Half-Year Report

June 2020

We shall continue to work to build a better world

#TheRightWay

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Santander

Santander Totta SGPS, S.A.

Business and Results

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

Santander Totta, SGPS
Rua do Ouro, 88 - 1100-063 Lisbon
Share Capital: 1.972.962.079,58 €
Registered at the Lisbon Registry of Companies under single registration and VAT number nº 507 096 851
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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

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

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

We were at the forefront with the definition of concrete measures to support our employees, customers and suppliers, in order to mitigate the effects of the pandemic. We supported the Portuguese economy strongly in the first half, having increased credit by €2.1 billion, of which €1.1 billion for companies having a major participation in the protocolled lines.

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

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

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

Pedro Castro e Almeida

PROFITABILITY	GROWTH	SOLIDITY	COMMUNITY SUPPORT
Operating Income **659 M€** (-6%)	Mortgage loans **2,7%** Customer deposits **3,7%** **Var. YoY**	NPE Ratio **2,8%**	Combating the pandemic **Budget greater than €3 million**
Net Income **172,9M€** (-37%)	Main Bank Customers **783 mil** (2%)	Cost of Credit **0,27%**	Santander Companies **983 internship grants**
ROE **8,2%** (-5 p.p.)	Digital Customers **866 mil** (14%)	CET1 Ratio **19,7%**	Investment in society 34,001 beneficiaries

TABLE OF INDICATORS

BALANCE SHEET AND RESULTS (million euro)	Jun-20	Jun-19	Var.
Total Net Assets	60,833	56,747	+7.2%
Loans and advances to customers (net)	41,107	39,627	+3.7%
Customers' Resources	42,983	41,809	+2.8%
Total shareholders' equity	4,480	4,249	+5.5%
Net Interest Income	399.3	428.7	-6.9%
Net Fees and Other Income	162.5	177.9	-8.7%
Net Income from Banking Activities	659.4	703.8	-6.3%
Net Operating Income	371.6	400.7	-7.3%
Income before taxes and non-controlling interests*	231.5	382.5	-39.5%
Consolidated net income attributable to the shareholders of ST, SGPS	172.9	275.9	-37.3%

RATIOS	Jun-20	Jun-19	Var.
ROE	8.2%	13.4%	-5.2 p.p.
ROA	0.6%	1.0%	-0.4 p.p.
Efficiency ratio	43.6%	43.1%	+0.5 p.p.
CET I ratio*	19.7%	16.4%	+3.3 p.p.
Tier I ratio*	23.1%	19.6%	+3.5 p.p.
Capital ratio*	23.5%	19.9%	+3.6 p.p.
Non-Performing Exposure Ratio [1]	2.8%	3.3%	-0.5 p.p.
Non-Performing Exposure coverage ratio	61.0%	53.3%	+7.7 p.p.
Cost of credit [2]	0.27%	(0.03%)	+0.30 p.p.
Loans-to-deposits ratio (tranformation ratio)	114.0%	114.0%	+0.0 p.p.

RATING (long-term)	Jun-20	Jun-19
FitchRatings	BBB+	BBB+
Moody´s	Baa3	Baa3
Standard & Poor´s	BBB	BBB
DBRS	A	A

Other Data	Jun-20	Jun-19	Var.
Employees**	6,195	6,369	-174
Employees in Portugal**	6,163	6,330	-167
Branches	525	553	-28
Total Branches and Corporate Centers in Portugal	517	543	-26

* Fully implemented with results net of payout

** Headcount criteria

[1] In accordance with EBA criteria

[2] Last 12-month average

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

EUROMONEY AWARDS FOR EXCELLENCE 2020	Best Bank in Portugal	Within the scope of the Awards for Excellence 2020, Santander in Portugal was granted the "**Best Bank in Portugal 2020"** award by **Euromoney** magazine. The prizes distinguish those institutions that provided the best services to their customers, demonstrating leadership, innovation and dynamism in the markets in which they operate.
EUROMONEY AWARDS FOR EXCELLENCE 2020	Best Investment Bank in Portugal	In the Corporate Banking area, too, the Bank was recognized, Santander having received the award for"**Best Investment Bank in Portugal 2020**". The magazine pointed out that "the corporate and capital markets business" meant that, despite the competition of other international banks, "the best investment bank came to the fore".
BEST BANK AWARD 2020 GLOBAL FINANCE	Best Bank in Portugal	The North American **Global Finance** magazine elected Santander in Portugal as the **"Best Bank in Portugal**", within the scope of the "*World's Best Banks 2020*". To elect the winners objective criteria were taken into account, such as profitability, evolution of assets, geographic scope, development of new business and product innovation.
The Banker Bank of the Year 2019 PORTUGAL	Bank of the Year in Portugal	Santander was awarded the "**Bank of the Year" in Portugal 2019**" award by ***The Banker*** magazine, within the scope of the "The Banker Awards 2019". The publication highlights "the position of leadership assumed by Santander in the Portuguese banking sector in recent years, describing its history of growth as a result of the customer-centred strategy and of the commitment to digital innovation".
ON STRATEGY INDUSTRY BEST REPUTATION	Most Reputed Banking Brand	Santander was also the **brand with banking's best reputation** in Portugal, according to the ***Global Pulse RepScore* 2020 study**, conducted by consultant **On Strategy**. It is the fourth consecutive time that Santander occupies this position, leading in the two dimensions, rational and emotional, that comprise the analysis.

Company with Best Corporate Reputation	Santander was considered the **Company with the best corporate reputation in Portugal**, on taking 1st place in the sector **in the 2019 Merco ranking** Companies 2019. It is also the best positioned bank in the general ranking of the Most Responsible Companies having best Corporate Governance. The analysis was conducted in Portugal for the first time, the methodology of which analysed 1,200 interviews of 12 different stakeholders.
Best Trade Finance	Santander was distinguished by **Euromoney** magazine as the **"Best Trade Finance Bank"** in Portugal, coming first in the "**Market leader**" and "**Best Service**" categories. The magazine highlights the partnership that Santander has established with Portuguese companies, providing efficient, fast and secure services in foreign trade, as well as the support provided to their internationalization in foreign markets.
Best Private Banking Services Overall	Santander won the *"Best Private Banking Services Overall"* in Portugal prize, awarded by ***Euromoney*** magazine. This is the ninth consecutive time that Bank receives this award. Santander also received the award as Best Private Banking in the ESG (environmental, social and corporate governance) category and for its technological development.
Best Private Bank	Santander in Portugal's Private Banking was elected by ***Global Finance*** magazine as the **"Best in Portugal"**, within the scope of The World's Best Private Banks Awards for 2020, which distinguish the world's best private-banking business models. This is now the fifth consecutive distinction.
Best Retail Bank	Santander was distinguished as **"Best Retail Bank in Portugal"** by the British magazine **World Finance**, in the annual awards of this publication. The magazine highlighted the Bank's leadership, based on the global scale and local scope, customer-centric strategy and diversification.
Best Bank to Work For	Santander was considered the **"Best Bank to Work For in Portugal"**. And 2nd best company (of a size greater than 1,000 employees) to work for, within the scope of the **Great Place to Work**, which included the opinion of the Bank's employees.

Other awards and distinctions:

Best Private Banking in the service categories, Euromoney

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

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

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

Other relevant facts in the 1st half of 2020

Support in combating the Covid-19 pandemic

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

Digilosofia – The new digital philosophy

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

New digital payment solutions

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

Proximity and strengthening the relation

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

Responsible Family Certification

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

SOCIAL RESPONSIBILITY

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

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

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

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

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

Through the Santander Solidarity Fund, an internal initiative through which employees have made their donations to ensure access to food by vulnerable individuals and households, more than €84,000 have been allocated for meals, to lend support to more than 5,370 people. In total, the Fund helped more than 30 IPSS (social solidarity institutions) throughout the country.

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

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

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

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

In the Health sector, Santander funds will allow Universities and Polytechnics to play a greater role in combating Covid-19, for which they are being called upon, adapting their laboratories for test production and using 3D printers to produce protective equipment for health workers. With the support of Santander, the University of Évora created a solidarity fund of €200,000 and, on the other hand, the University of Trás-os-Montes set up a Temporary Shelter to accommodate the elderly from care homes affected by the pandemic. The Setúbal Polytechnic Institute is also in the forefront by providing test equipment, production of visors and alcohol gel, among other initiatives.

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

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

In a proof of confidence in the stability, solidity and future recovery of the Portuguese economy, Santander Portugal undertakes not to use the simplified layoff measure that was approved by the Portuguese State in this national-emergency period. Employees who are teleworking, in quarantine, or take advantage of the leave arising from the suspension of teaching activities and the closure of care homes, are assured of payment in full of their salary and of the food allowance. Employees with immediate liquidity needs will be able to bring forward 50% of the Christmas bonus.

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

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

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

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

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

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

GOVERNING BODIES

BOARD OF THE GENERAL MEETING

Chair:	José Manuel Galvão Teles
Deputy-Chair:	António Maria Pinto Leite
Secretary:	Secretário da Sociedade

BOARD OF DIRECTORS

Chair:	José Carlos Brito Sítima[1]
Deputy-chair:	Pedro Aires Coruche Castro e Almeida
Members:	Manuel António Amaral Franco Preto

SUPERVISORY BOARD

Chair	José Duarte Assunção Dias
Members:	Fernando Jorge Marques Vieira
	Ricardo Manuel Duarte Vidal Castro
Alternate:	José Luís Areal Alves da Cunha

STATUTORY AUDITOR

PricewaterhouseCoopers & Associados, SROC, LDA.,

representada por Aurélio Adriano Rangel Amado

EXECUTIVE COMMITTEE

Chair:	Pedro Aires Coruche Castro e Almeida
Member:	Manuel António Amaral Franco Preto

REMUNERATION 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

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

BUSINESS FRAMEWORK

International Economy

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

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

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

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

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

World Economic Growth

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

Source: IMF (June 2020)

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

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

However, regional, but also national, differences are significant, with developed economies contracting between 8% in the US and 10% in the euro zone. Implementation of an almost universal confinement in these economies, and the interactions between them at the level of integration of the global value chains and also of tourism, largely explain this contraction.

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

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

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

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

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

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

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

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

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

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

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

Portuguese Economy

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

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

Macroeconomic Data

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

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

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

However, post-confinement Portugal is different, with the movement of people remaining at low levels, associated with an almost total absence of tourists, almost nullifying the external demand that fed many service activities, besides trade, lodging and catering. These sectors of activity are characterized by absorbing a vast range of skilled and unskilled labour, of which the vast majority will now be subject to the layoff regime. In July, the provisional estimate of the unemployment rate increased to 8.1%, while the rate of labour underutilization rose to 15.7%. The labour market data begin to reflect the impacts of the pandemic following a reduction between March and May of the participation rate, as people, prevented from seeking employment, were considered inactive (in this period, about 86,000 people were no longer deemed active population, i.e., employed or unemployed). The simplified layoff mechanism made it possible to avoid a sharp rise of unemployment, with companies keeping on their staff; however, the slow recovery of economic activity is starting to bring pressure to bear on the labour market.

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

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

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

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

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

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

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

Major risks and uncertainties for the second half of 2020

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

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

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

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

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

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

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

BUSINESS AREAS

Individuals and Businesses

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

The Bank provided a moratorium on mortgage loans and personal loans, complementing the State's moratorium (in accordance with Decree-Law 10-J/2020 of March 26), in order to allow the reduction of the charges on these loans for customers that, as a result of the adverse effects of the pandemic, experienced a decrease in their income.

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

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

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

The number of digital customers, users of the Santander App and/or NetBanco increased by 91,000 during the 1st half, to 866,000, an increase of 14%. As a result of the context and of the solutions and measures that the Bank has developed, there continues to be a trend of increasing transactions via the digital channels (529,000 digital transactional customers), with emphasis on payment via the Santander App.

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

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

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

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

Companies and Institutionals

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

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

Besides providing to its customer Companies a commercial network of experienced professionals highly motivated to provide excellent service to its customers, Santander in Portugal has invested heavily in digital channels in order to streamline the relationship with the Bank in all matters related with daily banking. The increasing use of the digital channels by Companies demonstrates the importance that customers give to the simplification of procedures and to the fact that they gain autonomy in the use of certain banking products and services for the day-to-day management of their companies.

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

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

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

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

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

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

With regard to Institutional Banking, Santander in Portugal maintains its commitment to the customers of this segment, both with regard to Public Entities, with a strong presence in the Açores and Madeira Regions and with the Municipalities, as well to Private Entities, with a special focus on Religious Institutions and on Social Economy institutions.

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

Corporate and Investment Banking

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In the online business, the market grew by 68.5% to €5,769 million, Santander having contributed with €497 million, a 126.3% increase over the same period of 2019 and a share of 8.6% in first five months of the year (6.4% in the same period last year)[2].

Foreign Customers and Residents Abroad

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

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

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

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

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

Insurance and investment funds marketed

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

[2] Source: CMVM, Monthly order reception indicators (May 2020)

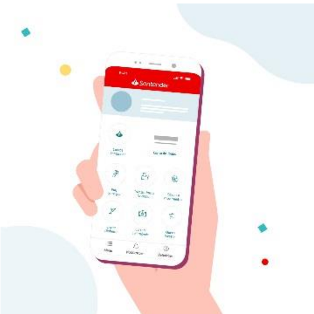
commercial activity, involving outgoings of around €335 million during the second quarter.

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

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

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

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



The pandemic context clearly showed the importance of savings/pensions in meeting the needs customers. The pension solutions played a very important role in the commercial business, with the products recording net subscriptions of €26 million in the form of funds (FPR's) and €17 million in the form of insurance (PPR), benefitting from the Freemium campaign which took place mainly in June.

Digital Transformation

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

Digital channels for Individual Customers

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

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

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

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

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

Digital channels for Corporate Customers

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

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

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

As was done for Individuals, a start was made to measurement of the satisfaction indices in the use of the digital channels for businesses. This feedback mechanism provides a clearer idea to implement improvements in the future.

Contact Centre

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

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

- Transformation of non-critical voice services to e-mail;
- Strengthening critical services through training and hiring more employees;
- Separation of the operation into three different places;
- Increase of attendance via digital channels and IVR (automated self-service systems);
- Implementation of 100% teleworking at the Contact Centre (as from March 26).

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

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

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

ECONOMIC AND FINANCIAL INFORMATION

Consolidated business

At the end of the 1st half of 2020, Santander Totta, SGPS recorded a net income of €172.9 million, compared with €275.9 million in the same period of the previous year, a decrease of 37.3%, influenced by the effects of the pandemic crisis.

The return on equity (RoE) stood at 8.2% and the efficiency ratio was 43.6%, increasing 0.5 percentage points compared to June 2019, reflecting the 6.3% decrease of operating income and the 5.1% decrease of operating costs.

Loans to customers gross, amounted to €42.1 billion, increase 3.8% compared to the amount achieved last time. Loans to individuals grew by 2.6% and loans to companies by 3.1%. The Bank has moratoria on loans to individuals and companies, complementing the State's moratorium (defined in Decree-Law 10-J/2020, of March 26). At the end of June 2020, the moratoria, legal and private, covered more than 88,000 customers, corresponding to an amount of more than €8.9 billion of loans (about 22% of the total portfolio). Within the scope of the credit lines with State guarantee, aimed at mitigating the effects of the pandemic, the Bank approved operations in the amount of €1.3 billion.

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

Customers' resources amounted to €43.0 billion, up 2.8% compared to the same period of 2019, with a 3.7% increase of deposits and a 1.7% decrease of off-balance sheet resources.

The Common Equity Tier 1 (fully implemented) amounted to 19.7%, increasing by 3.3 percentage points compared to the end of June 2019.

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

In long-term funding, emphasis is given to the loan granted by the European Central Bank through the new TLTRO III funding programme, of €6.8 billion (net exposure to the Eurosystem being almost nil, due to the increase of the customer deposits), €2.8 billion of mortgage bonds, €0.9 billion of the loan obtained from the European Investment Bank to finance structural infrastructure projects of the Portuguese economy and €0.6 billion of securitisations.

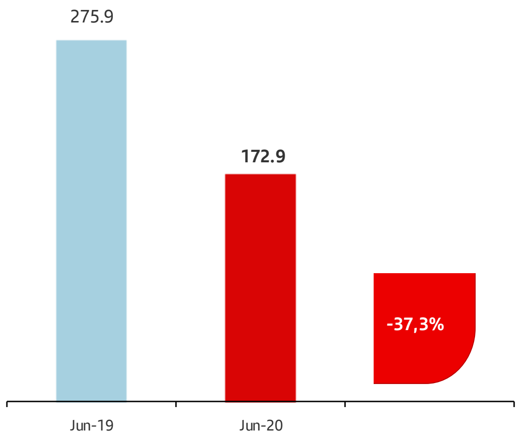
Short-term funding achieved through repos amounted to €1.6 billion.

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

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

CONSOLIDATED NET INCOME
ATTRIBUTABLE TO THE SHAREHOLDERS OF ST, SGPS

million euro



Results

CONSOLIDATED INCOME STATEMENTS (million euro)	Jun-20	Jun-19	Var.
Net interest income	**399.3**	**428.7**	**-6.9%**
Income from equity instruments	1.7	1.6	+5.9%
Results from associates	5.1	4.5	+11.4%
Net fees	183.1	192.8	-5.0%
Other operating results	(28.4)	(26.9)	+5.8%
Insurance activity	7.8	12.0	-35.0%
Commercial revenue	**568.6**	**612.8**	**-7.2%**
Gain/losses on financial assets	90.7	91.0	-0.2%
Net income from banking activities	**659.4**	**703.8**	**-6.3%**
Operating costs	(287.8)	(303.1)	-5.1%
Staff Costs	(161.3)	(174.2)	-7.4%
General Administrative Costs	(100.6)	(104.5)	-3.8%
Depreciation in the year	(25.9)	(24.4)	+6.2%
Net operating Income	**371.6**	**400.7**	**-7.3%**
Impairment, net provisions and other results	(140.1)	(18.3)	+667.4%
Income before taxes and non-controlling interests	**231.5**	**382.5**	**-39.5%**
Taxes	(58.5)	(106.5)	-45.0%
Income after taxes and before non-controlling interests	**173.0**	**276.0**	**-37.3%**
Non-controlling interests	(0.1)	(0.1)	-36.0%
Consolidated net income attributable to the shareholders of ST, SGPS	**172.9**	**275.9**	**-37.3%**

At the end of June 2020, net interest income stood at €399.3 million, down 6.9% compared to the €428.7 million achieved in the same period of 2019, reflecting the interest on loans due to pressure on interest rates in a competitive environment and lower demand for credit by companies outside the scope of the State guaranteed credit lines, and of the interest of the public debt portfolio, within the scope of its management.

The results from associates were €5.1 million, up 11.4% compared to the €4.5 million obtained last time, through the favorable contribution transverse to all the companies.

Net fees amounted to €183.1 million, down 5.0%, compared to the €192.8 million recorded in the same period of 2019, with emphasis on the reduction seen in the fees on loans and means of payment. This evolution mirrored the effects of the pandemic on the reduction of activity and the impact of the temporary suspension of a number of fees within the scope of the measures to support businesses and households, complementing the moratorium and credit lines provided with a State guarantee, in particular the exemption of fees on national transfers through the Bank's digital channels, free of charge replacement of cards without contactless technology by cards with this technology, and the reduction of fees related with the automatic payment terminals.

Other operating results amounted to €28.4 million, 5.8% higher than last time, which included the 2020 regulatory costs of €35.6 million (€22.7 million of the contribution to the Single Resolution Fund and €12.9 million to the National Resolution Fund), 9.1% greater than the amount for the preceding year.

Commercial revenue totaled €568.6 million, 7.2% less than the €612.8 million in the same period of 2019.

The insurance activity stood at 7.8 million euros, decreasing 35.0%, compared to the 12.0 million euros achieved at the end of the first half of the previous year, reflecting the transfer of a portfolio from ex-Eurovida Seguros to Aegon Santander Seguros.

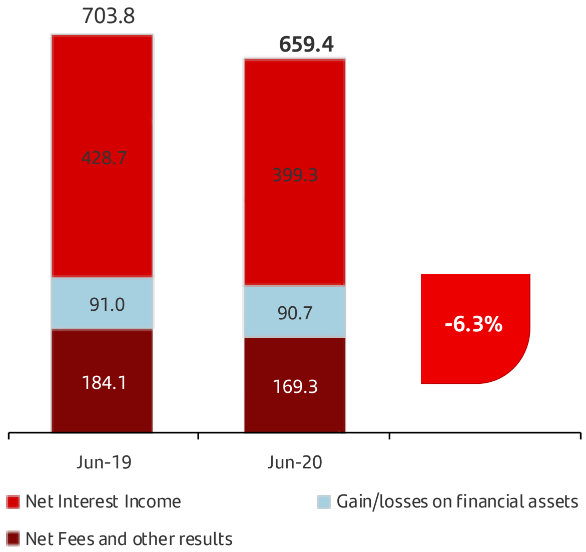
Income from financial assets totaled €90.7 million, up from €91.0 million at end of the 1st half of 2019, with the inclusion of the income generated by the management of the public debt portfolio.

Net income from banking activities amounted to €659.4 million, down 6.3% compared to the amount at the end of June 2019, penalized mainly by the decrease of net interest income and net fees.

At the end of June 2020, of the net income from banking activities, 61% was generated by net interest income, 28% by net fees and 11% by other income.

NET INCOME FROM BANKING ACTIVITIES

million euro



Operating costs totalled €287.8 million, a 5.1% YoY decrease. In the past year there has been a reduction of 174 employees and 28 branches.

Staff costs totalled €161.3 million, down 7.4% in YoY terms.

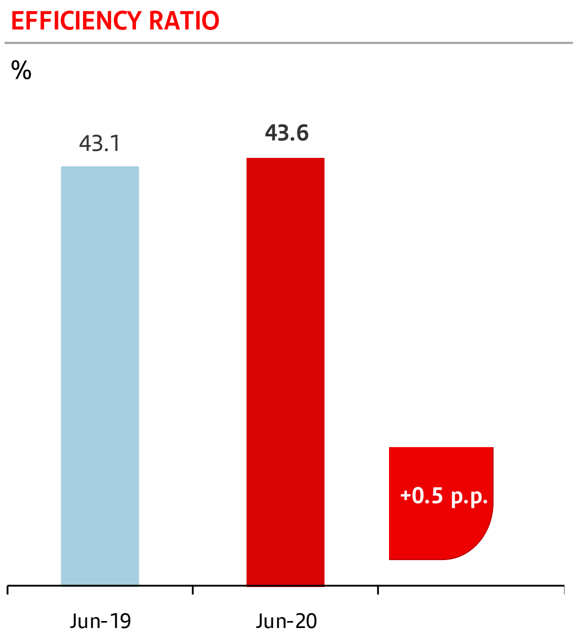
General administrative expenses amounted to €100.6 million, a YoY reduction of 3.8%.

Depreciation in the year amounted to €25.9 million, up 6.2% compared to the end of June 2019, with the investment in the digital transformation.

In the operating costs structure, staff costs account for 56% of the total, followed by general administrative costs at 35% and depreciation in the year at 9%.

OPERATING COSTS (million euro)	Jun-20	Jun-19	Var.
Staff costs	(161.3)	(174.2)	-7.4%
General Administrative Costs	(100.6)	(104.5)	-3.8%
Depreciation in the year	(25.9)	(24.4)	+6.2%
Operating costs	**(287.8)**	**(303.1)**	**-5.1%**
Efficiency ratio	**43.6%**	**43.1%**	**+0.5 p.p.**

At the end of June 2020, the efficiency ratio increased by 0.5 percentage points, from 43.1% to 43.6% through the 6.3% reduction of operating income and the 5.1% reduction of operating costs.



Net operating income of €371.6 million decreased 7.3% compared to the €400.7 million achieved in the same period last year, given that the downward trend of operating costs did not fully absorb the reduction of operating income.

Impairment, net provisions and other results entailed a cost of €140.1 million, greater than that recorded in the 1st half of 2019, by €18.3 million. This evolution was influenced by the setting aside of provisions for loan impairment, within the scope of a proactive policy of bringing forward the effects of the adverse macroeconomic scenario, characterized by a sharp contraction of activity, such as prevention of potential losses on the failure of repayment of loans with non-performing exposures.

Income before taxes and non-controlling interests amounted to €231.5 million, 39.5% less than the €382.5 million at the end of the 1st half of 2019.

Taxes totalled €58.5 million, down 45.0% compared to the €106.5 million recorded a year earlier.

At the end of the 1st half of 2020, Santander Totta, SGPS returned a net income of €172.9 million, down 37.3% compared to the €275.9 million in the same period last year, reflecting the impact associated with the pandemic crisis.

Balance Sheet and Business

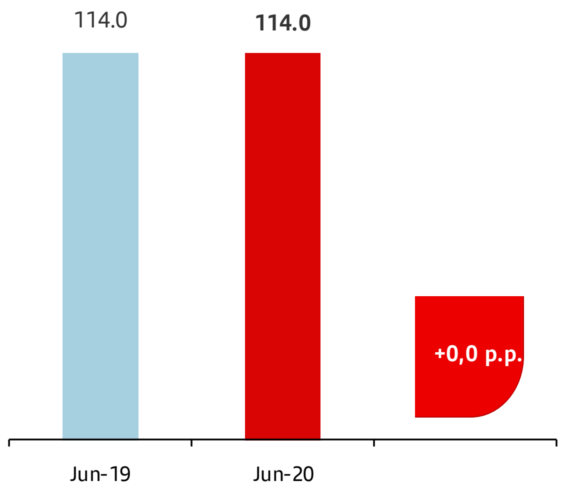
At the end of June 2020, the business volume amounted to €85.1 billion, up 3.3% compared to the 2019 amount of €82.4 billion, resulting from the 3.8% increase of loans and advances to customers and of the 2.8% increase of customers' resources.

BUSINESS VOLUME (million euro)	Jun-20	Jun-19	Var.
Business Volume	**85,104**	**82,389**	**+3.3%**
Loans and advances to customers (gross)	42,121	40,581	+3.8%
Customers' Resources	42,983	41,809	+2.8%

The transformation ratio, measured as the ratio between loans and deposits stood at 114.0% in June 2020, stabilizing regarding the same period last year.

LOAN-TO-DEPOSIT RATIO (transformation ratio)

%



At the end of June 2020, the portfolio of Loans and advances to customers (gross) totalled €42.1 billion, up 3.8% compared to the same period last year, reflecting the application of moratoria to loans for households and businesses and the production of credit lines to support the economy within the context of the health crisis.

LOANS [(1)] (million euro)	**Jun-20**	**Jun-19**	**Var.**
Loans to individuals	22,168	21,604	+2.6%
of which			
Mortgage	20,070	19,536	+2.7%
Consumer	1,679	1,626	+3.3%
Loans to corporates	16,488	15,986	+3.1%

[(1)] Loans at amortized cost

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

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

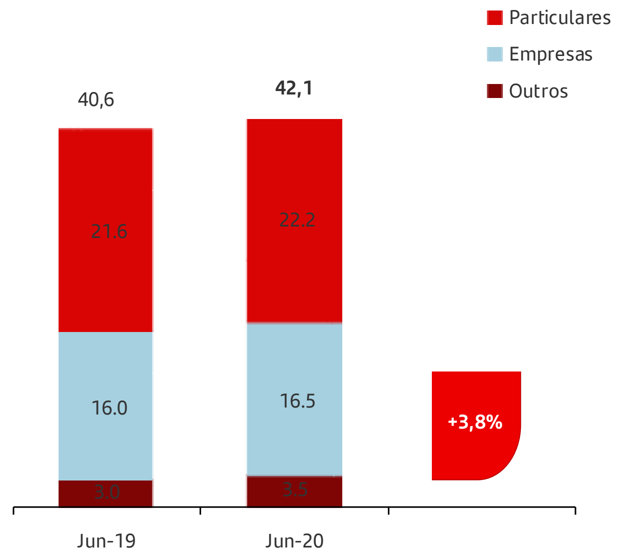
Corporate loans stood at €16.5 billion, up 3.1% over the same period, reflecting the support granted to the Portuguese business community.

The Bank provided moratoria on loans to individuals and companies, complementing the State's moratorium (defined in Decree-Law 10-J/2020 of March 26), in order to allow the reduction of the charges on these loans for customers whose income decreased as a result of the adverse effects of the pandemic,

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

LOANS AND ADVANCES TO CUSTOMERS (GROSS)

million euro



At the end of June 2020, the Non-Performing Exposure (NPE) ratio, calculated according EBA's definition, stood at 2.8%, a decrease of 0.5pp over the same period last year. The coverage of the Non-Performing Exposure by impairments stood at 61.0% (up 7.7pp compared to the 53.3% determined in June 2019). The cost of credit, measured by the net impairment of credit recovery previously written off from assets as a percentage of the average balance of the loan portfolio stood at 0.27%, reflecting the preventive reinforcement of the impairment of credit to anticipate the pandemic effects.

CREDIT RISK RATIOS	**Jun-20**	**Jun-19**	**Var.**
Non-Performing Exposure Ratio	2.8%	3.3%	-0.5 p.p.
Non Performing Exposure coverage Ratio	61.0%	53.3%	+7.7 p.p.
Cost of credit	0.27%	(0.03%)	+0.30 p.p.

