,672)	1,556,275	(1,310,536)	484,285

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

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

- Market data time window: A 2-year time window is used, or at least 520 data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile gives equal weighting to the set of 520 observations considered. The Weighted Percentile VaR gives a significantly higher weighting to the most recent observations in relation to the reference date of the analysis.

Historical simulation consists of using the historical variations as the distribution model of possible variations in the risk factors. For this reason, the chosen period is sufficiently long and significant, such that all interactions between the market factors, their volatilities and the correlations between them, are duly mirrored in the historical period selected.

On the other hand, the complete revaluation of the portfolio requires a valuation of each of the instruments, using the respective mathematical expression to obtain the market value of each individual position. In using forms of revaluation, non-linear effects implicit in certain financial products as a result of changes in market factors are calculated and collected on the VaR values.

As at December 31, 2021 and 2020, the VaR associated with the interest-rate risk corresponded to:

	31-12-2021	31-12-2020
VaR 99% percentile	(1)	(1)
VaR Weighted 99% percentile	(1)	-

EXCHANGE RATE RISK

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

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

As at December 31, 2021 and 2020, the detail of the financial instruments by currency was as follows:

	31-12-2021			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash, cash balances at central banks and other demand deposits	8,569,303	41,254	100,832	8,711,389
Financial assets held for trading	585,930	774	1,068	587,772
Non-trading financial assets mandatorily at fair value through profit or loss	99,167	-	-	99,167
Financial assets at fair value through other comprehensive income	5,339,913	-	-	5,339,913
Financial assets at amortised cost	39,720,655	612,783	40,429	40,373,867
Derivatives – Hedge accounting	1,903	5,544	-	7,447
Investments in subsidiaries, joint ventures and associates	38,161	-	-	38,161
	54,355,032	660,355	142,329	55,157,716
Liabilities				
Financial liabilities held for trading	603,908	774	649	605,331
Financial liabilities at amortised cost				
Deposits - Central banks	7,410,242	-	-	7,410,242
Deposits - Credit institutions	203,010	188,589	1,806	393,405
Deposits - Customers and other loans	37,425,273	1,261,121	272,510	38,958,904
Debt securities issued	3,006,747	-	-	3,006,747
Other financial liabilities	219,275	-	-	219,275
Derivatives – Hedge accounting	288,657	5,344	107	294,108
	49,157,112	1,455,828	275,072	50,888,012

	31-12-2020			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash, cash balances at central banks and other demand deposits	4,353,824	28,489	153,502	4,535,815
Financial assets held for trading	913,609	1,748	682	916,039
Non-trading financial assets mandatorily at fair value through profit or loss	132,905	-	-	132,905
Financial assets at fair value through other comprehensive income	7,704,138	52	-	7,704,190
Financial assets at amortised cost	39,143,852	637,742	38,988	39,820,582
Derivatives – Hedge accounting	23,478	241	-	23,719
Investments in subsidiaries, joint ventures and associates	62,582	-	-	62,582
	52,334,388	668,272	193,172	53,195,832
Liabilities				
Financial liabilities held for trading	939,085	1,749	694	941,528
Financial liabilities at amortised cost				
Deposits - Central banks	6,791,820	-	-	6,791,820
Deposits - Credit institutions	1,431,446	117,260	263	1,548,969
Deposits - Customers and other loans	34,498,895	1,413,677	357,420	36,269,992
Debt securities issued	2,907,350	-	-	2,907,350
Other financial liabilities	205,656	-	-	205,656
Derivatives – Hedge accounting	520,761	1,507	15	522,283
	47,295,013	1,534,193	358,392	49,187,598

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

As at December 31, 2021 and 2020, the VaR associated with the exchange-rate risk corresponded to:

	31-12-2021	31-12-2020
VaR 99% percentile	(14)	(8)
VaR Weighted 99% percentile	(13)	(6)

ASSET PRICE RISK

Financial Instruments – trading

As at December 31, 2021 and 2020, the Bank had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

Offsetting financial assets and liabilities

As at December 31, 2021 and 2020, the value of derivative financial instruments traded over-the-counter, offset by the related financial derivatives, by type of counterparty, is as follows:

	31-12-2021			
	Financial assets/liabilities in financial statements	Related amounts not offset in financial statements		
Counterparty		Financial Instruments	Cash collateral	Net amount
Financial institutions	(250,552)	-	(1,661)	(252,213)
Group companies	(376,322)	-	395,547	19,225
	(626,874)	-	393,886	(232,988)

	31-12-2020			
	Financial assets/liabilities in financial statements	Related amounts not offset in financial statements		
Counterparty		Financial Instruments	Cash collateral	Net amount
Financial institutions	(400,601)	-	52,986	(347,615)
Group companies	(696,545)	-	583,014	(113,531)
	(1,097,146)	-	636,000	(461,146)

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

The value of the sale transactions with repo agreement, by type of counterparty, is as follows:

	31-12-2021			
	Financial assets/liabilities in financial statements	Related amounts not offset in financial statements		Net amount
Counterparty		Financial Instruments	Cash collateral	
Financial institutions	(33)	77	8,538	8,582
	(33)	77	8,538	8,582

	31-12-2020			
	Financial assets/liabilities in financial statements	Related amounts not offset in financial statements		Net amount
Counterparty		Financial Instruments	Cash collateral	
Financial institutions	(1,255,805)	1,256,208	23,093	23,496
	(1,255,805)	1,256,208	23,093	23,496

39. CAPITAL MANAGEMENT

The Bank has a solid capital position, coherent with its business model, statement of financial position structure, risk appetite and regulatory requirements. The strength of the statement of financial position and the profitability of the Bank allow us to exercise our activity of financing the economy and generate capital organically. The various capital metrics are stable, with ratios comfortably above regulatory requirements and aligned with the risk appetite approved by top management.

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

At the end of 2021, the CET1 phasing in ratio is 22.3% and the total phasing in capital ratio is 24.5%, comfortably meeting the minimum requirements of 8.34% and 12.5%, respectively. The increase in the CET1 ratio was 6.25%, which is explained by the retention of the 2020 profit or loss and the adequate management of the RWA growth, namely through the contracting of a synthetic securitisation operation.

On June 28, 2019, the Bank operationalised the first synthetic securitisation operation originated by the Bank. The operation is based on a portfolio of Corporates, SMEs, City Councils and ENI's 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 181.3 millions 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, ENI's 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 183 millions, was fully placed with foreign institutional investors, in the form of a CLN issued directly by the Bank, with a premium of 9.0%.

The following table summarises the composition of the regulatory capital and prudential ratios of the Bank as at December 31, 2021 and 2020 (both in BIS III - Phasing in):

Amounts in millions of Euros

	dec 2021	dec 2020
A - Level 1 own funds (TIER I)	3,918	3,759
Share capital (includes addicional instruments eligible as Tier I)	1,541	1,541
Reserves and Retained earnings (excluding non-controlling interest)	2,349	2,312
Eligible Minority interests	-	-
Deduction on base own funds	(62)	(94)
B - Level 2 own funds (TIER II)	381	410
Subordinated debt	328	346
Eligible Minority interests	-	-
Other elements/deductions to complementary own funds	53	64
C - Deductions to total own funds	-	-
D - Total own funds (A+B+C)	4,298	4,169
E - Assets weighted by risk	14,428	17,982
Ratios		
TIER (A/E)	27,2%	20,9%
CORE CAPITAL (CET 1)	27,2%	20,9%
TIER II (B/E)	2,6%	2,3%
Capital adequacy ratio (D/E)	29,8%	23,2%
LEVERAGE	7,1%	6,5%

Note: Non audited information

40. RESOLUTION FUND

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

The Bank, like the majority of the financial institutions operating in Portugal, is one of the institutions participating in the Resolution Fund, making contributions resulting from the application of a rate set annually by the Bank of Portugal based, essentially, on the amount of their liabilities. In 2021, the periodic contribution made by the Bank amounted to Euros 12,853 thousand, based on a contribution rate of 0.048%.

