Proposal

Annual Report 2018

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Santander

Banco Santander Totta, SA

Annual Report

2018

Banco Santander Totta, SA
Rua do Ouro, 88 - 1100-063 Lisboa - Portugal
Share Capital: 1,256,723,284 euros
Registered at Lisbon Commercial Registry under the number 500 844 321 and tax identification number 500 844 321
LEI: 549300URJH9VSI58CS32

Highlights

The year under review was quite challenging, with emphasis on the full integration of the former Banco Popular Portugal. The results in the various areas show sustained and balanced growth of the business generated in Portugal.

Focusing on maximizing customer experience, our commercial and digital strategy has allowed an increase of the number of principal Bank and digital customers, the annual growth of which stood at 10% and 32%.

For the next three years, and now with a new executive team, we will continue to seek business growth and positive evolution of results. A clear commitment to new technologies and maintenance of the focus on the customer will contribute to our achievement of a prominent place in the sector.

Pedro Castro e Almeida, Chief Executive Officer of Banco Santander Totta

PROFITABILITY	GROWTH	SOUNDNESS	SUPPORT FOR SOCIETY
Net income from banking activities €1,205 mn (+6.3%)	Mortgage Loans Customer deposits Change YoY: +1.9% and +5.6%	NPE Ratio 4.0%	Increase of the share of Corporate Loan and Mortgage Loan production 19.8% and 22%
Net income €470 mn (+11.6%)	Main Bank Customers €752k (+10%)	Cost of Credit 0.01%	Santander Advance 696 training grants
RoE 12.8%	Digital Customers €734k (+32%)	CET1 Capital Ratio 13.6%	Social Responsibility 23,981 beneficiaries

Table of Indicators

BALANCE SHEET AND RESULTS (million euro)	2018	2017	Var.
Total Net Assets	51,289	50,642	+1.3%
Loans and advances to customers (net)	39,582	39,633	-0.1%
Customers' Resources	39,867	37,378	+6.7%
Total shareholders' equity	3,552	3,662	-3.0%
Net Interest Income	866.7	699.4	+23.9%
Net Fees and Other Income	354.4	312.1	+13.6%
Net Income from Banking Activities	1,205.0	1,133.3	+6.3%
Net Operating Income	595.0	611.0	-2.6%
Income before taxes and non-controlling interests*	664.9	579.1	+14.8%
Consolidated net income attributable to the shareholders of BST	470.0	421.2	+11.6%

RATIOS	2018	2017	Var.
ROE	12.8%	12.9%	-0.1 p.p.
ROA	0.9%	0.8%	+0.1 p.p.
Efficiency ratio	50.6%	46.1%	+4.5 p.p.
CET I ratio** (phasing-in)	13.6%	14.3%	-0.7 p.p.
Tier I** ratio	13.6%	14.3%	-0.7 p.p.
Capital** ratio	13.7%	14.4%	-0.7 p.p.
Non-Performing Exposure Ratio	4.0%	5.7%	-1.7 p.p.
Non-Performing Exposure coverage ratio	51.0%	55.4%	-4.4 p.p.
Cost of credit	0.01%	0.11%	-0.10 p.p.
Loans-to-deposits ratio (transformation ratio)	116.8%	123.8%	-7.0 p.p.

RATING	2018	2017
FitchRatings	BBB+	BBB+
Moody´s	Baa3	Ba1
Standard & Poor´s	BBB-	BBB-
DBRS	A	AL

Other Data	2018	2017	Var.
Employees	6,438	6,777	-339
Employees in Portugal	6,413	6,742	-329
Branches	572	682	-110
Total Branches and Corporate Centers in Portugal	562	670	-108

* Excludes non-recurrent results

** With results net of payout

Message of the Chairman of the Board of Directors

During 2018, Santander was once again an example of soundness, trust and prestige. We closed 2018 with a net income of €470 million, maintaining continuous support for Portuguese families and companies, both in terms of careful granting of loans, as well as through a non-financial offer that includes internships, social-inclusion programmes, support for higher education and environmental-protection initiatives.

The integration of Banco Popular Portugal was conducted in an exemplary manner, from the point of view both of the integration of people and of the technological and operational integration, in just ten months.

The success of the integration allowed the Bank to maintain the same quality of service for all its customers, and to achieve the status of biggest private bank operating in the domestic market.

Simultaneously, a policy of renovation of the branches was implemented, the better to receive customers. This is the case of the Work Café recently opened in Lisbon and the Money Club at the Nova SBE, which are innovative concepts in relations with customers.

The focus on technological and the digital offer to customers is to be increased. The 32% growth of digital customers is undeniable proof of this evolution.

Today, Banco Santander in Portugal represents about 5% of Banco Santander results worldwide, and is considered by its shareholders as one of its strategic subsidiaries.

For us, relying on the stability, strength and commitment of Banco Santander is essential for it strengthens its role as an international Bank in the service of the Portuguese economy.

The year under review was also marked by external acknowledgement of our position, while the Bank won several awards, of which I would highlight the "Best Bank in Portugal" award by *The Banker* magazine, as well as the "5-Star Bank", based on an independent direct poll of consumers.

This recognition is also made by the rating agencies, which consider the risk of Banco Santander in Portugal as Investment Grade, two of them having assigned to the Bank a risk level better than that of the Portuguese Republic itself.

Lastly, I would leave a word of thanks to all the Bank's employees who contributed to these results and to our being an institution increasingly Simple, Close and Fair.

I am confident that in 2019 we will continue to be the best bank in Portugal.

António Vieira Monteiro

Banco Santander in Portugal accounts for about 5% of Banco Santander's results worldwide

The Work Café and the Money Club are innovative concepts in relations with customers.

2018 was marked by the external recognition of our position, the Bank having won several awards

Message from the Chairman of the Executive Committee

Dear Stakeholders,

The year under review was a very important year in the history of Banco Santander in Portugal.

At the outset, it was a year marked by the inclusion of Banco Popular, which was carried out in record time, with the least possible disturbance in the life of the Bank and its customers.

We have become the largest private bank in Portugal in terms of loans and advances, a position that we added to that of having long been the most profitable bank in Portugal.

We achieve a net income of €470 million, meeting the expectations of our shareholders while maintaining our support for the development of families and businesses in Portugal, with loans of more than €40 billion granted up to the end of 2018.

The soundness of Banco Santander in Portugal continued to be classified by the rating agencies as investment grade, standing in some cases above that of the Portuguese Republic, a situation to which the very robust capital ratios that the Bank continues to have made a major contribution, particularly in terms of Common Equity Tier 1 which closed% 2018 at 13.6% (fully implemented).

It was also a year in which we continued to be internationally recognised as the best bank operating in Portugal by specialised publications of the financial sector such as *The Banker*, *World Finance* or *Global Finance*.

All this fills us with pride, but gives us, above all, a greater responsibility to continue to improve always. To improve for our customers, for our employees, for society in general and, of course, for our shareholders.

Anxious to provide our customers the best experience with the Bank, in December 2018 we inaugurated the first Work Café, a new concept of relationship between the Bank and its customers. With a modern, sophisticated layout, the space is, at one and the same time, a cafe and a branch, where customers can undertake their usual banking services.

Regarding our employees, despite having been considered the "Best Bank to Work for in Portugal", as part of the "Great Place to Work 2018" awards, we want to become one of the top companies to work for in Portugal, leveraging a People Management policy that is Simple, Close and Fair – principles that guide us at all times.

We will maintain our support for society in general, which in 2018 totalled about €7.8 million, through sustainability actions and the Santander Universities, which support of about 330 associations in projects related to education, protection of minors, health, disability, social inclusion and care for the elderly, with a direct impact on more than 23,500 people.

Lastly, the commitment of the new Executive Committee, appointed early in 2019, which I am proud to head, will be to continue to grow our results steadily, continuing to create value for our shareholder.

Pedro Castro e Almeida

We have become the largest private bank in Portugal in terms of loans and advances, a position that we added to that of having long been the most profitable bank in Portugal.

We have a responsibility to continue to improve, with a concern to give our customers the best experience

The commitment of the new Executive Committee will be to continue to grow our results in a sustained manner.

Corporate Culture

The ***Santander Way*** is our corporate culture and is fully in line with our mission, vision and business model. It is the pillar of the Bank, a responsible bank.

Simple I Close I Fair

Simple, Close and Fair is the essence of the Bank's corporate culture. It incorporates how all Santander's employees think and work, and represents what our customers expect of us as their Bank. It defines how we carry on our business and how we take decisions, and the way in which we interact with customers, shareholders and the community.

All the teams at Banco Santander strive each day to ensure that everything they do is Simple, Close and Fair – this is how to conquer the lasting loyalty and trust of the customers – acting at the same time in keeping with our mission to help people and businesses to prosper.