At the end of June 2020, customers' resources totalled €43.0 billion, up 2.8% compared to the same period last year, supported by the evolution of deposits (YoY growth of 3.7%), which offset the decrease of off-balance sheet resources (1.7% less than at the end of June 2019).

RESOURCES (million euro)	**Jun-20**	**Jun-19**	**Var.**
Customers' resources	**42,983**	**41,809**	**+2.8%**
On-balance sheet resources	36,090	34,795	+3.7%
Deposits	36,090	34,795	+3.7%
Off-balance sheet resources	6,893	7,014	-1.7%
Investment funds	2,884	2,809	+2.7%
Insurance and other resources	4,009	4,204	-4.7%

Deposits amounted to €36.1 billion, up by a YoY 3.7% constituting the main source of funding of the balance sheet and reflecting the activity of commercial network and the financial soundness of the Bank, which reinforces the trust of customers in a context of interest rates at historic lows.

Customers' off-balance sheet resources stood at €6.9 billion, down 1.7% compared with the amount determined in June 2019, conditioned by the context of the pandemic, which caused a significant economic slowdown, with its impact on the financial markets. Investment funds managed or marketed by the Bank in the amount of €2.9 billion increased by 2.7% over the past year. Insurance and other resources in the amount of €4 billion were down 4.7% year-on-year.

Solvency Ratios

At the end of June 2020, Santander Totta SGPS had a high capitalization, with the Common Equity Tier 1 ratio (CET 1), calculated in accordance with the CRD IV/ CRR IV standards, of 19.7% (fully implemented), with an increase of 3.3 percentage points compared to 16.4% a year earlier, complying with all the capital ratios required by the European Central Bank under the SREP (Supervisory Review and Evaluation Process): CET1 of 8.3%, Tier 1 of 10.5% and Total of 12.5%, in full implementation. This evolution reflected the ability of organic generation of capital and management of the risk weighted assets. Taking into account the recommendation of the European Central Bank (ECB/2020/19) of March 27, 2020, the Board of Directors of Santander in Portugal decided not to distribute dividends in 2020.

CAPITAL (million euro)	Jun-20	Jun-19	Var.
Common Equity Tier I	**3,456**	**3,073**	**+12.5%**
Tier I Capital	4,056	3,673	+10.4%
Total Capital	4,126	3,735	+10.5%
Risk Weighted Assets (RWA)	**17,540**	**18,765**	**-6.5%**
CET I ratio	19.7%	16.4%	+3.3 p.p.
Tier I ratio	23.1%	19.6%	+3.5 p.p.
Total Capital Ratio	23.5%	19.9%	+3.6 p.p.

RELEVANT FACTS AFTER THE CLOSE OF THE PERIOD

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

THE OUTLOOK FOR THE SECOND HALF OF 2020

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

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

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

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

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

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

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

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

RISK MANAGEMENT

Introduction

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

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

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

Main vectors of the business

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

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

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

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

ongoing operations in order to compensate the natural erosion of this portfolio.

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

Credit risk

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

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

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

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

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

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

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

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

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

Evaluation of the customer and/or transaction by rating or scoring constitutes an assessment of the creditworthiness, which is quantified by the probability of default (PD). In addition to the evaluation of the customer, the quantitative risk analysis considers other aspects such as the term of the transaction, the type of product and the existing collateral. What is thus taken into account is not just the probability that the customer may not fulfil its contractual obligations (PD) but that the exposure at default (EAD) may be estimated as well as the percentage of the EAD that may not be recovered (loss given default or LGD).

These are the factors (PD, LGD and EAD) that constitute the major credit-risk parameters, and, taken jointly, allow a calculation of the expected loss and the unexpected loss. The expected (or probable) loss is considered an additional activity cost (reflecting the risk premium), and this cost is appropriately reflected in the price of the operations and the unexpected loss, which is the basis of the calculation of regulatory capital under the rules the Basel capital accord (BIS II). The unexpected loss is in respect of a very large, though rather improbable, loss that, given its nature, is not considered recurrent and must therefore be duly be covered by own funds.

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

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

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

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

Credit-Risk Cycle

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

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

Planning and establishing limits

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

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

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

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

Study of the risk, operating decision and monitoring and control

The study of the risk is a prerequisite of the authorisation of any loan operation at Banco Santander in Portugal. This study consists of analysing the customer's ability to fulfil its contractual obligations towards the Bank, entailing the credit quality of the customer, its loan transactions, its solvency and its profitability. Additionally, a study and review are conducted of the valuation assigned when there is an alert or event that affects the customer/transaction.

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

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

Recoveries

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

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

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

Counterparty risk

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

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

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

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

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

Balance-sheet Risk

Control of the balance-sheet risk

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

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

The liquidity risk is the risk that the Bank will not have the net financial resources required to meet its obligations when due or incurring an excessive cost to meet them.

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

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

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

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

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

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

Management of the balance-sheet structural risk

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

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

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

Market Risk

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

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

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

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

Methodologies

The methodology applied in 2020 within the scope Santander in Portugal for the negotiation activity is the Value at Risk (VaR). Based on the historic simulation methodology with a 99% confidence level and a one-day time horizon, statistical adjustments having been applied that allow swift and effective inclusion of more recent events that condition the risk levels assumed.

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

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

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

Calibration and contrast measures (Backtesting)

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

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

Limits

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

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

Quantitative analysis of the VaR throughout the year

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

Operational Risk

Definition and objectives

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

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

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

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

Management model

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

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

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

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

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

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

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

The various stages of the management and control model allow:

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

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

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

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

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

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

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

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

The Bank also prepares specific supervision and control models in the field of technological and cyber-risk management to ensure the existence of a minimum set of controls that allow adequate control of the Bank's information systems and information resources. Nevertheless, the principle is one of homogenization and, therefore, the models are perfectly aligned with the tools and with the operational-risk management instruments previously mentioned.

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

- Policies and procedures;
- Corrective/mitigating measures;
- Crisis management and Business Continuity Plan;
- Risk-transfer mechanisms and insurance;
- Agreement with third parties and supplier control.

The Bank implemented an advanced operational-risk management programme, having as its main objective the involvement of all employees and management bodies in the control and mitigation of the operational risk. The implementation and disclosure of the Banco Santander in Portugal risk culture allow more efficient evaluation and monitoring of the operational risk and simplify decision-making by the business areas and Management.

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

Compliance and Reputational Risk

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

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

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

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

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

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

- Corporate values that translate into concrete "behaviours", which govern the conduct of all employees;
- Compliance policy;
- Policies for the prevention of money laundering and terrorist financing;
- Codes of conduct (with three dimensions: general; in the relationship with customers; and relating to the stock market);
- Marketing and regular product follow-up policies;
- Financial risks policy;
- Identification and management of conflicts of interest policy;
- Quality policy;
- Personal data processing and protection policy;
- Monitoring and follow-up of new regulations;
- Liaison with the supervisory authorities and follow-up of actions undertaken by them;
- Employee training policy, which includes mandatory regulatory, as well as additional, training;
- Corporate defence policies;
- Reputational risk policy (and model of management of this risk);
- Policy for the financing of sensitive sectors (regulates the financing for certain sectors considered sensitive because of their possible social, political or cultural repercussions, establishing the guidelines to assess and decide on the

involvement with these same sectors, in order to be able to identify and prevent the associated reputational risk);

- Defence policy (setting the criteria to be followed in financial activity related with this sector and providing an analysis procedure for all operations and customers covered in the sector).

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

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

SUPPLEMENTARY INFORMATION

Money laundering prevention

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

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

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

The system is audited annually

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

Shareholder structure

Shareholder	Number of shares	%
Santusa	196,996,017,344	99.85%

Treasury shares movement

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

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

On June 30, 2020, Santander Totta SGPS held 113,595,456 treasury shares corresponding to 0.058% of its share capital. There were no purchase and / or sale movements during the 1st half of 2020.

TRANSACTION WITH OWN SHARES - 1H2020

	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31/12/2019	113,595,456	0.02	2,447,158	0.058%
Purchases	-	-	-	-
Disposals	-	-	-	-
30/06/2020	113,595,456	0.02	2,447,158	0.058%

Alternative Performance Indicators

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

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

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

Net interest income

"Interest income" net of "Interest charge".

Net fees

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

Insurance activity

"Gross margin on life insurance in which the risk is borne by the policyholder" plus the "gross margin of insurance activity"

Commercial revenue

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

Gain/losses on financial assets

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

Net income from banking activities

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

Net operating income

Net income from banking activities minus operating costs.

Operating costs

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

Net operating income

Operating income minus operating costs

Impairment, net provisions and other results

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

Income before taxes and non-controlling interests

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

Income after taxes and non-controlling interests

Income before taxes and non-controlling interests less taxes.

Consolidated net income attributable to the shareholders of ST, SGPS / Net income

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

Efficiency ratio

Ratio between operating costs and operating income

Loans / Deposits ratio (transformation ratio)

Calculated in accordance with Bank of Portugal Instruction 6/2018

Commercial gap

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

Business Volume

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

Loans and advances to customers (gross)

In June 2020, this concept corresponds to the balance sheet item "Loans granted and other accounts receivable at amortized cost" before impairment, net of "Other balances receivable" (note 10), plus the item "Credit granted" (included in the balance sheet under "Financial assets at fair value through other comprehensive income" (note 9). The reclassification is explained in note 9.

Loans and advances to customers (net)

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

Loans to individuals (mortgage and consumer) and companies

Defined in accordance with the management information system (MIS)

Non-performing exposure ratio

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

Cost of credit

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

Non-performing exposure coverage

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

Deposits

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

Off-balance sheet resources

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

Customers' resources

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

Liquidity Coverage Ratio (LCR)

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

Return on Equity (RoE)

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

Return on Assets (RoA)

Ratio between net income and net assets

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

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

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

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

Board of Directors

José Carlos Brito Sítima

Chair

Pedro Aires Coruche Castro e Almeida

Deputy-Chair

Manuel António Amaral Franco Preto

Member

CONSOLIDATED FINANCIAL STATEMENTS

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

SANTANDER TOTTA, SGPS, S.A.

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

(Amounts expressed in thousands of Euros - tEuros)

		30-06-2020			31-12-2019
ASSETS	Notes	Amounts before impairment and depreciation	Impairment and depreciation	Net assets	Net assets
Cash and deposits at central banks	5	7,039,808	-	7,039,808	3,153,556
Balances due from other banks	6	516,392	-	516,392	346,841
Financial assets held for trading	7	980,540	-	980,540	1,073,429
Financial assets mandatorily at fair value through profit or loss	8	3,052,368	-	3,052,368	3,100,275
Financial assets at fair value through other comprehensive income	9	8,374,451	18	8,374,433	6,587,490
Financial assets at amortised cost					
Loans and advances to credit institutions	10	17,431	126	17,305	727,486
Credit granted and other balances receivable at amortized cost	10	40,185,896	1,019,112	39,166,784	39,349,174
Hedging derivatives	11	40,424	-	40,424	56,245
Investment in associated companies	12	106,305	-	106,305	112,259
Investment properties	13	254,909	-	254,909	252,513
Other tangible assets	14	654,990	283,707	371,283	376,653
Intangible assets	14	120,337	79,988	40,349	33,229
Tax assets	15	579,116	-	579,116	604,868
Technical reserves		21,405	-	21,405	22,373
Other assets	17	330,590	113,573	217,017	242,339
Non-current assets held for sale	18	89,624	34,797	54,827	44,043
Total assets		62,364,586	1,531,321	60,833,265	56,082,773

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	30-06-2020	31-12-2019
Liabilities			
Financial liabilities held for trading	7	1,008,028	1,097,214
Other financial liabilities mandatory at fair value through profit or loss	19	3,229,837	3,432,017
Financial liabilities at amortised cost			
Resources from central banks	20	6,801,194	3,037,524
Resources from other credit institutions	20	3,025,529	3,195,996
Resources from customers and other debts	20	36,089,760	35,118,949
Debt securities	20	3,347,483	3,431,231
Other financial liabilities	20	240,070	232,892
Hedging derivatives	11	499,920	393,831
Provisions	21	219,491	234,328
Technical provisions	16	723,759	730,426
Tax liabilities	15	510,127	393,964
Equity representative instruments	22	64,738	64,620
Other liabilities	23	592,989	456,211
Total liabilities		56,352,925	51,819,203
Shareholders' equity			
Share capital	24	1,972,962	1,972,962
Other equity instruments	24	600,000	600,000
Accumulated comprehensive income reserves	24	(111,466)	(216,407)
Other reseves and retained earnings	24	1,846,673	1,380,616
(Own shares)	24	(2,447)	(2,447)
Net income attributable to the shareholders of ST SGPS	25	172,916	527,258
Shareholders' equity attributable to the shareholders of ST SGPS		4,478,638	4,261,982
Non-controlling interests	26	1,702	1,588
Total shareholders' equity		4,480,340	4,263,570
Total liabilities and shareholders' equity		60,833,265	56,082,773

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

SANTANDER TOTTA, SGPS, S.A.

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

(Amounts expressed in thousands of Euros - tEuros)

	Notas	30-06-2020	30-06-2019
Interest income	28	576,678	607,275
Interest charge	28	(177,340)	(178,561)
Net interest income		399,338	428,714
Income from equity instruments	29	1,733	1,637
Results from associates	30	5,064	4,546
Income from services and commissions	31	237,055	241,629
Charges with services and commissions	31	(53,918)	(48,792)
Gains/Losses on financial assets			
Financial assets and liabilities at fair value through profit or loss	32	6,154	28,555
Other Financial assets at fair value through other comprehensive income	32	78,888	57,695
Exchange revaluation	32	5,636	4,976
Disposal of other assets	32	61	(267)
Gross margin of life insurance in which the risk is borne by the policy holder	33	34,524	6,874
Gross margin in insurance activity	33	(26,746)	5,089
Other operating results	34	(28,422)	(26,868)
Net income from banking activities		659,367	703,788
Staff costs	35	(161,307)	(174,215)
General administrative costs	36	(100,552)	(104,482)
Depreciation in the year	14	(25,901)	(24,384)
Provisions, net of reversals	21	(1,354)	(9,241)
Impairment on financial assets	21	(100,863)	16,497
Impairment on non-financial assets	21	(8,538)	(7,488)
Results from non-current assets held for sale	37	(67)	10,236
Other results	1.3 l)	(29,258)	-
Income before taxes and non-controlling interests		231,527	410,711
Taxes	15	(58,545)	(134,733)
Income after taxes and before non-controlling interests		172,982	275,978
Non-controlling interests		(66)	(103)
Consolidated net income attributable to the shareholders of ST, SGPS		172,916	275,875
Number of ordinary shares outstanding	25	197,182,612,502	197,190,265,700
Earnings per share (in Euros)	25	0.0009	0.0014

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

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2020 AND 2019

(Amounts expressed in thousands of Euros - tEuros)

	30-06-2020		30-06-2019	
	Attributable to the shareholders of ST SGPS	Attributable to non-controlling interests	Attributable to the shareholders of ST SGPS	Attributable to non-controlling interests
Consolidated net income for the period	172,916	66	275,875	(103)
Items that will not be reclassified subsequently to the income statement:				
Actuarial and financial deviations				
Gross value	(54,286)	(24)	39,571	17
Tax effect	-	-	-	-
Items that may be reclassified subsequently to the income statement:				
. Revaluation reserves of companies in equity method:				
Fair value	295	-	1,051	-
Tax effect	(76)	-	(75)	-
Changes in the fair value of financial assets through other comprehensive income				
Fair value	(205,487)	(89)	397,325	147
Tax effect	62,832	26	(118,732)	(53)
Changes in fair value of cash flows hedging derivatives				
Fair value	60,022	26	(60,092)	(26)
Tax effect	(18,607)	(8)	18,629	8
. Changes in "shadow reserve":				
Fair value	(5,997)	-	(23,296)	-
Tax effect	2,823	-	3,286	-
Changes in the business model				
Initial impact				
Gross value	373,007	165	-	-
Tax effect	(115,632)	(51)	-	-
Changes in the fair value				
Gross value	8,760	4	-	-
Tax effect	(2,716)	(1)	-	-
	104,938	48	257,667	93
Consolidated comprehensive income for the period	277,854	114	533,542	(10)

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

SANTANDER TOTTA, SGPS, S.A.

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

(Amounts expressed in thousands of Euros)

	Share capital	Own shares	Other equity instruments	Reserves for accumulated comprehensive income: Fair value	Reserves for accumulated comprehensive income: Deferred taxes	Reserves for accumulated comprehensive income: Sub-Total	Other reserves and retained earnings	Early dividends	Net income for the period	Non-controlling interests	Shareholders equity
Balances as at December 31, 2018	**1,972,962**	**(2,284)**	**600,000**	**(284,237)**	**52,227**	**(232,010)**	**1,431,229**	**(100,000)**	**499,964**	**1,877**	**4,171,738**
Appropriation of net income											
. Distribution of dividends	-	-	-	-	-	-	215	100,000	(495,000)	(188)	(394,973)
. Transfer to reserves	-	-	-	-	-	-	4,964	-	(4,964)	-	-
Distribution of income - "Aditional Tier 1 Instruments"	-	-	-	-	-	-	(61,200)	-	-	-	(61,200)
Disposal of equity instruments at fair value through											0
other comprehensive income	-	-	-	-	-	-	5,797	-	-	-	5,797
Remuneration based on shares	-	-	-	-	-	-	(332)	-	-	-	(332)
Purchase of own shares by Santander Totta, SGPS	-	(163)	-	-	-	-	-	-	-	-	(163)
Other	-	-	-	-	-	-	(57)	-	-	(327)	(384)
Consolidated comprehensive income	-	-	-	57,332	(41,729)	15,603	-	-	527,258	226	543,087
Balances as at December 31, 2019	**1,972,962**	**(2,447)**	**600,000**	**(226,905)**	**10,498**	**(216,407)**	**1,380,616**	**-**	**527,258**	**1,588**	**4,263,570**
Appropriation of net income											
. Transfer to reserves	-	-	-	-	-	-	527,258	-	(527,258)	-	-
. Distribution of dividends	-	-	-	-	-	-	(61,200)	-	-	-	(61,200)
Disposal of equity instruments at fair value through	-	-	-	4	(1)	3	(3)	-	-	-	-
other comprehensive income	-	-	-	1	(1)	-	2	-	-	-	2
Consolidated comprehensive income	-	-	-	176,314	(71,376)	104,938	-	-	172,916	114	277,968
Balances as at June 30, 2020	**1,972,962**	**(2,447)**	**600,000**	**(50,586)**	**(60,880)**	**(111,466)**	**1,846,673**	**-**	**172,916**	**1,702**	**4,480,340**

SANTANDER TOTTA, SGPS, S.A.

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

(Amounts expressed in thousands of Euros)

	30-06-2020	30-06-2019
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commissions received	771,817	741,923
Payment of interest and commissions	(175,467)	(208,227)
Payment to staff and suppliers	(275,966)	(311,639)
Contributions to the pension funds	-	-
Foreign exchange and other operating results	(16,161)	(9,400)
Recovery of uncollectable loans	4,453	4,034
Insurance premium receipts / (Payments)	17,820	18,240
Cash flow before changes in operating assets and liabilities	326,496	234,931
(Increase) / decrease in operating assets		
Loans and advances to credit institutions	710,019	(158,407)
Financial assets held for trading	92,890	83,346
Credit granted and other balances receivable at amortized cost	(2,383,061)	(112,564)
Assets and liabilities at fair value through profit or loss	(203,604)	282,739
Non-current assets held for sale	9,829	(49,287)
Investment properties	(2,397)	7,512
Other assets	(7,690)	83,228
	(1,784,014)	136,567
Increase / (decrease) in operating liabilities		
Resources from financial institutions and Central Banks	3,551,633	236,249
Resources from customers and other debts	964,947	1,472,007
Financial liabilities hedl for trading	(89,186)	(103,493)
Other liabilities	85,900	203,316
	4,513,294	1,808,079
Net cash flow from operating activities before income tax	3,055,776	2,179,577
Income tax paid	(17,342)	(43,737)
Net cash flow from operating activities	3,038,434	2,135,840
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends received	10,680	1,637
Purchase of financial assets at fair value through other comprehensive income	(155,614)	(1,091,174)
Sale of financial assets at fair value through other comprehensive income	1,293,152	743,701
Other financial assets mandatory at fair value through profit or loss	47,907	(75,839)
Income from financial assets at fair value through other comprehensive income	12,324	83,115
Purchase of tangible and intangible assets	(31,628)	(61,451)
Sale of tangible assets	1,457	13,081
Net cash flow from investing activities	1,178,278	(386,930)
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends paid	-	(394,788)
Issuance/(redemption) of bonds issued and other	(89,338)	(849,024)
Interest paid on bonds issued and other	(10,371)	(16,223)
Distribution of income - "Aditional Tier 1 Instruments"	(61,200)	(61,200)
Net cash flow from financing activities	(160,909)	(1,321,235)
Net Increase / (Decrease) (a) in cash and cash equivalents	4,055,803	427,675
Cash and cash equivalents at the beginning of the period	3,500,397	2,582,053
Cash and cash equivalents at the end of the period	7,556,200	3,009,728

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

INTRODUCTION

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

On December 20, 2015, following the resolution measure applied by the Bank of Portugal to Banif – Group Internacional do Funchal, SA (Banif), the Group acquired the banking business and a set of assets, liabilities, off-balance-sheet items and assets under management of this entity.

Following the decision of the Single Resolution Board with regard to the application of a resolution measure to Banco Popular Español, SA, taken on June 7, 2017, through the instrument for the sale of the whole of the business, with the transfer of the whole of the shares representing the share capital of Banco Popular Español, SA, to Banco Santander, SA, the latter came to hold indirectly the whole of the share capital and voting rights of Banco Popular Portugal, SA (BAPOP). In this regard, on December 27, 2017, the Bank purchased the entire share capital and voting rights of BAPOP, having carried out its merger by incorporation on that date.

Santander Totta is included in the consolidation of Banco Santander, SA (parent company). The main balances and transactions with companies of the Santander Group during the six-month period ending June 30, 2020, and during 2019 are detailed in Note 40.

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

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

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of presentation of the accounts

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

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

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

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

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

- **IFRS 3** (Amendment), Definition of business. This amendment is a revision to the definition of business for the purpose of accounting for business combinations. The new definition requires that an acquisition include an input and a substantial process that jointly manage outputs. The outputs are now defined as goods and services that are provided to customers, which generate income from financial investments and other income, excluding returns in the form of reductions of costs and other economic benefits for shareholders. Concentration tests are now allowed to determine whether a transaction relates to the acquisition of an asset or a business.

- **IFRS 9, IAS 39 and IFRS 7** (amendment), 'Reform of the reference interest rates'. These amendments are part of the first phase of the IBOR reform of the IASB and allow exemptions related to the reform of the benchmark for the reference interest rates. The exemptions relate to hedge accounting in terms of: i) risk components; ii) "highly likely" requirement; iii) prospective valuation; iv) retrospective effectiveness test (for those adopting IAS 39); and v) recycling the cash-flow hedge reserve, and its objective is that the reform in of the reference interest rates will not determine the termination of hedge accounting. However, any hedge ineffectiveness determined must continue to be recognized in the income statement.

- **IAS 1 and IAS 8** (amendment), 'Definition of material'. This amendment introduces a change to the concept of "material", and clarifies that the mention of unclear information refers to situations whose effect is similar to omitting or distorting such information, the entity to assess the materiality considering the financial statements as a whole. Clarifications are also provided as to the meaning of "primary users of the financial statements", which are defined as 'current and future investors, lenders and creditors' who rely on the financial statements to obtain a significant part of the information they need.

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

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

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

- **IFRS 16** (amendment), "Leases - COVID-19 related rent concessions". The amendment permits lessees (but not lessors) as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. when three criteria are cumulatively met: i) the change in lease payments results in a revised remuneration of the lease that is equal to, or less than, the remuneration immediately before the change; ii) any reduction of the lease payments only affects payments due on or up to June 30, 2021; and iii) there are no significant changes to other terms and conditions of the lease. Lessees who opt for this exemption, account for the change to the payments of rents as variable lease rents in the period or periods in which the event or condition that leads to reduction of payment occurs. This amendment is applied retrospectively with the impacts reflected as an adjustment to retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee applies the amendment for the first time.

- **IAS 1** (amendment), 'Presentation of financial statements - classification of liabilities'. This amendment seeks to clarify the classification of liabilities as current or non-current balances in the light of the rights that an entity has to defer their payment at the end of each reporting period. The classification of liabilities is not affected by the expectations of the entity (the assessment should determine whether a right exists, but should not consider whether the entity will or will not exercise such right), or by events occurring after the reporting date, such as non-compliance of a covenant. The amendment also includes a new definition of settlement of a liability. This amendment is applied retrospectively.

- **IFRS 3** (amendment) 'References to the conceptual framework'. This amendment updates the references to Conceptual Framework in the wording of IFRS 3, no changes having been introduced to the accounting requirements for concentrations of business activities. The amendment also clarifies the accounting treatment to be adopted in respect of liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a business combination. This amendment is applied retrospectively.

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

- **IAS 37** (amendment) 'Onerous contracts – costs of fulfilling a contract'. This amendment specifies that in assessing whether a contract is or is not onerous, only the expenses directly related to the fulfilment of the contract can be considered, such as the incremental costs related to direct labour and materials and the allocation of other directly related expenses such as the allocation of expenditure on depreciation of tangible assets used to fulfil the contract. This change will be applied to contracts that, at the beginning of the first annual reporting period to which the change is applied, also include unfulfilled contractual obligations, with no restatement of the comparative.

- **Improvements to the 2018 – 2020 standards** (to be applied in periods beginning on or after January 1, 2022). This cycle of improvements amends the following standards: IFRS 1, IFRS 16 and IAS 41.

- **IFRS 17** (new), 'Insurance contracts'. This new standard replaces IFRS 4 and applies to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary-participation features. IFRS 17 is based on the current measurement of technical liabilities, which are revalued on each reporting date. Current measurement may be made by application of the complete (building block approach) or simplified model (premium allocation approach) model. The complete model is based on discounted cash flow scenarios weighted by the probability of occurrence and adjusted for the risk, and a contractual service margin, which is the estimate of the future profitability of the contract. Subsequent changes of the estimated cash flows are adjusted against the contractual service margin, except if it becomes negative. IFRS 17 is of retrospective application with some exemptions on the transition date.

- **IFRS 17**(amendment) 'Insurance contracts' (applicable in annual periods beginning on or after January 1, 2023). This amendment includes specific changes in eight areas of IFRS 17, such as: i) scope; ii) level of aggregation of insurance contracts; iii) recognition; iv) measurement; v) modification and derecognition; vi) presentation of the statement of financial position; vii) recognition and measurement of the income statement; and viii) disclosures. This amendment also includes clarifications, which aim to simplify some of the requirements of this standard and speed up its implementation.

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

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

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

Subsidiaries are entities (including investment funds and securitization vehicles) controlled by the Group. The Group controls another entity when it has the power to manage the relevant activities of the entity, and when it is exposed, or has right, to the variability in the returns generated by its involvement with that entity and can take possession thereof through the power it holds over the relevant activities of that entity (de facto control). The financial statements of subsidiary companies are consolidated using the full consolidation method as soon as the Group takes control of their business until such time as control ceases. All significant balances and transactions between the consolidated companies have been eliminated. Additionally, where applicable, consolidation adjustments are made in order to ensure consistency in the application of the accounting principles. The amount corresponding to the holding of third parties in subsidiaries that have been consolidated using the full consolidation method is presented under Non-controlling interests (Note 26).

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

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

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

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

Goodwill corresponds to the positive difference between the acquisition cost of the business and the effective equivalent percentage in the fair value of the assets, liabilities and contingent liabilities of the subsidiaries and associates acquired, as well as any equity instruments issued by the Group. With a minimum annual frequency, the Group performs goodwill impairment tests in accordance with the requirements of IAS 36 – Impairment of assets For the purpose, goodwill is allocated to cash-flow generating units, never greater that the group of assets comprising each of the Group’s operational segments, determination of the respective recoverable amount being based on estimates of future cash flows updated on the basis of discount rates considered appropriate by the Group based on appropriate and accepted methods . Impairment losses related to goodwill are recorded in profit or loss for the year and cannot be reversed. The goodwill of associated companies is included in the carrying amount of the holding, and is subject to impairment tests.

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

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

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

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

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

1.3. Summary of the main accounting policies

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

a) Accrual accounting

Santander Totta uses the accrual-accounting principle for most headings of the financial statements. Thus, expenses and income are recorded as and when generated, regardless of the time of payment or receipt.

b) Foreign currency transactions

The Company’s accounts are prepared in the currency of the economic environment in which it operates ("functional currency"), and are expressed in euros.

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

c) Financial instruments

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

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

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

- A financial debt instrument that (i) is managed under a business model whose objective involves keeping the financial assets in the portfolio and receiving all of their contractual cash flows and (ii) has contractual cash flows on specific dates that correspond exclusively to the payment of principal and of interest on the outstanding principal – must be measured at amortised cost unless designated at fair value through profit or loss under the fair value option – "Hold to Collect".

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

- All other financial debt instruments must be measured at fair value through profit or loss ("FVPL").

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

The other financial instruments, specifically equity instruments and derivatives, are by definition classified at fair value through profit or loss. For equity instruments, there is the irrevocable option of designating that all fair-value variations are recognised under other comprehensive income, in which case, only the dividends are recognised in profit or loss, because gains and losses are not reclassified to profit or loss even when they are derecognised/sold.