Resolution measure applied to Banco Espírito Santo, S. A.

Within the scope of its responsibility as supervision and resolution authority of the Portuguese financial sector, on August 3, 2014, the Bank of Portugal decided to apply to Banco Espírito Santo, S.A. ("BES") a resolution measure under Article 145-G(5) of the RGICSF, which consisted of the transfer of most of its business to a transition bank, called Novo Banco, S.A. ("Novo Banco"), created especially for the purpose.

To pay up the Novo Banco share capital, the Resolution Fund, as its sole shareholder, provided Euros 4,900 million, of which Euros 365 million corresponded to its own financial resources. A loan was also granted by a banking syndicate to the Resolution Fund in the amount of Euros 635 million, with the participation of each credit institution weighted in the light of several factors, including the respective dimension. The remainder (Euros 3,900 million) consisted of a repayable loan granted by the Portuguese State.

Following the implementation of said resolution measure, on July 7, 2016, the Resolution Fund stated that it would review and assess the steps to be taken following the publication of the report on the results of the independent valuation, conducted to estimate the credit recovery level for each class of creditors in a hypothetical scenario of a normal insolvency process of BES as at August 3, 2014. Under applicable law, if it is found that creditors which credits have not been transferred to Novo Banco bear a larger loss than would hypothetically be the case if BES had entered liquidation at a moment immediately preceding that of the application of the resolution measure, those creditors would be entitled to receive the difference from the Resolution Fund.

On March 31, 2017, the Bank of Portugal reported that it had selected the Lone Star Fund for the purchase of Novo Banco, which purchase was completed on October 17, 2017, with the injection, by the new shareholder, of Euros 750 million, which will be followed by a new inflow of capital in the amount of Euros 250 million, to be realised over a period of up to three years. This operation put an end to Novo Banco's status as a transition bank, the Lone Star Fund having acquired 75% of the Novo Banco share capital and the Resolution Fund the remaining 25%, albeit without the corresponding voting rights.

On February 26, 2018, the European Commission released the non-confidential version of the decision approving the State aid underlying the Novo Banco sale process, which includes a contingent capitalisation mechanism, under which the Resolution Fund may be called upon to inject capital in the event of the occurrence of certain conditions relating to the performance of a restricted set of Novo Banco's assets and to the evolution of the bank's capital levels.

This mechanism is triggered every year based on Novo Banco's annual accounts certified by the respective auditor, and there is a possibility of intra-annual assessments only in the event of default, by Novo Banco, of the prudential requirements. For the purpose of this mechanism, consideration is given to the asset valuation differences (positive or negative) compared with their carrying amounts, net of impairment, as at June 30, 2016 (around Euros 7.9 thousand million according to information provided by Novo Banco). Thus, economic losses or gains are considered, resulting, for example, from the sale of assets or restructuring of loans, as well as impairments, or their reversal, which are recorded by Novo Banco in accordance with the accounting standards, as well as the financing costs associated with maintaining the assets in the Novo Banco statement of financial position.

Under that mechanism, to date, the Resolution Fund has made payments of Euros 3,293 million to Novo Banco in respect of the 2017 to 2020 accounts, having used for the purpose its own financial resources resulting from the contributions paid, directly or indirectly, by the banking sector, complemented by a State loan of Euros 2,130 million within the scope of the framework agreement celebrated between the Portuguese State and the Resolution Fund.

On May 31, 2021, the Resolution Fund entered a new loan agreement amounting to a maximum of Euros 475 million with a set of banks to meet the Fund's financing needs arising from commitments made to Novo Banco under the Contingent Capital Agreement. The Bank's share was Euros 104 million.

This mechanism will be in force until December 31, 2025 (which may be extended until December 31, 2026) and is limited to an absolute maximum of Euros 3,890 million.

Resolution measure applied to Banif – Banco Internacional do Funchal, S. A.

On December 19, 2015, the Bank of Portugal decided to declare that Banif - Banco Internacional do Funchal, S.A. ("Banif") was "at risk of or was in a situation of insolvency," and began an urgent resolution process of the institution in the form of a partial or total sale of its business, which came about with the sale on December 20, 2015, to Banco Santander Totta S.A. ("Santander Totta") of the rights and obligations, including assets, liabilities, off-balance sheet items, and assets under Banif management, for Euros 150 million.

Most of the assets that were not sold were transferred to an asset-management vehicle called Oitante, S.A. ("Oitante"), created specifically for the purpose, and which has the Resolution Fund as its sole shareholder. Oitante issued bonds representing the debt, in the amount of Euros 746 million, a guarantee having been provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation also involved public support estimated at Euros 2,255 million, which aimed to cover future contingencies, of which Euros 489 million was financed by the Resolution Fund, and Euros 1,766 million directly by the Portuguese State.

On July 21, 2016, the Resolution Fund made a payment to the State, in the amount of Euros 136 million, by way of partial early repayment of the resolution measure applied to Banif, allowing the amount owed to drop from Euros 489 million to Euros 353 million.

Resolution Fund's liabilities and funding

Following the resolution measures applied to BES and Banif, and the agreement for the sale of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities arising from:

- the effects of the application of the principle that no creditor of the credit institution under resolution can assume a loss greater than what it would assume if the institution had gone into liquidation;
- negative effects arising from the resolution process resulting in liabilities or additional contingencies for Novo Banco that have to be neutralised by the Resolution Fund;
- lawsuits against the Resolution Fund;
- guarantee given to bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- contingent capitalisation mechanism associated with the sale process of Novo Banco to Lone Star.

To preserve financial stability by promoting the conditions that lend predictability and stability to the contribution effort to the Resolution Fund, the Portuguese government reached an agreement with the European Commission to alter the conditions of the loans granted by the Portuguese State and by the participating banks to the Resolution Fund. To this end, an addendum to the Resolution Fund funding agreements was formalised, which introduced a number of amendments to the repayment plans, remuneration rates and other terms and conditions associated with these loans so that they are adjusted to the Resolution Fund's ability to fulfil its obligations in full on the basis of its regular income, that is, without a need for the banks participating in the Resolution Fund to be charged special contributions or any other type of extraordinary contribution.

According to the announcement of the Resolution Fund of March 31, 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund considered that full payment of its liabilities is assured, as well as the respective remuneration, with no need for recourse to special contributions or any other type of extraordinary contributions on the part of the banking sector.

Notwithstanding the possibility provided for in the applicable legislation governing the charging of special contributions, and given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate, in which the Bank is included, and the public announcements made by the Resolution Fund and the Office of the Minister of Finance, these financial statements reflect the Board of Directors' expectation that no special contributions or any other type of extraordinary contributions will be required of the Bank to finance the Resolution Fund.

Any significant changes regarding this matter may have relevant implications for the Bank's financial statements.

41. COMPETITION AUTHORITY

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

Within the scope of these proceedings, search and seizure measures were carried out at the premises of the Bank and of other credit institutions, on March 6, 2013, and indiscriminate documentation was seized to determine possible evidence of infringement of the aforesaid legal precept.

On June 3, 2015, the Bank, like other 14 credit institutions, was notified of the Statement of Objections issued by the AdC regarding the administrative-offence process under appraisal (Case No. PRC 9/2012), accused of taking part in an exchange of certain commercially sensitive information between competitors.