"As important as what we do is how we do it"

Simple

We provide a service that is accessible for the customers, with simple products that are easily understood. We use simple language and improve the processes every day.

Close

We treat our customers in an individualised and personalised manner, offering them the alternatives best suited to their needs. We want each of our employees and customers to feel unique and valued.

Fair

We treat our employees and customers fairly and equally, we are transparent and keep our promises. We establish relationships in which the Bank, employees, customers and shareholders can obtain benefits. Because we understand that what is good for them is also good for the Bank.

Our culture is based on eight corporate conducts...

- I show respect
- I listen carefully
- I speak clearly
- I fulfil promises
- I support people
- I promote change
- I promote collaboration
- I work with passion

... and a strong risk culture where everyone is personally responsible for the management of their risks in their day to day work

All the Santander team engaged in risk

risk pro

Santander Brand

Santander is a reference institution in the Portuguese financial sector, with a broad customer base, providing a network of physical contacts and digital channels, which allow the financial needs of its customers to be taken into account in a simple, fast and convenient manner.

Currently, Santander in Portugal is the largest private bank in domestic activity, in terms of assets and loans granted to companies.

Its business is focused on commercial banking and it pursues a strategy of closeness to the customer, focusing on the provision of innovative and digital products and services tailored to its customers' financial needs, focusing on service quality and a constant concern for ongoing improvement of the customers' experience.

To be the best open financial-services platform, acting responsibly and conquering the permanent trust of our employees, customers, shareholders and society.

The soundness of the Bank is based on a growth strategy underpinned by strong revenue generation, a comfortable liquidity position and capital ratios well above regulatory requirements, attesting to the Bank's good capitalisation levels.

In 2018, and in accordance with its mission of helping people and businesses to thrive, Santander has maintained its financing of the Portuguese economy, increasing its share of production of loans to companies to 20%. Also for individuals, the Bank strengthened its position through the grant of mortgage loans, achieving a market share, at production level, of about 22%.

Throughout the year, the Bank continued to focus on unique, differentiated products, as is the case of the Mundo 1|2|3, a multiproduct solution that provides its customers with monthly savings when using the Bank's products. Since the launch of the solution the Bank has already returned about €29 million to its customers in the form of cash-back.

In the business area, the non-financial offer warrants emphasis, with a number of initiatives to support knowledge of the market and training for companies and their employees. Since the start of the non-financial side of *Santander Advance*, more than 2,000 companies have benefited through online and face-to-face training, and about 700 students benefited from training grants under this programme.

Santander in Portugal aspires to be the best open financial-services platform, acting responsibly and conquering the permanent trust of its employees, customers, shareholders and society.

A modern, more-digital brand

In 2018, Banco Santander evolved its commercial brand in order to be more modern and more digital and to draw closer to young people.

The brand has evolved, retaining its most distinctive features: the name, the red colour and the "flame", which gain greater visibility and improve user experience in the digital world.

The Bank's new brand is more modern and better-suited to the digital and mobile channels, to adapt to the new context, better conveying the new corporate culture and strengthening the strategy of becoming a digital, open financial services platform.

The brand has evolved, retaining its most distinctive features: the name, the red colour and the "flame", which gain greater visibility and improve user experience in the digital world.

In this sense, and within the scope of the digital transformation plan, the Bank continued to develop its digital channels, releasing new features in the Mobil App and improving internal processes in order to make the relationship with its customers more convenient and faster.

In 2018 emphasis is given to ***CrediSimples***, a function that allows personal loans to be contracted immediately via the App or home banking, which already accounts for 28% of total loans and advances granted by the institution.

New features were also made available to Mundo 1|2|3 customers in managing their financial relationship with the Bank. In the matter of new products, there is now the possibility of taking out new insurance via the App, such as Motor Insurance or Domestic Services Protection Insurance, the first of its kind to be contracted digitally.

In the payment means area, functions have been extended in the management of credit cards, and function to block transactions abroad was made available, in order to promote safety of use for the customers.

For the companies and in partnership with the *Upplication*, Santander released the Connect Your Business solution for companies to more easily create an App and extend their business to the digital world.

Digital Customers
734,000
***Change* 2017-2018**
+32%

Result of the commercial and digital transformation carried out, sales of products via the digital channels (which are sold via the branches and channels) already account for 31% of total sales.

At the end of the year, Santander recorded increases of 10% in the number of main bank customers and 32% in the number of digital customers.

A solid, reputable and trustworthy brand

In 2018, Santander continued to strengthen its position as a sound, reputable institution trusted by its customers.

In this sense, the Bank's performance and activity in the various business areas was acknowledged by several international and national institutions.

In customer satisfaction, too, the Bank was recognised through polls of consumers, as is the case of the "5 Stars Award" or the reputation and positioning ranking, drawn up by *Onstrategy*, an independent consultant, for the financial brands of greatest repute.

Santander was also recognized as the "Best Bank to Work For" in Portugal, an analysis by the Great Place to Work Institute, which also took into account the opinion of the employees.

Main Awards and Recognitions

	Bank of the Year in Portugal	Santander was awarded the **"Bank of the Year" in Portugal** award by ***The Banker*** magazine of the *Financial Times* Group , within the scope of the *The Banker Awards* 2018. This is the fourteenth time that Santander has received this distinction. The financial data of the institutions were analysed, as were aspects such as performance, technology, innovation and marketing initiatives.
	Best Bank in Portugal	The North American magazine ***Global Finance*** elected Santander as the "Best Bank in Portugal", within the scope of the "World's Best Banks 2018" that distinguishes those banking institutions that best responded to the needs of their customers and obtained the best results.
	5-star Bank	Santander won the **Five Star Award 2019** in the Large Banks category. After an evaluation of five major Portuguese banks, Santander obtained the best classification, with an overall satisfaction of 71.8%, considering variables such as satisfaction, recommendation, trust in the brand and innovation.
	Best Private Banking Services Overall	Santander won the **"Best Private Banking Services Overall"** in Portugal prize, awarded by ***Euromoney*** magazine. This is the eighth consecutive time that Bank receives this award. The study was conducted through qualitative analysis of the sector's best practices, by region and by type of service.
	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 2019, which distinguish the world's best private-banking business models. This is now the fourth 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 entity highlighted the Bank's leadership, based on the profitability and sustainability of the business model.
Safest Bank	Santander was elected as the **"Safest Bank in Portugal"**, according to ***Global Finance*** magazine, within the scope of the World's Safest Banks 2018, which distinguishes banks on the basis of the quality of the long-term debt ratings and size of assets.
Most Reputed Financial Brand	Santander came first as the **"Banking brand bank with the best reputation"** in OnStrategy's Global Reputation Pulse RepScore positioning study for 2018. The results presented assess trust, preference and recommendation, products and services, innovation and differentiation, business and financial performance, governance and ethics, leadership and vision.
Best Bank to Work For	Santander was considered the **"Best Bank to Work For in Portugal"**. An analysis with the scope of the Great Place to Work, which also included the opinion of the Bank's employees.

Other awards and distinctions

Best Private Banking in 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 Banking Contact Centre", Portuguese Contact Centres Association

Relevant Facts in 2018

A modern, more-digital brand

Santander has evolved its brand to enhance its digital presence.

Conclusion of the integration of Banco Popular

Conclusion of the operational and technological integration, involving several teams.

New digital solutions

The Bank continued its digital transformation plan, in order to be closer to its customers and to simplify processes, as was the case of the release of the "Connect your business" App, which allows business customers to more easily create an App and thus extend its business to the digital world

+32% Digital Customers

A partner for enterprises

The non-financial solution for Companies – *Santander Advance* continued to provide a number of initiatives throughout the year to support companies and entrepreneurs.

The *Loose Conversations* initiative, which addresses issues of interest to companies, organised several meetings with the possibility of contacting various specialists about the subjects under discussion.

More than 2,000 companies benefited from in-person training and online courses

Strengthening of the Social Commitment

In 2018 the Bank increased its support to society through sustainability actions and the Santander Universities, supporting 330 associations in projects related to education, protection of minors, health, disability, social inclusion and care for the elderly.

€7.8k invested in CSR

23,981 beneficiaries

Mundo 1|2|3 solutions return €29.4 million to customers

The multiproduct Mundo 1|2|3 financial solution, addressed to the Bank's individual customers, which provides a wide range of benefits, in particular via cash-back on the Mundo 1|2|3 account-card, returned about €29 million to customers in 2018.