Reclassifications between financial instrument portfolios

According to IFRS 9, if the entity changes its business model, it must reclassify the respective assets in accordance with its new business model. According to this standard, these changes should be infrequent and should comply with the following requirements:

- The change of their business model should be decided by Management;
- The change will have a significant impact on the entity's operations; and
- The change must be demonstrable to external entities.

In March 2020 the Bank's management, because of the events mentioned in Note 9, took the decision to discontinue the credit granting business that require stable funding and in large amounts and terms direct financing of the Portuguese state forms part of this business. This decision was (i) properly documented internally, (ii) disclosed throughout the entire structure of the Bank and (iii) and communicated in the Bank's press release Bank in April 2020 to all stakeholders. It is management's understanding that the credits impacted by the change of the business model have a significant impact on the Bank's balance sheet, as can be seen in Note 9.

Given the foregoing, and having complied with all the requirements defined in IFRS 9 impacts, the Bank reclassified the respective contracts, which came to be measured at fair value through other comprehensive income, whereas they were previously measured at amortized cost. The difference between the fair value and the respective carrying amount as at the date of reclassification was recognized under in other comprehensive income, as shown hereunder:

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

Sale of credits

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

Securitised credit not derecognised

The Group does not derecognise from assets the credits sold in the securitisation operations when:

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

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

Maintenance of the risk and/or benefit is represented by bonds of a higher risk issued by the securitisation vehicle. The amount carried under assets and liabilities represents the proportion of the risk/benefit held by the Group (ongoing involvement).

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

Derecognition

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

Guarantees provided and irrevocable commitments

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

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

Recognition of income and expenditure with services and commissions

Services and commission income obtained in the execution of a significant act, such as commissions on loan syndications, is recognised in profit or loss when the significant act has been finalised;

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

Services income and commissions that form an integral part of the remuneration of financial instruments are recorded in profit or loss using the effective interest rate method.

Recognition of expenses with services and commissions is carried out using the same criteria adopted for income.

Other financial assets at fair value through other comprehensive income

Other financial assets at fair value through other comprehensive income include equity and debt instruments that are recorded at the time of their initial recognition at fair value, plus transaction costs, and they are subsequently measured at fair value. Gains and losses related to subsequent variation in the fair value are reflected in specific equity heading named Accumulated comprehensive income reserve until their sale, when they are reclassified to profit or loss for the period, with the exception of equity instruments that remain in share capital.

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

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

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

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

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

The fair value of financial assets held for trading and traded on active markets is their most representative bid-price, within the bid-ask interval, or their closing price on the reporting date. If a market price is not available, the fair value of the instrument is estimated on the basis of valuation techniques that include price valuation models or "discounted cash flows" 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

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

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

Repo Operations

Securities sold with repurchase agreement are kept in the portfolio where they were originally recorded. Funds received are recorded on the settlement date, in a specific account under liabilities, with accrual of the respective interest payable.

Secondary market transactions

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

Hedge accounting

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

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

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

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

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

- Existence of formal documentation of the hedge relationship and of the Bank's risk-management strategy;
- Initial expectation that the hedge relationship is highly effective;
- The effectiveness of the hedge can be reliably measured;
- The hedge is valued on a continuous basis and effectively determined as being highly

effective throughout the financial reporting period;
- Regarding the hedge of a planned transaction, it is highly probable and presents an exposure to variations in cash flows that could ultimately affect results.

Fair-value hedges

The gains or losses on revaluation of a hedging derivative financial instrument are recognised in profit or loss. Should the hedge be effective, the gains or losses resulting from the change in fair value of the hedged item relative to the risk being hedged are also recognised in profit or loss.

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

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

Cash flow hedge

Cash-flow hedges are understood to be the hedge of an exposure relating to the variability of future cash flows, which may be assigned to a specific risk associated with a recognised asset or liability, or to a highly probable future transaction, and may affect profit or loss.

In this sense, the Group contracted financial derivatives to hedge the future interest flows of part of its mortgage loan portfolio remunerated at a floating rate. It also contracted financial derivatives instruments to hedge future flows from the sale of part of its portfolio at fair value through other comprehensive income.

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

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

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

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

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

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

Loan impairment

IFRS 9 determines that the concept of impairment based on expected losses is to be applied to all financial assets except for financial assets at fair value through profit or loss and equity instruments measured at fair value through equity.

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

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

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

- or expected loss for credit risk to maturity, that is, 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 loss per credit risk to maturity is required for a financial instrument if the credit risk of that financial instrument has increased significantly since the initial recognition or if the financial instrument is impaired.

The expected loss per credit risk is an estimate weighted by the probability of the present value of the loan losses. This estimate results from the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the effective interest rate of the financial instruments.

The Group measures the expected loss individually or on a collective basis for portfolios of financial instruments that share similar risk characteristics. The adequacy of the provision for losses is based on the present value of expected cash flows of the asset using the original effective interest rate of the asset, regardless of being measured individually or collectively.

Impaired financial assets

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

Purchased or originated credit-impaired (POCI) financial assets

Financial assets classified as POCI are treated differently, in that they are in an impaired situation. For these assets, the Group classifies them as Stage 3 for the net amount of the expected loss. In the revaluation of assets the expected loss to maturity is applied. The associated interest is calculated by applying the effective interest rate to the net amount.

Significant increase of the credit risk

The Group monitors all financial assets in order 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 loan-loss provision to maturity (LTPD (life time probability of default)) and not over 12 months.

The Group 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 they are considered in the credit-risk approval and monitoring decisions. The models are based on series of data that are considered, as predictors of the risk of default, which apply judgements, that is, the credit-risk notations are defined using qualitative and quantitative factors that are indicative of the risk of default. The notations consider current characteristics and past events, and their significance for the level of risk is studied.

The Group uses different criteria to determine whether the credit risk has increased significantly per asset portfolio, in particular:

- Limits of relative variation of the accumulated PD for the residual maturity of the transaction. The limits of relative variation are differentiated by PD level to the extent that variations of risk in very low risk transactions may not represent a significant increase of the risk. It should be noted that customers with no alteration of the credit-risk notation can have a significant deterioration (accumulated PD variation above the defined limit) for evolution of the residual term (sensitivity of the transactions differentiated over time) or by alterations of future expectations regarding the economy.

- Regardless of the outcome of the aforesaid evaluation, the Group assumes that the credit risk of a financial asset has increased significantly since the initial recognition when the contractual payments are overdue by more than 30 days or when the transactions are identified as loans restructured loans for financial difficulties.

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

Credit risk parameters

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

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

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

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

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

EAD is an estimate of exposure on a date of future default, taking into account the expected changes in the exposure after the reporting date. The Group's modelling approach for EAD reflects the expected changes in the outstanding balance over the loan's lifetime exposure allowed by the current contractual terms, such as amortisation profiles, total or partial early repayment, and changes in the use of unused commitments before entry into default.

The Group assesses the expected credit-risk loss for the purpose of impairment losses, considering the risk of default during the maximum contractual period during which the entity is exposed to the credit risk. However, for financial instruments such as credit cards, credit lines and overdraft facilities that include a loan and an unused commitment component, the Group’s contractual ability to demand repayment and to cancel the unused commitment does not limit the Bank’s exposure to loan losses to the contractual period of notice. For such financial instruments, the Group measures the Expected Credit Risk Loss for the period historically observed as the average life of these instruments.

Collective analysis

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

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

Individual analysis

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

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

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

Incorporation of forward-looking information

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

For the purpose of impairment losses a pessimistic scenario, the base scenario and an optimistic scenario are used. The Group applies probabilities to the forecast scenarios identified. The base scenario is the most likely outcome and consists of information used by the Group for strategic planning and budgeting. The estimates are updated at least once a year and are subject to annual monitoring exercises.

d) IFRS 16 - Leases

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

Method for measuring the right of use and lease liability

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

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

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

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

<u>Use of practical expedients provided for in the standard</u>

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

<u>Definition of the main assumptions on the date of transition and contracts concluded later</u>

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

e) <u>Tangible assets</u>

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

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

	Years of useful life
Premises	50
Equipment	4 to 10

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

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

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

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

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

f) Intangible assets

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

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

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

g) Investment properties

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

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

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

h) Non-current assets held for sale

The Group essentially recognises under Non-current assets held for sale real estate, equipment and other assets received by way of payment in kind or auction for the payment of overdue loan transactions when they are available for immediate sale in their present condition and there a likelihood of their sale with a period of one year. If they do not meet these criteria, those assets are carried under Other assets (Note 17).

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

Their initial recognition is at the lower of their fair value less expected selling expenses and the carrying amount of the loans granted constituting the object of the recovery, and they are tested for impairment on the date of reclassification as non-current assets held for sale. Subsequently, these assets are measured at the lesser of the initial recognition amount and fair value less costs to sell, and they are not depreciated. Unrealized losses on these assets, thus determined, are recorded in profit or loss.

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

i) Provisions

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

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

j) Employee post-employment benefits

Banco Santander Totta SA

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

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

As from January 1, 2009, employees taken on by the Bank came to be included in Social Security, and are covered by a supplementary defined-contribution pension plan and by the rights acquired under clause 93 of the CBA, published in the Labour and Employment Bulletin (BTE) No. 29 of August 8, 2016. The plan is funded through contributions by employees (1.5%) and by the Bank (1.5%) calculated on the basis of the effective monthly remuneration. For the purpose, each employee can opt for an open pension fund at his or her choice.

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

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

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

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

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

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

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

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

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

i) Change in the formula for determining the employer's contribution to the SAMS, which is no longer a percentage of the pension and becomes a fixed amount (€89.01 per beneficiary and €38.52 in the case of pensioners); and
ii) Introduction of a new benefit called pension bonus – end of career bonus. This benefit, because it is allocated on the date of retirement or in event of death, is considered a post-employment benefit and therefore comes to form part of the retirement liabilities.

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

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

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

- Cost of current services;
- Net interest with the pension plan;
- Expenses incurred with early retirement, corresponding to the increase of liabilities on retirement; and

- Gains and losses resulting from the alteration of the conditions of the plan.

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

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

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

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

<u>Santander Totta Seguros ("Company")</u>

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

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

In July 2002, the Company joined the Company Retirement Open Pension Fund managed by Santander Pensões – Sociedade Gestora de Fundos de Pensões, SA (an entity of the Santander Group).

k) Corporation tax

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

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

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

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

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

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

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

Deferred tax assets are recognised when they are expected to be recoverable and up to the amount that the existence is probable of future taxable profits that will accommodate the deductible temporary differences.

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

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

l) Banking sector contribution

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

m) Technical provisions

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

Insurance contracts and investment contracts with a discretionary profit-sharing component sold by Santander Totta Seguros are carried in the consolidated financial statements of Santander Totta under the terms laid down in in IFRS 4. In this sense, the technical provisions carried in the consolidated financial statements correspond to the technical provisions recorded at Santander Totta Seguros for such contracts:

- Provision for unearned premiums and deferred acquisition expenses

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

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

- Mathematical provision for life business

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

- Provision for rate commitments

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

- Provisions for claims

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

  i) Based on the analysis of claims outstanding at yearend and on the resulting estimate of the liability existing at that date;

ii) By the estimate of the amounts required to meet the liabilities for claims incurred but not reported (IBNR);

iii) By the estimate of the administrative expenses to be incurred in the future settlement of claims currently under management.

- Provision for profit-sharing to be attributed

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

The determination of the share of the profit to be allocated to the policyholders is based on the statutory financial statements of Santander Totta Seguros prepared in accordance with accounting principles generally accepted in Portugal for the insurance sector. In this sense, for the purpose of preparation of the consolidated financial statements, such financial assets are classified under Other financial assets at fair value through other comprehensive income, and the respective unrealised gains and losses, net of taxes, are carried under Reserves for accumulated comprehensive income under consolidated equity. Additionally, the policyholders' part is carried under Technical provisions of liabilities (provision for profit-sharing to be attributed – shadow reserve), with a contra-entry under Reserves for other accumulated comprehensive income under consolidated equity, in order to avoid distortions at the level of the income statement and consolidated equity (shadow accounting provided for in IFRS 4).

- Provision for allocated profit sharing

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

- Technical provisions for reinsurance ceded

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

- Provision for risks in progress

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

n) Adjustments of receipts pending collection

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

o) Recognition of income and expenses – insurance

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

Investment contracts with no discretionary component in the profit sharing, marketed by Santander Totta Seguros, are carried in the consolidated financial statements as Customer funds and other borrowings.

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

p) Treasury shares

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

q) Cash & cash equivalents

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

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

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

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

Employee post-employment benefits (Note 38)

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

The assumptions adopted correspond to the best estimate of the Group's Board of Directors as to the future behaviour of the above variables.

Valuation of financial instruments not traded on active markets (Note 41)

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

The fair value of the instrument is estimated on the basis of valuation techniques, including pricing models or discounted cash flow techniques. When discounted cash flow techniques are used, the future financial flows are estimated in keeping with management's expectations, and the discount rate used corresponds to the market rate for financial instruments of similar characteristics.

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

Fair value (Notes 7, 8, 9 and 41)

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

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

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

- For financial instruments transacted on active markets, closing price on the reporting date;
- For debt instruments not traded on active markets (including unlisted or illiquid securities), valuation methods and techniques are used that include:

  i) Bid prices disclosed by means of dissemination of financial information, such as Bloomberg and Reuters, including market prices available for recent transactions;

  ii) Bid prices obtained from financial institutions operating as market makers; and

  iii) Valuation models that take into account market data that would be used in setting a price for the financial instrument, reflecting market interest rates and volatility, as well as the liquidity and the credit risk associated with the instrument.

<u>Amortized cost</u> (Notes 10 and 41)

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

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

<u>Determination of impairment losses</u> (Notes 10, 21 and 41)

Impairment losses on loans are calculated as indicated in Note 1(3)(c). In this way, determination of the impairment through individual analysis corresponds to the judgement of the Board of Directors regarding the economic and financial situation of its customers and to its estimate of the value of the guarantees associated with the respective loans, with the consequent impact on expected future cash flows. Determination of the impairment through collective analysis is performed on the basis of parameters for comparable types of operations, such as instrument type, customer type, credit-risk degree as measured by the ratings or scoring system, type of collateral, date of initial recognition, relationship between loan and collateral value (LTV) and incorporation of prospective information.

<u>Non-current assets held for sale</u> (Notes 17 and 18)

Properties, equipment and other goods received as payment in kind or acquired in payment of past-due credit operations are carried at the amount agreed by negotiation or judicial means, after deduction of the lesser of the costs the Bank expects to incur with their sale, or their quick-sale value, if lower. Properties are subject to periodic valuation conducted by independent evaluators, which incorporate various assumptions, particularly as to the evolution of the property market and, where applicable, expectations as to the development of real-estate projects. The assumptions used in the valuations of these properties have an impact on their valuation and hence on the determination of the impairment.

Taxes (Note 15)

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

Determination of the outcome of legal proceedings in progress (Notes 21 and 46)

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

Determination of liabilities for insurance contracts

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

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

However, the Company considers that the liabilities determined on the basis of the established methodologies adequately reflect the best estimate, as at June 30, 2020, of the liabilities to which it is bound.

Reinsurance ceded

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

3. DISCLOSURES BY SEGMENTS

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

Corporate Investment Banking:

Essentially includes the Group's business on the financial markets and with large enterprises, involving provision of financial advisory services, Corporate and Project Finance in particular, as well as brokering, custody and settlement of securities services.

Retail Banking:

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

Business Banking:

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

Insurance Management:

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

Corporate Activities:

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

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

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

	30-06-2020					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Financial margin (narrow sense)	35,803	234,618	43,433	221	85,263	399,338
Income from equity instruments	-	-	-	-	1,733	1,733
Financial margin	**35,803**	**234,618**	**43,433**	**221**	**86,996**	**401,071**
Result from associates	-	-	-	4,313	751	5,064
Net commissions	24,298	166,671	12,201	(2,039)	(17,994)	183,137
Other results from banking activity	-	1,651	-	456	(30,529)	(28,422)
Insurance activity	-	-	-	7,778	-	7,778
Commercial revenue	**60,101**	**402,940**	**55,634**	**10,729**	**39,224**	**568,628**
Results from financial operations	3,392	2,860	209	(780)	85,058	90,739
Net income from banking activities	**63,493**	**405,800**	**55,843**	**9,949**	**124,282**	**659,367**
Operating costs	(12,798)	(222,246)	(18,888)	(6,156)	(1,771)	(261,859)
Depreciation and amortization	(1,605)	(23,147)	(878)	(271)	-	(25,901)
Net operating income	**49,090**	**160,407**	**36,077**	**3,522**	**122,511**	**371,607**
Impairment and provisions, net of reversals	(6,769)	15,016	3,491	51	(122,544)	(110,755)
Non-current assets held for sale	-	-	-	25	(92)	(67)
Other results	-	-	-	-	(29,258)	(29,258)
Income before taxes	**42,321**	**175,423**	**39,568**	**3,598**	**(29,383)**	**231,527**
Taxes	(13,120)	(54,381)	(12,266)	329	20,893	(58,545)
Non-controlling interests	-	-	-	-	(66)	(66)
Net income for the period	**29,201**	**121,042**	**27,302**	**3,927**	**(8,556)**	**172,916**

	30-06-2019					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Financial margin (narrow sense)	41,008	260,623	50,851	235	75,997	428,714
Income from equity instruments	-	-	-	(2)	1,639	1,637
Financial margin	**41,008**	**260,623**	**50,851**	**233**	**77,636**	**430,351**
Result from associates	-	-	-	4,134	412	4,546
Net commissions	24,913	162,963	12,639	(2,164)	(5,514)	192,837
Other results from banking activity	-	1,471	-	656	(28,995)	(26,868)
Insurance activity	-	-	-	11,963	-	11,963
Commercial revenue	**65,921**	**425,057**	**63,490**	**14,822**	**43,539**	**612,829**
Results from financial operations	8,625	2,595	587	16,134	63,018	90,959
Net income from banking activities	**74,546**	**427,652**	**64,077**	**30,956**	**106,557**	**703,788**
Operating costs	(12,666)	(239,872)	(18,236)	(6,630)	(1,293)	(278,697)
Depreciation and amortization	(1,430)	(22,148)	(536)	(270)	-	(24,384)
Net operating income	**60,450**	**165,632**	**45,305**	**24,056**	**105,264**	**400,707**
Impairment and provisions, net of reversals	1,757	4,126	(11,754)	-	5,639	(232)
Non-current assets held for sale	-	-	-	-	10,236	10,236
Other results	**62,207**	**169,758**	**33,551**	**24,056**	**121,139**	**410,711**
Taxes	(19,284)	(52,625)	(10,401)	(6,434)	(45,989)	(134,733)
Non-controlling interests	-	-	-	-	(103)	(103)
Net income for the period	**42,923**	**117,133**	**23,150**	**17,622**	**75,047**	**275,875**

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

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

	30-06-2020					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Assets						
Financial assets at fair value through other comprehensive income	-	-	-	-	3,049,079	3,049,079
Financial assets at amortized cost						
Mortgage loans	-	20,070,173	-	-	-	20,070,173
Consumer loans	-	1,679,493	-	-	-	1,679,493
Other loans	3,816,071	6,191,442	6,300,237	-	-	16,307,750
Other balances receivable	-	58,975	-	-	1,050,393	1,109,368
Total allocated assets	**3,816,071**	**28,000,083**	**6,300,237**	**-**	**4,099,472**	**42,215,863**
Total non-allocated assets						18,617,402
Total Assets						**60,833,265**
Financial resources at amortised cost						
Resources from customers and other debts	1,799,754	28,543,872	5,746,134	-	-	36,089,760
Debt securities	-	-	-	-	3,347,483	3,347,483
Total allocated liabilities	**1,799,754**	**28,543,872**	**5,746,134**	**-**	**3,347,483**	**39,437,243**
Total non-allocated Liabilities						16,915,682
Total Liabilities						**56,352,925**
Guarantees and sureties given	**253,966**	**520,804**	**831,114**	**-**	**-**	**1,605,884**

	31-12-2019					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Assets						
Loans and advances to customers						
Mortgage loans	-	19,653,605	-	-	-	19,653,605
Consumer loans	-	1,706,797	-	-	-	1,706,797
Other loans	3,664,872	6,055,509	8,268,391	-	-	17,988,772
Total allocated assets	**3,664,872**	**27,415,911**	**8,268,391**	**-**	**-**	**39,349,174**
Non-allocated assets						16,733,599
Total Assets						**56,082,773**
Liabilities						
Resources of customers and other debts	2,433,896	27,053,435	5,631,619	-	-	35,118,949
Debt securities	-	-	-	-	3,431,231	3,431,231
	2,433,896	**27,053,435**	**5,631,619**	**-**	**3,431,231**	**38,550,180**
Non-allocated liabilities						13,269,023
Total Liabilities						**51,819,203**
Guarantees and sureties	**285,882**	**576,451**	**713,870**	**-**	**-**	**1,576,203**

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

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

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

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE YEAR

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

	Direct Participation (%)		Effective Participation (%)		Total Assets (net)		Shareholder's Equity		Net income for the year	
Company	30-06-2020	31-12-2019	30-06-2020	31-12-2019	30-06-2020	31-12-2019	30-06-2020	31-12-2019	30-06-2020	31-12-2019
SANTANDER TOTTA, SGPS,S.A.	Headquarters	Headquarters	100.00	100.00	3,971,708	3,960,314	3,807,697	3,867,119	1,744	435,860
BANCO SANTANDER TOTTA, S.A.	99.95	99.96	99.95	99.96	60,260,049	55,639,804	3,759,891	3,497,526	157,611	499,715
TOTTA (IRELAND), PLC (2)	-	-	99.95	99.96	591,652	579,674	463,421	458,974	5,904	1,457
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. (1)	-	-	99.95	99.96	136,542	148,280	128,176	131,505	1,033	6,083
TAXAGEST,SGPS,SA	1.00	1.00	99.95	99.96	55,750	55,751	55,746	55,747	(1)	8
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	-	-	78.70	78.71	313,520	312,552	304,552	303,994	558	5,750
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	-	-	99.95	99.96	7,230	7,166	6,785	6,747	38	228
HIPOTOTTA NO. 4 PLC	-	-	-	-	591,929	622,446	(4,645)	(4,697)	6	(958)
HIPOTOTTA NO. 5 PLC	-	-	-	-	592,153	616,581	(10,875)	(11,309)	555	(4,005)
HIPOTOTTA NO. 4 FTC	-	-	-	-	530,966	561,424	530,286	560,487	144	(740)
HIPOTOTTA NO. 5 FTC	-	-	-	-	525,261	550,361	524,792	549,042	67	(1,171)
Operações de Securitização geridas pela GAMMA, STC	-	-	-	-	2,951,069	3,157,980	-	-	-	-
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	-	-	21.85	21.85	344,429	374,480	85,679	96,688	2,549	16,194
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO			25.75	25.75	106,786	106,281	101,321	100,597	724	292
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	100.00	100.00	100.00	100.00	4,195,827	4,391,845	151,639	140,872	11,049	25,545
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	125,911	115,184	28,082	32,262	6,974	11,904
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	47,082	43,971	18,365	21,805	1,828	4,950
POPULAR SEGUROS - COMPANHIA DE SEGUROS, S.A.	100.00	-	100.00	100.00	14,728	16,232	9,122	10,611	(242)	1,247

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

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

Company	Activity	Head office	Consolidation Method
Santander Totta, SGPS, S.A.	Holding Company	Portugal	Headquarters
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Full
TOTTA (IRELAND), PLC (2)	Investment management	Ireland	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. (1)	Real estate management	Portugal	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Issuance and management of credit cards	Portugal	Equity
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitized loans fund	Portugal	Full
Operações de Securitização geridas pela GAMMA, STC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Real estate fund	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitized loans fund	Portugal	Full
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Real estate fund	Portugal	Equity
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	Insurance	Portugal	Full
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity
POPULAR SEGUROS - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Full

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

(2) By virtue of this subsidiary closing its economic year on November 30, the amounts reflected in the "Income for the period" columns correspond to the net income determined between December 1, 2019, and June 30, 2020 (December 1, 2018 and December 31, 2019).

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

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

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

As at June 30, 2020 and December 31, 2019, the composition of the balance sheets of the Aegon Santander Portugal Life and Non-life companies was as follows:

	30-06-2020			31-12-2019		
	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total
Cash and deposits	17,135	6,177	23,312	4,703	3,768	8,471
Available-for-sale financial assets	66,913	34,758	101,671	67,298	33,678	100,976
Other tangible assets	109	-	109	50	-	50
Other intangible assets	10,716	5,375	16,091	11,711	5,732	17,443
Technical reserves for reinsurance ceded	28,433	356	28,789	28,465	257	28,722
Other debtors for insurance and other transactions	2,495	365	2,860	2,887	445	3,332
Assets - taxes and levies	-	-	-	-	-	-
Accruals and deferrals	89	51	140	52	91	143
Other assets	21		21	18	-	18
	125,911	47,082	172,993	115,184	43,971	159,155
Technical reserves	67,448	14,026	81,474	67,168	13,479	80,647
Other financial liabilities	5,150	-	5,150	6,045	-	6,045
Other creditors for insurance and other transactions	18,868	10,467	29,335	6,818	5,978	12,796
Liabilities - taxes and levies	3,509	2,213	5,722	1,121	1,667	2,788
Accruals and deferrals	2,854	2,011	4,865	1,770	1,042	2,812
Share Capital	7,500	7,500	15,000	7,500	7,500	15,000
Revaluation reserves	632	95	727	1,228	451	1,679
Deferred tax reserves	(164)	(24)	(188)	(319)	(112)	(431)
Other reserves	13,140	5,836	18,976	11,949	5,341	17,290
Retained earnings	-	3,130	3,130	-	3,675	3,675
Net income for the period	6,974	1,828	8,802	11,904	4,950	16,854
	125,911	47,082	172,993	115,184	43,971	159,155

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

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

As at June 30, 2020 and December 31, 2019, the consolidated net income includes a profit of €439k and €4,526k, respectively, attributable to the Novimovest Fund.

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

5. CASH AND DEPOSITS AT CENTRAL BANKS

The breakdown of this heading is as follows:

	30-06-2020	31-12-2019
Cash	264,427	354,664
Demand deposits at Central Banks		
European Central Bank	6,775,381	2,798,892
	7,039,808	3,153,556

In accordance with Regulation No. 2818/98, of December 1, issued by the European Central Bank, as from January 1, 1999, credit institutions established in the participating Member States are subject to setting aside minimum reserves in accounts held with the participating National Central Banks. The basis of incidence includes all deposits at central banks and at financial and monetary institutions located outside the euro area and all customer deposits with maturities less than two years. A coefficient of 1% is applied to this base and an amount of €100,000 is deducted. Compliance with the mandatory minimum deposits, for a given observation period, is carried out taking into consideration the average of balances of deposits at the Bank of Portugal during that period. The minimum required reserves are remunerated at the RFI rate (on these dates this rate is zero).

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

6. BALANCES DUE FROM OTHER BANKS

The breakdown of this heading is as follows:

	30-06-2020	31-12-2019
Balances due from domestic banks		
Demand deposits	10,140	21,530
Balances due from foreign banks		
Demand deposits	506,252	325,311
	516,392	346,841

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

7. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

The breakdown of this heading is as follows:

	30-06-2020	31-12-2019
Financial assets held for trading		
Derivatives with positive fair value	980,540	1,073,429
Financial liabilities held for trading		
Derivatives with negative fair value	1,008,028	1,097,214

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

	30-06-2020				31-12-2019			
	Notional value	Assets	Liabilities	Net	Notional value	Assets	Liabilities	Net
Forwards								
Purchases	382,376	5,869	5,802	67	348,012	3,363	3,215	148
Sales	382,297				347,891			
Swaps								
Currency Swaps								
Purchases	1,172,499	4,829	74	4,755	1,769,065	93	8,255	(8,162)
Sales	1,167,950				1,776,582			
Interest Rate Swaps	32,239,657	906,140	944,831	(38,691)	25,585,244	995,330	1,026,187	(30,857)
Equity Swaps	360,440	12,786	5,939	6,847	365,873	18,339	3,183	15,156
Options								
Currency Swaps								
Purchases	27,227	172	174	(2)	72,416	540	540	-
Sales	27,227				72,416			
Equity Swaps								
Purchases	67,886	781	1,571	(790)	146,926	2,585	2,871	(286)
Sales	67,886				146,926			
Caps and Floors	1,030,200	49,963	49,637	326	1,073,415	53,179	52,963	216
	36,925,645	980,540	1,008,028	(27,488)	31,704,766	1,073,429	1,097,214	(23,785)

As at June 30, 2020, the assets and liabilities headings relating to Derivative financial instruments are reduced by the amounts of approximately €10,185k and €12,036k of Credit Value Adjustments and Debit Value Adjustments, respectively (€7,120k and €7,141k as at December 31, 2019, respectively), in accordance with the method described in Note 41.

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

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

8. FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of this heading is as follows:

	30-06-2020	31-12-2019
Debt instruments		
Issued by residents		
Public residentes	1,045,652	1,050,907
Other residents	105,208	117,324
Issued by non-residents		
Foreign public issuers	404,292	415,160
Other non-resident issuers	767,972	727,801
Equity instruments		
Issued by residents	192,119	190,944
Issued by non-residents	537,125	598,139
	3,052,368	3,100,275

Interest and the results of the appreciation of these financial assets at fair value were reflected in the income statement under Results of financial transactions - financial assets and liabilities at fair value through profit or loss (Note 32).