On September 9, 2019, the AdC issued the final decision, essentially maintaining the theory presented in the 2015 Statement of Objections, namely the presumption of anti-competitive conduct based on the exchange of information between competitors on Mortgage Loans, Consumer Loans and Loans to Companies. Bank Santander Totta was sentenced to a fine of Euros 35 million, plus a fine of Euros 650 thousand applied to BAPOP.

The fine imposed - which could amount to a maximum equivalent to 10% of the annual turnover of the infringing company in the year before the decision -, came to be applied for an amount corresponding to about 2.02% of that indicator (considering not only the penalty imposed on the Bank, but also on BAPOP).

Nevertheless, on October 21, 2019, the Bank judicially challenged the final decision of the AdC, with the case now pending before the Competition, Regulation and Supervision Court.

In the scope of the judicial challenge, the amount and type of the collateral to be provided, to suspend the contested decision was set. In this regard, the Bank presented a bank guarantee in the amount of Euros 17,825 thousand, issued by the Bank itself, to fulfil the mentioned collateral.

The trial hearing sessions took place between October 2021 and March 2022, with the final decision of the Court of Competition, Regulation and Supervision expected for the end of April 2022.

The Bank will await the decision on the judicial challenge lodged, not waiving the exercise of all the legal and judicial faculties that ensure the protection of its interests.

In line with what has been its position throughout the proceedings, the Bank strongly refutes all the arguments underlying the decision of the AdC, and its judicial challenge through the Competition, Regulation and Supervision Court has been supported, namely, by the opinion of distinguished Law Professors, attesting to the absence of any unlawful conduct by the institution.

Taking the foregoing into consideration, the Bank's Board of Directors is convinced that the likelihood of the Bank not being ordered to pay a fine by the end of the proceedings are greater than those of being so ordered, and therefore no provision for this case has been recorded in the financial statements as at December 31, 2021.

42. IMPACT OF THE COVID-19 PANDEMIC

To mitigate the risks existing for the financial system, with special relevance for those related to credit risk provoked by the Covid-19 pandemic, a significant set of measures, exceptional and temporary, to support families and companies in a situation of insufficient liquidity associated with the economic slowdown were adopted. In particular, moratoria schemes were created – of both a legislative and non-legislative nature – covering the fulfilment of credit obligations towards the banking system, and new financing was obtained (for companies) through the contracting of credit facilities with State guarantees (which guarantee the payment of the capital in case of default) in a percentage that varies between 80% - 90%, depending on the size of the company, thus avoiding immediate disruptions in the beneficiaries' liquidity positions.

Given the strong economic impacts of the health crisis on families and companies, exceptional measures had to be adopted to support them, forcing the definition of a specific Policy that, with both a temporary and extraordinary nature, would define the criteria for admission and rating of renegotiation operations and/or the granting of new credits related to the financial needs of customers arising from liquidity problems.

With the end of the moratoriums during the 2021 financial year, the Bank defined a specific Policy that established the criteria for the treatment of customer/operations that ended the moratorium period, in particular the operations that came to undergo further changes in the reimbursement conditions, as well as to densify the follow-up policy of customers that adhered to the moratoria.

The fundamental criterion is the risk profile of the customer; at the end of the moratorium the customer may be in one of the following situations:

- Customers with the ability to pay and to continue to comply with their contractual obligations under the terms agreed when the moratorium was granted;
- Customers that have structurally aggravated their condition and for which the end of restrictions on economic activity will probably not be sufficient to recover the necessary payment capacity;

- Customers without structural financial difficulties, but for which in the current context it is considered to be a good option to offer commercial solutions that allow a relief of cash flow (business/companies) or disposable income (individuals).

By definition, all customers not meeting the classification criteria in one of the first two groups identified above are included in this group.

The treatment of operations at the end of the moratorium followed the following criteria:

- Customers without changes in their reimbursement terms – Customers that maintain/have recovered the ability to repay and do not wish to change the reimbursement terms set contractually, and for which the operations have resumed their normal course.

- Customers with changes in their reimbursement terms:

  - Customers with structural financial difficulties - Customers that according to the current restructuring policy show signs of structural financial difficulties. As defined in that policy, changes to these operations are classified as renewals (restructuring or refinancing). This universe amounted to Euros 185 million in terms of net value.

  - Customers without structural financial difficulties - Regarding this universe of customers/operations, new financial structures that allow the extension of the deadline and/or the granting of grace periods should be seen as commercial solutions that allow customers to adjust to the conditions initially defined, considering additional information and greater visibility regarding the current effects of the pandemic. These are not customers with indications of financial difficulty in accordance with the terms set out in the restructuring policy in force, so changing the conditions for repayment of these transactions should not imply the classification of transactions as restructured. This universe amounted to Euros 184.5 million in terms of net value.

Given the importance of identifying this universe of customers as early as possible, as well as the early definition of the alternatives to be made available, the Bank has developed an end-to-end transformation process, called "Collections and Recoveries", which aims at the massive and anticipatory management of (non- portfolio clients (clients without a risk manager , through the development of strategies, procedures and commercial offers in an omnichannel environment (differentiated communication channels according to the type of customer), constituting an advanced approach, to help manage any impacts after the end of the moratoria in this segment of individuals and micro and small company customers.

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, an impairment overlays procedure, which regulates the impairment analysis in exceptional situations that are not properly captured by the models used in the calculation made by the Bank, due to their nature and/or particularities. The overlay amounts applied to the impairment are described in Note 9.

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

The following tables show the characterisation of the transactions that, as at December 31, 2021 and 2020, were subject to legislative and non-legislative moratoria, as well as the new loans granted under new public guarantee schemes.

The loans and advances subject to moratoria (legislative and non-legislative) expired as at December 31, 2021, and reported according to the EBA guidelines (EBA/GL/2020/07), are as follows:

	Gross amount						
		Performing			Non-performing		
			Of which: exposures subject to restructuring measures	instruments with significant increase in credit risk since initial recognition but		Of which: exposures subject to restructuring measures	with reduced probability of collection and that are not overdue or are overdue by <=
Loans and advances subject to moratoria, as per EBA requirements, expired	8,448,879	7,852,067	372,823	2,524,327	596,813	447,141	538,475
of which: households	4,994,946	4,848,368	340,026	1,392,279	146,578	111,050	114,669
of which: secured by housing real estate	4,615,507	4,497,479	312,107	1,149,799	118,028	97,065	101,548
of which: non-financial companies	3,453,933	3,003,699	32,797	1,132,047	450,234	336,091	423,806
of which: small and medium-sized companies	2,140,609	1,882,941	28,769	268,927	257,669	202,620	241,578
of which: secured by commercial real estate	1,610,942	1,327,629	10,509	122,589	283,313	236,139	271,364

The impairment of the loans and advances subject to moratoria (legislative and non-legislative) expired as at December 31, 2021, and reported according to the EBA guidelines (EBA/GL/2020/07), is as follows:

	Accumulated impairment, accumulated negative fair value changes due to credit risk						
		Performing			Non-performing		
			Of which: exposures subject to restructuring measures	instruments with significant increase in credit risk since initial recognition but		Of which: exposures subject to restructuring measures	with reduced probability of collection and that are not overdue or are overdue by <=
Loans and advances subject to moratoria, as per EBA requirements, expired	(414,087)	(146,303)	(34,401)	(129,025)	(267,784)	(195,842)	(237,147)
of which: households	(137,329)	(83,263)	(30,587)	(78,271)	(54,066)	(40,366)	(40,104)
of which: secured by housing real estate	(106,444)	(68,050)	(27,896)	(63,893)	(38,395)	(32,705)	(33,402)
of which: non-financial companies	(276,758)	(63,040)	(3,814)	(50,754)	(213,718)	(155,476)	(197,042)
of which: small and medium-sized companies	(150,103)	(27,564)	(3,438)	(18,826)	(122,539)	(95,537)	(114,678)
of which: secured by commercial real estate	(131,930)	(14,146)	(1,415)	(8,704)	(117,784)	(95,093)	(110,723)