360,000 Mundo 1|2|3 customers

Launch of the 1st Work Café

In Lisbon Santander opened Portugal's first Work Café, a new branch model, with a modern and sophisticated layout, which is a cafeteria at the same time, as well as co-workings spaces for customers and non-customers

Closer, more digital

Governing bodies of Banco Santander Totta, SA, in 2018

Board of the General Meeting

Chairman	José Manuel Galvão Teles
Deputy-Chairman	António Maria Pinto Leite
Secretary	João Afonso Pereira Gomes da Silva

Board of Directors

Chairman	António Basagoiti Garcia-Tuñón
Deputy-Chairman	António José Sacadura Vieira Monteiro
Deputy-Chairman	Enrique Garcia Candelas
Members	António Manuel de Carvalho Ferreira Vitorino*
	Inês Oom Ferreira de Sousa
	Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota
	João Baptista Leite
	José Carlos Brito Sítima
	José Urgel Moura Leite Maia
	Luís Filipe Ferreira Bento dos Santos
	Luís Manuel Moreira de Campos e Cunha
	Manuel António Amaral Franco Preto
	Manuel Maria de Olazabal y Albuquerque
	Pedro Aires Coruche Castro e Almeida
	Remedios Ruiz Macia

Audit Committee

Chairman	Luís Manuel Moreira de Campos e Cunha
Members	Manuel Maria de Olazabal y Albuquerque
	Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota

Auditors

PricewaterhouseCoopers & Associados, S.R.O.C., Lda.
Represented by Aurélio Adriano Rangel Amado (R.O.C)

Executive Committee

Chairman	António José Sacadura Vieira Monteiro
Members	Inês Oom Ferreira de Sousa
	João Baptista Leite
	José Carlos Brito Sítima
	José Urgel Moura Leite Maia
	Luís Filipe Ferreira Bento dos Santos
	Manuel António Amaral Franco Preto
	Pedro Aires Coruche Castro e Almeida

Company Secretary

Full	João Afonso Pereira Gomes da Silva
Alternate	Raquel João Branquinho Nunes Garcia

*Tendered resignation on July 31, 2018

On December 13, 2018, the Annual General Meeting of Banco Santander Totta shareholders took place and approved the election of corporate officers, including members of the Board of the General Meeting and of the Board of Directors and Statutory Auditors for 2019/2021 term of office.

The beginning of the performance of duties by the new corporate officers was subject to authorisation by or non-opposition of the competent supervisory authorities, which was obtained on January 17, 2019.

Governing bodies of Banco Santander Totta, SA, for the 2019/2021 term of office are:

Board of the General Meeting

Chairman	José Manuel Galvão Teles
Deputy-Chairman	António Maria Pinto Leite
Secretary	João Afonso Pereira Gomes da Silva

Board of Directors

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

Audit Committee

Chairman	Ana Isabel Abranches Pereira de Carvalho Morais
Members	Daniel Abel Monteiro Palhares Traça
	Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota
	Manuel Maria de Olazabal y Albuquerque
	Maria Manuela Machado Farelo Ataíde Marques

Statutory Auditor

PricewaterhouseCoopers & Associados, S.R.O.C., Lda.
Represented by Aurélio Adriano Rangel Amado (R.O.C)

Executive Committee

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

Company Secretary

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

Executive Committee - 2019-2021 term of office

Amílcar Lourenço
Recoveries and Divestment, Irregular Loans, Non-productive assets and Inspection Office.
Responsible indicated by subjects of prevention of Money Laundering

Manuel Preto
Deputy- Chairman of the Executive Committee
Financial, Organisation and Means

Miguel Carvalho
Commercial network

Isabel Guerreiro
Innovation, Digital Development and Customer Experience

Pedro Castro e Almeida
Chairman of the Executive Committee
Risks, Compliance, Human Resources and General Secretariat (including Internal Governance and Legal area)

Inês Oom de Sousa
Products, Payments, Marketing, Payments, Universities Segment and Responsible Banking

Sustainability Policy

Introduction

Being responsible is the basis of trust, and only acting in a Simple, Close and Fair manner can one maintain the confidence of the stakeholders with whom the Bank relates.

The Bank seeks to ensure that, in the course of its current business, it fosters sustainable and inclusive growth of society, reducing social and economic inequalities of the population and, at the same time, supports the development of the communities where Santander is present.

Additionally, and besides the investment in the community, the Bank also acts in the areas of financial inclusion, climate finance and reduction of consumption and emissions.

€7.8 million euros in society-support projects

330 associations directly and indirectly supported in projects related to education, protection of minors, health, disability, social inclusion and care for the elderly.

23,981 people supported

Santander, through its current business and its community-support programmes, contributes to meeting the Sustainable Development Goals established by the United Nations as the priorities and aspirations in global sustainable development for 2030.

The sustainable development goals (SDG) where Banco Santander's business and investment in the community has incidence

In support for the community, Santander guides its activities through support and donations to various institutions of the tertiary sector and involvement of volunteer employees in various initiatives throughout the year.

The main focus of action is the fight against social exclusion through different programmes that address situations of poverty, vulnerability and exclusion of the population. Additionally, Santander supports health promotion programmes and social welfare programmes focused on helping people with disabilities and their families, facilitating their social inclusion and rehabilitation.

Main areas of action in the sustainability policy

- Universities
- Social Wellbeing
- Financial
- Environment
- Financial Education
- Culture

Social Wellbeing

Support for children and youths

In 2018, Santander continued to help various institutions dedicated to supporting disadvantaged children and young people, institutionalised or victims of disease. Also supported were various child-support programmes.

Santander again co-operated with the **Terra dos Sonhos** association, lending continuity to the implementation of four dreams and organised a trip to *FootLab* for about 80 children of various social-solidarity institutions. The Bank also renewed its support for the **Novo Futuro** association whose mission is to provide, at their homes, physical, emotional and social care to 73 children and young people deprived of a safe family environment.

Twenty-five years ago Santander became a founder member of the **CEBI Foundation**, whose aim is to support children, youths, the elderly and disadvantaged families. Of its activity, emphasis is given to the promotion of education and, additionally, the CEBI accommodates 39 children at risk, victims of abandonment and abuse.

In 2018 the Bank renewed its support for **Centro Juvenil e Comunitário Padre Amadeu Pinto** (CJCPAP) located in the social housing districts of Monte da Caparica and Pragal, whose mission is to support 90 children and young people in a vulnerable situation, as well as their families.

Santander in Portugal again took part in the **Schools Project**, having granted academic-merit scholarships to the best students of the schools of the Autonomous Regions of Madeira and the Azores. Also as part of early childhood education, the Bank promotes the **Design the Future** career-guidance digital platform, which allows training offers in Portugal to be crossed with the profile and vocation of youths, in order to help them make the best academic and professional option in keeping with market needs.

The **Generation Orchestra** programme, focused on social development through music, also relied on the support of Santander. Through the creation of orchestras at 1st, 2nd and 3rd cycle schools, this programme aims to contribute to a more harmonious growth of children, broadening their perspectives of life and encouraging greater social mobility.

Support for the elderly

Santander supports programmes that combat the isolation of the elderly and encourage an active aging model. Examples include the **Associação Mais Proximidade Melhor Vida** dedicated to supporting the elderly population in Downtown Lisbon and Mouraria districts of Lisbon, or the **Associação Coração Amarelo** and the CEBI Foundation, which are also engaged in taking in and supporting the elderly.

Other programmes that support the elderly and needy population in which Santander is involved are the **Country Mission**, consisting of university volunteer groups from various colleges who travel to rural areas to provide support to local populations, and the **Tomás Mission**, in which teachers and students of the São Tomás School support the community by performing different tasks or supporting children and the elderly.

Social inclusion

Santander continued to organise and support various initiatives in the areas of social and employment inclusion of people with disabilities or special needs, such as the Christmas Solidarity Campaign, undertaken with the LIGA Foundation.

The **LIGA Foundation** empowers people with disabilities, promoting skills, autonomy and quality of life through the provision of resources in the areas of vocational training, accessibility and the arts. By purchasing Christmas gifts produced by users of the Foundation, Employees, with the support of the Bank, gave a donation of 22,000 euros to LIGA, allowing the implementation of a new project in Occupational Activities Centre for promotion of deinstitutionalisation.

Other social inclusion programmes supported by Santander are the **"More Moving Moments"** Association, whose goal is the provision at no cost of beach wheelchairs for children with motor difficulties, and the Professional Integration Project of the Salvador Association, which promotes the professional integration of people with motor disabilities.

The **Portuguese Asperger Syndrome Association** (APSA) distinguished Santander as "Receptive Company" for promoting the social and professional integration of people with Asperger's syndrome. The Bank provided two training courses in different areas of the Bank for people having the disease.

In 2018, Santander has renewed its support for **EPIS - Entrepreneurs for Social Inclusion** through the attribution of 6 "Banco Santander Special Youth Scholarships". These scholarships aim to reward schools with professional integration and/or occupational projects for youths with special educational needs, in partnership with employers, which constitute good practices that can be replicated by other schools.

By supporting the Students with Special Educational Needs Support Office of the University of Porto (GAENEE.UP), the Bank contributes to the inclusion of students with disabilities. And in 2018 Santander also supported the 1st edition of the Training Course in **Digital Literacy for the Employment Market**, co-ordinated by the Santarém Higher School of Education and the Research Units of the Santarém IPO (Oncology Institute), for young people with disabilities.