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

	30-06-2020					31-12-2019				
	"Unit link" products		Other products					Other products		
Description	Capital	Interest receivable	Capital	Interest receivable	Fair Value	Capital	Interest receivable	Capital	Interest receivable	Fair Value
Debt instruments										
Issued by residents										
Treasury Bonds	1,029,678	15,974	-	-	1,045,652	1,038,082	12,825	-	-	1,050,907
Unsubordinated debt	104,239	969	-	-	105,208	115,227	2,097	-	-	117,324
Issued by non-residents										
Foreign public issuers	400,464	3,828	-	-	404,292	412,165	2,995	-	-	415,160
Unsubordinated debt	760,417	7,555	-	-	767,972	715,887	11,914	-	-	727,801
Equity instruments										
Issued by residents	53,349	-	138,770	-	192,119	45,654	-	145,290	-	190,944
Issued by non-residents	536,794	-	331	-	537,125	597,458	-	681	-	598,139
	2,884,941	28,326	139,101	-	3,052,368	2,924,473	29,831	145,971	-	3,100,275

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

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The composition of this heading is as follows:

	30-06-2020								
				Fair Value Reserve					
	Acquisition cost	Interest receivable	Hedge adjustment	Positive reserve	Negative reserve	Total	Others	Impairment (Note 21)	Book value
Debt Instruments									
Issued by residents									
Treasury bonds	3,842,325	44,958	89,587	457,929	(137)	457,792	(2,692)	-	4,431,970
Other residents									
Unsubordinated debt	14,712	82	-	147	(15)	132	-	(18)	14,908
Issued by non-residents									
Foreign public issuers	698,209	7,603	-	55,656	(130)	55,526	-	-	761,338
Other non-residents	42,827	267	-	570	(35)	535	-	-	43,629
	4,598,073	52,910	89,587	514,302	(317)	513,985	(2,692)	(18)	5,251,845
Equity instruments									
Issued by residents	71,147	-	-	797	-	797	-	-	71,944
Issued by non-residents	1,565	-	-	-	-	-	-		1,565
	72,712	-	-	797	-	797	-	-	73,509
	4,670,785	52,910	89,587	515,099	(317)	514,782	(2,692)	(18)	5,325,354
Credit granted	2,300,000	67,804	299,339	381,936	-	381,936	-	-	3,049,079
	6,970,785	120,714	388,926	897,035	(317)	896,718	(2,692)	(18)	8,374,433

	31-12-2019								
				Fair Value Reserve					
	Acquisition cost	Interest receivable	Hedge adjustment	Positive reserve	Negative reserve	Total	Others	Impairment (Note 21)	Book value
Debt Instruments									
Issued by residents									
Treasury bonds	4,890,166	78,886	48,352	670,829	(56)	670,773	(2,860)	-	5,685,317
Other residents									
Unsubordinated debt	18,549	117	-	319	(9)	310	-	(89)	18,887
Issued by non-residents									
Foreign public issuers	691,449	5,206	-	54,756	(14)	54,742	-	-	751,397
Other non-residents	55,957	461	-	1,437	-	1,437	-	-	57,855
	5,656,121	84,670	48,352	727,341	(79)	727,262	(2,860)	(89)	6,513,456
Equity instruments									
Issued by residents	73,183	-	-	718	-	718	-	-	73,901
Issued by non-residents	133	-	-	-	-	-	-		133
	73,316	-	-	718	-	718	-	-	74,034
	5,729,437	84,670	48,352	728,059	(79)	727,980	(2,860)	(89)	6,587,490

In order to place greater emphasis on the development of its core business (retail banking - mortgages and SMEs), during the first quarter of 2020, the Bank changed its business plan, having revised its funding and resource allocation strategy, which will entail the discontinuation of activities (through their sale or maturity) that require stable funding and in large amounts and long terms. Because of that the said strategic alteration of the Bank, and taking into account its new business model ("hold to collect and sale") this type of loan that was previously measured at amortized cost came to be measured at fair value through other comprehensive income, and the respective impacts can be seen in Note 1.3 c).

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

Treasury Bonds headings had the following characteristics:

	30-06-2020				31-12-2019			
Description	Acquisition cost	Interest receivable	Gain/loss	Book value	Acquisition cost	Interest receivable	Gain/loss	Book value
Treasury bonds - Portugal								
Maturing in 1 year	5,159	39	146	5,344	4,447	114	36	4,597
Maturing between one and three years	27,326	281	583	28,190	30,627	218	899	31,744
Maturing between three and five years	62,069	1,715	4,048	67,832	65,772	1,118	4,241	71,131
Maturing between five and ten years	3,739,632	42,881	538,768	4,321,281	4,716,956	75,326	698,125	5,490,407
Maturing over ten years	8,139	42	1,142	9,323	72,364	2,110	12,964	87,438
	3,842,325	44,958	544,687	4,431,970	4,890,166	78,886	716,265	5,685,317
Treasury bonds - Spain								
Maturing in 1 year	11,717	125	182	12,024	14,163	295	245	14,703
Maturing between one and three years	62,532	807	1,071	64,410	62,165	1,431	1,156	64,752
Maturing between three and five years	55,827	1,113	2,818	59,758	63,799	644	3,057	67,500
Maturing between five and ten years	431,346	4,649	34,916	470,911	420,483	2,231	33,709	456,423
Maturing over ten years	14,549	363	915	15,827	11,717	131	881	12,729
	575,971	7,057	39,902	622,930	572,327	4,732	39,048	616,107
Treasury bonds - Other								
Maturing in 1 year	8,905	6	26	8,937	5,860	7	167	6,034
Maturing between one and three years	26,285	238	374	26,897	28,822	183	447	29,452
Maturing between three and five years	48,467	211	3,009	51,687	46,647	204	3,384	50,235
Maturing between five and ten years	25,424	70	4,010	29,504	24,928	70	3,971	28,969
Maturing over ten years	13,157	21	8,205	21,383	12,865	10	7,725	20,600
	122,238	546	15,624	138,408	119,122	474	15,694	135,290
	4,540,534	52,561	600,213	5,193,308	5,581,615	84,092	771,007	6,436,714

As at June 30, 2020 and December 31, 2019, the Group’s portfolio contained Portuguese Treasury Bonds in the amounts of €175.422k and €445,207k respectively, used as collateral in funding operations (Note 20).

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

10. FINANCIAL ASSETS AT AMORTISED COST

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

	30-06-2020	31-12-2019
Loans and advances to other domestic banks		
Deposits	2	1
Loans	2,660	55
	2,662	56
Loans and advances to other foreign banks		
Deposits	14,764	17,609
Other applications	-	709,836
Interest receivable	5	14
	14,769	727,459
	17,431	727,515
Impairment losses (Note 21)	(126)	(29)
	17,305	727,486

As at December 31, 2019 “Investments at credit institutions abroad – Other investments” includes margin accounts of €507,569k. In 2020 the margin account was reclassified to other balances receivable, in the amount of €883,560k.

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

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

	30-06-2020	31-12-2019
Credit granted		
To corporate clients		
Discount and other credit securities	148,252	195,390
Loans	8,182,888	9,555,392
Current account loans	982,604	1,033,064
Overdrafts	125,746	121,134
Factoring	1,460,866	1,541,033
Finance leasing	1,093,871	1,124,395
Other credits	47,400	52,241
To individuals		
Mortgage loans	19,970,558	19,541,151
Consumer credit and other loans	2,253,137	2,291,544
	34,265,322	35,455,344
Loans represented by securities	4,174,361	3,765,429
Overdue loans and interest	522,195	504,040
Interest receivable	81,685	88,070
Value adjustments of hedged assets	57,714	219,139
Deferred expenses	99,426	94,968
Commissions associated with amortized cost (net)	(128,483)	(143,417)
	4,806,898	4,528,229
	39,072,220	39,983,573
Other balances receivable		
Margin accounts	833,560	-
Cheques for collection	58,975	60,591
Debtors	221,141	227,220
	1,113,676	287,811
	40,185,896	40,271,384
Impairment of loans and advances to customers	(1,014,804)	(922,210)
Impairment of other balances receivable	(4,308)	-
Impairment of loans and advances to customers and other balances receivable (Note 21)	(1,019,112)	(922,210)
	39,166,784	39,349,174

In the first half of 2019, portfolios of loans granted to individuals and companies, with a carrying amount of €157,071k, were sold. As a result of these transactions net gains were recorded in the amount of €2,082k (Note 21).

As at June 30, 2020 and December 31, 2019, "Domestic loans – To individuals - Mortgage" included loans assigned to the autonomous property of the mortgage bonds issued by the Bank in the amounts of €10,240,158k and €9,345,054k, respectively (Note 20).

Movements under impairment of loans & advances to customers during the first halves of 2020 and 2019 are presented in note 21.

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

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

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

The detail of the division by stage of the portfolio of loans and other receivable balances at amortised cost is as follows:

	30-06-2020			31-12-2019		
	Gross value	Provisions	Coverage	Gross value	Provisions	Coverage
Stage 1	36,815,290	(89,748)	0.24%	36,626,405	(65,257)	0.18%
Stage 2	1,817,152	(109,844)	6.04%	2,022,651	(72,855)	3.60%
Stage 3	1,553,454	(819,520)	52.75%	1,622,328	(784,098)	48.33%
	40,185,896	(1,019,112)		40,271,384	(922,210)	

The evolution that occurred in the exposure and in the impairment for credit extended and other receivables at amortized cost in the first half of 2020 and in 2019 exercise was as follows:

	Credit granted and other balances receivable				Impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 01-01-2019	36,756,174	1,962,197	2,035,403	40,753,774	79,592	96,651	933,243	1,109,486
Transfers:								
Stage 1 to 2	(925,665)	925,665	-	-	(4,544)	27,068	-	22,524
Stage 1 to 3	(81,163)	-	81,163	-	(13,261)	-	43,723	30,462
Stage 2 to 3	-	(107,057)	107,057	-	-	(7,736)	30,262	22,526
Stage 2 to 1	772,355	(772,355)	-	-	3,291	(37,561)	-	(34,270)
Stage 3 para 2	-	100,926	(100,926)	-	-	6,467	(33,142)	(26,675)
Stage 3 to 1	87,493	-	(87,493)	-	471	-	(9,420)	(8,949)
Write offs and sales	-	-	(233,531)	(233,531)	-	-	(173,210)	(173,210)
Origination net of depreciation	17,211	(86,725)	(179,345)	(248,859)	(292)	(12,034)	(7,358)	(19,684)
Balance as at 31-12-2019	36,626,405	2,022,651	1,622,328	40,271,384	65,257	72,855	784,098	922,210
Transfers:								
Stage 1 to 2	(468,288)	468,288	-	-	(2,340)	17,617	-	15,277
Stage 1 to 3	(12,246)	-	12,246	-	(140)	-	5,167	5,027
Stage 2 to 3	-	(43,294)	43,294	-	-	(3,427)	13,966	10,539
Stage 2 to1	409,585	(409,585)	-	-	1,325	(17,160)	-	(15,835)
Stage 3 to 2	-	34,393	(34,393)	-	-	2,765	(10,709)	(7,944)
Stage 3 to 1	1,520	-	(1,520)	-	47	-	(324)	(277)
Business model reclassification	(2,331,153)	-	-	(2,331,153)	-	-	-	-
Write offs and sales	-	-	(4,117)	(4,117)	-	-	(4,080)	(4,080)
Overlay	-	-	-	-	39,000	46,000	40,000	125,000
Origination net of depreciation	2,589,467	(255,301)	(84,384)	2,249,782	(13,401)	(8,806)	(8,598)	(30,805)
Balance as at 30-06-2020	36,815,290	1,817,152	1,553,454	40,185,896	89,748	109,844	819,520	1,019,112

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

11. HEDGING DERIVATIVES

The breakdown of this heading is as follows:

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

	31-12-2019					
	Book value		Notional value			
Financial instrument	Assets	Liabilities	Until 3 months	Between 3 months and 1 year	More than 1 year	Total
Hedging derivatives						
Fair value coverage						
Interest rate swaps						
Liabilities and credit	2,187	244,164	4,004	111,244	4,340,124	4,455,372
Other financial assets at fair value through other comprehensive income	-	49,904	-	-	2,080,000	2,080,000
Equity swaps	135	765	10,781	25,326	42,339	78,446
Cash flow coverage						
Interest rate swaps						
Cash flows	52,794	-	-	6,000,000	3,000,000	9,000,000
Forward sale	1,129	98,998	1,061,803	1,404,835	326,558	2,793,196
	56,245	393,831	1,076,588	7,541,405	9,789,021	18,407,014

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

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

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

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

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

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

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

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

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

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

12. INVESTMENT IN ASSOCIATED COMPANIES

The composition of this heading is as follows:

	30-06-2020		31-12-2019	
	Effective Participation (%)	Book Value	Effective Participation (%)	Book Value
Domestic				
AEGON Santander Portugal Não Vida	49.00	17,143	49.00	18,828
AEGON Santander Portugal Vida	49.00	32,142	49.00	34,190
Fundo de Investimento Imobiliário Lusimovest	25.76	26,109	25.75	25,923
Unicre - Instituição Financeira de Crédito, S.A.	21.86	30,911	21.85	33,318
		106,305		112,259

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

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

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

13. INVESTMENT PROPERTIES

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

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

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

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

	2020				
	Balances at 31-12-2019	Increases	Fair value valuation	Sales	Balances at 30-06-2020
Properties held by Novimovest Real Estate Fund	252,513	4,127	(732)	(999)	254,909

	2019				
	Balances at 31-12-2018	Increases	Fair value valuation	Sales	Balances at 30-06-2019
Properties held by Novimovest Real Estate Fund	297,625	-	(1,590)	(5,922)	290,113

The effect of the valuation at fair value of the properties held by the Novimovest Real Estate Fund is recorded in the income statement under Other operating results – Gains / Losses on investment properties (Note 34).

Investment properties held by the Group are valued bi-annually , or more frequently if an event occurs in the meantime giving rise to doubts as to the value of the latest valuation conducted by specialised, independent entities in accordance with the method described in Note 18.

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

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

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

14. OTHER TANGIBLE ASSETS AND INTANGIBLE ASSETS

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

	31-12-2019				Write-offs and sales		Transfers			Depreciation	30-06-2020			
							From/to other assets							
	Gross amount	Accumulated depreciation	Impairment (Note 21)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount (Note 17)	Accumulated depreciation (Note 17)	Gross amount	in the period	Gross amount	Accumulated depreciation	Impairment (Note 21)	Net amount
Tangible assets														
Properties														
Properties for own use	413,714	137,398	6,147	2,584	15	-	(4,806)	(1,418)	-	4,257	411,477	140,237	6,147	265,093
Leasehold expenditure	28,213	22,336	-	312	94	109	-	-	-	1,014	28,431	23,241	-	5,190
Other real estate	166	79	-	-	-	-	-	-	-	1	166	80	-	86
Rights of use	41,288	6,190	-	-	-	-	-	-	-	3,072	41,288	9,262	-	32,026
	483,381	166,003	6,147	2,896	109	109	(4,806)	(1,418)	-	8,344	481,362	172,820	6,147	302,395
Equipment	162,718	99,414	-	11,150	2,333	1,807	(95)	(33)	-	7,093	171,440	104,667	-	66,773
Other tangible assets	2,188	70	-	-	-	-	-	-	-	3	2,188	73	-	2,115
	164,906	99,484	-	11,150	2,333	1,807	(95)	(33)	-	7,096	173,628	104,740	-	68,888
	648,287	265,487	6,147	14,046	2,442	1,916	(4,901)	(1,451)	-	15,440	654,990	277,560	6,147	371,283
Intangible assets														
Software	95,096	65,142	-	15,251	-	-	-	-	2,068	10,461	112,415	75,603	-	36,812
Other intangible assets	5,009	4,385	-	2,330	-	-	-	-	(2,068)	-	5,271	4,385	-	886
Consolidation differences	2,651	-	-	-	-	-	-	-	-	-	2,651	-	-	2,651
	102,756	69,527	-	17,581	-	-	-	-	-	10,461	120,337	79,988	-	40,349

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

	31-12-2018				Write-offs and sales		Transfers: From/to other assets		Transfers: Between tangible/intangible assets		Depreciation	30-06-2019			
	Gross amount	Accumulated depreciation	Impairment (Note 21)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation (Note 17)	Gross amount	Accumulated depreciation	in the period	Gross amount	Accumulated depreciation	Impairment (Note 21)	Net value
Tangible assets															
Real estate properties															
Real estate properties for own use	432,145	141,814	6,147	2,459	-	-	(5,622)	(1,918)	176	-	4,541	429,158	144,437	6,147	278,574
Leasehold expenditure	28,310	21,144	-	525	308	252	-	-	(182)	-	812	28,345	21,704	-	6,641
Other property	166	78	-	-	-	-	-	-	-	-	1	166	79	-	87
Rights of use	-	-	-	37,997	-	-	-	-	-	-	3,095	37,997	3,095	-	34,902
	460,621	163,036	6,147	40,981	308	252	(5,622)	(1,918)	(6)	-	8,449	495,666	169,315	6,147	320,204
Equipment	144,811	91,512	-	7,816	4,024	3,607	(91)	(34)	(75)	(48)	5,986	148,437	93,809	-	54,628
Other tangible assets	2,114	38	-	-	-	-	-	-	26	26	3	2,140	67	-	2,073
	146,925	91,550	-	7,816	4,024	3,607	(91)	(34)	(49)	(22)	5,989	150,577	93,876	-	56,701
	607,546	254,586	6,147	48,797	4,332	3,859	(5,713)	(1,952)	(55)	(22)	14,438	646,243	263,191	6,147	376,905
Intangible assets															
Software	72,820	45,839	-	10,256					2,486	22	9,700	85,562	55,561	-	30,001
Other intangible assets	4,877	3,892	-	2,400	-	-	-	-	(2,432)	-	246	4,845	4,138	-	707
Consolidation differences	2,651	-	-	-					-	-	-	2,651	-	-	2,651
	80,348	49,731	-	12,656	-	-	-	-	54	22	9,946	93,058	59,699	-	33,359

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

15. CURRENT TAX AND DEFERRED TAX ASSETS AND LIABILITIES

The breakdown of these headings is as follows:

	30-06-2020	31-12-2019
Current tax assets	37,969	37,711
Deferred tax assets	541,147	567,157
	579,116	604,868
Current tax liabilities	164,484	93,864
Deferred tax liabilities	345,643	300,100
	510,127	393,964
Deferred taxes	195,504	267,057

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

	30-06-2020	30-06-2019
Current taxes	58,445	(85,842)
Deferred taxes	100	(48,891)
	58,545	(134,733)

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

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

	31-12-2019	Other comprehensive income	Results	30-06-2020
Provisions/Impairment temporarily not accepted for tax purposes:				
Deferred tax assets	190,072	-	13,771	203,843
Deferred tax liabilities	(25,161)	-	-	(25,161)
Revaluation of tangible assets:				
Deferred tax assets	1,716	-	(143)	1,573
Deferred tax liabilities	(2,121)	-	66	(2,055)
Tax losses carried forward	185,562	-	70	185,632
Pensions:				
Actuarial deviations	38,157	-	(8,025)	30,132
Early retirement pensions	39,802	-	(2,465)	37,337
Transfer of pension liabilities to the Social Security	3,878	-	(162)	3,716
Insurance activity:				
Fair value of insurance liabilities - Shadow reserve	7,251	2,823	-	10,074
Fair value of insurance liabilities - Other	(108)	-	8	(100)
Other financial assets at fair value through other comprehensive income	(213,036)	(55,661)	-	(268,697)
Cash flow hedging derivatives	16,436	(18,615)	-	(2,179)
Other financial assets at fair value through profit or loss	37,517	-	(1,004)	36,513
Securitization operations	(24,381)	-	(123)	(24,504)
Incorporation and digital restructuring costs	10,532	-	(2,128)	8,404
Other	941	-	35	976
	267,057	(71,453)	(100)	195,504

	31-12-2018	Other comprehensive income	Results	Outros	31-12-2019
Provisions/Impairment temporarily not accepted for tax purposes:					
Deferred tax assets	230,637	-	(40,565)	-	190,072
Deferred tax liabilities	(5,397)	-	176	(19,940)	(25,161)
Revaluation of tangible assets:					
Deferred tax assets	2,288	-	(572)	-	1,716
Deferred tax liabilities	(2,981)	-	860	-	(2,121)
Tax losses carried forward	219,136	-	(33,574)	-	185,562
Pensions:					
Actuarial deviations	55,111	-	(16,954)	-	38,157
Early retirement pensions	37,464	-	2,338	-	39,802
Transfer of pension liabilities to the Social Security	4,201	-	(323)	-	3,878
Insurance activity:					
Fair value of insurance liabilities - Shadow reserve	4,210	3,041	-	-	7,251
Fair value of insurance liabilities - Other	(121)	-	13	-	(108)
Other financial assets at fair value through other comprehensive income	(139,178)	(93,136)	4,248	15,030	(213,036)
Cash flow hedging derivatives	(9,900)	26,336	-	-	16,436
Other financial assets at fair value through profit or loss	21,240	-	16,277	-	37,517
Securitization operations	(24,992)	-	611		(24,381)
Incorporation and digital restructuring costs	17,737	-	(7,205)		10,532
Other	(4,590)	-	159	5,372	941
	404,865	(63,759)	(74,511)	462	267,057

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

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

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

The Bank was subject to a tax inspection up to and including 2016. As a result of the inspection, it was subject to an additional IRC assessment related with the autonomous taxation and with sundry corrections to the tax loss determined that year. In the matter of Stamp Duty, the Bank was also subject to an additional assessment. The corrections to the taxable income covered several matters, including, *inter alia*, adjustments to tax recognition of actuarial deviations and adjustments relating to uses of non-performing loans. Some of these corrections are merely temporary.

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

The Bank records under Provisions under Liabilities the amount that it considers appropriate to satisfy the additional assessments to which it was subjected, as well as for contingencies relating to fiscal years not yet reviewed by the Tax Authority (Note 21).

Of the Bank's tax losses €27,655k can be used up until 2026 and €157,843k up until 2027.

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 results determined in the separate periodic returns of each company. The companies covered by this scheme are: Santander Totta - the controlling company, and Taxagest, Banco, Santander Totta Seguros and Gamma - controlled companies.

16. TECHNICAL PROVISIONS

The breakdown of these headings is as follows:

	30-06-2020	31-12-2019
Technical provisions of insurance activity		
For unearned premiums	4,778	4,357
Life insurance mathematical reserve	647,448	644,623
For profit sharing	43,497	46,374
For insurance claims	26,365	28,492
Other technical provisions	1,671	6,580
	723,759	730,426

The mathematical provisions set up for life-insurance contracts represent, as a whole, the commitments entered into with the insured, which include those relating to the profit-sharing, the right to which they have acquired. These provisions were calculated using the PF60/64, GKF80, GRF95 and GRM95 mortality tables for life insurance and the PM60/64, and GKM80 GKM95 for insurance in the event of death. The technical interest rates (discount rates) were 3% and 4%, respectively.

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

17. OTHERS ASSETS

The breakdown of this heading is as follows:

	30-06-2020	31-12-2019
Debtors and other applications		
Debtors for loan interest subsidies receivable	5,291	5,129
Promises and other assets received as settlement of defaulting		
Assets received as settlement of defaulted loans	267,499	255,543
Gold, other precious metals, coins and medals	3,145	3,145
Other available funds		-
Other income receivables	21,569	13,465
Deferred costs	1,492	1,359
Other	31,594	52,116
	330,590	330,757
Impairment losses (Note 21)		
Debtors and other applications	(226)	(226)
Promises and other assets received as settlement of defaulting		
assets received as settlement of defaulted loans	(113,347)	(88,192)
	(113,573)	(88,418)
	217,017	242,339

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

	30-06-2020		31-12-2019	
	Other assets	Other liabilities (Note 23)	Other assets	Other liabilities (Note 23)
Cheques, values in transit and other transactions to be settled	17,854	(34,542)	34,280	(25,858)
Balances to be settled in ATM's	2,802	-	2,504	6
Tranfers within SEPA	967	(179,102)	130	(126,562)
Other	9,971	(48,168)	15,202	(43,720)
	31,594	(261,812)	52,116	(196,134)

Movement under payment in kind promises, auctions and other assets received as payment in kind during the first half of 2020 and during 2019 was as follows:

	December 31, 2019							Impairment (Note 21)			June 30, 2020		
	Gross amount	Impairment	Net value	Increases	Sales	Transfers / AFS Capital (Note 18)	Transfers / tangible assets (Note 14)	Increases	Reversals	and other	Gross amount	Impairment	Net value
Assets received as settlement of defaulting													
Real estate properties	64,026	(28,141)	35,885	-	-	12,957	-	-	-	(17,239)	76,983	(45,380)	31,603
Lieu of payment	1,976	(86)	1,890	-	-	(176)	-	(1)	-	-	1,800	(87)	1,713
Auctions	16,474	(5,203)	11,271	3,411	-	(2,970)	-	(1,259)	62	-	16,915	(6,400)	10,515
Other	33,454	(26,911)	6,543	1,451	(1,816)	(155)	-	(710)	708	120	32,934	(26,793)	6,141
Own real estate properties for sale	42,407	(27,467)	14,940	40	(2,503)	-	3,450	(1,627)	635	687	43,394	(27,772)	15,622
Other real estate properties for sale	97,206	(384)	96,822	7,065	(8,797)	-	-	(7,021)	387	103	95,474	(6,915)	88,559
	255,543	(88,192)	167,351	11,967	(13,116)	9,656	3,450	(10,618)	1,792	(16,329)	267,500	(113,347)	154,153

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

	December 31, 2018						Transfers	Impairment (Note 21)			June 30, 2019		
	Gross amount	Impairment	Net value	Increases	Sales	Transfers /AFS Capital (Note 18)	/ tangible assets Capital (Note 14)	Increases	Reversals	and other	Gross amount	Impairment	Net value
Assets received as settlement of defaulting													
Real estate properties	109,320	(52,155)	57,165	9,900	(4,760)	(47,593)	-	(5,771)	8,640	1,304	66,867	(47,982)	18,885
Lieu of payment	11,435	(43)	11,392	-	(8,826)	-	-	(18)	2	-	2,609	(59)	2,550
Auctions	49,820	(27,452)	22,368	9,751	(8,178)	605	-	(1,110)	215	-	51,998	(28,347)	23,651
Other	139,419	(4,168)	135,251	2,388	(24,309)	(84)	-	(214)	12,764	-	117,414	8,382	125,796
bankruptcy	1,892	(1,892)	-	478	(103)	(521)	-	(258)	404	-	1,746	(1,746)	-
Own real estate properties for sale	44,773	(23,624)	21,149	39	(1,993)	-	3,761	(7,902)	392	871	42,819	(30,263)	12,556
	356,659	(109,334)	247,325	22,556	(48,169)	(47,593)	3,761	(15,273)	22,417	2,175	283,453	(100,015)	183,438

The determination of impairment losses is performed according to the methodology described in Note 18.

18. NON-CURRENT ASSETS HELD FOR SALE

Movement under Non-current assets held for sale in the first half of 2020 and in 2019 was as follows:

	2020										
	31-12-2019				Transfers /AFS	Impairment (Note 21)			30-06-2020		
	Gross amount	Accummulated impairment (Note 21)	Increases	Sales	Capital (Note 17)	Allocation	Reversals	Utilization	Gross amount	Accummulated impairment (Note 21)	Net amount
Real estate properties	74,822	(31,223)	33,191	(10,833)	(9,656)	(3,561)	3,842	(2,334)	87,524	(33,276)	54,248
Equipment	2,047	(1,603)	635	(582)	-	(68)	75	75	2,100	(1,521)	579
	76,869	(32,826)	33,826	(11,415)	(9,656)	(3,629)	3,917	(2,259)	89,624	(34,797)	54,827

	2019										
	31-12-2018				Transfers	Impairment (Note 21)			30-06-2019		
	Gross amount	Accummulated impairment (Note 21)	Increases	Sales	Capital (Note 17)	Allocation	Reversals	Utilization	Gross amount	Accummulated impairment (Note 21)	Net amount
Real estate properties	46,277	(16,599)	7,753	(11,376)	47,593	(20,889)	6,439	6,466	90,247	(24,583)	65,664
Equipment	1,913	(1,569)	588	(512)	-	(355)	173	159	1,989	(1,592)	397
	48,190	(18,168)	8,341	(11,888)	47,593	(21,244)	6,612	6,625	92,236	(26,175)	66,061

These assets are carried at the amount agreed by negotiation or judicial means, after deduction of the lesser of the expenses the Group 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 carried in assets for the amount of principal outstanding on the date of termination of the contract.

Real estate is subject to periodic valuations performed by independent valuers. Whenever the amount arising from these valuations (net of selling costs) is lower than the amount at which the properties are carried, impairment losses are recorded. If, on a subsequent date, the facts that led the Group to record impairment losses no longer exist, the Group will reverse the impairment losses, up to the limit of the amount that the assets would have had they not been reclassified to non-current assets held for sale.