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

The gross amount of loans and advances covered by the moratoria as at December 31, 2020, is as follows:

	31-12-2020						
	Gross amount						
	Performing			Non-performing			
		exposures subject to restructuring measures	Of which: (Stage 2)		exposures subject to restructuring measures	Of which: with reduced probability of collection	Total
Loans and advances subject to moratoria	8,004,249	294,628	910,217	545,727	450,657	525,377	8,549,976
of which: households	4,981,154	235,313	480,080	139,891	126,294	130,999	5,121,045
of which: secured by housing real estate	4,551,971	216,345	401,358	115,590	107,741	109,957	4,667,561
of which: non-financial companies	3,023,095	59,315	430,136	405,836	324,363	394,378	3,428,931
of which: small and medium-sized companies	1,992,188	46,157	370,691	252,725	198,296	241,661	2,244,913
of which: secured by commercial real estate	1,297,684	21,100	151,825	282,193	243,321	275,718	1,579,877

The impairment of loans and advances covered by the moratoria as at December 31, 2020, is as follows:

	31-12-2020						
	Impairment						
	Performing			Non-performing			
		Of which: exposures subject to restructuring	Of which: (Stage 2)		Of which: exposures subject to restructuring	Of which: with reduced probability of collection	Total
Loans and advances subject to moratoria	(50,396)	(16,489)	(37,641)	(223,478)	(181,246)	(216,352)	(273,875)
of which: households	(19,427)	(9,224)	(15,549)	(49,475)	(45,513)	(45,576)	(68,902)
of which: secured by housing real estate	(14,041)	(7,825)	(11,648)	(36,572)	(34,335)	(34,638)	(50,613)
of which: non-financial companies	(30,969)	(7,266)	(22,092)	(174,003)	(135,733)	(170,776)	(204,972)
of which: small and medium-sized companies	(26,180)	(7,001)	(20,470)	(106,401)	(85,218)	(103,374)	(132,581)
of which: secured by commercial real estate	(10,079)	(791)	(7,282)	(100,991)	(88,264)	(100,290)	(111,070)

The loans and advances granted under new public guaranteed schemes in response to the current economic crisis caused by the Covid-19 pandemic, are as follows:

	31-12-2021			
	Gross amount		Maximum amount of guarantee that can be considered	Gross amount
		Of which: restructured	Public guarantees received	Entries to non-performing exposures
Loans and advances subject to public guaranteed schemes	1,877,482	-	1,486,555	8,356
of which: households	50,098			52
of which: secured by housing real estate	-			-
of which: non-financial companies	1,827,384	-	1,444,419	8,304
of which: small and medium-sized companies	1,178,591			1,449
of which: secured by commercial real estate	-			-

	31-12-2020			
	Gross amount		Maximum amount of guarantee that can be considered	Gross amount
		Of which: restructured	Public guarantees received	Entries to non-performing exposures
Loans and advances subject to public guaranteed schemes	1,331,672	-	1,069,839	233
of which: households	36,090			43
of which: secured by housing real estate	-			-
of which: non-financial companies	1,295,582	-	1,039,263	190
of which: small and medium-sized companies	877,449			150
of which: secured by commercial real estate	-			-

43. CLIMATIC RISK

The physical consequences (physical risk) of climate change (e.g., rise in average temperature or adverse weather events) and the transition to a climate-neutral economy (transition risk) are priorities for the Bank. For this reason, the Bank is committed to the objectives of the Paris Agreement and considers that taking action to this end is a shared responsibility.

The Bank is increasingly aware of the impact climate change has on its business, so it treats this risk as strategic, also considering the impact of its lending policy on global climatic risks.

Climatic risks are a booster to traditional risks, including credit risk. Climate risks are amplified through transition channels, whether macro (e.g., GDP), or micro (e.g., destruction of agricultural crops). Both physical risk and transition risk can affect the quality of our credit portfolio, especially in the economic sectors of agriculture and food and in the mortgage segment. In addition, the Bank estimates that the energy, transport, materials and construction (including real estate), and agricultural, food and forestry sectors are those most exposed to the risks of climate change.

During 2020, a set of regulations related to climate change and environmental issues was issued for banking, and this trend is expected to continue in the future. The two most important guidelines issued in 2020 are the "ECB Guide on climate-related and environmental risks" and the "EBA guidelines on loan origination and monitoring". The common denominator of these guidelines is the focus on environmental and social aspects. In this vein, the ECB is expected to require banks to take an end-to-end approach to climatic and environmental risks across their processes and business management. In this sense, the Bank is developing initiatives to incorporate these guidelines into its risk management model, in origination and in its business processes.

The Bank is currently focused on measurement (heatmaps, stress tests, scenario analysis, customer risk assessments), structural data improvement and information collection, monitoring and reporting. The aim of these initiatives is to create awareness and knowledge and, later, expand the dissemination on climatic risks.

Regarding the estimates to be incorporated in the preparation of its financial statements, the Bank also considered the impact in terms of classification of financial instruments linked to climatic indicators or other sustainability indicators: relevance is given to the impact of the contractual conditions of financial instruments associated with climatic indicators or sustainability on the contractual cash flows of financial instruments (and whether they represent only capital and interest payments).

44. SUBSEQUENT EVENTS

On the date of approval of these consolidated financial statements by the Bank's Board of Directors, there were no events subsequent to December 31, 2021 – 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.

The Bank exercised a clean-up call in February 2022, of the Atlantes Mortgages No. 5 and Atlantes Mortgage No. 7 securitisation operations.

Military offensive in Ukraine

On the night of 23 to 24 February 2022, Russia launched a military offensive in Ukraine, resulting in a conflict that brings a new war scenario to Europe, and which is still taking place on the date of approval of this report. Negotiations between the parties take place at the same time as hostilities continue, and it is not possible to assess when the conflict will be over.

Most of the international community reacted, with the condemnation of the military aggression, support for Ukraine, and the imposition by the G-7 of heavy economic sanctions on Russia. These, however, will also predictably have adverse effects on the major developed economies and, in particular, on the European Union, aggravated by rising commodity prices, which have surpassed a decade high, as in the case of oil.

Given the uncertainty that remains in relation to the magnitude of the effects arising from the events referred, which still depend on future developments, the Board of Directors is unable to estimate at this time, with adequate reliability, the future impacts on the national economy and, namely, on the Bank's banking activity and financial situation.

In this sense, the Board of Directors has followed up on the economic sanctions applied and will maintain regular and continuous monitoring of the situation to promote the updating of the estimates used whenever relevant information becomes available, adopting the response measures most appropriate to the estimated or verified impacts.

45. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on March 29, 2022.