Combating poverty and social exclusion

In 2018, the **1st edition of the "Who Does Well – Santander Participatory Donation"** took place, a project under which employees proposed and voted social or environmental projects to be supported by the Bank. Each of the winning organisations received a prize of 7,500 euros.

The four winning organisations are:

- **Acreditar** Association;
- **Semear** Project;
- Madeira Delegation of the CASA- **Support Centre for the Homeless**;
- **Memory Café Project**, of the Alzheimer's Association Portugal.

Given the quality of the projects presented, in addition to the four main prizes six honourable mentions were also awarded. The 15 finalist associations also received a course on Social Entrepreneurship, organised by IES - Institute for Social Entrepreneurship, for two people.

The **Social Innovation Award** was again supported by Santander in 2018. This initiative, which is in its second edition, aims to stimulate social innovation as an engine of growth and entrepreneurship, and to enshrine institutions that stand out for having innovative projects in the social and solidarity economy in the Madeira Autonomous Region.

Health and Sport

With a view to promoting a healthy lifestyle, sport and active aging, Santander organised and supported, throughout 2018, several initiatives such as the renewal of the sponsorship of the **Portugal Cycling Tour**. As part of this support, the Bank delivered **92 orthopaedic bicycles to the Santas Casas da Misericórdia** of each of the cities of departure and arrival of the different stages of the Tour.

Santander also promoted, in partnership with the **Portuguese Cardiology Foundation**, free cardiovascular screenings in order to raise awareness of the importance of prevention and control of cardiovascular disease risk factors.

The Bank complemented its support, already provided in the previous year, of the **Solidarity Login** initiative, through which, for each new login on the App or NetBanco, the Bank allocated 1 euro to the **Lisbon IPO**, up to a maximum of 30,000 euros. The funds raised were intended to support the project of for the remodelling and enlargement of the Bone Marrow Transplant Unit (UTM).

It also supported the **Porto Portuguese Institute of Oncology**, by associating with the solidarity concert organised to mark the National Breast Cancer Prevention Day, an action intended to raise awareness of the population of the importance of prevention and to humanise health care in oncology. Besides having granted direct support to the **Portuguese Association Against Leukaemia**, Santander also sponsored the ***Rock 'n 'Law*Concert**, to raise funds for **"Casa Porto Seguro" the Portuguese Association Against Leukaemia**, the objective of which is to take in people with blood malignancies and their families during the treatments.

Santander also supported the **Ponta Delgada Rotary Club** in the acquisition of a **van adapted for the transport of medicines and medical equipment to provide palliative care at home** for the São Miguel Island Health Unit, besides having made a grant to support that institution.

In the oral health area it again supported the **Mundo a Sorrir Association**, whose mission is to promote improvement of health care and oral hygiene among communities in a situation of socio-economic vulnerability.

Financial Education and Entrepreneurship

In 2018, more than **190** voluntary employees took part in financial education programmes at schools across the country. Through the Bank's partnership with ***Junior Achievement***, employees gave lessons to more than 3,300 Elementary and Secondary Education students.

Also under Santander's commitment to financial education, the Bank offers courses, workshops and master classes in financial education. Thus, within the scope of the **Santander Advance** programme for businesses, the Bank offers training through the Advance Management programme and the Advance Journey programme that the bank offers at no cost to employees both of customer and non-customer companies.

The Advanced Leadership and Social Entrepreneurship Programme, of the **Girl MOVE Academy** was another of the projects supported by Santander in the promotion of entrepreneurship. Girl Move is a foundation whose mission is to create a new generation of leaders in the service of the development of Mozambique, creating a movement of empowerment in the feminine through education.

Volunteering

Santander promotes volunteerism among its employees, a total of 335 employees taking part in these activities in 2018, representing a total of 3,156 hours dedicated to volunteering in company time.

Santander's volunteers took part in various initiatives throughout the year with different institutions, such as the **LIGA Foundation**, which empowers people with disabilities, in wish-fulfilment activities with **Terra dos Sonhos** and **Make a Wish**, as well as in the **13th Edition of GIRO - GRACE**, the country's largest corporate volunteer action.

Every year, a group of Santander volunteers helps produce products for the **Christmas Sale of the BIPP** (Parent to Parent Information Bank), which aims to ensure full inclusion of people with special needs into society and relies on the regular support of the Bank's volunteers.

In line with the Group's strategy and culture, the legal advice area launched ***Santander Legal Probono*** as one of its strategic challenges for 2018.

It is voluntary and unpaid work performed by a Law professional for the benefit of the community. It consists of free-of-charge advice and defence for non-profit entities in a socially vulnerable situation or that serve people or institutions in such a situation, and to non-profit institutions of a civic, cultural or educational nature that do not have the economic capacity to pay for legal advice.

With a view to encouraging volunteering in the university environment and to recognising the efforts of the most committed young people to society, in 2016 Santander Universities launched the **University Volunteer Award (PVU)**. The 2018 edition of this award attracted a total 57 candidacies from all over the country, mobilising 2,228 volunteers in causes of the most diverse areas, impacting on more than 36,000 beneficiaries.

Universities

The Bank has protocols with **52 of the main Higher Education Institutions in Portugal and, in 2018, awarded 1,100 scholarships** – merit, social support, mobility, research and internship.

Awards

Of the scientific and academic achievement awards, the following are to be underscored:

- University of Coimbra Prize 2018 – The University of Coimbra Award annually distinguishes a Portuguese national outstanding for a particularly relevant and innovative intervention in the culture or science areas.

  Historian, musicologist and professor Rui Vieira Nery was the great winner of the 2018 edition of the University of Coimbra Award, one of the most important distinctions in the areas of science and culture, having received a prize in the amount of 25,000 euros.

- Mário Quartin Graça Scientific Award - Fernando M. Martins, Manaíra Aires Athayde and Gil Correia were the outstanding winners of the 9th edition of this award in the categories of Economics and Business Sciences, Social and Human Sciences and Technologies and Natural Sciences, respectively.

  All doctoral theses have as a denominator common interest for the Universities of Portugal or Latin America or that result, in their preparation, from collaboration between Universities on both sides of the Atlantic.

- Santander Totta/ Universidade Nova de Lisboa Collaborative Research Award – This award aims to distinguish each year research projects to be carried out by NOVA junior researchers and involve at least two of the organic units of the University. In 2018, the prize was awarded to the "*Stress-induced neuroinflammation: mechanisms and implications for decision-making and performance*" project by Raffaela Gozzelino, of the NOVA Medical School - School of Medical Sciences, in collaboration with researcher Ana Margarida Grenho Ferreira, of the Faculty of Social and Human Sciences (FCSH-NOVA) and with researcher Pedro Neves, of the NOVA School of Business and Economics (NOVA SBE).

  The winning project investigates how neurological processes may explain the decision-making of people, particularly in situations of stress, also studying the influence of the presence of iron in that process.

- *Primus Inter Pares* Award – In 2018, the 15th edition of this Award took place, a partnership between Banco Santander and the *Expresso* weekly, which aims to identify the future leaders of the country, at company-management level. The 3 winners will now have the opportunity to take a Master's in Business Administration (MBA) at a prestigious Portuguese or international business school of their choice, offered by Santander. The winner of this edition was João Ramadas, graduated in Management at ISCTE and a Master's at Católica. Inês Cunha, with a degree in Economics and a Master's in Finance at Nova, ranked second, and Inês Santos, graduated in Management at Católica and a Master's in Management at Nova, came third.

- Young Researchers Award – The Young Researchers Award is an initiative of Santander and of the Iberian of Military History Association. It is a biennial award, which aims to distinguish an original work signed by a researcher under the age of 35 in the matter of Iberian military history of the 4th to 16th centuries.

Scholarships

In Higher Education, 1,100 scholarships and prizes were awarded, of which 676 social and merit scholarships, 213 Ibero-American and international mobility grants and 213 training grants.

- Programme of Internship Grants at SMEs **–** The Santander Universities Internship Grants Programme is an initiative through which more than 1,000 internship grants are provided for students of Portuguese Higher Education Institutions. In 2018, 213 grants were awarded to final year students and recent graduates, with a duration of 3 months at SMEs of high potential.
- Ibero-American and International Mobility Grants **–** Throughout 2018, Banco Santander provided, through Santander Universities, 211 mobility grants for students, teachers and researchers from Portugal in Ibero-American countries, involving an investment of half a million euros. The Mobility Grants Programme is implemented, through Santander Universities, in 10 countries of the Santander Group - Argentina, Brazil, Chile, Colombia, Spain, Mexico, Peru, Portugal, Puerto Rico and Uruguay – in order to foster exchanges between students and researchers from Europe and Latin America.