Valuations of these properties are carried out in accordance with one of the following methods, applied according to the specific situation of the asset:

a) Market method

The market comparison criterion is based on real-estate transaction figures for similar properties comparable to the property constituting the object of the study obtained through market research conducted in the area the property is located.

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

b) Income method

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

c) Cost method

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

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

19. OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Liabilities for life insurance where the risk lies with the policyholder are carried under this heading.

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

	30-06-2020	31-12-2019
Liabilities for life insurrance where the		
risk rests with the policyholder	3,229,837	3,432,017

20. FINANCIAL LIABILITIES AT AMORTISED COST

The composition of the resources of central banks sub-heading is as follows:

	30-06-2020	31-12-2019
Resources from the European Central Bank		
Deposits	6,799,339	3,033,002
Deposits from other Central Banks		
Deposits	1,855	4,522
	6,801,194	3,037,524

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

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

	30-06-2020	31-12-2019
Resources from domestic credit institutions		
Deposits	123,176	162,909
Other resources	2,074	1,833
Interests payable	-	16
Deferred income revenues	168	50
	125,418	164,808
Resources from foreign credit institutions		
Sale operations with repurchase agreement	1,581,109	1,654,668
Consigned resources	900,000	900,000
Deposits	340,376	316,070
Other resources	6,417	7,738
Very short-term resources	71,441	152,216
Interests payable	768	496
	2,900,111	3,031,188
	3,025,529	3,195,996

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

	30-06-2020	31-12-2019
Term deposits	14,689,440	16,624,260
Demand deposits	20,533,798	17,424,124
Structured deposits	59,804	217,162
Savings deposits	746,522	800,057
Others	27,468	19,629
	36,057,032	35,085,232
Interests payable	8,966	11,490
Financial insurance products without profit sharing	23,398	22,650
Value adjustments for hedging operations	364	(423)
	32,728	33,717
	36,089,760	35,118,949

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

The debt securities sub-heading comprises the following:

	30-06-2020			31-12-2019		
	Issues	Repurchases	Amount	Issues	Repurchases	Amount
Covered bonds						
Opening balance	8,050,000	(5,300,000)	2,750,000	7,700,000	(4,200,000)	3,500,000
Issued	750,000	-	750,000	1,100,000	-	1,100,000
Repurchased	-	(750,000)	(750,000)	-	(1,100,000)	(1,100,000)
Reimbursed	-	-	-	(750,000)	-	(750,000)
Interest payable	-	-	15,577	-	-	10,526
Commissions associated to the cost	-	-	(23,957)	-	-	(25,372)
	8,800,000	(6,050,000)	2,741,620	8,050,000	(5,300,000)	2,735,154
Bonds issued in securitization operations						
Opening balance	4,269,015	(3,525,534)	743,481	4,898,562	(4,010,289)	888,273
Reimbursed	(262,321)	168,128	(94,193)	(629,548)	484,754	(144,794)
Interest payable	-	-	640	-	-	-
Commissions associated to the cost	-	-	(52,083)	-	-	(55,137)
	4,006,694	(3,357,406)	597,845	4,269,014	(3,525,535)	688,342
Structured bonds	8,227	(8,227)	-	8,227	(8,227)	-
	8,227	(8,227)	-	8,227	(8,227)	-
Subordinated liabilities						
Issued	296,139	(288,540)	7,599	296,139	(288,540)	7,599
Interest payable	-	-	419	-	-	136
	296,139	(288,540)	8,018	296,139	(288,540)	7,735
			3,347,483			3,431,231

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

The conditions of the covered bonds issued within the scope of securitisation operations and of other subordinated liabilities are presented in Annexes I and II, respectively.

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

	30-06-2020	31-12-2019
Loans and advances to customers (Note 10)	10,240,158	9,345,054
Interests on loans	8,163	7,038
Commissions	(51,085)	(52,346)
Deferred expenses	2,126	2,605
Derivatives	(169,873)	(178,272)
	10,029,489	9,124,079

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

The Other financial liabilities sub-heading comprises the following:

	30-06-2020	31-12-2019
Cheques and orders payable	73,825	63,307
Creditors and other resources		
Creditors through operations with futures	17,542	5,416
Adminsitrative public sector	26,061	33,556
Creditors through factoring contracts	47,138	44,257
Creditors for supplies of goods	2,055	5,416
Others	40,941	45,584
Commitments to future income (IFRS 16)	32,508	35,356
	240,070	232,892

Commitments with future rents corresponds to the adoption of IFRS 16 and their movement was as follows:

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

21. MOVEMENT IN PROVISIONS AND IN IMPAIRMENT

Movement under Provisions and under Impairment during the first half of 2020 and during 2019, was as follows:

	2020					
	Balance at 31-12-2019	Increase	Reversals	Utilization	Transfers / Other	Balance at 30-06-2020
Provisions for tax contingencies	17,257	-	-	-	53	17,310
Provision for pensions and other charges	78,116	78	-	(10,680)	(1,597)	65,917
Impairment for guarantees and other sureties given (Note 27)	53,249	4,236	(1,090)	-	-	56,395
Other provisions	85,706	2,245	(4,115)	(4,207)	240	79,869
	234,328	6,559	(5,205)	(14,887)	(1,304)	219,491

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

	2019					
	Balance at 31-12-2018	Increase	Reversals	Utilization	Other	Balance at 30-06-2019
Provisions for tax contingencies	17,465	-	-	-	(208)	17,257
Provision for pensions and other charges	129,571	162	-	(26,170)		103,563
Impairment and provisions for guarantees and other sureties given	53,160	4,843	-	-	-	58,003
Other provisions	97,796	16,010	(11,774)	(879)	208	101,361
	297,992	21,015	(11,774)	(27,049)	-	280,184

	2020						
	Balance at 31-12-2019	Increase	Reversals of impairment losses	Utilization and other	Balance at 30-06-2020	Recovery of past due loans	Gain/loss from loan sales
Impairment - financial assets							
Impairment of loans and advances to credit institutions (Note 10)	29	128	(31)	-	126	-	-
Impairment of credit granted and other balances receivable (Note 10)	922,210	361,074	(256,842)	(7,330)	1,019,112	(4,453)	1,058
Impairment of financial assets at fair value through other comprehensive income (Note 9)	89	57	(128)	-	18	-	-
	922,328	361,259	(257,001)	(7,330)	1,019,256	(4,453)	1,058
Impairment - non financial assets							
Non-current assets held for sale (Note 18)	32,826	3,629	(3,917)	2,259	34,797	-	-
Tangible assets (Note 14)	6,147	-	-	-	6,147	-	-
Other assets (Note 17)	88,418	10,618	(1,792)	16,329	113,573	-	-
	127,391	14,247	(5,709)	18,588	154,517	-	-

	2019						
	Balance at 31-12-2019	Increase	Reversals of impairment losses	Utilization and other	Balance at 30-06-2019	Recovery of past due loans	Gain/loss from loan sales
Impairment - financial assets							
Impairment of loans and advances to credit institutions	84	2	(46)	-	40	-	-
Impairment of credit granted and other balances receivable	1,109,486	138,483	(147,242)	(136,222)	964,505	(5,612)	(2,082)
Impairment of financial assets at fair value through other comprehensive income	3	-	-	-	3	-	-
Impairment of investments in associates	1,918	-	-	-	1,918	-	-
	1,111,491	138,485	(147,288)	(136,222)	966,466	(5,612)	(2,082)
Impairment - non-financial assets							
Non-current assets held for sale (Note 18)	18,168	21,244	(6,612)	(6,625)	26,175	-	-
Tangible assets (Note 14)	6,147	-	-	-	6,147	-	-
Other assets (Note 17)	109,483	15,273	(22,417)	(2,175)	100,164	-	-
	133,798	36,517	(29,029)	(8,800)	132,486	-	-

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

	30-06-2020	31-12-2019
Restructuring plan	51,683	62,278
Retirement bonus BAPOP	-	1,684
Supplementary pension plan of the Board of Directors (Note 40)	14,234	14,154
	65,917	78,116

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

22. EQUITY INSTRUMENTS

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

23. OTHER LIABILITIES

The breakdown of this heading is as follows:

	30-06-2020	31-12-2019
Personnel costs		
Vacation and vacation subsidies	31,960	39,549
Other variable remuneration	16,603	29,795
Christmas subsidy	9,413	-
End of career award (BAPOP)	1,358	-
Other personnel costs	3,058	1,170
Other charges	156,092	151,492
Liabilities with pensions and other benefits (Note 38)		
Bank responsabilities	1,126,793	1,131,980
Fair value of the Bank's Pension Fund	(1,107,078)	(1,160,573)
Responsabilities-London branch	53,335	51,848
Fair value of London branch Pension Fund	(44,014)	(44,654)
Responsabilities former Banif	160,458	161,803
Fair value of former Banif Pension Fund	(89,665)	(101,126)
Responsabilitie from former-Popular	181,684	181,503
Fair value of former-Popular Pension Fund	(180,122)	(185,459)
Other deferred income	11,302	2,749
Liability operations to be settled (Note 17)	261,812	196,134
	592,989	456,211

24. EQUITY

As at June 30, 2020 and December 31, 2019, the share capital of Santander Totta, SGPS, SA, was represented by 197,296,207,958 shares, each of a par value of €1, fully subscribed and paid up by the following shareholders:

	30-06-2020		
	Number of shares	Participation (%)	Amount
Santander Group	196,996,017,344	99.85%	1,969,960
Other	186,595,158	0.09%	1,866
Own shares	113,595,456	0.06%	1,136
	197,296,207,958	100.00%	1,972,962

During 2019, the Company purchased 5,760,940 treasury shares for the amount , of €118k.

During 2019 the Company distributed dividends in the amount of €394,734k (amount net of the dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.00200 per share.

Other capital instruments

On December 30, 2015, the Company issued "€300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments" perpetual subordinated bonds that qualify for the capital Tier 1 ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV – Capital Requirements Directive). This operation has no set term, has a call option by the Company from the end of the 5th year, and an interest rate of 9.9% per annum during the first five years. As it is an Additional Tier 1 instrument, the corresponding interest payment is decided at the discretion of the Company and is subject to observation of a number of conditions. The issuance of this instrument was carried out following the redemption of the TAF preference shares and after approval by the European Central Bank.

On June 20, 2016, the Company made a second issue of "€300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments" perpetual subordinated bonds that qualify for the capital Tier 1 ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV – Capital Requirements Directive).). This operation has no set term, has a call option by the Company from the end of the 5th year, and an interest rate of 10.5% per annum during the first five years. As it is an Additional Tier 1 instrument, the corresponding interest payment is decided at the discretion of the Company and is subject to observation of a number of conditions. The issuance of this instrument was carried out following the redemption of the BST Porto Rico preference shares and after approval by the European Central Bank.

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

Reserves for accumulated comprehensive income

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

	30-06-2020	31-12-2019
Revaluation reserves		
Reserves resulting from the fair value valuation		
From other financial assets at fair value through other comprehensive income	896,426	719,676
Available-for-sale financial assets of companies under equity method	4,227	4,396
Cash-flow hedging instruments	7,027	(52,995)
Reserves resulting from the valuation of the portfolio at fair value through other comprehensive income	-	7,502
Valuation of insurance liabilities (shadow reserve)	-	(7,502)
Valuation of insurance liabilities (shadow reserve)	(42,854)	(36,857)
Actuarial gains and losses		
Pension Fund of the Bank	(836,463)	(798,853)
Pension Fund of the Lond branch of the Bank	(15,522)	(13,447)
Pension fund of Former Banif	(46,865)	(36,753)
Pension fund of former BAPOP	(12,526)	(8,037)
Actuarial gains and losses of companies under the equity method	(4,035)	(4,035)
	(50,585)	(226,905)
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation		
From other financial assets at fair value through other comprehensive income	(272,831)	(217,196)
Available-for-sale financial assets of companies under equity method	(1,079)	(1,123)
Cash-flow hedging instruments	(2,178)	16,429
Valuation of insurance liabilities (shadow reserve)	10,071	7,251
Tax impact of actuarial gains and losses	204,198	204,199
Tax impact from the actuarial changes of companies under the equity method	938	938
	(60,881)	10,498
	(111,466)	(216,407)

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

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

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

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

	30-06-2020	31-12-2019
Legal reserve	363,640	320,054
Merger reserve	640,575	640,575
Consolidated reserve		
Companies consolidated under the full method	627,721	539,666
Companies consolidated under the equity method	18,130	17,939
Differences in transactions with non-controlling interests	(621)	-
Retained earnings	197,228	(137,618)
	1,846,673	1,380,616

Legal reserve

In accordance with the provisions of Decree-Law 298/92, of December 31, amended by Decree-Law 201/2002, of September 26, the Company sets aside a legal reserve until it equals the share to capital or sum of the free reserves formed and retained earnings, if greater. To this end, a fraction of not less than 10% of the net income for the period of the separate business is annually transferred to this reserve, until the said amount is achieved. This reserve may be used only to cover accumulated loses 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)

25. CONSOLIDATED NET INCOME FOR THE PERIOD

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

	30-06-2020		30-06-2019	
	Net income for the period	Contribution to the consolidated net income	Net income for the period	Contribution to the consolidated net income
Net income of ST SGPS (individual basis)	1,744	1,744	443,838	443,838
Net income of other Group companies:				
Banco Santander Totta, S.A.	157,611	157,543	249,510	249,401
Totta (Ireland), Plc.	4,447	4,445	5,182	5,180
Unicre, Instituição Financeira de Crédito, S.A.	2,549	557	6,778	1,481
Santander Totta Seguros, S.A.	11,049	11,049	17,416	17,416
Totta Urbe, Empresa de Administração e Construções, S.A.	1,033	1,032	3,316	3,315
Aegon Santander Portugal Vida - Companhia de Seguros, S.A.	6,974	3,417	5,409	2,651
Novimovest - Fundo de Investimento Imobiliário Aberto	558	439	2,941	2,353
Aegon Santander Portugal Não Vida - Comapnhia de Seguros, S.A.	1,828	896	3,027	1,483
Taxagest, S.A.	(1)	(1)	4	4
Banif International Bank, LTD	-	-	89	89
Lusimovest Fundo de Investimento Imobiliário	724	187	(3)	(1)
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	38	38	26	26
Popular Seguros	(242)	(242)	(169)	(169)
		179,360		283,229
Elimination of dividends:				
Banco Santander Totta, S.A.		-		(422,688)
Popular Seguros		(1,247)		-
Unicre - Instituição Financeira de Crédito, S.A.		(3,191)		(5,200)
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.		(7,700)		(5,412)
		(12,138)		(433,300)
Adjustments related with securitization operations		(600)		(6,009)
Cancellation of provisions for securities and intragroup shareholdings		(1,387)		(6,245)
Other		5,937		(5,638)
		3,950		(17,892)
		172,916		275,875

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

	30-06-2020	30-06-2019
Consolidated net income attributable to the shareholders of ST, SGPS	172,916	275,875
Weighted average number of ordinary shares issued	197,296,207,958	197,296,207,958
Weighted average number of own shares	113,595,456	105,942,258
Weighted average number of ordinary shares outstanding	197,182,612,502	197,190,265,700
Basic earnings per share attributable to the shareholders of ST, SGPS (In Euro)	0.0009	0.0014

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

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

26. NON-CONTROLLING INTERESTS

During the period to June 20, 2020, and during 2019 the value of non-controlling interests in the balance sheet and income statement corresponds to the proportion of the holdings of third-parties in the Company's share capital.

27. OFF-BALANCE-SHEET ACCOUNTS

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

	30-06-2020	31-12-2019
Guarantees given and other contingent liabilities		
Financial guarantees and sureties	550,874	563,159
Commitments for credit granted		
Revocable	5,577,890	5,089,308
Irrevocable	626,618	1,000,630
	6,204,508	6,089,938
Other commitments granted		
Non-financial guarantees and sureties	1,055,010	1,013,044
Documentary credits	366,813	374,410
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	7,424	6,817
Other commitments granted	215	215
	1,498,431	1,463,455
	8,253,813	8,116,552
Assets pledged as collateral		
Bank of Portugal	156,276	165,818
Deposit Guarantee Fund	85,430	85,447
Investor Indemnity System	9,112	9,114
Assets pledged as guarantees in monetary policy operations	14,789,190	11,621,096
	15,040,008	11,881,475
Liabilities for services rendered		
Deposit and custodial services	33,117,865	31,429,713
Amounts received for collection	379,635	161,128
Other values	95,381	76,780
	33,592,881	31,667,621

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

Guarantees and contingent commitments have the following exposure per stage:

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

	30-06-2020							
	Exposure				Impairment (Note 21)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commitments for credit granted	5,576,309	621,111	7,088	6,204,508	4,017	871	13	4,901
Financial guarantees	471,204	37,764	41,906	550,874	363	492	23,739	24,594
Other commitments granted	1,282,647	57,491	158,293	1,498,431	1,293	174	25,433	26,900
	7,330,160	716,366	207,287	8,253,813	5,673	1,537	49,185	56,395

	31-12-2019							
	Exposure				Impairment (Note 21)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commitments for credit granted	5,314,923	768,621	6,394	6,089,938	3,041	1,403	9	4,453
Financial guarantees	394,581	127,140	41,438	563,159	482	329	21,562	22,373
Other commitments granted	1,186,119	114,059	163,277	1,463,455	1,262	183	24,978	26,423
	6,895,623	1,009,820	211,109	8,116,552	4,785	1,915	46,549	53,249

Deposit Guarantee Fund

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

Until 2011, as permitted by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Deposit Guarantee Fund, having also entered into an irrevocable commitment to the Deposit Guarantee Fund to pay up the 10 % of the annual contribution, if and when so requested. The unpaid amount accumulated as at June 30, 2020, and December 31, 2019, for which this commitment was entered into totalled €68,969k. The assets pledged to the Bank of Portugal are reflected under off-balance sheet headings at their market value. In 2020 and 2019, the Bank paid 100% of the annual contribution in the amounts of €48k and €50k, respectively (Note 36).

Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as expense. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at June 30, 2020 and December 31, 2019, these liabilities amounted to €7,424k and €6,817k, respectively.

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

28. NET INTEREST INCOME

The composition of this heading is as follows:

	30-06-2020	30-06-2019
Interest income		
Interest on deposits in Central Banks and credit institutions	172	328
Interest on financial assets at fair value through profit or loss	177	404
Interest on financial assets at fair value through other comprehensive income	48,385	61,865
Interest on financial assets at amortised cost		
Loans and advances to credit institutions	1,255	7,031
Loans represented by securities	28,630	36,184
Loans granted to customers	331,098	352,164
Interest on resources from Central Banks and credit institutions	7,031	6,807
Interest on hedging derivatives	157,639	141,526
Other	2,291	966
	576,678	607,275
Interest charges		
Interest on financial liabilities at amortised cost		
Resources from other credit institutions	(3,230)	(3,127)
Resources from customers and other debts	(16,722)	(26,095)
Debt securities	(19,315)	(21,398)
Interest on hedging derivatives	(137,124)	(118,257)
Other	(949)	(9,684)
	(177,340)	(178,561)
	399,338	428,714

29. INCOME FROM EQUITY INSTRUMENTS

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

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

30. RESULTS FROM ASSOCIATES

The composition of this heading is as follows:

	30-06-2020	30-06-2019
AEGON Santander Portugal Não Vida	896	1,483
AEGON Santander Portugal Vida	3,417	2,651
Lusimovest - Fundo de Investimento Imobiliário	187	-
Unicre - Instituição Financeira de Crédito	564	412
	5,064	4,546

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

31. SERVICES AND COMMISSIONS

The composition of this heading is as follows:

	30-06-2020	30-06-2019
Income from services and commissions		
Guarantees given	8,773	9,452
Commitments to third parties	2,507	402
Banking services provided		
Deposit and custody services	2,816	3,031
Asset management and collection	7,895	6,100
Real estate and mutual fund management	11,524	12,957
Value Transfers	636	896
Card transactions	40,532	45,272
Annuities	15,514	15,111
Credit operations	25,228	26,313
Other services rendered	6,798	499
Operations carried out on behalf of third parties		
Securities	8,584	7,585
Other	40	86
Other commission received		
Insurance companies	50,964	50,562
Deposits	42,969	39,915
Cheques	2,806	4,674
Other	9,469	18,774
	237,055	241,629
Charges with services and commissions		
Guarantees received	(1,353)	(2,233)
Banking services rendered by third parties		
Funds for collection and management	(2,441)	(2,267)
Transactions with customers	(30,956)	(34,450)
Credit operations	(1,575)	(3,959)
Other services rendered	(3,421)	(1,423)
Operations carried out by third parties		
Securities	(1,566)	(928)
Other	(3,388)	(2,909)
Other commissions paid	(9,218)	(623)
	(53,918)	(48,792)
	183,137	192,837

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

32. GAINS/LOSSES ON FINANCIAL ASSETS

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

	30-06-2020	30-06-2019
Gain/losses on financial assets held for trading		
Equity instruments	-	90
Derivative instruments	1,050	10,096
	1,050	10,186
Gain/losses on financial assets mandatory at fair value through P&L accounts		
Debt instruments	2,860	16,005
Equity instruments	2,097	2,364
	4,957	18,369
Gain/losses on hedging derivatives		
Hedging derivatives	(178,819)	(204,324)
Item covered	178,966	204,324
	147	-
	6,154	28,555
Gain/losses on financial assets at fair value through other comprehensive income		
Debt instruments	79,564	57,029
Other	(676)	666
	78,888	57,695
Exchange revaluation	5,636	4,976

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

	30-06-2020	30-06-2019
Gains on investment properties	107	267
Losses on investment properties	(46)	(418)
Other losses in financial operations	-	(116)
	(46)	(534)
	61	(267)

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

33. GROSS MARGIN IN THE INSURANCE ACTIVITY

The composition of the gross margin of insurance is as follows:

	30-06-2020	30-06-2019
Commissions and profit sharing on reinsurance ceded	11,847	14,254
Gross written premiums net of reinsurance	5,922	9,433
Costs with claims net of reinsurance	(53,285)	(25,144)
Change in technical reserves net of reinsurance	4,085	1,310
Interests and net income of assets allocated to technical reserves	5,135	5,950
Net gains of assets allocated to technical reserves	253	643
Charges for services and commissions associated with technical reserves	(703)	(1,357)
	(26,746)	5,089
Gross margin on life insurance where the investment risk rests with the policyholder	34,524	6,874

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

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

34. OTHER OPERATING RESULTS

The breakdown of this heading is as follows:

	30-06-2020	30-06-2019
Rents earned	5,479	7,155
Income from services rendered	3,493	1,471
Contributions to the Resolution Fund		
National Resolution Fund	(12,875)	(12,261)
Single Resolution Fund	(22,701)	(20,336)
Charges related to transactions made by customers	(2,192)	(3,626)
Contributions to the Deposit Guarantee Fund (Note 27)	(48)	(50)
Other	422	779
	(28,422)	(26,868)

“Rents earned” includes the amounts of €5,474k and €6,726k, respectively, in respect of the rents earned by the Novimovest Real Estate Fund (Note 13).

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

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

Within the scope of the single Resolution mechanism the annual contributions will be transferred to the Single Resolution Fund, in accordance with article 3(3) of the agreement on the transfer and pooling of the contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014. The Bank of Portugal, as resolution authority, determines the amount of the contribution of each institution depending on the risk profile of each entity. In December 2015 the Bank paid an additional contribution to the Resolution Fund in the amount of €13,318k, in keeping with a letter received from the Bank of Portugal in November 2015. In 2019 and 2020 and as provided for in the Bank of Portugal's letter, the Single Resolution Council (CUR) allowed banking institutions, in these years, to opt for the use of irrevocable payment commitment, in the proportion of 15% of the amount of the annual contribution. The annual contribution amounted to €26,707k and €23,924k, respectively.

35. STAFF COSTS

The composition of this heading is as follows:

	30-06-2020	30-06-2019
Remuneration		
Management and supervisory boards (Note 40)	2,731	4,121
Employees	112,095	114,551
Other variable remuneration	6,454	16,556
	121,280	135,228
Mandatory social charges		
Charges on remuneration	30,721	30,463
Pension funds (Note 38)	4,106	2,854
Other mandatory social charges	529	626
	35,356	33,943
Other staff costs		
Staff transfers	609	644
Supplementary pension plan (Note 38)	291	291
Other	3,771	4,109
	4,671	5,044
	161,307	174,215

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

36 GENERAL ADMINISTRATIVE COSTS

The composition of this heading is as follows:

	30-06-2020	30-06-2019
External supplies:		
Water, electricity and fuel	4,255	4,705
Consumable materials	1,122	1,085
Other	104	116
External services:		
Specialized services	38,559	37,426
Maintenance of software and hardware	28,590	27,647
Communications	4,414	5,498
Maintenance and repairs	2,233	2,673
Advertising and publishing	6,522	6,919
Other leasing operations (short-term, low-value leases)	2,434	3,167
Travel, lodging and entertainment expenses	1,315	2,622
Transportation	2,138	2,560
Insurance	1,082	729
Other	3,181	3,544
Contributions and donations	3,273	3,610
Other taxes	1,330	2,181
	100,552	104,482

37. RESULTS FROM NON-CURRENT ASSETS HELD FOR SALE

The breakdown of this heading is as follows:

	30-06-2020			30-06-2019		
	Gains	Losses	Net	Gains	Losses	Net
Assets received in lieu of payment	2,869	(5,562)	(2,693)	34,018	(23,782)	10,236
Other non-financial assets	18,322	(15,696)	2,626	-	-	-
	21,191	(21,258)	(67)	34,018	(23,782)	10,236

38. EMPLOYEE POST-EMPLOYMENT BENEFITS

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

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

The Bank's liabilities for retirement pensions, health care and death benefits as at June 30, 2020 and December 31, 2019, as well as the respective coverage, are detailed as follows:

	Santander		BAPOP	
	30-06-2020	31-12-2019	30-06-2020	31-12-2019
Estimate of responsibilities for past services:				
- Pensions				
.Current employees	316,098	314,702	64,144	63,195
.Pensioners	48,007	46,489	7,867	7,970
.Retired staff and early retired staff	576,673	584,284	96,282	97,164
	940,778	945,475	168,293	168,329
- Healthcare systems (SAMS)	171,127	171,834	12,661	12,456
- Death subsidy	6,408	6,349	730	718
- Retirement bonus	8,480	8,322	-	-
	1,126,793	1,131,980	181,684	181,503
Coverage of responsibilities:				
- Net assets of the Fund	1,107,078	1,160,573	180,122	185,459
Excess / insufficient funding (Note 23)	(19,715)	28,593	(1,562)	3,956
Actuarial and financial deviations generated in the period/year				
- Change in assumptions	-	150,685	-	26,378
- Experience adjustments:				
.Other actuarial (gains) / losses	7,751	12,609	(122)	(11,924)
.Financial (gains) / losses	29,879	(50,241)	4,611	(7,170)
	37,630	(37,632)	4,489	(19,094)
	37,630	113,053	4,489	7,284

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

Mortality Table	
Female	TV 88/90 (-1)
Male	TV 88/90
Rate of return on pension fund assets	1.10%
Technical actuarial rate (discount rate)	1.10%
Wage growth rate	0.75%
Pension growth rate	0.50%
Inflation rate	0.75%

Decree-Law 167-E/2013, of December 31, changed the normal age of access to retirement under the general Social Security regime to 66 years (in 2019 the normal retirement age is 66 years and 5 months), though the sustainability factor was no longer applicable to beneficiaries who retire at that age.

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

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

Movement under liabilities for past services during the first half of 2020 and in 2019 can be detailed as follows:

	Santander		BAPOP	
	30-06-2020	31-12-2019	30-06-2020	31-12-2019
Responsibilities at beginning of year	1,131,980	972,776	181,503	163,111
Cost of current services	2,791	3,712	674	891
Cost of interests	6,012	19,609	817	3,382
(Actuarial Gains / Losses)	7,751	163,294	(122)	14,454
Early retirements	7,886	23,891	355	2,673
Amounts paid	(30,864)	(53,794)	(1,852)	(3,665)
Employee Contributions	1,237	2,492	309	657
Responsabilities at end of period	1,126,793	1,131,980	181,684	181,503

The expense for the year relating to pensions includes the cost of current services and the interest expense, deducted from the expected return of the assets of the Pension Fund. In the first half of 2020 and in the period ended December 31, 2019, the breakdown of pension costs is as follows (Note 35):

	30-06-2020	31-12-2019
Cost of current services	3,465	4,603
Cost of interests	6,829	22,991
Assets return using discount rate	(6,829)	(22,991)
Defined benefit plan	3,465	4,603
Defined contribution plan	560	1,487
London branch plan	81	608
	4,106	6,698

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

Estimated salary and pension growths take into account the country's current situation and the consequent prospect of smaller increases in the future, or even maintenance of current values.