46. NOTE ADDED FOR TRANSLATION

These financial statements are a free translation of the financial statements originally issued in the Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AS AT DECEMBER 31, 2021

(Amounts expressed in thousands of Euros - tEuros)

		Amount issued				Value adjustments					
Securities issued	Currency	Total	Subscribed by the Group	Consolidated Balance sheet	Interest payable/ prepaid commissions	for hedging operations	Total	Interest rate	Issue Date	Maturity date	Index
Structured bonds											
OB.BST INDEX LINKED NOTES 2024 23/12/2024	EUR	8,227	116	8,111	188	100	8,399	Floating	20 Dec 2019	23 Dec 2024	Indices bucket
Credit Linked Notes due August 2037	EUR	183,000	-	183,000	2,608	-	185,608	Floating	26 Jul 2021	15 Aug 2037	Euribor3M (floored at 0) + 9%
Total		**191,227**	**116**	**191,111**	**2,796**	**100**	**194,007**				
Covered Bonds											
Hipotecária XIV	EUR	750,000	750,000	-	(150)	-	(150)	0.754%	4 Mar 2015	4 Mar 2022	Fixed rate
Hipotecária XVII	EUR	750,000	750,000	-	(301)	-	(301)	0.902%	15 Apr 2016	15 Apr 2023	Fixed rate
Hipotecária XVIII	EUR	750,000	750,000	-	(301)	-	(301)	0.652%	26 Jul 2016	26 Jul 2023	Fixed rate
Hipotecárias XX - 1ª	EUR	750,000	750,000	-	(905)	-	(905)	1.201%	7 Dec 2017	7 Dec 2027	Fixed rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	(1,206)	-	(1,206)	1.481%	10 Apr 2017	10 Apr 2027	Fixed rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	1,897	-	1,001,897	0.875%	25 Apr 2017	25 Apr 2024	Fixed rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(4,647)	-	995,353	1.250%	5 Jul 2019	5 Jul 2029	Fixed rate
Hipotecária XXIV	EUR	1,100,000	1,100,000	-	(1,766)	-	(1,766)	0.412%	5 Jul 2019	5 Jul 2029	Fixed rate
Hipotecárias XXV	EUR	750,000	750,000	-	(603)	-	(603)	0.51%	27 Mar 2020	27 Mar 2025	Fixed rate
Hipotecária XXVI	EUR	750,000	750,000	-	(1,353)	-	(1,353)	0.00%	28 Oct 2020	28 Oct 2030	Fixed rate
Total		**8,600,000**	**6,600,000**	**2,000,000**	**(9,335)**	**-**	**1,990,665**				
Bonds issued under securitisation operations of mortgage loans											
Hipototta 4 - Class A - Notes	EUR	390,664	285,885	104,779	(345)	-	104,434	Floating	9 Dec 2005	30 Dec 2048	Euribor 3m+0.12% (up to early redemption date in December 2014); Euribor 3m+0.24% (after early redemption date)
Hipototta 4 - Class B - Notes	EUR	14,213	14213	-	-	-	-	Floating	9 Dec 2005	30 Dec 2048	Euribor 3m+0.19% (up to early redemption date in December 2014); Euribor 3m+0.40% (after early redemption date)
Hipototta 4 - Class C - Notes	EUR	44,886	44,886	-	-	-	-	Floating	9 Dec 2005	30 Dec 2048	Euribor 3m+0.29% (up to early redemption date in December 2014); Euribor 3m+0.58% (after early redemption date)
Hipototta 4 - Class D - Notes	EUR	7,000	7,000	-	-	-	-	Floating	9 Dec 2005	30 Dec 2048	Residual return generated by securitised portfolio
Hipototta 5 - Class A2 - Notes	EUR	350,683	287,641	63,042	(117)	-	62,925	Floating	22 Mar 2007	28 Feb 2060	Euribor 3m+0.13% (up to early redemption date in February 2014); Euribor 3m+0.26% (after early redemption date)
Hipototta 5 - Class B - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22 Mar 2007	28 Feb 2060	Euribor 3m+0.17% (up to early redemption date in February 2014); Euribor 3m+0.34% (after early redemption date)
Hipototta 5 - Class C - Notes	EUR	24,000	24,000	-	-	-	-	Floating	16 Mar 2007	28 Feb 2060	Euribor 3m+0.24% (up to early redemption date in February 2014); Euribor 3m+0.48% (after early redemption date)
Hipototta 5 - Class D - Notes	EUR	26,000	26,000	-	-	-	-	Floating	22 Mar 2007	28 Feb 2060	Euribor 3m+0.50% (up to early redemption date in February 2014); Euribor 3m+1.00% (after early redemption date)
Hipototta 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	-	Floating	22 Mar 2007	28 Feb 2060	Euribor 3m+1.75% (up to early redemption date in February 2014); Euribor 3m+3.50% (after early redemption date)
Hipototta 5 - Class F - Notes	EUR	6,000	6,000	-	-	-	-	Floating	22 Mar 2007	28 Feb 2060	Residual return generated by securitised portfolio
Azor Mortgages 2 - Class A	EUR	62,603	62,603	-	-	-	-	Floating	24 Jul 2008	14 Dec 2065	3mth Euribor + 0.30%
Azor Mortgages 2 - Class B	EUR	43,080	43,080	-	-	-	-	Floating	24 Jul 2008	14 Dec 2065	3mth Euribor + 0.8%
Azor Mortgages 2 - Class C	EUR	6,750	6,750	-	-	-	-	Floating	24 Jul 2008	14 Dec 2065	Residual return generated by securitised portfolio

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED AS AT DECEMBER 31, 2021

(Amounts expressed in thousands of Euros - tEuros)

Securities issued	Currency	Amount issued: Total	Amount issued: Subscribed by the Group	Consolidated Balance sheet	Interest payable/ prepaid commissions	Value adjustments for hedging operations	Total	Interest rate	Issue Date	Maturity date	Index
Atlantes Mortage 2 - Class A	EUR	89,024	-	89,024	(11,076)	-	77,948	Floating	5 Mar 2008	18 Sep 2060	3mth Euribor + 0.33%
Atlantes Mortage 2 - Class B	EUR	11,083	11,083	-	-	-	-	Floating	5 Mar 2008	18 Sep 2060	3mth Euribor + 0.95%
Atlantes Mortage 2 - Class C	EUR	4,518	4,518	-	-	-	-	Floating	5 Mar 2008	18 Sep 2060	3mth Euribor + 1.65%
Atlantes Mortage 2 - Class D	EUR	9,422	9,422	-	-	-	-	Floating	5 Mar 2008	18 Sep 2060	Residual return generated by securitised portfolio
Atlantes Mortage 3 - Class A	EUR	155,100	48,340	106,760	(7,969)	-	98,791	Floating	30 Oct 2008	20 Aug 2061	3mth Euribor + 0.20%
Atlantes Mortage 3 - Class B	EUR	22,243	22,243	-	-	-	-	Floating	30 Oct 2008	20 Aug 2061	3mth Euribor + 0.50%
Atlantes Mortage 3 - Class C	EUR	39,669	39,669	-	-	-	-	Floating	30 Oct 2008	20 Aug 2061	Residual return generated by securitised portfolio
Atlantes Mortage 4 - Class A	EUR	172,713	-	172,713	(22,485)	-	150,228	Floating	16 Feb 2009	30 Dec 2064	3mth Euribor + 0.15%
Atlantes Mortage 4 - Class B	EUR	19,020	19,020	-	-	-	-	Floating	16 Feb 2009	30 Dec 2064	3mth Euribor + 0.30%
Atlantes Mortage 4 - Class C	EUR	53,021	53,021	-	-	-	-	Floating	16 Feb 2009	30 Dec 2064	Residual return generated by securitised portfolio
Atlantes Mortage 5 - Class A	EUR	140,337	140,337	-	-	-	-	Floating	21 Dec 2009	23 Nov 2068	3mth Euribor + 0.15%
Atlantes Mortage 5 - Class B	EUR	25,910	25,910	-	-	-	-	Floating	21 Dec 2009	23 Nov 2068	3mth Euribor + 0.30%
Atlantes Mortage 5 - Class C	EUR	44,995	44,995	-	-	-	-	Floating	21 Dec 2009	23 Nov 2068	Residual return generated by securitised portfolio
Hipototta No. 13 Class A	EUR	854,727	854,727	-	-	-	-	Floating	9 Jan 2018	23 Oct 2072	3mth Euribor + 0.60%
Hipototta No. 13 Class B	EUR	484,000	484,000	-	-	-	-	Floating	9 Jan 2018	23 Oct 2072	3mth Euribor + 1%
Hipototta No. 13 Class C	EUR	41,501	41,501	-	-	-	-	Floating	9 Jan 2018	23 Oct 2072	Residual return generated by securitised portfolio
Hipototta No. 13 Class D	EUR	0	-	-	-	-	-	Floating	9 Jan 2018	23 Oct 2072	
Atlantes Mortage 7 - Class A	EUR	110,474	110,474	-	-	-	-	Floating	19 Nov 2010	23 Aug 2066	3mth Euribor + 0.15%
Atlantes Mortage 7 - Class B	EUR	20,529	20,529	-	-	-	-	Floating	19 Nov 2010	23 Aug 2066	3mth Euribor + 0.30%
Atlantes Mortage 7 - Class C	EUR	42,993	42,993	-	-	-	-	Floating	19 Nov 2010	23 Aug 2066	Residual return generated by securitised portfolio
		3,374,158	**2,837,840**	**536,318**	**(41,992)**	**-**	**494,326**				
Total		**12,165,385**	**9,437,956**	**2,727,429**	**(48,531)**	**100**	**2,678,998**				

BANCO SANTANDER TOTTA, S.A.