  The Ibero-American Grants Programme allows students to benefit from a 6-month interchange at a participating university. Teachers and researchers can take advantage of the Santander Research Scholarships Programme, which gives stays of 2 to 4 months for PhD students.

Entrepreneurship

In 2018, Santander Totta supported numerous Employability entrepreneurship projects, of which emphasis is given to:

- European Innovation Academy – The 2nd edition of the European Innovation Academy (EIA), the largest university programme on acceleration in digital innovation, was held in Cascais, with Santander Totta as exclusive partner with Higher Education Institutions and in the financial area. The EIA brings together the best university students from prestigious American, Asian and European universities in order to create market-leader technological start-ups. The initiative involved 600 participants from 123 universities of 44 nationalities. From Portugal there were more than 100 participants from 26 universities and polytechnics.
- Young Research meeting with the support of Santander Universities – More than **850 young researchers**, undergraduate and master's students, took part in the 11th edition of the University of Porto Young Research Meetings (IJUP), supported by Santander Universities.

  A total of 415 research papers were previously assessed and selected by a scientific committee comprising professors and researchers of the fourteen faculties of the University of Porto and of the research centres.

  Health Sciences, Biological Sciences, Chemistry, Engineering and Sports Sciences were the five areas most studied and investigated in the 2018 edition of the IJUP, which took place at the Medical Research Centre of the Faculty of Medicine of the University of Porto.
- University of Coimbra Explorer Programme – The Explorer Programme aims to foster young talent, entrepreneurial spirit and the development of innovative projects in a digital, open, collaborative environment. Under this project, 15 entrepreneurs had access to training, mentoring and networking activities during 5 months. The *Toal Ecobebidas* project of students Rita Santos and Daniela Costa was chosen as the best idea of the *Explorer Space* of the University of Coimbra. In addition to this award, the promoters were also elected finalists for the *Woman Explorer Award*. With this victory, the promoter of the project, Rita Santos, won a trip to Silicon Valley, wither se travelled with the other 52 best young entrepreneurs of the 19th Edition of the Explorer Programme.
- "The Future is Now" and has the support of Santander – Santander Day was held for the second time at the Instituto Superior Técnico (IST). Under the theme "The Future is Now", the objective of which is to present the initiatives supported by Santander Universities for the preparation of IST graduates and of new teaching staff.

  Santander Universities has supported a number of entrepreneurship and innovation initiatives and projects at the Instituto Superior Técnico, including the *Start up funds@Técnico* and the *Babson Build Program* – which took students to the Babson College in Massachusetts, in the United States – and involved special participation in the European Innovation Academy, held in Portugal for the second time.

  Presentation of the *E.Awards@Técnico - 2018 Edition* and delivery of the Técnico Business Cards prior to the delivery of the *Santander CA2ECTécnico 2018/19* Awards and the *TecInnov Santander 2018* Awards, with presentations of each of the nuclei of students responsible for the winning projects.

Promotion of Culture

For the 2nd consecutive year, Santander Totta, together with the Banco Santander Foundation, opened its art collection to the public through a sample under the topic of **"Landscape in**

the Banco Santander Collections". This exhibition was opened to the public at the historic head office of the Bank in Rua do Ouro, in Lisbon, and ticket sales reverted to the "Mais Proximidade Melhor Vida" Association, which combats loneliness and isolation of the elderly population of downtown Lisbon.

Santander supports several artistic and cultural promotion programmes, such as the **10th Edition of the Arts Festival**, a landmark at national level within the scope of the summer festivals and an anchor of cultural tourism in the Coimbra region.

Also in cultural context, Santander has renewed its status as **"Portuguese Language Promoter Company"** through the protocol signed with the "Camões - Co-operation and Language Institute". Under the agreement, the Bank offered scholarships to foreign students who attended Portuguese language and culture courses in Portugal.

Through a protocol signed with the **Albéniz Foundation**, in 2018 Santander began to support attendance by Portuguese students at the **Escuela Superior de Música Reina Sofia**, a centre of recognised international prestige specialised in training first-class musicians.

Recognising the importance of the **Faialense Theatre** as an economic agent that promotes the cultural and social dynamics of Faial Island, the Bank established a protocol with the municipal company Urbhorta, EEM, with a view to supporting the activity of this theatre. This support is part of a wider range of support to Azorean institutions that promote culture and sport.

Environment

Santander recognises that climate change is one of the biggest challenges that society faces and has developed energy-efficiency and consumption-reduction measures at all its premises, as well as promoting sustainable practices among its employees, to ensure a sustainable development of its business.

Promoting **best practices both internally and externally** has been a concern in the Bank's sustainability policy, through raising awareness and providing information to employees and the various stakeholders on the best practice to be adopted in favour of sustainable development. Environmental responsibility the covers more than 2,000 suppliers of the Bank and forms part of the approval model.

More efficient buildings

Measures to reduce energy consumption and efficiency:

Branches:

- Installation of occupancy sensors in meeting rooms, offices, toilets, back offices, archives and storage;
- Replacement of obsolete air-conditioning systems by others of lesser consumption;
- Regulation of the set point of the HVAC equipment;
- Adjustment of the lighting in keeping with the natural light index;
- Replacement of bulbs with more efficient ones;
- Use of renewable energy - micro-production- at 20 branches;
- Power reduction of the UPSs of the technical poles of the branch network;
- Remote control of HVAC equipment.

Buildings:

- Installation of natural-light and movement sensors (building and parking):
  - Presence sensors;
  - Time control of the lighting;
  - Control of the lighting by zones
- Replacing the lighting of the Santander Centre with a LED system;
- Installation of reflective film;
- Installing a free-cooling system for operation at outdoor temperatures below 20°C, shutting down the HVAC system;
- Regulation of the set point of the HVAC equipment;
- Renewal of HVAC equipment to improve efficiency;
- Time control of the HVAC equipment.
- Equipment turned off on holidays;
- Replacement of elevators in the operational headquarters by more efficient systems;
- Monthly monitoring of consumption.

Climate Finance

The Bank is committed to financing the transition to a low-carbon economy and more sustainable future.

At the end of 2018 Santander launched the **Santander Sustainable Fund**, which follows a reasoning of socially responsible investment (SRI) at companies that, besides traditional financial criteria, meet environmental sustainability, social responsibility and best governance practices criteria. At the same time, it follows a conservative investment policy, and the allocation of the fund's portfolio to 80% bonds and 20% of stocks is neutral.

Santander is a reference partner for investors in renewable energy technologies. The **Renewable Energy Loan** is a loan thought up for those who want to invest in alternative forms of energy, through the purchase of equipment that, besides being able to reduce their energy costs, is environmentally friendly.

Banco Santander is one of the credit institutions that signed the co-operation protocols with the Financial Innovation Development Fund (FITEC) for the provision of **Credit Lines for Energy Efficiency and for the Circular Economy**.

The review process for **Project Finance** operations or other corporate funding with known destination is as follows:

- For the financing operations for projects of a value equal to or greater than US$ 10 million, or corporate financing with a known destination with a total transaction value equal or greater than US$ 100 million, in which Banco Santander's position is not less than €50 million, an initial questionnaire is applied that is designed to establish the risk of the project in the socio-environmental matter (in accordance with categories A, B, C from highest to lowest risk, respectively);
- For projects identified with a greater risk (A and B) a more comprehensive questionnaire is filled in, adapted to the sector of activity. Similarly, a social and environmental audit is conducted on these projects (performed by independent external advisors). The process of application of the "Equator Principles" is periodically audited by the external/internal auditors. Sectorial policies extend the scope of application beyond the criteria collected by the "Equator Principles".

The year under review was the eleventh year of evaluation and classification in accordance with the guidelines of the "Equator Principles". During the year, Santander Totta took part in a Project Finance operation in the renewable energy sector. This operation totalled financing of €40 million for 52 MW of wind power, and was classified with a C rating in the notation of the "Equator Principles". Historically, fourteen Portuguese operations submitted to this process by Santander Totta were contracted and they all obtained the C classification.

In 2018, Santander Totta also took part, together with the European Investment Bank, in financing the construction of the new campus of the Faculty of Economics and Management of Universidade Nova, at Carcavelos.

Business Framework

International

The world economy in 2018 maintained a dynamic pace of growth, extending the recovery trend of the post-crisis period. However, it also showed signs of moderation, both because the economic cycle begins to reach a stage of maturity, and also because some of the economic risks already identified are beginning to materialise, such as trade tensions and the proximity of Brexit.

This deceleration has been incorporated into the latest projections of the International Monetary Fund, which, in the January 2019 update of the World Economic Outlook, revised estimated growth in 2018 to 3.7% (-0.2pp compared to the July scenario, largely due to greater deceleration of the activity of the advanced economies (-0.2pp) and, within the latter, in the zone euro (-0.4pp).