The average duration of pension liabilities of the employees of the Bank, of BAPOP and of Banif is 15 years, including those in active service and pensioners

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

Movement under actuarial deviations in the first half of 2020 and in 2019 was as follows:

	Santander		BAPOP	
	30-06-2020	31-12-2019	30-06-2020	31-12-2019
Deviations at the beginning of the period	799,225	686,172	8,037	753
Actuarial (Gains) / Losses	7,751	163,294	(122)	14,454
Financial (Gains) / Losses	29,879	(50,241)	4,611	(7,170)
Deviations at the end of the period	836,855	799,225	12,526	8,037

The Santander Pension Fund is managed by Santander Pensões - Sociedade Gestora de Fundos de Pensões, SA, and the BAPOP Pension Fund is managed by Santander Totta Seguros – Companhia de Seguros de Vida, SA. On June 30, 2020 and December 31, 2019, the number of participants of the Funds was as follows:

	Santander		BAPOP	
	30-06-2020	31-12-2019	30-06-2020	31-12-2019
Current employees				
Defined benefit plan	3,995	4,055	727	737
Defined contribution plan	442	389	122	125
Pensioners	1,257	1,242	30	28
Retired staff and early retired staff	5,729	5,731	148	146
	11,423	11,417	1,027	1,036

Movement under the Bank's Pension Fund during the first half of 2020 and in 2019 was as follows:

	Santander		BAPOP	
	30-06-2020	31-12-2019	30-06-2020	31-12-2019
Book value at the beginning of the period	1,160,573	979,892	185,459	163,475
Bank contribution (monetary)	-	162,133	-	14,440
Employees contribution	1,237	2,492	309	657
Net income of the fund				
Income from assets using discount rate	6,011	19,609	817	3,382
Income of the fund above the discount rate	(29,879)	50,241	(4,611)	7,170
Amount paid	(30,864)	(53,794)	(1,852)	(3,665)
Book value at the end of the period	1,107,078	1,160,573	180,122	185,459

The yields of the Pension Fund amounted to Santander (2.03%) and BAPOP (1.78%) in 2020, and Santander 7.25% and BAPOP 7.66% in 2019.

The investments and allocation policy of the Bank's Pension Fund determines that the asset portfolio be constituted in compliance with security, profitability and liquidity criteria, through a diverse set of investments, namely shares, bonds, other debt securities, holdings in collective-investment institutions, bank deposits, other monetary assets and land and buildings included in the land registry.

On the other hand, that policy is guided by risk-diversification and profitability criteria and the Fund's Management Company may opt for a more or less conservative policy by increasing or decreasing the exposure to equities or bonds, according to its expectations as to the evolution of the markets and in accordance with the defined investment limits.

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

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

Asset Class	Intervals foreseen
Securities	40% a 95%
Real estate	0% a 25%
Shares	0% a 20%
Liquidity	0% a 15%
Alternatives	0% a 10%
Commodities	0% a 5%

As at June 30 2020 and December 31, 2019, the composition of the Bank's Pension Fund was as follows:

	Santander		BAPOP	
	30-06-2020	31-12-2019	30-06-2020	31-12-2019
Debt instruments:				
. Rating A	88,827	69,147	22,733	17,620
. Rating BBB	419,330	522,599	72,266	83,538
. Rating BB	5,046	3,999	800	808
. Without rating to the issuance and issuer	60,656	62,640	8,220	7,965
Real estate funds	124,592	123,925	1,275	1,246
Mutual funds	318,992	245,157	69,814	62,478
Deposits	23,564	67,828	6,482	9,592
Real estate funds				
. Commercial spaces	19,216	19,238	-	-
. Land	1,142	1,142	-	-
Equity instruments:				
. Portuguese shares – listed	114	187	-	-
. Portuguese shares – not listed	28,543	36,955	-	157
Derivative financial instruments				
. Options listed	(1,006)	(149)	(157)	36
Others	18,062	7,905	(1,311)	2,019
	1,107,078	1,160,573	180,122	185,459

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

As at June 30, 2020 and December 31, 2019, the method for the determination of the fair value of the assets and liabilities mentioned above, adopted by the Management Companies as recommended in the IFRS 13 (Note 41), was as follows:

	30-06-2020				31-12-2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	609,002	-	68,876	677,878	697,711	-	70,605	768,316
Investment Funds	368,040	-	146,633	514,673	279,349	-	153,457	432,806
Equity instruments	28,657	-	-	28,657	37,299	-	-	37,299
Derivative financial instruments	(1,163)		-	(1,163)	(113)	-	-	(113)
Real estate	-	-	20,358	20,358	-	-	20,380	20,380
	1,004,536	-	235,867	1,240,403	1,014,246	-	244,442	1,258,688

In 2010 insurance was taken out at Santander Totta Seguros – Companhia de Seguros de Vida, SA, to meet the liabilities of a new supplementary defined-contribution pension plan attributed to the Bank's senior management. The initial contribution to the new plan amounted to €4,430k. In the first six months of 2020 and 2019, the premium paid by the Bank amounted to €291k, (Note 35).

This plan covers the contingencies of retirement, death and permanent absolute disability for customary work or invalidity.

For all these contingencies, the benefits to be received by the beneficiaries will equal the accumulated balance in the supplementary plan on the date on which the benefits are realised. In the case of the beneficiary's death this amount will be further increased by €6,000.

Defined-benefit pension plan – former London Branch

As at June 30, 2020 and December 31, 2019, the main assumptions used in the calculation of retirement pension liabilities related with the pension plan covering the employees of Bank's London Branch were as follows:

	30-06-2020	31-12-2019
Mortality table	92% of S3NMA/ 98% of S3NFA	92% of S3NMA/ 98%
Technical actuarial rate (discount rate)	1.4%	1.9%
Wage growth rate	2.4%	2.2%
Pension growth rate	1.9%	1.8%
Inflation rate	2.4%	2.2%

As at June 30, 2020, and December 31, 2019, the liabilities for the defined-benefit pension plan and their coverage were as follows:

	30-06-2020	31-12-2019
Estimated liabilities for past-services	53,335	51,848
Coverage – Pension Fund asset value	44,014	44,654
Amount not funded – London Branch (Note 23)	(9,321)	(7,194)

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

Movement under liabilities for past services during the first half of 2020 and in 2019 can be detailed as follows:

	30-06-2020	31-12-2019
Liabilities as at the beginning of the period	51,848	44,509
Cost of current services	20	432
Interest cost	455	1,252
Actuarial (gains)/losses	1,627	7,384
Amounts paid	(615)	(1,729)
Cost of current services	53,335	51,848

Movement occurred in the Fund during the first half of 2020 and in 2019 was as follows:

	30-06-2020	31-12-2019
Book value at the beginning of the period	44,654	38,891
Net income of the Fund:		
Return on assets calculated with the discount rate	396	1,076
Income of the Fund above/(below) the discount rate	(448)	6,046
Contribution of the Branch	27	370
Amounts paid	(615)	(1,729)
Book value at the end of the period	44,014	44,654

The movement under actuarial deviations in the first half of 2020 and in 2019 was as follows:

	30-06-2020	31-12-2019
Deviations at the beginning of the period	13,447	12,109
Actuarial (gains)/losses	1,627	7,384
Financial (gains)/losses	448	(6,046)
Deviations at the endg of the period	15,522	13,447

As at June 30, 2020 and December 31, 2019, the portfolio of the Pension Fund of the London Branch included the following assets:

	30-06-2020	31-12-2019
Debt instruments	25,413	27,486
Equity instruments	18,413	17,446
Other	187	(278)
Fund value	44,014	44,654

Liabilities for defined-benefit pension plans expose the Bank to the following risks:

- Investment risk – the updated value of the liabilities is calculated on the basis of a discount rate determined with reference, in terms of credit risk, to high-quality bonds denominated in euros; if the return of the Pension Fund is below that discount rate, it will create a shortfall in the funding of the liabilities.

- Interest-rate risk - a decrease of the interest rate of the bonds will increase the pension liabilities.

- Longevity risk – the updated amount of the liabilities is calculated on the basis of the best estimate at the time of the expected mortality of the participants before and after the retirement date. An increase of the life expectancy of the plan's participants will increase the pension liabilities.

- Salary risk – the updated amount of the liabilities is calculated on the basis of an estimate of the future salary of the participants. So, an increase of the participants' salary will increase the pension liabilities.

Pension Fund – Banif

As a result of the resolution measure applied to Banif on December 20, 2015, a number of employees were transferred to the Bank, as were the corresponding liabilities for past services. Also transferred were the liabilities for retired employees, retirees, pensioners and former participants with vested rights. On January 27, 2016, authorisation was requested of the Insurance and Pension Funds Supervisory Authority for the transfer to the Bank of Banif's position as associate of the Banif Pension Fund, with regard to the defined-benefit pension plan, subpopulations A and B, and in defined-contribution pension plans II and III. By letter dated June 7, 2016, the Bank of Portugal stated that the parties should revise some of the terms of the Contract for the Termination of the Share of the Pension Fund. The process is undergoing final assessment by Insurance and Pension Funds Supervisory Authority.

Banif employees were covered by different types of pension plans:

a) The first pension plan, defined-benefit, was subdivided between the Banif population and the former Banco Banif e Comercial dos Açores (BBCA), with different benefits. Defined-benefit pension plan I – BANIF subpopulation: (i) payment of disability, presumable disability and survivor pensions complementing Social Security; (ii) future payment of mandatory contributions for post-employment medical care (SAMS , the Medical-Social Assistance Services). For employees eligible for the retirement pension, the contribution of 6.5% was made on pensions and for employees associated with the defined-contribution plan, the benefit was changed to a single capital on retirement, corresponding to 6.5% of the capital constituted, based on the initial contribution plus the amount of the future contributions. Future contributions to the SAMS were changed in accordance with the new rules of the CBA.

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

b) Defined-benefit pension plan I– former BBCA sub-population (closed to new subscribers): (i) payment of retirement, disability, presumable disability and survivors' pensions, in accordance with the CBA and the regimes introduced by Decree-Law 1-A/2011 of January 3 and Decree-Law 127/2011 of December 31; (ii) future payment of mandatory contributions relating to post-employment medical care (SAMS) and (iii) death benefits, both under the terms of the CBA.

Banif had two defined-contribution pension plans:

c) Pension plan II – monthly contribution by Banif of 4.5% of the remuneration to which the plan applies and an initial contribution on the date of constitution of the plan, which included all employees taken on by Banif before January 1, 2007, with the exception of those included following the merger by incorporation of the former BBCA, who are not covered by the Company Agreement. The initial contribution was calculated in the light of: (i) supplementary old-age pensions estimated in the evaluation of liabilities performed by the Responsible Actuary of the Pension Plan on December 31, 2006; and (ii) the current value of the future contributions.

d) Pension plan III contribution by Banif of 1.5% of the remuneration of employees taken on after January 1, 2007, provided they had not died, retired or rescinded by the date of entry into force of the Company Agreement.

The breakdown of the estimated liabilities for past services as at June 30, 2020 and December 31, 2019, using the Bank's assumptions, is as follows for the defined-benefit pension plan (considering both the Banif and the former BBCA sub-populations):

	30-06-2020				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	23,120	8,650	136	1,110	33,016
Retired staff and pensioners	110,261	10,822	473	-	121,556
Former participants with vested rigths	3,714	2,172	-	-	5,886
Total liabilities for past services	137,095	21,644	609	1,110	160,458
Book value of the pension fund					89,665
Insufficient fund					(70,793)

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

	31-12-2019				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	22,837	8,436	133	1,086	32,492
Retired staff and pensioners	111,439	11,189	475	-	123,103
Former participants with vested rigths	3,714	2,494	-	-	6,208
Total liabilities for past services	137,990	22,119	608	1,086	161,803
Book value of the pension fund					101,126
Insufficient fund					(60,677)

As at June 30, 2020 and December 31, 2019, the breakdown of the portfolio of the Banif Pension Fund associated with the defined-benefit pension plan by asset type is as follows:

	30-06-2020		31-12-2019	
Type of Asset	Total	Relative weight	Total	Relative weight
Debt Instruments	41,596	45.21%	47,884	46.14%
Mutual fund	3,034	3.30%	4,381	4.22%
Real estate fund	500	0.54%	1,160	1.12%
Real estate properties	13,722	14.91%	13,722	13.22%
Equity instruments	27,550	29.94%	31,733	30.58%
Deposits	4,924	5.35%	83	0.08%
Other	679	0.74%	4,811	4.64%
	92,005		103,774	
Assets to be transfered	(2,340)		(2,648)	
	89,665		101,126	

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.

39. SECURITISATION OPERATIONS

Description of the operations

Between July 2003 and January 2018, the Bank securitised part of its mortgage-loan portfolio through thirteen operations, the initial amount of which was €25,450,000k. In the older transactions the loans were sold for their par (book) value to loan securitisation funds denominated Fundos Hipototta FTC. A substantial part of the securitisations was repurchased by the Bank under the said agreements, while the Hipototta No. 4 and Hipototta No. 5 were maintained. In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma – Sociedade de Titularização de Créditos (Gamma STC), which financed the transaction through the issue of

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

Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating and, consequently, remuneration. All these bonds were acquired by the Bank.

The Hipototta Funds (No. 4 and No. 5) are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, SA. (Navegator). Bank continues to manage the loan contracts, delivering to 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, Hipototta Funds (No. 4 and No. 5) issued securitisation units of an amount identical to the loan portfolios acquired, which were fully subscribed by Fundos Hipototta (No. 4 and No. 5) PLC, having its registered office in Ireland.

On the other hand, Fundos Hipototta (No. 4 and No.º 5) PLC delivered all amounts received from the Bank and from the Directorate General of the Treasury to Fundos Hipototta (No. 4 and No. 5) PLC, separating the instalments into principal and interest.

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

As at June 30, 2020, bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC

	Amount		Rating			Remuneration	
Issued Debt	Initial	Current	Fitch	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A	2,616,040	463,069	A	September, 2048	December, 2014	Euribor 3 months + 0.12%	Euribor 3 months + 0.24%
Class B	44,240	16,847	A	September, 2048	December, 2014	Euribor 3 months + 0.19%	Euribor 3 months + 0.40%
Class C	139,720	53,205	BB-	September, 2048	December, 2014	Euribor 3 months + 0.29%	Euribor 3 months + 0.58%
	2,800,000	533,121					
Class D	14,000	7,000	NR	September, 2048	December, 2014	Residual income of the securitized portfolio	
	2,814,000	540,121					

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 meses + 0,10%
Class A2	1,693,000	420,320	A	Aa3	February, 2060	February, 2014	Euribor 3 months + 0,13%	Euribor 3 meses + 0,26%
Class B	26,000	26,000	A	Aa3	February, 2060	February, 2014	Euribor 3 months + 0,17%	Euribor 3 meses + 0,34%
Class C	24,000	24,000	A	A1	February, 2060	February, 2014	Euribor 3 months + 0,24%	Euribor 3 meses + 0,48%
Class D	26,000	26,000	A	Baa2	February, 2060	February, 2014	Euribor 3 months + 0,50%	Euribor 3 meses + 1,00%
Class E	31,000	31,000	BBB	Ba2	February, 2060	February, 2014	Euribor 3 months + 1,75%	Euribor 3 meses + 3,50%
	2,000,000	527,320						
Class F	10,000	6,000	CCC-	Ca	February, 2060	February, 2014	Residual income of the securitized portfolio	
	2,010,000	533,320						

The bonds issued by Hipototta No. 4 PLC earn interest quarterly on March, June, September and December 30 each year. The bonds issued by Hipototta No. 5 PLC earn interest quarterly on February 28 and on May, August and November 30 each year.

The Bank has an option to reimburse the bonds in advance, on the dates indicated above. For all the Hipototta, the Bank has call option to repurchase in advance the loan portfolios at par when these are equal to or less than 10% of the initial amount of the operations.

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

Additionally, up to 5 days before the interest-payment dates in each quarter, the Hipototta are entitled to make partial repayments of bonds issued of classes A, B and C, as well as of classes D and E in the case of Hipototta No. 5 PLC, in order to adjust the amount of the liabilities to that of the assets (loan portfolio).

The Hipototta No. 4 class D bonds and the Hipototta No. 5 class F bonds constitute the last liability to be settled.

The remuneration of the bonds of these classes corresponds to the difference between the yield of the securitised loan portfolios and the sum of all costs of the operations, namely:

- Taxes;
- Expenses and commissions calculated on the value of the portfolios (custody fee and servicer fee charged by the Bank, and management fee, charged by the Funds);
- Interest on the bonds of the other classes;
- Losses due to default.

On the date on which the securitisations were contracted, subordinated loans were concluded between the Bank and Hipototta, which correspond to credit facilities/lines in case of a need for liquidity on the part of Hipototta. Swap Agreements were also concluded between the Santander Group and securitisation vehicles, and between the Bank and the Santander Group intended to hedge the interest-rate risk.

Banif securitisation operations

In the wake of the resolution measure applied to Banif, the Bank acquired a number of securitisation operations issued by the said entity, and the corresponding securitised loans and bonds issued were transferred.

Azor Mortgage No. 1

Operation carried out in November 2004, in which mortgage loans originated at the former BBCA (Banco Banif e Comercial dos Açores, SA) were ceded. The ceded loans were acquired by Sagres – Sociedade de Titularização de Créditos (Sagres STC), which issued the Azor Notes bonds, fully subscribed by Azor Mortgages PLC, having its registered office Ireland. To finance itself, Azor Mortgage PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. In December 2006, the Azor Notes and respective rights to receive the credits and payment obligations to Azor Mortgages PLC were transferred from Sagres to Gamma STC.

Azor Mortgage nº 1

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	253,000	-	AA	A1	September, 2047	Euribor 3 months + 0.3%
Class B	19,000	14,382	AA	Aa3	September, 2047	Euribor 3 months + 0.76%
Class C	9,000	9,000	A	Aa3	September, 2047	Euribor 3 months + 1.75%
	281,000	23,382				
Class D	10,000	10,000	NR	NR	September, 2047	Residual income of the securitized portfolio
	291,000	33,382				

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

Atlantes Mortgage No. 2

Operation carried out in March 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 2, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 2

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	349,100	104,977	AA(sf)	AA	September, 2060	Euribor 3 months + 0.33%
Class B	18,400	13,069	AA(sf)	A+	September, 2060	Euribor 3 months + 0.95%
Class C	7,500	5,327	BBB(sf)	BBB+	September, 2060	Euribor 3 months + 1.65%
	375,000	123,373				
Class D	16,125	10,983	NR	NR	September, 2060	Residual income of the securitized portfolio
	391,125	134,356				

Azor Mortgage No. 2

Operation carried out in July 2008, in which the mortgage loans originated at the former BBCA were ceded to Gamma STC . To finance itself, Gamma STC issued Azor Mortgages No. 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage nº 2

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	253,500	79,503	AA (sf)	A (sf)	December, 2065	Euribor 3 months + 0.3%
Class B	46,500	43,080	NR	NR	December, 2065	Euribor 3 months + 0.8%
	300,000	122,583				
Class C	6,750	6,750	NR	NR	December, 2065	Residual income of the securitized portfolio
	306,750	129,333				

Atlantes Mortgage No. 3

Operation carried out in October 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 3, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 3

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	558,600	181,640	AA	AA (sf)	August, 2061	Euribor 3 months + 0.2%
Class B	41,400	26,049	NR	NR	August, 2061	Euribor 3 months + 0.5%
	600,000	207,689				
Class C	57,668	46,026	NR	NR	August, 2061	Residual income of the securitized portfolio
	657,668	253,715				

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

Atlantes Mortgage No. 4

Operation carried out in February 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 4, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 4

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	514,250	204,196	A+	A+	December, 2064	Euribor 3 months + 0.15%
Class B	35,750	22,487	NR	NR	December, 2064	Euribor 3 months + 0.3%
	550,000	226,683				
Class C	74,250	62,053	NR	NR	December, 2064	Residual income of the securitized portfolio
	624,250	288,736				

Atlantes Mortgage No. 5

Operation carried out in December 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 5, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 5

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	455,000	164,628	AAA	AA-	November, 2068	Euribor 3 months + 0.15%
Class B	45,000	30,394	NR	NR	November, 2068	Euribor 3 months + 0.3%
	500,000	195,022				
Class C	66,250	52,538	NR	NR	November, 2068	Residual income of the securitized portfolio
	566,250	247,560				

Atlantes Mortgage No. 7

Operation carried out in November 2010, in which a residential mortgage-loan portfolio was ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 7, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 7

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	357,300	130,161	AA	AA-	August, 2066	Euribor 3 months + 0.15%
Class B	39,700	24,188	NR	NR	August, 2066	Euribor 3 months + 0.3%
	397,000	154,349				
Class C	63,550	50,329	NR	NR	August, 2066	Residual income of the securitized portfolio
	460,550	204,678				

(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 €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the transaction through the issue of Hipototta 13, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration. All these bonds were acquired by the Bank.

Hipototta 13

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	1,716,000	1,107,754	NR	A+(sf)	October, 2072	Euribor 3 months + 0.6%
Class B	484,000	484,000	NR	NR	October, 2072	Euribor 3 months + 1%
	2,200,000	1,591,754				
Class C	66,000	49,737	NR	NR	October, 2072	Residual income of the securitized portfolio
	2,266,000	1,641,491				
VFN	0.001	0.001	NR	NR	October, 2072	No remuneration

During 2019 the Atlantes Mortgage No. 1 operation was wound up.

40. RELATED ENTITIES

The Company's related entities with which it maintained balances or transactions in the first half of 2020 were as follows:

Name of the related entity	Headquarters
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
Entities under direct or indirect control by the Group	
Banco Santander Totta	Portugal
Gamma - Sociedade de Titularização Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Taxagest,SGPS, S.A.	Portugal
Totta (Ireland), PLC	Ireland
Santander Totta Seguros - Compª de Seguros De Vida, S.A.	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Special Purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Operações de Securitização geridas pela Gamma STC	Portugal

Name of the related entity	Sede
Companies that, directly or indirectly, are under common control with the Group	
Abbey National Treasury Services plc	United Kingdom
All Funda Bank, SA	Spain
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Bank Zachodni WBK SA	Poland
Consulteam - Consultores de gestão, Lda	Portugal
Caceis	France
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Espanha
Santander Consumer Services, S.A.	Portugal
Refundos, SGFIM	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank,National Association	United Kingdom
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Generales Seguros y Reaseguros, S.A.	Spain
Santander Gestao de Ativos SFIM, SA	Portugal
Santander Global Thechnology, S.L., Soci	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander UK plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

The Company's related entities with which it maintained balances or transactions in 2019 were as follows:

Name of the related entity	Headquarters
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
Entities under direct or indirect control by the Group	
Banco Santander Totta	Portugal
Banif International Bank, Ltd (Bahamas)	Bahamas
Gamma - Sociedade de Titularização Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Primestar Servicing, S.A.	Portugal
Taxagest,SGPS, S.A.	Portugal
Totta (Ireland), PLC	Ireland
Santander Totta Seguros - Compª de Seguros De Vida, S.A.	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Benim - Sociedade Imobiliária, SA	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Special Purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Operações de Securitização geridas pela Gamma STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Headquarters
Companies that, directly or indirectly, are under common control with the Group	
Abbey National Treasury Services plc	United Kingdom
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Bank Zachodni WBK SA	Poland
Consulteam - Consultores de gestão, Lda	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Open Bank Santander Consumer S.A.	Spain
Popular Gestao de Ativos	Portugal
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
Santander Consumer Services, S.A.	Portugal
Refundos, SGFIM	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank,National Association	USA
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Generales Seguros y Reaseguros, S.A.	Spain
Santander Gestao de Ativos SFIM, SA	Portugal
Santander Global Thechnology, S.L., Soci	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañia Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
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 of June 30, 2020 and December 31, 2019, the balances and transactions maintained during those periods with related entities were as follows:

	30-06-2020		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	31,786	-	905
Financial assets held for trading	263,055	-	-
Other financial assets mandatorily at fair value through profit or loss	1,508	-	6,044
Other financial assets at fair value through other comprehensive income	-	-	10,519
Loans and advances to credit institutions	772,688	-	4,245
Credit granted and other balances receivable at amortized cost	17,545	50,354	2,579
Hedging derivatives	860	-	-
Investments in associated companies	-	80,195	-
Other assets	178	15,661	250
Liabilities:			
Financial liabilities held for trading	974,980	-	-
Resources of other credit institutions	292,812	-	3,323
Resources of customers and other debts	-	23,619	16,204
Debt securities	78,562	-	-
Hedging derivatives	98,779	-	-
Other liabilities	4,266	-	18,058
Profit and Loss:			
Interest income	(107,043)	(137)	(56)
Interest charge	113,071	-	-
Income from services and commissions	(174)	(30,341)	(554)
Charges with services and commissions	793	-	2,106
Assets and liabilities at fair value through profit or loss	46,336	-	-
Gross margin of life insurance in which the risk is borne by the policy holder	-	-	55
Gross margin in insurance activity	-	-	95
General administrative costs	4,266	-	21,446
Result from associates and joint ventures	(11)	(8,264)	-
Other operating results	-	(74)	-
Off balance sheet items:			
Guarantees provided and other contingent liabilities	46,732	-	203,321
Guarantees received	1	-	162
Commitments to third parties	114,170	44	22,353
Currency operations and derivatives	27,768,205	-	-
Responsibilities for services rendered	1,977,885	100,415	3,506,680

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

	31-12-2019		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	54,959	-	1,115
Financial assets held for trading	250,471	-	-
Other financial assets mandatorily at fair value through profit or loss	503	-	6,443
Other financial assets at fair value through other comprehensive income	520	-	10,689
Loans and advances to credit institutions	578,742	54	1
Credit granted and other balances receivable at amortized cost	5,418	55,661	98,868
Hedging derivatives	2,322	-	-
Investments in associated companies	-	112,259	-
Other assets	8	5,162	2,276
Liabilities:			
Financial liabilities held for trading	(1,064,339)	-	-
Resources of other credit institutions	(717,174)	-	(4,422)
Resources of customers and other debts	-	(27,451)	(18,926)
Debt securities	(46,576)	-	-
Hedging derivatives	(55,620)	-	-
Other liabilities	(7,343)	-	(11,089)
Profit and Loss:			
Interest income	(262,762)	(390)	(225)
Interest charge	280,379	-	13
Income from services and commissions	(358)	(54,446)	(21,766)
Charges with services and commissions	3,570	-	6,067
Assets and liabilities at fair value through profit or loss	73,469	-	-
Exchange revaluation	2,649	-	(15)
Gross margin of life insurance in which the risk is borne by the policy holder	4	-	(382)
Gross margin in insurance activity	-	-	(76)
General administrative costs	7,157	-	34,354
Result from associates and joint ventures	(21)	(10,805)	-
Other operating results	-	(116)	(123)
Off balance sheet items:			
Guarantees provided and other contingent liabilities	48,037	22	188,591
Guarantees received	1	-	162
Commitments to third parties	114,170	518	26,148
Currency operations and derivatives	26,522,471	-	-
Responsibilities for services rendered	2,022,426	99,693	2,171,370

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

GOVERNING BODIES

Board of Directors

As at June 30, 2020, and December 31, 2019, advances or loans granted to members of the governing bodies, considered key management personnel of the Bank, amounted to €588k and €735k, respectively. As at June 30, 2020 and December 31, 2019, fixed and variable remuneration totalled €2,731k and €5,953k, respectively.

With regard to post-retirement benefits, the members of the Board of Directors who have an employment tie with the Bank are included in the pension plan of the collective bargaining agreement for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3(j).

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

As at June 30, 2020 and December 31, 2019, liabilities with this plan amounted to €14,233k and €14,154k, respectively, and were covered by a provision of the same amount carried under "Provisions for pensions and other charges" (Note 21). The total number of beneficiaries of the Regulation was four in 2019 and six in 2018, and during 2019 two beneficiaries exercised the option for remission and one beneficiary exercised the right to payment of the supplementary pension.

With regard to termination of employment benefits, as provided for in the Companies Code, whenever, by decision of BST, the term of office of a member of the governing ends early, it shall compensate the member of the governing body with the future remuneration to which he or she is entitled up until the end of his or her term of office.