DEBT SECURITIES ISSUED (SUBORDINATED) AS AT DECEMBER 31, 2021

(Amounts expressed in thousands of Euros - tEuros)

		Issue amount			Accruals	Total				
Securities issued	Currency	Issued	Subscribed by the Group	Consolidated balance sheet	Total	consolidated balance sheet	Interest rate		Maturity	Early repayment as from
OB.BANCO SANTANDER TOTTA SA 7.5% 06/10/2026	EUR	7,599	-	7,599	136	7,735	Fixed rate	7.50%	6 Oct 2026	
OB. BST 2030 TIER2	EUR	320,000	-	320,000	14	320,014	Floating	1.58%	31 Dec 2030	31 Dec 2025
		327,599	**-**	**327,599**	**150**	**327,749**				

REPORTS AND OPINIONS ON THE CONSOLIDATED BUSINESS

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Banco Santander Totta, S.A. (the "Group" or "Bank"), which comprise the consolidated statement of financial position as at 31 December 2021 (which shows total assets of Euros 56.166.619 thousand and total shareholders' equity of Euros 4.250.889 thousand including a profit or loss for the year of Euros 270.494 thousand), the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in shareholder's equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Banco Santander Totta, S.A. as at 31 December 2021, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Matriculada na CRC sob o NIPC 506 628 752, Capital Social Euros 314.000
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

Key Audit Matter	Summary of the Audit Approach
Impairment losses on loans and advances to customers at amortized cost *<u>Measurement and disclosures related to impairment losses on loans and advances to customers at amortized cost presented in notes 1.3 c), 2, 9, 17 and 38 attached to the Bank's consolidated financial statements</u>*	
The significant expression of loans and advances to customers at amortized cost and associated impairment losses, which require a set of complex assumptions and judgments from the Bank's management in relation to the identification of clients with a significant increase in credit risk or in default, as well as the corresponding amount of impairment losses, justify that these constitute key matters for the purposes of our audit. As at 31 December 2021, the gross amount of loans and advances to customers at amortized cost amounted to Euros 37.898.364 thousand and the corresponding impairment losses recognized at that date amounted to Euros 1.013.759 thousand. Impairment losses on loans and advances to customers at amortized cost are determined by Bank's management on an individual basis, through a case-by-case analysis of a significant component of the total loan portfolio, and for the remaining portfolio impairment is determined through a collective analysis. For the most significant exposures, evaluated in terms of the total amount of responsibilities and signs of a deterioration in the Bank clients' creditworthiness, the Bank performs an individual impairment measurement analysis, which includes an individual staging assessment, in order to validate the indicative attribution of stage automatically generated by the system (stage 1, 2 or 3), as well as an individual impairment measurement analysis. In this last scenario, the analysis is performed for the responsibilities classified in stage 3, and the amount of impairment is determined through a detailed analysis of the economic and financial position of each customer, with reference to (i) the estimated cash flows that may be generated in the future for the fulfilment of their responsibilities – going approach; or (ii) the evaluation attributed to the collateral received in the scope of the credit granted, whenever the recovery is anticipated by means of the assignment,	The audit procedures developed included the identification, understanding and assessment of the policies and procedures established by the Bank for the purpose of measuring impairment losses for portfolio of loans granted at amortized cost as well as its key controls with respect to refers to the approval, recording and monitoring of credit risk, specifically loans with moratorium and Public State aids in the context of COVID-19 pandemic and the timely identification, recording and correct measurement of impairment losses. On a sample basis, we analysed a group of clients within the Bank's individual analysis perimeter, based on the criteria defined in internal regulations, with the objective of: (i) reviewing the conclusions and results obtained by the Bank in the individual analysis of stage and in the individual analysis of impairment measurement; (ii) formulate our own judgment on the existence of situations of significant increase in credit risk and default; and (iii) assess how the impairment losses were timely identified, measured and recognized by management. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that met the criteria defined by the Bank in its methodology. For a sample of exposures classified in stage 3, extracted from the credit population subject to individual analysis by the Bank as at 31 December 2021, the procedures we have developed consisted of: (i) reviewing the available documentation on credit processes; (ii) verify the match of the financial plans used to determine impairment losses with those reflected in the contractual support; (iii) analyse the contractual support and the most relevant collaterals and confirm the registration of them in favour of the Bank; (iv) analyse the most recent evaluations of these collaterals; (v) to examine the criteria to determine a significant increase in credit risk (stage 2) and under impairment (stage 3) on an individual basis; (vi) review the incorporation of forward looking information; (vii) a critical analysis of the discounted

Key Audit Matter	Summary of the Audit Approach
execution and/or sale of the collateral, less the costs inherent to its recovery and sale – gone approach. For exposures not covered by the individual analysis, the Bank developed collective analysis models to calculate expected impairment losses, in light of the IFRS 9 requirements, which include the classification of exposures by different stages according to the evolution of their credit risk since the date of its concession, and not according to the credit risk at the reporting date (stages 1, 2 or 3). These models are based on the internal historical information of defaults and recoveries and, in order to be representative of the current economic context and simultaneously incorporate a perspective of future economic evolution, these models also use forward looking prospective information such as (i) the GDP growth rate; (ii) the expected unemployment rate; (iii) the evolution of Euribor; and/or (iv) the prospects for the real estate market. On the basis of these macroeconomic data, potential scenarios are developed that allow estimating the expected loss in each segment based on a probability of occurrence. The specific context motivated by the COVID-19 pandemic which includes various support measures granted to families and companies, namely the introduction of credit facilities to the economy and the possibility of families and companies benefit from temporary payment holidays of loan instalments (moratoriums) led to an increase in complexity in identifying significant increase in credit risk and default indicators. In these circumstances, the internal models developed by the Bank for impairment assessment were adapted in order to incorporate new criteria and other judgments such as (i) the consideration of temporary flexibility measures to avoid stage deterioration and/or flagging as restructured operations with approved moratoriums in line with the supervisors' guidelines in this matter, (ii) the development of individual analyses for significant exposures of debtors included in the economic sectors most affected by the pandemic in order to identify situations of significant deterioration in credit risk; and (iii) updating the macroeconomic scenarios for the purpose of determining the expected credit loss taking into account the potential economic effects of the COVID-19 pandemic. Considering all the above, changes in the assumptions or methodologies used by the Bank in the analysis and quantification of impairment losses of	cash flows underlying the calculation of impairment; (viii) to assess the evolution of exposures; and (ix) understand the views of the Bank's management regarding the economic and financial situation of the clients, and the predictability of expected cash flows of the respective businesses, as well as the prospects of collectability of credits. Whenever we concluded for the need to review some assumption used by management, we recalculated the estimated amount of impairment and compared the results obtained with those calculated by the Bank, in order to assess the existence of possible relevant material divergences. For the portfolio whose impairment is assessed through the collective analysis model, specific procedures were developed with the objective of evaluating how the assumptions considered by management include the risk variables regarding all historic performance and recoveries of the Bank's loans and advances to customers portfolio, namely: (i) review of the methodological documentation for the development and validation of the models; (ii) analysis of the documentation of the backtesting exercise of the risk parameters and its results; (iii) review and testing of portfolio segmentation; (iv) analysis of the Bank's definition of default and the criteria applied in the classification of staging, on a sample basis, including the additional criteria established and the sectoral analyses developed by the Bank for the economic sectors most affected by the pandemic; (v) review and testing of the main risk parameters, as well as the available prospective information and its update through the estimated economic effects of the pandemic; (vi) critical analysis of the main assumptions and sources of information used in the future recoveries incorporated in the LGD (Loss Given Default), in order to estimate historical recoveries incorporated in this calculation, on a sampling basis; and (vii) recalculation of Expected Credit Loss ("ECL") for the loans and advances to customers portfolio, with reference to 31 December 2021. Our auditing procedures also included a review of the disclosures for loans and advances to customers at amortized cost, as well as the related impairment losses, in the accompanying notes to the consolidated financial statements, considering applicable and current accounting standards.