World Economic Growth

	2016	2017	2018
World	**3.3**	**3.8**	**3.7**
Advanced Economies	**1.7**	**2.4**	**2.3**
USA	1.5	2.2	2.9
Euro Area	1.8	2.4	1.8
United Kingdom	1.8	1.8	1.4
Japan	1.0	1.9	0.9
Developing Countries	**4.4**	**4.7**	**4.7**
Africa	1.5	2.9	2.9
Asia	6.5	6.5	6.5
China	6.7	6.9	6.6
Central and Eastern Europe	3.2	6.0	3.8
Middle East	5.0	2.2	2.4
Latin America	-0.6	1.3	1.2
Brazil	-3.5	1.1	1.3

Source: IMF (January 2019)

Projections for the emerging economies, at aggregate level, did not undergo significant changes, maintaining a healthy growth rate, with the slowdown in some economies and regions offset by the dynamic of others.

For example, the deceleration of the Chinese economy, which in 2018 recorded the lowest growth rate since 1990 (a 6.6% increase in real terms, but was the highest annual variation in absolute terms) was offset by the dynamism of other economies, such as the Indian, with an estimated growth of 7.3%, above the 6.7% observed in 2017.

China was particularly affected by trade tensions with the US and subsequent unilateral imposition of tariffs, as well as by the slowdown of the European economy.

USA, in turn, maintains a pace of sustained growth, also supported by the "fiscal shock" adopted in early 2018, which had positive repercussions on private consumption and on investment, even allowing an acceleration of growth, in y-o-y terms throughout the year, giving rise to a 2.9% average growth for the year. The expansion cycle is approaching the 120-month maximum observed from 1990 to 2000, which was the longest recorded growth cycle.

The lesser exposure of the US economy to international trade (exports account for 12% of the GDP) allowed partial immunisation of the growth against the risks associated with trade tensions. On the other hand, the fact that the US reached a trade agreement with Mexico and Canada – the so-called USMCA – to replace NAFTA has also contributed to minimisation of the risks.

However, there are still risks, as recently seen in the temporary shut-down of the Federal Government, in the "tug of war" between the Trump Administration and Congress (since January 2019 dominated by a Democratic majority in the House of Representatives) related with the construction of the wall along the border with Mexico.

Throughout 2018 the US Federal Reserve maintained its strategy of gradual removal of the stimuli, increasing the key interest rate four times, in movements of 25p.b., to the 2.25%-2.50% interval. In early 2019, following the greater uncertainty as to the future surroundings, the Federal Reserve changed its discourse in the sense of signalling that future changes of the reference rates and/or of the normalisation of the balance will be dependent on the evolution of economic and financial conditions, gaining leeway in this way.

In 2018 the Eurozone began a movement of slowdown of economic growth, which continued and in some cases even accentuated during the second quarter of the year. In annual average terms the GDP will have grown by about 1.8%, still above the respective long-term trend.

Initially affected by one-off factors, such as adverse weather conditions, growth also slowed by the combination of other factors. On the one hand, trade tensions with the imposition or threat of imposition, by the USA, of tariffs on products of importance for the European economy, such as cars, and the indirect effects of imposing tariffs on China. On the other, and also related to the car sector, a greater reduction of activity in Germany in the second half, also due to the ongoing discussion about energy transition and the use of diesel engines.

A third factor has to do with political issues, encompassing the so-called "yellow jackets protest" in France and the "dispute" between the new Italian government, consisting of a coalition between the League and the 5 Stars Movement, and the European Commission, about the evolution of fiscal policy. The intention of pursuing a more expansionary policy led to an upward movement of interest rates on sovereign debt in Italy and a consequent enlargement of the spreads against Germany. The ensuing uncertainty was reflected in a slowdown of economic growth in Italy. A third political factor has to do with Brexit.

	GDP	Inflation
Euro Area	**1.9**	**1.7**
Germany	1.5	1.9
France	1.5	2.1
Spain	2.5	1.7
Italy	1.0	1.2

Source: EC (February 2019)

Despite this background of heightened uncertainty, the European Central Bank began the process of "normalisation" of monetary policy. Initially, there was an announcement that the stimuli would be gradually reduced, especially at the level of the acquisition of financial assets programme. With effect as from September, the monthly volume of assets to be acquired was cut by half to €15 billion per month, and this programme ended in December 2018. On the other hand, and at the level of the reference interest rates, the ECB signalled that the minimum levels would remain "during the summer of 2019", and later added that the changes would be dependent on the prevailing economic and financial conditions.

Within the scope of the Brexit process, an exit agreement was reached between the **United Kingdom** and the remaining 27 Member States, along with a political declaration on the future relationship between the two economies, agreement about which has to be negotiated during the transition period ending at the end of 2020.

The withdrawal agreement, as of February 12, 2019, had not yet been ratified by the British Parliament. A "meaningful vote" on January 15 resulted in a defeat of the agreement and Prime Minister Theresa May was mandated to renegotiate the terms of the agreement, in particular the point on the border between Northern Ireland and the Republic of Ireland. The so-called Irish "backstop" assumes that under the 1998 Good Friday peace agreement there will be no physical border between the two Irelands, which assumes that Northern Ireland will remain in the customs union with the other 27 countries. The trade border would thus have to be between Northern Ireland and Great Britain, imposing an internal border within the United Kingdom. To avoid this situation, and until the future relationship with the EU is defined, the UK would remain in the customs union, and would be prevented from negotiating trade agreements with third parties, which is seen by Brexit supporters as a violation of the referendum results.

Despite the risks posed by this focus of uncertainty, in August the Bank of England again increased the main reference rate by 25p.b. to 0.75%, invoking the reduction of the unemployment rate and the increase of unit labour costs since, at the time, and despite a slowdown of activity in the early months of the year, economic growth was in line with the central scenario of the central bank.

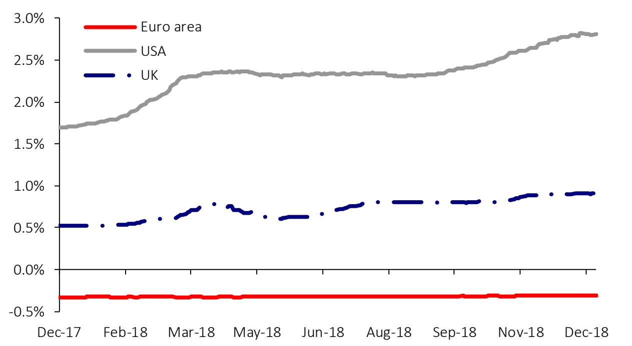
In the **emerging economies** economic growth stabilised, though with differing trends between regions. As mentioned above, the Chinese economy maintained the trend of deceleration, reflecting the combination of several factors. Besides the trade tensions with the US, structural issues also played a role, such as the demographic dynamic and the high level of indebtedness of the economy.

In Latin America activity maintained a moderate pace of growth. In an election year, ending a political cycle dominated by PT, **Brazil** grew by 1.3%, in line with the dynamic of the previous year, but still below potential. In **Mexico** growth also remained at a moderate pace, influenced by fears about the end of the NAFTA Agreement, which was replaced at the yearend by the new USMCA agreement (still in the process of ratification).

Normalisation of the monetary policy through an increase of the reference interest rates in the US and the United Kingdom was reflected in a rise in of **short-term interest rates**. In the US, the 3-month Libor rose to 2.9% at the end of the year, the highest since 2008. In the United Kingdom the Libor rate returned to the 2012 levels.

The divergence with the Eurozone, from the standpoint of the evolution of short-term interest rates became more pronounced, despite the fact that the ECB began the process of normalisation of the monetary policy. The indication that reference interest rates could remain unchanged "even during the summer of 2019" resulted in the stability of the 3-month Euribor interest rate.

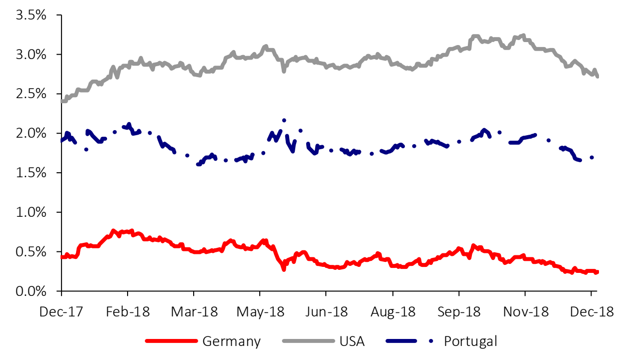
3-Months Interest Rates



Source: Bloomberg

In **Long-term interest rates** several dynamics were visible throughout the year. In the US, in line with the rise of the reference interest rates by the Federal Reserve and in a context of falling unemployment and acceleration of inflation, the 10-year interest rate rose from about 2.5% to about 3.2%, later correcting to around 2.6% in the context of fears of economic slowdown and increased volatility of the financial markets, shareholders in particular.