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

41. DISCLOSURES WITHIN THE SCOPE OF APPLICATION OF THE IFRS 7 and IFRS 13 STANDARDS

Fair Value

The following table summarizes, for each group of assets and liabilities, their fair values as at June 30, 2020 and December 31, 2019:

	30-06-2020			
	Fair value - results	Amortised cost	Book value	Fair value
Assets				
Cash and deposits at central banks	-	7,039,808	7,039,808	7,162,982
Balances due from other banks	-	516,392	516,392	516,392
Financial assets held for trading	980,540	-	980,540	980,540
Financial assets mandatory at fair value through profit or loss	3,052,368	-	3,052,368	3,052,368
Financial assets at fair value through other comprehensive income	8,374,433	-	8,374,433	8,374,433
Financial assets at amortised cost				
Loans and advances to credit institutions	-	17,305	17,305	17,303
Credit granted and other balances receivable at amortized cost	3,155,616	36,011,168	39,166,784	39,380,317
Hedging derivatives	40,424	-	40,424	40,424
	15,603,381	43,584,673	59,188,054	59,524,759
Liabilities				
Financial liabilities held for trading	1,008,028	-	1,008,028	1,008,028
Other financial liabilities at fair value through profit or loss	3,229,837	-	3,229,837	3,229,837
Financial liabilities at amortised cost				
Resources from central banks	-	6,801,194	6,801,194	6,782,170
Resources from other credit institutions	-	3,025,529	3,025,529	3,032,024
Resources from customers and other debts	65,099	36,024,661	36,089,760	36,101,745
Debt securities	-	3,347,483	3,347,483	3,474,003
Other financial liabilities	-	240,070	240,070	240,070
Hedging derivatives	499,920	-	499,920	499,920
Technical provisions	-	723,759	723,759	714,532
	4,802,884	50,162,696	54,965,580	55,082,329

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

	31-12-2019			
	Fair value through profit or loss	Amortised cost	Book value	Fair value
Assets				
Cash and deposits at central banks	-	3,153,556	3,153,556	3,168,988
Balances due from other banks	-	346,841	346,841	346,841
Financial assets held for trading	1,073,429	-	1,073,429	1,073,429
Financial assets mandatory at fair value through profit or loss	3,100,275	-	3,100,275	3,100,275
Financial assets at fair value through other comprehensive income	6,587,490	-	6,587,490	6,587,490
Financial assets at amortised cost		-		
Loans and advances to credit institutions	-	727,486	727,486	726,874
Credit granted and other balances receivable at amortized cost	4,652,197	34,696,977	39,349,174	39,885,346
Hedging derivatives	56,245	-	56,245	56,245
	15,469,636	38,924,860	54,394,496	54,945,488
Liabilities				
Financial liabilities held for trading	1,097,214	-	1,097,214	1,097,214
Other financial liabilities at fair value through profit or loss	3,432,017	-	3,432,017	3,432,017
Financial liabilities at amortised cost				
Resources from central banks	-	3,037,524	3,037,524	3,035,739
Resources from other credit institutions	-	3,195,996	3,195,996	3,199,609
Resources from customers and other debts	76,285	35,042,664	35,118,949	35,126,952
Debt securities	-	3,431,231	3,431,231	3,560,277
Other financial liabilities	-	232,892	232,892	232,892
Hedging derivatives	393,831	-	393,831	393,831
Technical provisions	-	730,426	730,426	723,045
	4,999,347	45,670,733	50,670,080	50,801,576

The credit extended and other receivables at amortised coast and customer funds and other borrowings headings include financial assets and liabilities to which hedge accounting was applied and were considered to be measured at fair value, though they were only subject to value correction in relation to the risk hedged.

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

The following table summarizes, for each group of assets and liabilities, their fair values as at June 30, 2020 and December 31, 2019:

	30-06-2020			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and deposits at central banks	-	7,162,982	-	7,162,982
Balances due from other banks	-	516,392	-	516,392
Financial assets held for trading	-	980,540	-	980,540
Financial assets mandatory at fair value through profit or loss	2,910,032	-	142,336	3,052,368
Financial assets at fair value through other comprehensive income	3,127,165	5,240,327	6,941	8,374,433
Financial assets at amortised cost				
Loans and advances to credit institutions	-	17,303	-	17,303
Credit granted and other balances receivable at amortized cost	-	3,816,020	35,564,297	39,380,317
Hedging derivatives	-	40,424	-	40,424
	6,037,197	17,773,988	35,713,574	59,524,759
Liabilities				
Financial liabilities held for trading	-	1,008,028	-	1,008,028
Other financial liabilities at fair value through profit or loss	-	3,229,837	-	3,229,837
Financial liabilities at amortised cost				
Resources from central banks	-	6,782,170	-	6,782,170
Resources from other credit institutions	-	2,132,024	900,000	3,032,024
Resources from customers and other debts	-	65,099	36,036,646	36,101,745
Debt securities	-	2,817,117	656,886	3,474,003
Other financial liabilities	-	240,070	-	240,070
Hedging derivatives	-	499,920	-	499,920
Technical provisions	-	-	714,532	714,532
	-	16,774,265	38,308,064	55,082,329

	31-12-2019			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and deposits at central banks	-	3,168,988	-	3,168,988
Balances due from other banks	-	346,841	-	346,841
Financial assets held for trading	-	1,073,429	-	1,073,429
Financial assets mandatory at fair value through profit or loss	2,954,837	-	145,438	3,100,275
Financial assets at fair value through other comprehensive income	4,352,962	2,228,001	6,527	6,587,490
Financial assets at amortised cost				
Loans and advances to credit institutions	-	726,874	-	726,874
Credit granted and other balances receivable at amortized cost	-	6,260,664	33,624,682	39,885,346
Hedging derivatives	-	56,245	-	56,245
	7,307,799	13,861,042	33,776,647	54,945,488
Liabilities				
Financial liabilities held for trading	-	1,097,214	-	1,097,214
Other financial liabilities at fair value through profit or loss	-	3,432,017	-	3,432,017
Financial liabilities at amortised cost				-
Resources from central banks	-	3,035,739	-	3,035,739
Resources from other credit institutions	-	2,299,609	900,000	3,199,609
Resources from customers and other debts	-	76,285	35,050,667	35,126,952
Debt securities	-	2,809,198	751,079	3,560,277
Other financial liabilities	-	232,892	-	232,892
Hedging derivatives	-	393,831	-	393,831
Technical provisions	-	-	723,045	723,045
	-	13,376,785	37,424,791	50,801,576

The valuation at fair value of the Group's financial assets and liabilities comprises three levels under the terms of IFRS 7 and IFRS 13:

- Level 1 – Financial instruments carried at fair value based on prices published in active markets, comprising mainly public debt, some private debt, some investment funds and equities.

- Level 2 – Financial instruments carried at fair value through the use of prices traded on the market that are not active or for which it is necessary to use valuation models or techniques with inputs that can be observed on the market, either directly (as prices) or indirectly (derived from prices). This category includes some securities of the portfolio of other financial assets at fair value through other comprehensive income measured as indicative market bids or based on internal valuation models and the whole of the derivative financial hedging and trading instruments. It should be pointed out that the internal valuation models used mainly involve future cash-flow updating models and valuation methods based on the Black-Scholes model for options and structured products. The future cash-flow updating models ("present value method") update the future contractual cash flows using the interest-rate curves of each currency observable on the market, increased by the credit spread of the issuer or of the entity with a similar rating.

The main valuation techniques for derivative financial instruments, are provided hereunder:

Derivative instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate options	Black-Scholes model, Heath-Jarrow-Morton model
Options-other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

The Group calculates the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA) for derivative financial instruments of financial assets held for trading and hedging derivatives from a standpoint of aggregate exposure by counterparty. In this, the evolution is simulated of the joint exposure of all derivatives with given counterparty, through stochastic processes. This evolution is grouped into time periods that represent the future positive and negative expected future exposures. An expected loss factor and the discount factor of the respective term are applied to these exposures. The CVA and DVA determined for each counterparty thus result from the sum of the expected losses in each term.

Additionally, for the purposes of determination of the Credit Value Adjustments and of the Debit Value Adjustments to the derivative financial instruments, the following inputs were used:

- Counterparties with credit default swaps listed on active markets;
- Counterparties without listed credit default swaps:
- Prices published on active markets for similar-risk counterparties; or
  - Probability of default determined taking into account the internal rating assigned to the customer (see the credit-risk section of these Notes) x loss given default (specific to project finance customers and 60% for other clients).

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

- Level 3 – The Group classifies at this level financial instruments measured through internal models with some inputs that do not correspond to observable market data. In particular, securities not listed on active markets for which the Group uses extrapolations of market data were classified in this category.

To determine the fair value of financial instruments carried at amortised cost, the valuation methods used consisted of valuation techniques involving, in particular, updating future cash flows.

The main assumptions used in the determination of fair value by type of financial instrument, were as follows:

- The future cash flows of the investments and resources of credit institutions were discounted using interest-rate curves for the money market;

- For the purposes of the discount of future flows of the customer loan portfolio, the fair value of loans granted was determined taking into account the average spread of the production of the last quarter of the year;

- For customer current accounts it was considered that the fair value was equal to the carrying amount. For term deposits, the average rates of deposits contracted during the last quarter of the year were used, taking into account the various types;

- In the case of debt securities, the discount of the future cash flows took into account the market conditions required for similar issues at the yearend;

- In the case of subordinated liabilities, for the discount of the future cash flows market interest rates applicable in similar issues were considered.

In the period ended June 30, 2020 and in 2019, the movement under financial instruments classified as Level 3 was as follows:

	Financial assets held for trading	Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
December 31, 2018	3,379	168,067	10,694	35,853,514	36,035,654
Acquisitions	-	127	4,309	-	4,436
Sales	(3,379)	-	(10,852)	-	(14,231)
Reimbursments	-	(18,134)	(772)	-	(18,905)
Reclassifications	-	-	3,100	(1,572,562)	(1,569,462)
Changes in fair value	-	(4,622)	137	-	(4,485)
Origination net of depreciation	-	-	-	(843,375)	(843,375)
Impairment in the period	-	-	(89)	187,105	187,016
December 31, 2019	-	145,438	6,527	33,624,682	33,776,647
Acquisitions	-	4,060	3,937	-	7,997
Sales	-	-	(3,342)	-	(3,342)
Reimbursments	-	(6,650)	(332)	-	(6,982)
Changes in fair value	-	(513)	79	-	(434)
Origination net of depreciation	-	-	-	2,036,568	2,036,568
Impairment in the period	-	-	72	(96,953)	(96,881)
June 30, 2020	-	142,336	6,941	35,564,297	35,713,573

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

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

	30-06-2020		31-12-2019	
	EUR	USD	EUR	USD
Overnight	-0.15%	0.31%	-0.34%	2.09%
1 month	-0.15%	0.31%	-0.34%	2.09%
3 months	-0.24%	0.30%	-0.33%	1.91%
6 months	-0.31%	0.28%	-0.33%	1.82%
9 months	-0.33%	0.28%	-0.32%	1.78%
1 year	-0.35%	0.26%	-0.32%	1.75%
3 years	-0.40%	0.22%	-0.24%	1.67%
5 years	-0.36%	0.31%	-0.11%	1.71%
7 years	-0.30%	0.44%	0.02%	1.78%
10 years	-0.19%	0.61%	0.21%	1.88%

Hedge accounting

As at June 30, 2020, and December 31, 2019, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	30-06-2020					
	Hedged item				Hedging instrument	
	Nominal amount	Value net of impairment	Fair value adjustments	Book value	Nominal amount	Fair Value
Fair value hedge:						
Credit granted and other balances receivable at amortized cost	3,084,518	3,097,902	57,714	3,155,616	3,100,451	(87,304)
Financial assets at fair value through other comprehensive income	3,880,000	3,898,942	388,926	4,287,868	3,880,000	(389,973)
Resources from customers and other debts	(64,452)	(64,735)	(364)	(65,099)	79,116	850
Cash flow hedge:						
Financial assets at fair value through other comprehensive income	1,354,500	1,354,500	-	1,354,500	1,508,874	(22,633)
Credit granted and other balances receivable at amortized cost	5,000,000	5,000,000	-	5,000,000	5,000,000	39,564
	13,254,566	13,286,609	446,276	13,732,885	13,568,441	(459,496)

	31-12-2019					
	Hedged item				Hedging instrument	
	Nominal amount	Value net of impairment	Fair value adjustments	Book value	Nominal amount	Fair Value
Fair value hedge:						
Credit granted and other balances receivable at amortized cost	4,423,905	4,433,058	219,139	4,652,197	4,423,419	(243,098)
Financial assets at fair value through other comprehensive income	2,080,000	2,129,252	48,352	2,177,604	2,080,000	(49,904)
Resources from customers and other debts	(76,248)	(76,708)	423	(76,285)	110,399	491
Cash flow hedge:						
Financial assets at fair value through other comprehensive income	2,466,500	2,466,500	-	2,466,500	2,793,196	(97,869)
Credit granted and other balances receivable at amortized cost	9,000,000	9,000,000	-	9,000,000	9,000,000	52,794
	17,894,157	17,952,102	267,914	18,220,016	18,407,014	(337,586)

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

Cash flow hedge

The expected periods for the occurrence of cash flows that will affect the profit or loss of the period are as follows:

	30-06-2020					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swap	4,589	13,895	6,846	14,234	-	39,564

	31-12-2019					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swap	5,957	13,049	17,604	16,184	-	52,794

Gains and losses recognised in the income statements for the six-month period ended June 30, 2020, and in 2019, with fair-value hedge transactions, were as follows:

	30-06-2020			31-12-2019		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Credit granted and other balances receivable at amortized cost	161,572	(161,425)	147	171,977	(171,977)	-
Financial assets at fair value through other comprehensive income	(340,574)	340,574	-	43,859	(43,859)	-
Resources from customers and other debts	100	(100)	-	2,030	(2,030)	-
Debt securities	83	(83)	-	(152)	152	-
	(178,819)	178,966	147	217,714	(217,714)	-

RISK MANAGEMENT

CREDIT RISK

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

Credit-risk management is carried out by an independent body, the Risks Area, which is responsible in particular for managing the special customer monitoring system, by segmentation of the credit risk in the light of the characteristics of the customers and of the products, and by the scoring systems (applicable to mortgage-loan and consumer-credit operations, credit cards and business) and the rating used at the Group.

The counterparty risk consists of the latent credit risk in financial markets transactions corresponding to the possibility of default by the counterparties of the contracted terms and subsequent occurrence of financial losses for the Group. The types of transactions covered include the purchase and sale of securities, contracting repos, securities lending and derivative instruments. Given the high complexity and volume of transactions, as well as the requirements of adequate control of the consolidated risks in certain customer segments, the control perimeter is defined in keeping with the segments at issue.

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

Control of these risks is performed on a daily basis in accordance with an integrated system that allows registration of the approved limits and real-time updating of positions, and provides information on the availability of limits and aggregate exposure, also in real time, for the various products and maturities. The system also allows transverse control (at different levels) of the concentration of risks by groups of customers/counterparties.

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

For specific customer segments (namely global corporate clients) emphasis is given to the implementation of economic-capital limits, incorporating in the quantitative control the variables associated with the creditworthiness of each counterparty.

Risk analyses for customers or economic groups where the Group has an exposure of more than €500,000 are performed by risk analysts who monitor the customers and are supported by rating models developed by the Bank and approved by the regulatory entities. Preparation of these models is mandatory. The assignment of various internal rating levels, ranging from 1.0 to 9.3, is underlain by the degree of risk inherent in the customer and a default probability at one year that the Bank monitors and calibrates on a constant and regular basis.

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

Department	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 on the sector and external databases. The final rating is introduced in each of the valuation areas in the Group's information technology system.

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

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

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

As at June 30, 2020, and December 31, 2019, the maximum exposure to the credit risk and the respective carrying amount of the financial was as follows:

	30-06-2020		31-12-2019	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	7,039,808	7,039,808	3,153,556	3,153,556
Balances due from other banks	516,392	516,392	346,841	346,841
Financial assets held for trading	980,540	980,540	1,073,429	1,073,429
Financial assets at fair value through profit or loss	3,052,368	3,052,368	3,100,275	3,100,275
Financial assets at fair value through other comprehensive income	8,374,433	8,374,433	6,587,490	6,587,490
Loans and advances to credit institutions	17,305	17,305	727,486	727,486
Credit granted and other balances receivable at amortized cost	39,166,784	45,371,292	39,349,174	45,439,112
Hedging derivatives	40,424	40,424	56,245	56,245
Investment in associated companies	106,305	106,305	112,259	112,259
	59,294,359	65,498,867	54,506,755	60,596,693
Guarantees provided	1,972,697	1,972,697	1,950,613	1,950,613

The maximum exposure in "Loans granted and other balances receivable at amortised cost as at June 30, 2020, included €626,618k and €5,577,890k relating to irrevocable credit lines and revocable credit lines respectively, (€1,000,630k and €5,089,308k as at December 31, 2019, respectively) (Note 27).

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

In this sense, as at June 30, 2020, and December 31, 2019, the breakdown of performing and non-performing exposures was as follows:

	30-06-2020			31-12-2019		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	38,632,442	(199,592)	0.5%	38,649,056	(138,112)	0.4%
Non-performing exposures						
Loans represented by securities	-	-	-	-	-	0.0%
Households	460,678	(249,348)	54.1%	477,921	(195,016)	40.8%
Corporates	1,092,776	(570,172)	52.2%	1,144,407	(589,082)	51.5%
	1,553,454	(819,520)		1,622,328	(784,098)	
	40,185,896	(1,019,112)		40,271,384	(922,210)	

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

As at June 30, 2020, and December 31, 2019, the degree of cover of the non-performing exposures by real guarantees was as follows:

	30-06-2020			31-12-2019		
	Book value	Collateral	Coverage	Book value	Collateral	Coverage
Non-performing exposures						
Loans represented by securities	-	-	-	-	-	-
Households	460,678	171,295	37.2%	477,921	243,917	51.0%
Corporates	1,092,776	336,007	30.7%	1,144,407	363,235	31.7%
	1,553,454	507,302		1,622,328	607,152	

Deferred exposures

In accordance with Bank of Portugal Instruction No. º 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 such contracts (including extension of the repayment term, introduction of grace periods, capitalisation of interest, reduction of interest rates, pardon of interest or principal) or the institution contracts new credit facilities for the (total or partial) settlement of the service of the existing debt.

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

	30-06-2020			31-12-2019		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	503,426	(21,396)	4.3%	568,508	(25,098)	4.4%
Non-performing exposures						
Households	285,223	(116,701)	40.9%	304,344	(123,671)	40.6%
Corporates	822,065	(427,004)	51.9%	830,634	(439,479)	52.9%
	1,107,288	(543,705)		1,134,978	(563,150)	
	1,610,714	(565,101)		1,703,486	(588,248)	

LIQUIDITY RISK

The balance sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury, Commercial Marketing and International areas. Committee meetings are held monthly and at them the balance-sheet risks are analysed and strategic options decided.

For the ALM area the following balance-sheet management limits are defined:

- Limits intended to control the interest-rate risk, in particular, the sensitivity of the net interest margin (NIM) and the sensitivity of market value of equities (MVE) to unexpected interest-rate variations; and

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

- Limits intended to control the liquidity risk through the net accumulated liquidity and illiquidity coefficient indicators.

The Group's funding policy considers the evolution of the balance-sheet aggregates, the structural situation of the maturities of assets and liabilities, the net interbank debt level in the light of the available lines, maturity dispersal and minimisation of the costs associated with the funding activity.

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

As at June 30, 2020, and December 31, 2019, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their maturities, was as follows:

	30-06-2020								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Derivatives	Total
Assets									
Cash and deposits at central banks	264,427	-	-	-	6,775,381	-	-	-	7,039,808
Balances due from other banks	516,392	-	-	-	-	-	-	-	516,392
Financial assets held for trading	-	-	-	-	-	-	-	980,540	980,540
Other financial assets mandatorily at fair value through profit or loss	-	19,827	353,632	359,295	408,115	1,049,502	801,764	-	2,992,135
Financial assets at fair value through other comprehensive income	2	89,200	1,411,017	436,958	445,749	5,824,093	72,713	-	8,279,733
Loans and advances to credit institutions	-	2,669	1,592	-	-	14,083	-	-	18,344
Credit granted and other balances receivable at amortized cost	540,524	1,861,582	5,177,469	10,105,701	7,048,406	18,765,204	-	-	43,498,886
Hedging derivatives	-	-	-	-	-	-	-	40,424	40,424
Investments in associates	-	-	-	-	-	-	106,305	-	106,305
	1,321,345	1,973,278	6,943,709	10,901,955	14,677,652	25,652,882	980,782	1,020,964	63,472,567
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	1,008,028	1,008,028
Financial liabilities at fair value through profit or loss	3,229,837	-	-	-	-	-	-	-	3,229,837
Resources from central banks	1,855	-	-	6,701,146	-	-	-	-	6,703,001
Resources from other credit institutions	577,608	841,456	508,912	600,720	350,000	150,000	-	-	3,028,696
Resources from customers and other debts	20,684,234	5,703,135	6,289,672	1,964,080	1,443,531	24,656	-	-	36,109,308
Debt securities	-	47,133	865,362	278,974	1,207,750	1,153,767	-	-	3,552,985
Hedging derivatives	-	-	-	-	-	-	-	499,920	499,920
Technical provisions	95,811	399,814	16,136	30,089	23,755	106,449	-	-	672,053
	24,589,345	6,991,538	7,680,081	9,575,009	3,025,035	1,434,872	-	1,507,948	54,803,828

	31-12-2019								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Derivatives	Total
Assets									
Cash and deposits at central banks	354,664	-	-	-	2,798,892	-	-	-	3,153,556
Balances due from other banks	346,841	-	-	-	-	-	-	-	346,841
Financial assets held for trading	-	-	-	-	-	-	-	1,073,430	1,073,430
Other financial assets mandatorily at fair value through profit or loss	-	495	71,856	631,350	358,843	1,218,818	789,083	-	3,070,445
Other financial assets at fair value through other comprehensive income	427,295	614,673	1,326,991	609,436	314,621	2,827,413	73,316	-	6,193,746
Loans and advances to credit institutions	-	(817)	(2,470)	704,012	(710)	21,065	-	-	721,080
Credit granted and other balances receivable at amortized cost	675,669	2,258,708	4,610,173	8,709,243	5,787,266	22,705,267	-	-	44,746,326
Hedging derivatives	-	-	-	-	-	-	-	56,245	56,245
Investments in associates	-	-	-	-	-	-	112,259	-	112,259
	1,804,469	2,873,059	6,006,550	10,654,042	9,258,912	26,772,563	974,658	1,129,675	59,473,928
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	1,097,214	1,097,214
Financial liabilities at fair value through profit or loss	3,432,017	-	-	-	-	-	-	-	3,432,017
Resources from central banks	4,522	-	2,406,429	618,686	-	-	-	-	3,029,637
Resources from other credit institutions	1,110,449	818,069	116,443	552,801	299,892	300,000	-	-	3,197,655
Resources from customers and other debts	17,660,585	6,779,619	6,874,096	2,491,663	1,431,812	15,318	-	-	35,253,092
Debt securities	-	28,516	863,582	268,033	1,291,187	1,204,827	-	-	3,656,145
Hedging derivatives	-	-	-	-	-	-	-	393,831	393,831
Technical provisions	96,675	403,423	16,281	30,361	23,969	107,410	-	-	678,119
	22,304,248	8,029,627	10,276,831	3,961,544	3,046,860	1,627,555	-	1,491,045	50,737,710

Determination of the projected cash flow was based on the principles and assumptions used by the Group in the management and control of liquidity arising from its business, namely:

- The projected cash flows of variable-remuneration assets and liabilities associated with the interest rate curve are calculated considering the forward interest rate curve;

- Financial instruments classified as "non-structural" were considered to be payable "on demand", with the exception of equity instruments carried as Financial assets at fair value through other comprehensive income, which were considered as having indeterminate maturity. Non-structural financial assets and liabilities correspond to assets not subject to interest-rate variations (cash, deposits at credit institutions and equity instruments classified as financial assets at fair value through other comprehensive income), financial assets mandatorily at fair value through profit or loss and trading assets and liabilities, whose management is based on control of the exposure to market risk. In this connection, the Group considers the fair value of trading assets and liabilities as the transactional value payable on demand;

- Operations relating to credit lines with defined maturity or periodically renewable, including bank overdrafts and current account credit facilities, were considered as having an average maturity of 25 months;

- For the subordinated liabilities the date on which the Group may make early redemption of the bonds that make up this heading was considered;

- The projected flows relating to current accounts have been considered as payable on demand.

MARKET RISK

Market risk generally consists of the potential variation of the value of a financial instrument due to unexpected changes of market variables such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard method applied for the Group's trading activity is Value at Risk (VaR). The Historic Simulation standard is used as the basis with a confidence level of 99% and a time horizon of one day, statistical adjustments being applied in order to include the more recent events that condition the risk levels assumed.

The VaR calculated is a daily estimate of the maximum potential loss under normal market conditions (individually by portfolios/business areas, and for the whole of the positions, within the assumptions defined in the construction of the model.

At the same time other measures are implemented that allow additional monitoring of the market risk. For abnormal market conditions scenarios are analysed (Stress Testing), which consists of defining extreme scenarios for the behaviour of different financial variables and obtaining their potential impact on profit or loss. In short, the scenario analysis seeks to identify the potential risk under extreme market conditions and in the fringes of probability of occurrence not covered by the VaR.

In parallel, there is daily monitoring of the positions, and an exhaustive control is performed of the changes that occur in the portfolios, in order to detect the possible impacts that may exist for their correction. The daily preparation of the profit and loss account is intended to identify the impact of variations in financial variables or of the alteration of the composition of the portfolios.

The Group also uses sensitivity measures and equivalent positions. In the case of the interest rate use is made of the basis point value (BPV) – estimated impact in profit or loss for parallel movements in the interest-rate curves. For the control of derivatives activities, due to their atypical nature, specific daily sensitivity measures are carried out, including calculation and analysis of sensitivities to movements of the underlying price (delta and gamma), volatility (vega) and time (theta).

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

- Limits intended to control the volume of potential future losses (VaR, equivalent positions and sensitivities); and

- Limits intended to control the volume of effective losses or to protect levels of results already achieved during the period (Loss Triggers and Stop Losses).

With regard to the structural interest-rate risk, they are measured through modelling the asset and liability positions sensitive to interest-rate variations in accordance with their indexing and re-appraisal structure. This model allows the measurement and control of the risks originating directly from the movement of the income curve, particularly their impact on net interest income and on the Group’s equity. Additionally, other risk indicators are calculated, such as value at risk (VaR) and scenario analysis (stress test).

Liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by conducting stress tests that endeavour to identify the potential risk under external 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.

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

INTEREST-RATE RISK

As at June 30, 2020, and December 31, 2019 the breakdown of financial instruments by exposure to the interest-rate risk was as follows:

	30-06-2020				
	Exposure to		No interest rate		
	Fixed rate	Floating rate	risk related	Derivatives	Total
Assets					
Cash and deposits at central banks	-	6,775,381	264,427	-	7,039,808
Balances due from other banks	-	-	516,392	-	516,392
Financial assets held for trading	-	-	-	980,540	980,540
Financial assets mandatory at fair value through profit or loss	2,085,318	237,806	729,244	-	3,052,368
Financial assets at fair value through other comprehensive income	6,880,238	17,845	1,476,350	-	8,374,433
Loans and advances to credit institutions	2	17,298	5	-	17,305
Credit granted and other balances receivable at amortized cost	6,443,590	31,996,093	727,101	-	39,166,784
Hedging derivatives	-	-	-	40,424	40,424
	15,409,148	39,044,423	3,713,519	1,020,964	59,188,054
Liabilities					
Financial liabilities held for trading	-	-	-	1,008,028	1,008,028
Other financial liabilities at fair value through profit or loss	-	6,800,000	1,194	-	6,801,194
Resources from central banks	192,808	2,831,785	936	-	3,025,529
Resources from other credit institutions	15,513,213	20,567,217	9,330	-	36,089,760
Resources from customers and other debts	2,757,599	649,288	(59,404)	-	3,347,483
Debt securities	-	-	240,070	-	240,070
Other liabilities	-	-	-	499,920	499,920
Hedging derivatives	714,532	-	-	-	714,532
Technical provisions	19,178,152	30,848,290	192,126	1,507,948	51,726,516

	31-12-2019				
	Exposure to		No interest rate		
	Fixed rate	Floating rate	risk related	Derivatives	Total
Assets					
Cash and deposits at central banks	-	2,798,892	354,664	-	3,153,556
Balances due from other banks	-	-	346,841	-	346,841
Financial assets held for trading	-	-	-	1,073,429	1,073,429
Financial assets mandatory at fair value through profit or loss	2,177,817	133,375	789,083	-	3,100,275
Financial assets at fair value through other comprehensive income	5,640,140	15,981	931,369	-	6,587,490
Loans and advances to credit institutions	-	727,446	40	-	727,486
Credit granted and other balances receivable at amortized cost	8,319,686	30,901,087	128,401	-	39,349,174
Hedging derivatives	-	-	-	56,245	56,245
	16,137,643	34,576,781	2,550,398	1,129,674	54,394,496
Liabilities					
Financial liabilities held for trading	-	-	-	1,097,214	1,097,214
Financial liabilities at fair value through profit or loss	3,432,017	-	-	-	3,432,017
Resources from central banks	3,079,382	-	(41,858)	-	3,037,524
Resources from other credit institutions	227,251	2,968,233	512	-	3,195,996
Resources from customers and other debts	17,479,083	17,628,799	11,067	-	35,118,949
Debt securities	2,757,600	743,478	(69,847)	-	3,431,231
Other liabilities	-	-	232,892	-	232,892
Hedging derivatives	-	-	-	393,831	393,831
Technical provisions	723,045	-	-	-	723,045
	27,698,378	21,340,510	132,766	1,491,045	50,662,699

Financial Instruments – non-trading

The method of calculation of the sensitivity of the asset value involves simulation of the change in the market value of the assets and liabilities, based on 100 basis point (bp) shifts of the forward interest-rate curve. This method uses the following parameters and assumptions:

- All assets and liabilities sensitive to interest-rate fluctuations are identified, that is, those whose value and respective contribution to net interest income may change due to changes in market rates;
- Assets and liabilities are grouped into homogeneous aggregates according to their exposure to the interest-rate risk;
- For each transaction (contract) the future flows properly distributed by repricing dates (variable rate) or maturity date (fixed rate) are calculated;
- For each aggregate defined above the transactions are grouped by repricing/maturity dates;
- The time intervals intended to measure the interest-rate gap are defined;
- For each aggregate, the cash flows are grouped on the basis of the intervals created;
- For each product considered sensitive but has no defined maturity distribution parameters are estimated in keeping with previously-studied behaviour models; and
- For each interval total flows of assets and liabilities are calculated and, by difference between them, the interest-rate risk gap of each interval.