Key Audit Matter	*Summary of the Audit Approach*
the loans and advances to customers, as well as different recovery strategies, condition the estimation of recovery flows and timing of their receipt may have a material impact on the determination of the amount of impairment losses recognized in each period.	
Other receivable related with the resolution measure applied to Banif *<u>Measurement of the receivable related with the resolution measure applied to Banif and related disclosures presented in notes 1.3 c), 9 and 13 attached to the Bank's consolidated financial statements</u>* Within the scope of the resolution measure applied to Banif - Banco Internacional do Funchal, S.A. ("Banif") arising from the decision of the Board of Directors of Banco de Portugal of December 20, 2015 ("transaction"), and bearing in mind the understandings and subsequent clarifications communicated to the Bank by the Bank of Portugal, and the approval by the Ministry of Finance of the request for the transfer of Banif's tax losses, the Bank submitted, on May 29, 2018, a replacement corporate income tax declaration (Declaração Modelo 22 - IRC) for the 2015 financial year. Subsequently, by order of the Deputy Director of the Major Taxpayers Unit (Unidade dos Grandes Contribuintes), the Bank was only granted the right to use Banif's tax losses for the years 2009 to 2014. Following the decision of the Ministry of Finance of 30 June 2020 regarding the rejection of the hierarchical appeal presented by the Bank in relation to the aforementioned order, the Bank demanded a compensation in the amount of Euros 157.699 thousand, in cash or in treasury bills, within the scope of the transaction and the agreement entered into with the Portuguese authorities involved in the resolution measure applied to Banif. In the context of the decision now known, and as mentioned in Note 13 of the consolidated financial statements, the Bank proceeded to reclassify this amount to "Other balances receivable" financial statement line item. Due to its relevance in the context of the Bank's consolidated financial statements, and for the significant change in the form and strategy of recovering the balance in question, this was a relevant matter for the purposes of our audit.	The audit procedures we developed for this matter included the identification and understanding of the key processes and controls implemented by the Bank with regard to the approval, registration and monitoring of these matters, as well as the assessment of the assumptions adopted by the management body regarding their form of recovery and respective amount. In view of the relevance of the judgments required by the management body, within the scope of our audit, we carried out, among others, the following procedures: (i) meetings with the management body to analyse the evaluation carried out by the Bank regarding the situation and evolution of the referred process; (ii) analysis of the contractual documentation associated with the transaction; (iii) appreciation of the communications made with the Tax Authority and the Ministry of Finance; (iv) appreciation of correspondence exchanged with Banco de Portugal; and (v) meetings with the Bank's external lawyers and legal advisors and analysis of its opinions. Our audit procedures also included the revision of the disclosures regarding the status of the process and the reclassification of the referred balance, contained in the notes attached to the Bank's consolidated financial statements, considering the applicable and current accounting standards.

Key Audit Matter	*Summary of the Audit Approach*
Fair value of financial instruments measured through fair value not quoted in an active market – level 3 of the fair value hierarchy *Measurement and disclosures related to the fair value of financial instruments not listed on an active market classified at level 3 of the fair value hierarchy and presented in notes 1.3 c), 2, 6, 7, 8, 9, 16 and 38 attached to the Bank's consolidated financial statements* Due to its relevance in the context of the Bank's consolidated financial statements and the associated judgment, the fair value measurement of financial instruments not quoted in an active market classified at level 3 of the fair value was a relevant matter for the purposes of our audit. At 31 December 2021, the balance sheet balances of these financial instruments amount to Euros 198.066 thousand of assets and Euros 31.161 thousand of liabilities. The financial instruments thus classified are composed of (i) debt instruments whose business model is "hold to collect and sale" or trading; (ii) trading or hedging derivatives; (iii) equity instruments; and (iv) assets and liabilities subject to fair value hedge adjustments, namely loans to customers, debt securities and deposits from customers at amortized cost. For these financial instruments classified at level 3 of the fair value hierarchy, and when observable market data is not available, the Bank determines fair value using estimates, namely through the use of valuation models based on discount cash flows techniques, which usually involve a high degree of judgment by the management in defining the assumptions and inputs to be used. In this context, changes in the assumptions in the measurement techniques used by the Bank's management may give rise to material impacts in the determination of the fair value of the financial instruments recognized in the Bank's consolidated financial statements.	The audit procedures we have developed included the identification and understanding of key controls established by the Bank underlying the fair value methodologies adopted and the determination of the main assumptions and inputs used in the determination of fair value for the financial instruments not quoted in an active market and classified as level 3 of the fair value hierarchy. For a sample of instruments whose measurement was based substantially of unobservable data, our procedures also included: (i) the understanding of methodologies and main assumptions utilized by the Bank; (ii) the assessment of whether the models developed by the Bank and the data and assumptions used are reasonable in the circumstances, having compared the data subject to observation with market information collected from external and independent sources, whenever available; and (iii) the analytical revision of fair value of those financial instruments, comparing the results with previous periods and with the last financial information available and respective audit reports, whenever available. Our audit procedures also included the review of disclosures about financial instruments not quoted in an active market and classified as level 3 of the fair value hierarchy, included in the accompanying notes to the Bank's consolidated financial statements, considering applicable and current accounting standards.