10 Year Bond Yields



Source: Bloomberg

In Germany the 10-year yield fell in an almost uniform manner throughout the year, to the lowest levels since 2017, in line with the signs of economic slowdown and despite the ECB having reported the end of its quantitative-easing programme. Part of this dynamic also reflected a movement of "flight to quality", especially as from May, when the new Italian government sought to change the orientation of the fiscal policy, which was not well received by the markets, with a general increase of long-term interest rates.

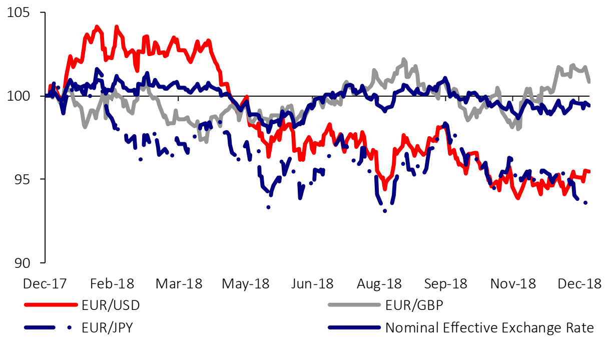
There were very limited contagion effects, but it did not prevent the spreads against Germany from rising from the minimums that had been observed during the second quarter.

In Portugal the 10-year spread against Germany stabilised at around 150b.p., slightly above the minimum observed in May. The upward revision of the Republic's risk notation to investment grade, by Moody's, which thus joined the other agencies in October, contributed to the relative immunisation of Portuguese debt compared to the dynamic of the Italian debt, resulting in a differential greater than 100b.p. favourable to the Portuguese debt.

In the **foreign exchange market** the euro showed a trend of depreciation against the major currencies, especially as from the second quarter. Against the dollar, the euro ended the year at around $1.15, a depreciation of about 5%. The rise in rates by the US Federal Reserve and the message conveyed by the ECB in June that the reference interest rates would remain unchanged for an extended period of time contributed to this evolution.

Sterling, in turn, and despite some volatility associated with the Brexit process, remained relatively stable against the euro, with a reduction of just 0.6%, to around 90p per euro, a level around which it has fluctuated since the 2016 referendum.

Main Exchange Rates
(Dec-2017 = 100)

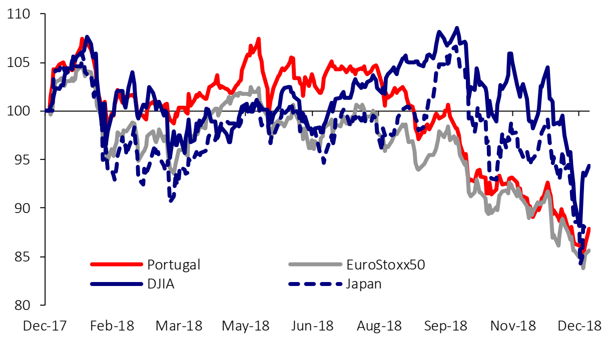


Source: BCE

At the end of the year, uncertainty regarding the evolution of the world economy resulted in a correction movement in some financial markets, with particular emphasis on the **equity markets**.

In the US, equity markets closed lower, but still above the minimum of the year, after having tested successive historic highs during the summer. In this field, trade tensions also impacted on investors' expectations.

Equity Markets
(Dec-2017 = 100)

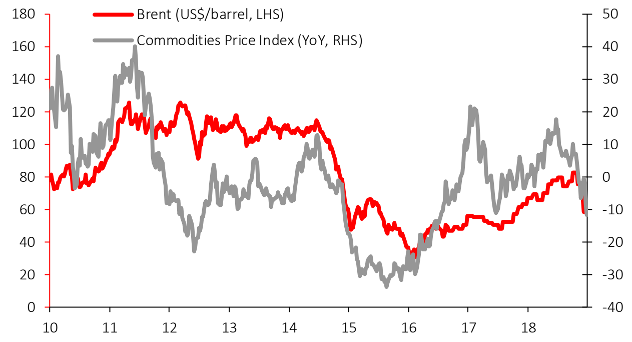


Source: Bloomberg

In Europe, the prevailing trend during the year had already been one of correction, especially influenced by the evolution of the financial sector. The successive downward revision of expectations of change of the reference interest rates influenced the prospects of development of banking results, adding to other factors and to the widespread risk-aversion observed in the closing months of the year.

Portugal was no exception in the European dynamic, with the PSI-20 down by about 12%. The banking sector was also affected, but there were corrections in sectors such as retail, construction and pulp and paper.

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



Source: Bloomberg

The price of **Oil** ended the year with a correction of about 11% to $59 a barrel, recovering to the levels of mid-2017, and accompanying the correction in other markets. However, it had shown an upward trend for much of the year, either by the reduction of production agreements, and by expectations of continued strong demand, having peaked at about $82.5 per barrel, the highest level since 2014.

A similar dynamic was recorded for other raw materials, from base metals to cereals, though to a lesser extent.

At the yearend **gold** was seen to be a refuge asset, having risen to about $1,282 per ounce after falling to minimums during the summer.

Portuguese Economy

The cycle of expansion of the Portuguese economy, which started in 2013, continued during 2018, but, and in line with the slowdown felt in the European economy, it started a trend of moderation, though still with growth rates above the long-term trend.

Macroeconomic Data

	2016	2017	2018
GDP	**1.9**	**2.8**	**2.1**
Private Consumption	2.4	2.3	2.5
Public Consumption	0.8	0.2	0.8
Investment	1.8	9.2	5.6
Exports	4.4	7.8	3.7
Imports	4.7	8.1	4.9
Inflation (average)	0.6	1.4	1.0
Unemployment	11.1	8.9	7.0
Fiscal Balance (% GDP)	-2.0	-3.0	-0.7
Public Debt (% GDP)	129.2	124.8	122.1
Current Account Balance (% GDP)	1.6	1.4	0.4

Source: INE, Banco de Portugal, Ministério das Finanças

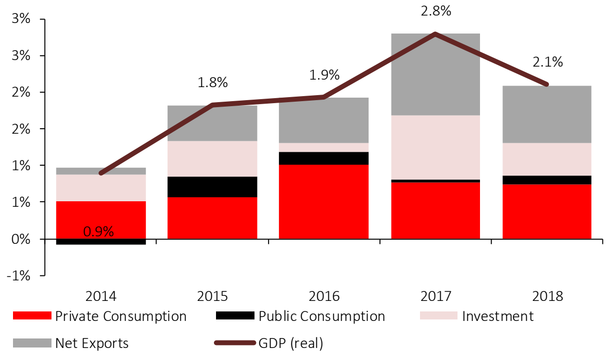
In 2018, the **GDP** increased 2.1%, a slight deceleration from the 2.8% observed in 2017, the result of a slowdown of exports which, however, together with investment, continued to be one of the engines of growth.

Private consumption remained relatively dynamic, with a growth of about 2.2%, in line with the evolution of recent years and underpinned by the fall of unemployment, which stood at 6.7% between the second and fourth quarters of the year. Expectations of an increase of car prices at the end of the summer, due to the new rules on measurement of pollutant emissions, resulted in an acceleration of the vehicle purchases in the second quarter, changing the intra-annual profile of household expenditure.

At **investment** level, there has been moderation, though maintaining a dynamic growth rate, the result of (i) a larger volume of capital expenditure in 2017, for example, with the renovation of the AutoEuropa assembly line; and (ii) a moderation of spending on construction, though still in a context of heavy investment especially in urban rehabilitation.

The installed capacity utilisation levels are in line or even above the historical average, which has proved positive for investment spending by businesses.

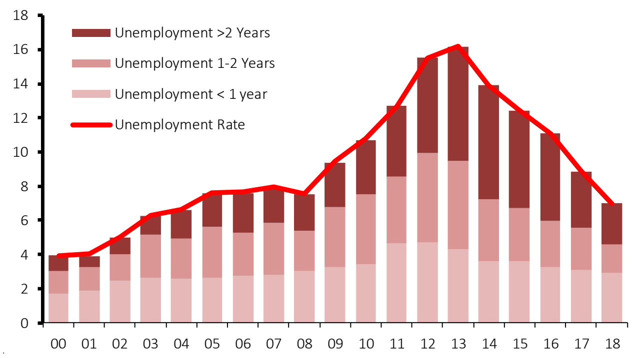
Contributions to GDP Growth (YoY)



Source: INE

As mentioned, the **employment market** continued to improve throughout 2018, with the reduction in the unemployment rate to the lowest level since 2008, at 6.7% (7.0% as an annual average), with a more pronounced reduction in longer-term unemployment. In 2018 over 78,000 jobs were created, mostly full-time and open-ended, increasing the sustainability of the recovery in this market.