The interest-rate gap allows an approximation of the sensitivity of the asset value and of the net interest income in the light of market-rate variations. This approach uses the following assumptions:

- The volumes are always maintained in the balance sheet and are renewed automatically;
- It assumes parallel variations in the interest-rate curve, not considering the possibility of specific movements for different periods of the interest-rate curve; and
- It does not consider the different elasticities between the various products.

From the perspective of variation of the asset value, interest-rate increases entail a decrease of value in the intervals with positive gaps and an increase of value in the negative gaps. interest-rate reductions have an opposite effect.

General assumptions of this Interest-rate sensitivity analysis

- Balance-sheet Evolution – a static balance sheet is assumed, according to which the amounts of contracts that do not have a fixed maturity date or their renewal is presumed, are replaced with new transactions of the same amount, so that the balance-sheet balances remain constant during the period under analysis;
- Maturities and repricing – the real maturities and repricing of the transactions are considered. Assets and liabilities whose contribution to net interest income and whose carrying amount does not alter with the interest-rate variations are considered non-sensitive;
- Indices – the indices defined contractually are considered and the spot curve of the date of analysis with the underlying forward curve is used for the simulation; and

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

- Characteristics of New Business (term, repricing, volumes, spread , index, etc.) – the conditions entered in the budget for each product are used. When these characteristics begin to lie outside the market for certain products, the average conditions applied during the previous month or the new commercial guidelines for each of the products at issue are used.

As at June 30, 2020, and December 31, 2019, the sensitivity of the asset value of the Group's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	30-06-2020		31-12-2019	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash and deposits at central banks	(2,020)	135,240	(207)	91,492
Financial assets at fair value through other comprehensive income	(183,636)	85,439	(190,829)	150,794
Loans and advances to credit institutions	(1)	2	(94)	2,207
Credit granted and other balances receivable at amortized cost	(1,002,561)	665,135	(948,191)	951,589
	(1,188,218)	885,816	(1,139,321)	1,196,082
Hedging derivatives	329,269	(228,011)	276,455	(363,068)
Liabilities				
Resources from central banks	(158)	71,732	(19,139)	8,281
Resources from other credit institutions	(9,982)	12,404	(4,861)	16,808
Resources from customers and other debts	(1,149,121)	534,786	(984,376)	712,489
Debt securities	(119,020)	57,801	(130,016)	106,182
Other financial liabilities	(27,362)	18,031	(39,113)	34,309
	(1,305,643)	694,754	(1,177,505)	878,069

Financial Instruments – trading

The basic parameters for calculation of the VaR applicable in general are, besides the calculation method itself, as follows:

- Time horizon: The time period for which potential losses of a portfolio are calculated for the measurement of the (daily) VaR is 1 day.
- Confidence level: both the VaR (potential loss) and the VaE (potential gain) are determined with a confidence level of 99% (1% and 99% percentiles, respectively, of the losses and gains distribution). For purposes of contrast analysis a VaR and a VaE will also be calculated at a confidence level of 95% (5% and 95% percentiles, respectively).
- Exponential decrease factor: Allows exponential weighting of the amount of the variations in market factors over time, giving less weight to observations more distant in time. The exponential decrease factor applied is determined periodically by Market Risk.
- The VaR values used correspond to the highest of those calculated with the decrease factor in force and those calculated using uniform weighting;

- Calculation currency: In the process of calculating the VaR all positions are valued in euros, which guarantees that the risk-free currency is the local currency. However, VaR values are reported in US dollars (USD) in order to allow the aggregation of different units; and

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

- Market date time window: A 2-year time window is used, or at least 520 data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile gives equal weighting to the set of 520 observations considered. The Weighted Percentile VaR gives a significantly higher weighting to the more recent observations in relation to the reference date of the analysis.

Historical simulation consists of using the historical variations as the distribution model of possible variations in the risk factors. For this reason, the chosen period is sufficiently long and significant for all interactions between the market factors, their volatilities and the correlations among them, to be duly mirrored in the historical period selected.

On the other hand, the complete revaluation of the portfolio requires a valuation of each of the instruments, using the respective mathematical expression to obtain the market value of each individual position. In using forms of revaluation, non-linear effects implicit in certain financial products as a result of changes in market factors are calculated and collected on the values of the VaR.

As at June 30, 2020, and December 31, 2019, the VaR associated with the interest-rate risk corresponded to:

	30-06-2020	31-12-2019
VaR Percentil 99%	(1)	-
VaR Weighted Percentil 99%	(1)	-

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

Exchange-rate Risk

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

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

As at June 30, 2020, and December 31, 2019, the detail of the financial instruments by currency was as follows:

	30-06-2020			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	7,019,293	7,149	13,366	7,039,808
Balances due from other banks	104,872	213,955	197,565	516,392
Financial assets held for trading	979,106	781	653	980,540
Financial assets mandatorily at fair value through profit or loss	2,178,860	873,508	-	3,052,368
Financial assets at fair value through other comprehensive income	8,374,433	-	-	8,374,433
Loans and advances to credit institutions	17,304	-	1	17,305
Credit granted and other balances receivable at amortized cost	38,433,143	700,263	33,378	39,166,784
Hedging derivatives	40,150	274	-	40,424
	57,147,161	1,795,930	244,963	59,188,054
Liabilities				
Financial liabilities held for trading	1,006,572	801	655	1,008,028
Other financial liabilities mandatorily at fair value through profit or loss	3,229,837	-	-	3,229,837
Resources from central banks	6,801,194	-	-	6,801,194
Resources from other credit institutions	2,888,882	135,938	709	3,025,529
Resources from customers and other debts	34,460,135	1,387,917	241,708	36,089,760
Debt securities	3,347,483	-	-	3,347,483
Other liabilities	240,070	-	-	240,070
Hedging derivatives	480,142	19,303	475	499,920
Technical provisions	714,532	-	-	714,532
	53,168,847	1,543,959	243,547	54,956,353

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

	31-12-2019			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	3,141,858	4,191	7,507	3,153,556
Balances due from other banks	133,304	75,536	138,001	346,841
Financial assets held for trading	1,070,859	2,570	-	1,073,429
Financial assets mandatorily at fair value through profit or loss	3,085,842	14,293	140	3,100,275
Financial assets at fair value through other comprehensive income	6,587,490	-	-	6,587,490
Loans and advances to credit institutions	727,474	-	12	727,486
Credit granted and other balances receivable at amortized cost	38,874,456	436,817	37,901	39,349,174
Hedging derivatives	55,170	1,075	-	56,245
	53,676,453	534,482	183,561	54,394,496
Liabilities				
Financial liabilities held for trading	1,094,644	2,570	-	1,097,214
Financial liabilities mandatorily at fair value through profit or loss	3,432,017	-	-	3,432,017
Resources from central banks	3,037,524	-	-	3,037,524
Resources from other credit institutions	3,008,714	186,486	796	3,195,996
Resources from customers and other debts	33,400,786	1,468,749	249,414	35,118,949
Debt securities	3,431,231	-	-	3,431,231
Other liabilities	232,892	-	-	232,892
Hedging derivatives	390,861	2,749	221	393,831
Technical provisions	723,045	-	-	723,045
	48,751,714	1,660,554	250,431	50,662,699

As at June 30, 2020, and December 31, 2019, the VaR associated with the exchange-rate risk corresponded to:

	30-06-2020	31-12-2019
VaR Percentil 99%	(6)	(3)
VaR Weighted Percentil 99%	(4)	(2)

Asset price risk

Financial Instruments – trading

As at June 30, 2020, and December 31, 2019, the Group had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

42. SHARE CAPITAL MANAGEMENT

The Group seeks high financial soundness embodied in maintaining a capital adequacy ratio – relationship between Eligible Own Funds and risk-weighted assets. The profit distribution policy is conditional on the maintenance of capital levels that allow the Group to sustain the performance of its operations within its risk policy.

The Group uses the mixed method for the credit risk, in particular the advanced method (IRB) for most credit segments and the standard method for manual operations, Banif portfolio and BAPOP portfolio. The Group uses the standard method to calculate the market risk. In June 2012, the Group began using the standard method for the determination of the operational risk requirements, having till then used the basic indicator method.

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

As from January 1, 2014, it began to report the capital ratios under the new BIS III regulatory framework, which, though it provides a phasing-in period, is more demanding for the core capital ratio (or Common Equity Tier 1, CET1), in particular through additional deductions and higher weighting in the calculation of the positions at risk.

On June 28, 2019, the Group put into operation the first synthetic securitisation transaction originated by the Bank. The operation has as an underlying portfolio of Corporates, SMEs, Municipalities and independent professionals in the amount of €2.4 trillion, in respect of which the Bank buys protection corresponding to a mezzanine tranche with an attachment point of 1% and detachment point of 8.5% . The mezzanine tranche, amounting to €181.3 million was totally glued to foreign institutional investors, in the format of a CLN with a premium of 8.7%.

The following table summarises the composition of the regulatory capital and prudential ratios of the Group as at, June 30, 2020 and December 31, 2019 (both in BIS III – Phasing in):

	30-06-2020	31-12-2019
A - LEVEL 1 OWN FUNDS (TIER I)	**4,160**	**3,441**
Share Capital (includes addicional instruments elegible as Tier I)	2,571	2,571
Elegible Reserves and Retained earnings (excluding non-controlling interests)	1,735	1,162
Elegible Non-controlling interests	-	-
Deduction to level 1 own funds	(146)	(291)
B - LEVEL 2 OWN FUNDS (TIER II)	**70**	**73**
Perpetual subordinated liabilities	12	12
Eligable Non-controlling interests	0	0
Other elements/deductions to complementary own funds	58	61
C - DEDUCTIONS TO TOTAL OWN FUNDS	**0**	**0**
D - TOTAL OWN FUNDS (A+B+C)	**4,230**	**3,514**
E - RISK WEIGHTED ASSETS	**17,567**	**18,681**
RATIOS		
TIER I (A/E)	**23.7%**	**18.4%**
CORE CAPITAL (CET1)	20.3%	15.2%
TIER II (B/E)	**0.4%**	**0.4%**
CAPITAL ADEQUACY RATIO (D/E)	**24.1%**	**18.8%**
LEVERAGE	**7.1%**	**6.3%**

43. RESOLUTION FUND

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

The Bank, like the majority of financial institutions operating in Portugal, is one of the institutions taking part in the resolution fund, making contributions resulting from the application of a rate set annually by the Bank of Portugal essentially on the basis of the amount of their liabilities. In 2020, the periodic contribution made by the Bank amounted to €12,875k, based on a contribution rate of 0.048%.

Resolution measure applied to Banco Espírito Santo, SA

Within the scope of its responsibility as supervision and resolution authority of the Portuguese financial sector, on August 3, 2014, the Bank of Portugal decided to apply to Banco Espírito Santo, SA ("BES") a resolution measure under article 145-G(5) of the RGICSF, which consisted of the transfer of most of its business to a transition bank called Novo Banco, SA ("Novo Banco") created especially for the purpose.

To pay up the Novo Banco share capital the Resolution Fund, as sole shareholder, provided €4,900 million, of which €365 million corresponded to own financial resources. A loan was also granted by a banking syndicate to the Resolution Fund in the amount of €635 million, with the participation of each credit institution weighted in the light of several factors, including the respective dimension. The remainder (€3,900 million) consisted of a repayable loan granted by the Portuguese State.

Following the implementation of the said resolution measure, on July 7, 2016, the Resolution Fund stated that it would review and assess the steps to be taken following the publication of the report on the results of the independent evaluation conducted to estimate the credit recovery level for each class of creditors in a hypothetical scenario of a process of normal insolvency of BES on August 3, 2014. Under applicable law, if it is found that creditors whose credits have not been transferred to Novo Banco entail a larger loss than would hypothetically be the case if BES had entered into liquidation at a moment immediately preceding that of the application of the resolution measure, those creditors would be entitled to receive the difference from the Resolution Fund.

On March 31, 2017, the Bank of Portugal reported that it had selected the Lone Star Fund for the purchase of Novo Banco, which was completed on October 17, 2017, by injection, by the new shareholder of €750 million, which will be followed a new inflow of share capital in the amount of €250 million, to be implemented over a period of up to three years. This operation put an end to Novo Banco's status as a transition bank, the Lone Star Fund having acquired 75% of the Novo Banco share capital and the Resolution Fund the remaining 25%, albeit without voting rights.

On February 26, 2018, the European Commission released the non-confidential version of the decision approving the State aid underlying the Novo Banco sale process, which includes a contingent capitalisation mechanism, under which the Resolution Fund may be called upon to inject capital in the event of occurrence of certain conditions relating to the performance of a restricted set of Novo Banco's assets and to the evolution of the bank's capital levels.

This mechanism is triggered each year on the basis of Novo Banco's annual accounts certified by the respective auditor, and there is a possibility of intra-annual determinations only in the event of default, by Novo Banco, of the prudential requirements. For the purpose of this mechanism, consideration is given to the asset valuation differences (positive or negative) compared to their carrying amounts, net of impairment, as at June 30, 2016 (around €7.9 billion according to information provided by Novo Banco). Thus, economic losses or gains are considered, resulting, for example, from the sale of assets or restructuring of loans, as are impairments, or their reversal, recorded at Novo Banco in accordance with the accounting rules, as well as the financing costs associated with maintaining the assets in the Novo Banco balance sheet.

Under that mechanism, by that date, the Resolution Fund made a payment of €2,978 million to Novo Banco in respect of the 2017 to 2019 accounts, having used for the purpose its own financial resources resulting from the contributions paid up, directly or indirectly, by the banking sector, complemented by a State loan of €2,130 million within the scope of the framework agreement between the Portuguese State and the Resolution Fund.

This mechanism will be in force until December 31, 2025 (which may be extended until December 31, 2026) and is limited to an absolute maximum of €3,890 million.

Resolution measure applied to Banif – Banco Internacional do Funchal, SA

On December 19, 2015, the Bank of Portugal decided to declare that Banif - Banco Internacional do Funchal, SA ("Banif") was "at risk of or was in a situation of insolvency" and began a process of urgent resolution of the institution in the form of partial or total sale of its business, which came about with the sale on December 20, 2015, to Banco Santander Totta SA ("Santander Totta") of the rights and obligations constituting assets, liabilities, off-balance sheet items and assets under Banif management, for €150 million.

The greater part of the assets that were not sold was transferred to an asset-management vehicle called Oitante, SA ("Oitante"), created specifically for the purpose, which has the Resolution Fund as its sole shareholder. Oitante issued bonds representing the debt, in the amount of €746 million, a guarantee having been provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

This operation involved a public support estimated at €2,255 million which aimed to cover future contingencies, of which €489 million was financed by the Resolution Fund and €1,766 million directly by the Portuguese State.

On July 21, 2016, the Resolution Fund made a payment to the State in the amount of €136 million by way of partial early repayment of the resolution measure applied to Banif, allowing the amount owed to fall from €489 million to €353 million.

To date the findings are not yet known of the independent evaluation exercise conducted to estimate the credit recovery level for each class of creditors in the hypothetical scenario of normal insolvency proceedings of Banif as of December 20, 2015. As mentioned above for BES, if it is found that creditors entail a larger loss than would hypothetically be the case if Banif had entered into liquidation at a moment immediately preceding that of the application of the resolution measure, those creditors would be entitled to receive the difference from the Resolution Fund.

Resolution Fund's liabilities and funding

Following the resolution measures applied to BES and Banif and the agreement for the sale of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities arising from:

- the effects of the application of the principle that no creditor of the credit institution under resolution can assume a loss greater than what it would assume if the institution had gone into liquidation;
- negative effects arising from the resolution process resulting in liabilities or additional contingencies for the Novo Banco that have to be neutralised by the Resolution Fund;

- lawsuits against the Resolution Fund;
- guarantee given to bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- contingent capitalisation mechanism associated with the process of sale of Novo Banco to Lone Star.

In order to preserve financial stability by promoting the conditions that lend predictability and stability to the contribution effort for the Resolution Fund, the Portuguese government reached an agreement with the European Commission to alter the conditions of the loans granted by the Portuguese State and by the participating banks to the Resolution Fund. To this end, an addendum to the Resolution Fund funding agreements was formalised, which introduced a number of amendments to the repayment plans, remuneration rates and other terms and conditions associated with these loans so that they are suited to the Resolution Fund's ability to fulfil its obligations in full on the basis of its regular revenues, that is, without a need for the banks participating in the Resolution Fund to be charged special contributions or any other type of extraordinary contribution.

According to the announcement of the Resolution Fund of March 31, 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, on the basis of a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund considered that full payment of its liabilities is assured, as well as the respective remuneration, with no need for recourse to special contributions or any other type of extraordinary contributions on the part of the banking sector.

Notwithstanding the possibility provided for in applicable legislation governing the collection of special contributions, given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate, in which the Bank is included, the public announcements made by the Resolution Fund and the Office of the Minister of Finance state that this possibility will not be used, these financial statements reflect the Board of Directors' expectation that no special contributions or any other type of extraordinary contributions will be required of the Bank to finance the Resolution Fund.

Any significant changes regarding this matter may have relevant implications for the Bank's financial statements.

44. COMPETITION AUTHORITY

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

Within the scope of these proceedings search and seizure measures were carried out at the premises of the Bank and other credit institutions on March 6, 2013, and indiscriminate documentation was seized to determine possible evidence of infringement of the aforesaid legal precept.

On June 3, 2015, the Bank, like other 14 credit institutions, was notified of the statement of objections issued by the AdC regarding the administrative-offence under appraisal (Case No. PRC 9/2012), accused of taking part in an exchange of certain commercially sensitive information between competitors.

On September 9, 2019, the Competition Authority issued the final decision, essentially maintaining the theory thesis presented in the 2015 statement of objections, namely the presumption of anti-competitive conduct based on the exchange of information between competitors on Mortgage Loans, Consumer Credit and Loans to Companies. Banco Santander Totta was sentenced to a fine of €35 million, plus a fine of €650k applied to BAPOP.

The fine imposed, which could amount to a maximum equivalent to 10% of the annual turnover of the infringing company in the year next before the decision, came to be applied for an amount corresponding to about 2.02% of that indicator (considering not only the penalty imposed on the Bank, but also on BAPOP).

Nevertheless, on October 21, 2019, the Bank judicially challenged the final decision of the Competition Authority, the case now pending before the Competition, Regulation and Supervision Court.

In line with what has been its position throughout the process, the Bank strongly refutes all the arguments underlying the decision of the Competition Authority, and its judicial challenges through the Competition, Regulation and Supervision Court been supported, in particular, by the opinion of eminent professors of law, attesting to the absence of any unlawful conduct by the institution.

The Bank will now await the judgement and subsequent decision on the judicial challenge presented and will not waive the exercise of all the legal and judicial faculties ensuring the protection of its interests.

Taking the foregoing into consideration, the Bank’s Board of Directors is of the conviction that the probabilities of the Bank not being ordered to pay a fine are greater than being so ordered, and therefore no provision for this process has been recorded in the financial statements as at June 30, 2020.

45. SUBSEQUENT EVENTS

On the date of approval of these consolidated financial statements by the Company’s Board of Directors, there was no event subsequent to June 30, 2020, the reference date of these financial statements, which requires adjustments or modifications of the amounts of assets and liabilities under the terms of IAS 10 – Events after the Reporting Period.

46. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on September 22, 2020.

47. 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.

SANTANDER TOTTA , SGPS

DEBT SECURITIES AS AT 30 JUNE 30, 2020

(Amounts expressed in thousand euros)

Securities issued	Currency	Amount issued Total	Subscribed by the Group	Consolidated Balance sheet	Accrual	Total	Interest rate	Issue date	Maturity date	Index
Covered Bonds										
Hipotecária XIV	EUR	750,000	750,000	-	(302)	(302)	0.75%	March 04,2015	March 04,2022	Fixed interest rate
Hipotecária XV	EUR	750,000	-	750,000	4,215	754,215	0.88%	October 27,2015	October 27,2020	Fixed interest rate
Hipotecária XVI	EUR	200,000	200,000	-	(40)	(40)	0.84%	February 24,2016	February 24,2022	Fixed interest rate
Hipotecária XVII	EUR	750,000	750,000	-	(348)	(348)	0.90%	April 15,2016	April 15,2023	Fixed interest rate
Hipotecária XVIII	EUR	750,000	750,000	-	(605)	(605)	0.65%	July 26,2016	July 26,2023	Fixed interest rate
Hipotecárias XX	EUR	750,000	750,000	-	(1,223)	(1,223)	1.20%	December 07,2017	December 07,2027	Fixed interest rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	(1,426)	(1,426)	1.48%	April 10,2017	April 10,2027	Fixed interest rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	(5,026)	994,974	0.88%	April 25,2017	April 25,2024	Fixed interest rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(644)	999,356	1.25%	September 26,2017	September 26,2027	Fixed interest rate
Hipotecária XXIV	EUR	1,100,000	1,100,000	-	(2,225)	(2,225)	0.412%	July 05,2019	July 05,2029	Fixed interest rate
Hipotecária XXV	EUR	750,000	750,000	-	(756)	(756)	0.505%	March 27,2020	March 27,2025	Fixed interest rate
		8,800,000	**6,050,000**	**2,750,000**	**(8,380)**	**2,741,620**				
Bonds issued on securitization operations from mortgage credit										
Hipototta 4 - Classe A - Notes	EUR	463,069	338,870	124,198	(410)	123,788	Floating	December 09,2005	December 30,2048	Euribor 3m+0.12% (up to early redemption date in December 2014); Euribor 3m+0.24% (After early redemption date)
Hipototta 4 - Classe B - Notes	EUR	16,847	16,847	-	-	-	Floating	December 09,2005	December 30,2048	Euribor 3m+0.19% (up to early redemption date in December 2014); Euribor 3m+0.40% (After early redemption date)
Hipototta 4 - Classe C - Notes	EUR	53,205	53,205	-	-	-	Floating	December 09,2005	December 30,2048	Euribor 3m+0.29% (up to early redemption date in December 2014); Euribor 3m+0.58% (After early redemption date)
Hipototta 4 - Classe D - Notes	EUR	7,000	7,000	-	-	-	Floating	December 09,2005	December 30,2048	Residual return generated by securitized portfolio
Hipototta 5 - Classe A2 - Notes	EUR	420,320	339,794	80,526	(130)	80,396	Floating	March 22,2007	February 28,2060	Euribor 3m+0.13% (up to early redemption date in February 2014); Euribor 3m+0.26% (After early redemption date)
Hipototta 5 - Classe B - Notes	EUR	26,000	26,000	-	-	-	Floating	March 22,2007	February 28,2060	Euribor 3m+0.17% (up to early redemption date in February 2014); Euribor 3m+0.34% (After early redemption date)
Hipototta 5 - Classe C - Notes	EUR	24,000	24,000	-	-	-	Floating	March 16,2007	February 28,2060	Euribor 3m+0.24% (up to early redemption date in February 2014); Euribor 3m+0.48% (After early redemption date)
Hipototta 5 - Classe D - Notes	EUR	26,000	26,000	-	-	-	Floating	March 22,2007	February 28,2060	Euribor 3m+0.50% (up to early redemption date in February 2014); Euribor 3m+1.00% (After early redemption date)
Hipototta 5 - Classe E - Notes	EUR	31,000	31,000	-	-	-	Floating	March 22,2007	February 28,2060	Euribor 3m+1.75% (up to early redemption date in February 2014); Euribor 3m+3.50% (After early redemption date)
Hipototta 5 - Classe F - Notes	EUR	6,000	6,000	-	-	-	Floating	March 22,2007	February 28,2060	Residual return generated by securitized portfolio
Azor Mortgage PLC classe A	EUR	-	-	-	-	-	Floating	November 25,2004	September 20,2047	Euribor 3m + 0.30%
Azor Mortgage PLC classe B	EUR	14,382	10,522	3,861	264	4,125	Floating	November 25,2004	September 20,2047	Euribor 3m + 0.76%
Azor Mortgage PLC classe C	EUR	9,000	2,500	6,500	345	6,845	Floating	November 25,2004	September 20,2047	Euribor 3m+ 1.75%
Azor Mortgage PLC classe D	EUR	10,000	10,000	-	-	-	Floating	November 25,2004	September 20,2047	Residual return generated by securitized portfolio

SANTANDER TOTTA , SGPS

DEBT SECURITIES AS AT 30 JUNE 30, 2020

(Amounts expressed in thousand euros)

Securities issued	Currency	Amount issued - Total	Amount issued - Subscribed by the Group	Amount issued - Consolidated Balance sheet	Accrual	Total	Interest rate	Issue date	Maturity date	Index
Atlantes Mortgage PLC serie 2 - A	EUR	104,977	-	104,977	(13,591)	91,386	Floating	March 05,2008	September 18,2060	Euribor 3m+0.33%
Atlantes Mortgage PLC serie 2 - B	EUR	13,069	13,069	-	-	-	Floating	March 05,2008	September 18,2060	Euribor 3m+0.95%
Atlantes Mortgage PLC serie 2 - C	EUR	5,327	5,327	-	-	-	Floating	March 05,2008	September 18,2060	Euribor 3m+1.65%
Atlantes Mortgage PLC serie 2 - D	EUR	10,983	10,983	-	-	-	Floating	March 05,2008	September 18,2060	Residual return generated by securitized portfolio
Azor Mortgage PLC serie 2 - A	EUR	79,503	79,503	-	-	-	Floating	July 24,2008	December 14,2065	Euribor 3m+0.30%
Azor Mortgage PLC serie 2 - B	EUR	43,080	43,080	-	-	-	Floating	July 24,2008	December 14,2065	Euribor 3m+0.8%
Azor Mortgage PLC serie 2 - C	EUR	6,750	6,750	-	-	-	Floating	July 24,2008	December 14,2065	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 3 - A	EUR	181,640	56,610	125,030	(9,825)	115,205	Floating	October 30,2008	August 20,2061	Euribor 3m+0.20%
Atlantes Mortgage PLC serie 3 - B	EUR	26,049	26,049	-	-	-	Floating	October 30,2008	August 20,2061	Euribor 3m+0.50%
Atlantes Mortgage PLC serie 3 - C	EUR	46,026	46,026	-	-	-	Floating	October 30,2008	August 20,2061	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 4 - A	EUR	204,196	-	204,196	(28,096)	176,100	Floating	February 16,2009	December 30,2064	Euribor 3m+0.20%
Atlantes Mortgage PLC serie 4 - B	EUR	22,487	22,487	-	-	-	Floating	February 16,2009	December 30,2064	Euribor 3m+0.50%
Atlantes Mortgage PLC serie 4 - C	EUR	62,053	62,053	-	-	-	Floating	February 16,2009	December 30,2064	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 5 - A	EUR	164,628	164,628	-	-	-	Floating	December 21,2009	November 23,2068	Euribor 3m+0.15%
Atlantes Mortgage PLC serie 5 - B	EUR	30,395	30,395	-	-	-	Floating	December 21,2009	November 23,2068	Euribor 3m+0.30%
Atlantes Mortgage PLC serie 5 - C	EUR	52,538	52,538	-	-	-	Floating	December 21,2009	November 23,2068	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 7 - A	EUR	130,161	130,161	-	-	-	Floating	November 19,2010	August 23,2066	Euribor 3m+0.15%
Atlantes Mortgage PLC serie 7 - B	EUR	24,188	24,188	-	-	-	Floating	November 19,2010	August 23,2066	Euribor 3m+0.30%
Atlantes Mortgage PLC serie 7 - C	EUR	50,329	50,329	-	-	-	Floating	November 19,2010	August 23,2066	Residual return generated by securitized portfolio
Hipototta nº13 Classe A	EUR	1,107,756	1,107,756	-	-	-	Floating	January 09,2018	October 23,2072	Euribor 3m+0.60%
Hipototta nº13 Classe B	EUR	484,000	484,000	-	-	-	Floating	January 09,2018	October 23,2072	Euribor 3m+1%
Hipototta nº13 Classe C	EUR	49,737	49,737	-	-	-	Floating	January 09,2018	October 23,2072	Residual return generated by securitized portfolio
Hipototta nº13 Classe D	EUR	0	0	-	-	-	Floating	January 09,2018	October 23,2072	
		4,006,694	**3,357,406**	**649,287**	**(51,443)**	**597,844**				
		12,806,694	**9,407,406**	**3,399,287**	**(59,823)**	**3,339,464**				

SANTANDER TOTTA - SGPS, S.A.

OTHER SUBORDINATED LIABILITIES AS AT JUNE 30, 2020

(Amounts expressed in thousand euros)

		Amount issued			Accruals						
Securities issued	Currency	Total	Subscribed by the Group	Consolidated Balance sheet	Total	Subscribed by the Group	Consolidated Balance sheet	Total	Interest rate	Maturity	Early repayment as from
Obrigações Perpétuas Subordinadas 2000	EUR	270,447	270,447	-	101	101	-	-	1.52%	Perpetual	June 22, 2010
Obrigações Perpétuas Subordinadas BSP 2001	EUR	13,818	13,818	-	68	68	-	-	1.39%	Perpetual	February 23, 2011
Obrigações Perpétuas Subordinadas CPP 2001	EUR	4,275	4,275	-	21	21	-	-	1.39%	Perpetual	February 23, 2011
Obrigações Banco Santander Totta,SA 7,5% 06/10/2026	EUR	7,599	-	7,599	419	-	419	8,018	7.50%	Perpetual	October 6, 2026
		296,139	288,540	7,599	609	190	419	8,018			