Key Audit Matter	*Summary of the Audit Approach*
Employees post-employment benefits	
Measurement and disclosures related to employees' post-employment benefits presented in notes 1.3 i), 2, 19 and 35 attached to the Bank's consolidated financial statements	
At 31 December 2021, the liabilities for past services of the Bank in relation to its pensioners, employees and directors amounted to Euros 1.561.585 thousand, mainly covering retirement and survivors' pensions, disability, health care and death benefit, in particular those provided for in the *Acordo Coletivo de Trabalho* ("ACT") for the banking sector. These liabilities are estimated based on actuarial valuations performed by an actuary certified by the Insurance and Pension Funds Supervisory Authority ("ASF"). These assessments incorporate a set of financial and actuarial assumptions, such as the discount rate, inflation rate, mortality and disability tables, pension and wages growth rates, among others, defined by management and adjusted to the characteristics of the benefits and the population of managers, employees and pensioners, and the current and future behaviour of these variables. In the specific case of the discount rate used in the actuarial studies, it is determined based on the market rates for high-quality entities in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with a similar maturity the duration of the payment of the benefits of the plan. In this context, future changes in the assumed financial and actuarial assumptions may give rise to material impacts on net liabilities as well as assets held to meet these liabilities, and this issue was considered a key matter for the purposes of our audit.	The audit procedures developed included the identification and understanding of the key controls instituted by the Bank to ensure that the information collected and provided to the independent actuary is correct and complete to calculate the plan's liabilities and funding needs, as well as the suitability of the process of the fair value of the assets of the fund. The audit work included meetings with the Bank's management and the independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. Given the relevance of the judgments required of management, we proceeded to evaluate the reasonableness of the main assumptions, comparing them with the data that, independently, we were able to obtain. A conformity review was performed to: (i) the employee information history used for the purposes of calculating responsibilities; and (ii) the accounting recognition of plan cuts or liquidations, costs related to past services and other changes in assumptions and estimates that occurred during the year. Finally, we have developed the detailed analysis of the actuarial study prepared with reference to 31 December 2021, based on the results of the procedures referred to above. The audit procedures included the review of the disclosures on the post-employment benefits of directors, employees and pensioners in the notes to the Bank's consolidated financial statements, considering applicable and current accounting standards.
Provisions and contingent liabilities	
Measurement and disclosures related to provisions and contingent liabilities presented in notes 1.3.i), 2, 40 and 41 attached to the Bank's consolidated financial statements	
Among the contingent liabilities disclosed in notes 40	The audit procedures we have developed in this area

Key Audit Matter	*Summary of the Audit Approach*
and 41 attached to the Bank's consolidated financial statements as at 31 December 2021, the following stand out: • Resolution Fund The resolution measures applied in 2014 to Banco Espírito Santo, SA - a process that led to the creation of Novo Banco, S.A. ("Novo Banco") - and in 2015 to Banif - Banco Internacional do Funchal, S.A. ("Banif") created uncertainties related to the possible insufficiency of resources of the Resolution Fund to ensure the fulfilment of its responsibilities, in particular the short-term repayment of the financing it has contracted for this purpose. These uncertainties have become more relevant due to the liabilities and contingent liabilities assumed, namely those resulting from: (i) effects of the application of the principle that no creditor of the credit institution under resolution may incur greater loss than it would if it had entered into liquidation; (ii) legal proceedings against the Resolution Fund; (iii) negative effects arising from the resolution process resulting in additional responsibilities or contingencies for Novo Banco that must be neutralized by the Resolution Fund; and (iv) the contingent capitalization mechanism associated with Novo Banco's sale process to Lone Star, under which the Resolution Fund, as shareholder of Novo Banco, may be called upon to make capital injections in the event of certain conditions related to the performance of a restricted set of assets of Novo Banco and the evolution of its capitalization levels. • Portuguese Competition Authority In 2012 the Portuguese Competition Authority (Autoridade da Concorrência) launched an offense claim against several banks, including Banco Santander Totta, S.A., for alleged restrictive competition practices. On 9 September 2019, the Competition Authority notified the banks of its decision, which points to their condemnation, with a penalty of Euros 36 million being applied to the Bank. The Bank understands that it did not commit the imputed infraction, so it filed on 21 October 2019 an appeal against that decision to the Competition, Regulation and Supervision Court. In May 2020, by decision of the aforementioned Court, the Bank provided a deposit of part of the penalty imposed, which is provisional in nature, providing that it is pending a decision on the judicial impugnation presented by the Bank.	included the identification and understanding of the key processes and controls established by the Bank with respect to the approval, registration and monitoring of these matters, as well as the analysis of the methodologies, data and assumptions adopted by the management in the assessment and quantification of contingencies and in the eventual recognition of provisions. In this context, due to the relevance and complexity of the judgments required by the management, in the scope of our audit, we carried out, among others, the following procedures in relation to the Resolution Fund: (i) monitoring of major changes to the simplified model of cash flow projections of the Resolution Fund presented by the Bank when renegotiating loans granted , based on the contractual conditions agreed between the banks and the Resolution Fund; (ii) appreciation of the relevant public communications on responsibilities and the contingent liabilities assumed by the Resolution Fund and / or the Portuguese State; (iii) analysis of the evolution of the Bank's exposures with the Resolution Fund; and (iv) understanding of the views of the Bank's management regarding the Resolution Fund's economic and financial situation, and the predictability of expected cash flows from its regular revenues. With regard to the process initiated by the Portuguese Competition Authority, our work included (i) analysing the Bank's assessment of the nature and situation of said process, which underlies the non-constitution of provisions, and (ii) assessing the information obtained from the Bank external lawyers who follow the process. We also analysed the information available on developments after 31 December 2021 on the most relevant litigations. Our audit procedures also included the review of the disclosures on provisions and contingent liabilities, included in the accompanying notes to the consolidated financial statements, considering applicable and current accounting standards.

Key Audit Matter	*Summary of the Audit Approach*
The consolidated financial statements as of 31 December 2021 reflect the Bank's management expectation that the Bank, as an entity participating in the Resolution Fund, will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to the BES and Banif or any other liability or contingent liability assumed by the Resolution Fund. In addition, the Bank's management is also convinced that the probabilities that the process initiated by the Portuguese Competition Authority will end without the Bank having to pay a fine are higher than those of the opposite. Contingent liabilities may evolve differently than originally expected, so they are subject to continuous review to determine whether this eventuality of outflow of resources has become probable. In these circumstances, the assessment of these contingent liabilities implies that the Bank's management employs complex estimates and judgments regarding the probability of materializing and quantifying the amounts of liabilities that may result from litigation and contingencies to which the Bank is a party and, to that extent, this was a matter considered relevant for the purposes of our audit.	

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the consolidated financial position, the consolidated financial performance and cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the consolidated Directors' Report, including the Corporate governance Report and the non-financial statement, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Our responsibility also includes verifying that the information included in the consolidated Directors' report is consistent with the consolidated financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law.

Report on other legal and regulatory requirements

Consolidated Directors' report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the consolidated Directors' report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the consolidated Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the corporate governance report includes the information required under article No. 29-H of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs 1 c), d), f), h), i) and l) of that article.

Consolidated non-financial statement

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the Group will prepare a separate report of the Directors' report that includes the consolidated non-financial statement set forth in article No. 508-G of the Portuguese Company Law, which should be published on its website until the legal deadline.

European Single Electronic Format (ESEF)

The Entity's consolidated financial statements for the year ended on 31^{st} December 2021 must comply with the applicable requirements established in Commission Delegated Regulation (EU) 2019/815, of December 17, 2018 (ESEF Regulation).

The management is responsible for the preparation and disclosure of the annual report in accordance with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements included in the annual report are presented in accordance with the requirements of the ESEF Regulation.

Our procedures took into account the OROC Technical Application Guide on ESEF reporting and included, among others:

a) obtaining an understanding of the financial reporting process, including the annual report presentation in valid XHTML format; and

b) the identification and assessment of the risks of material misstatement associated with the tagging of information in the consolidated financial statements, in XBRL format using iXBRL technology. This assessment was based on an understanding of the process implemented by the entity to tag the information.

In our opinion, the consolidated financial statements included in the annual report are presented, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Banco Santander Totta, S.A. in the Shareholders’ General Meeting of 31 May 2016 for the period from 2016 to 2018 having remained in functions until the current period. Our last appointment was in the Shareholders’ General Meeting of 13 December 2018 for the period from 2019 to 2021.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group’s supervisory board as of 19 April 2022.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 1 of article No. 5 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of 16 April 2014, and that we remain independent of the Group in conducting our audit.

19 April 2022

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

[Original in Portuguese signed by]

José Manuel Henriques Bernardo, ROC no. 903
Registered with the Portuguese Securities Market Commission under no. 20160522

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