Unemployment Rate



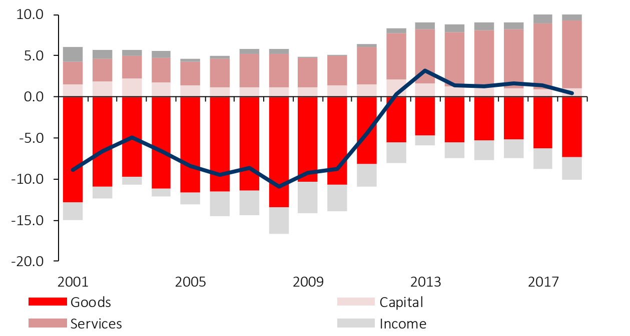
Source: INE

Despite the improvement of economic activity and of the employment market in the third quarter of 2018, the household **savings rate** decreased to 4.0% of gross disposable income, despite a similar growth of disposable income of consumption expenditure, the result of an acceleration of investment (in 2018, mortgage loan production amounted to nearly €10 billion, which had not happened since 2010).

Exports maintained sustained growth, despite a slowdown compared to previous years, largely due to one-off factors at end of the year, such as the strike at the port of Setubal, which penalised exports of cars by AutoEuropa (and lasted for almost the entire month of November).

Imports also slowed but, in 2018, grew more than exports, leading to a deterioration of the trade balance, but that was largely offset by the surplus in the balance of services. As a result, the current and capital account surplus has remained around 1.4%, in line with that observed in previous years.

Current and Capital Account
(% GDP)



Source: Banco de Portugal, INE

Exports of services continue to strengthen their surplus position, with a surplus of about 8.5% of GDP, largely the result of the tourism sector, exports of which now account for about 7% of GDP.

The correction of macroeconomic imbalances continued, with emphasis on the **reduction of the debt** of the economy, which stood at 199% of GDP (a reduction of 66p.p. compared to the maximum observed in 2012), for the private sector, though it continues to be high. In the fourth quarter of 2018, household debt had fallen to 71% of the GDP (50% of which relate to mortgage loans), while the debt of non-financial companies stood at about 130% of GDP.

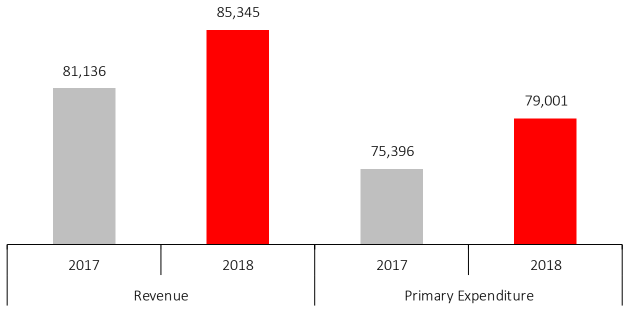
As a result of the full settlement of the IMF loan towards the end of 2018, the **public debt**, from the Maastricht standpoint, stood at 122% of GDP at the end of the year, a reduction of about 3pp from the previous year.

In 2018, a fiscal consolidation policy was maintained, with the **public deficit** falling to 0.7% of GDP, according to preliminary estimates, and below the target set of in the 2018 State Budget of a deficit of 0.9% of GDP.

The information, from a cash basis, shows that the better performance was the result of a revenue growth at around 5.2% (evolution identical as regards tax revenues), greater than the growth of the actual expense (4.5 %).

The State budget for 2019 envisages a budget deficit of the public administrations of 0.2% of GDP.

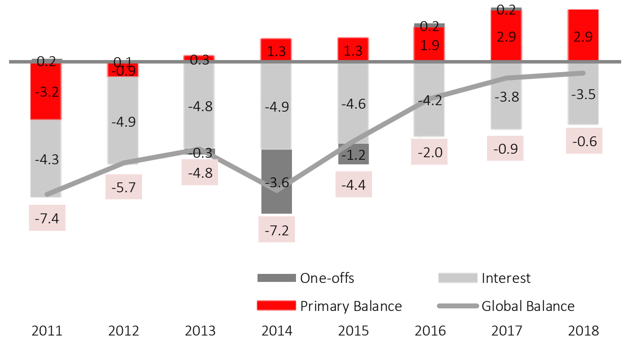
Current Revenue and Primary Expenditure
(€ mn)



Source: Ministério das Finanças

The better budget execution in 2018, coupled with the decline in the public-debt ratio and the investment grade rating notation by the leading rating agencies provided the public-debt interest rates with immunity against the tensions felt at the time of the dispute between Italy and the European Commission on the proposed budget for 2019. The 10-year yield at the end of January 2019 stood below 1.7%, a differential of less than 150p.b. against Germany (and with a negative spread of about 100p.b. against Italy).

Fiscal Balance
(% GDP)



Source: Ministério das Finanças

The Treasury maintained regular access to the international financial markets, obtaining medium- and long-term financing under more favourable conditions, allowing it to settle in full the IMF loan obtained under the Adjustment Programme negotiated with the EU, the ECB and the IMF. The IMF loan in the amount of approximately €26 billion was thus replaced in recent years by market financing with longer maturities and lower interest rates.

The Treasury also maintained its programme of placement of savings products for households, especially the issue of OTRV (floating-rate treasury bonds). This tapping of household savings had no visible impact on the volume of deposits of individuals with the national financial system, which, in 2018, increased by more than €5 billion.

In 2018 the Portuguese banking sector continued the comprehensive restructuring process, with emphasis on putting balance sheets in order and the reduction of non-productive exposures (NPE).

In the nine months to September, the stock of NPEs was reduced by almost €6 billion, leading to a reduction of the NPE ratio to 11.3%. This process continued in the fourth quarter, with several sales of non-productive portfolios. However, the ratio is still far higher than the European average of about 5%.

This process of management of non-productive exposures was one of the main determinants of the evolution of the credit aggregates, although there was an increase in volumes of new loan production: new corporate loans increased 9.5% compared to 2017, to €31.6 billion, and new mortgage loans rose 18.1% to €9.8 billion (the highest level since 2010, but still below the volumes recorded between 2003 and 2008).

Over the year as whole, the stock of loans to companies fell by 5% (with a reduction of about 40% in loans overdue more than 90 days), while the mortgage-loan portfolio will have stabilised.

Major risks and uncertainties for 2019

By definition, banking business involves risk management. In addition to the risks that are intrinsically linked to it, there is an additional set of risk factors that may influence the development of the business in 2019, such as the domestic and foreign economic surroundings, or the regulatory and supervisory framework.

Although the economic environment, as described in the previous chapter, has continued to evolve positively, there were some signs of a slowdown as a result of the several risk factors that are set to continue to condition the economic climate in 2019.

On the one hand, there are still geopolitical risks, with several conflicts in different parts of the world, current and latent, that contribute to a sense of risk aversion by the economic agents.

On the other, there are still risks of greater protectionism by some countries and/or economic blocs. The possibility of reversal of some important trade agreements or unilateral imposition of tariffs or other barriers to free trade may adversely influence the growth dynamic and, in 2018, have already had an impact on the volumes of world trade.

In Europe, there are still several risk factors. The European elections in May will be a new test, with risks of greater representativeness, in the European Parliament, of populist forces, with implications on the ability of a quick formation of a new team for the European Commission.

The effective time of the United Kingdom's exit from the European Union is scheduled for 11 pm of March 29, 2019. On February 14 the withdrawal agreement had not yet been approved by the British Parliament, rather it had been rejected, contributing to high uncertainty about the outcome, which is almost limited to the binary option between an exit without agreement or even no exit.

In Portugal, there are still several risk factors, one of the most important being the external environment, to the extent that growth has been led by dynamic exports, especially of goods, but also of services.

A reduction of foreign demand, if associated with a possible increase in risk aversion around the world, could influence investment dynamics, with repercussions both on employment and on possible demand for loans.

The budget constraint is still here, despite the reduction of the deficit to historic lows (target of 0.2% of GDP for the deficit in 2019) and the reduction of the public debt to GDP ratio to 122%. Despite the good performance, the Republic's risk notation is still, at some agencies, only at the first level of investment grade.

In 2019, there will be parliamentary elections, but the polls do not show a change of the current political framework, which could mitigate possible impacts on the investment uncertainty and dynamic.

With regard to the financial sector, the risks and uncertainties are associated, on the one hand, with a scenario of low interest rates, which continues to affect the profitability of the sector. Within the context of uncertainty, the European Central Bank may postpone the upward cycle of the reference interest rates, be it by postponing the first increase, be it by dilating over time a possible upward cycle.

Conversely, were the European Central Bank to start a faster rise of the reference interest rates, this could affect customer ability to meet their liabilities.

In 2019, the financial system, besides the profitability issues, will focus on the need to begin to comply with the minimum own-funds requirement and with the eligible liabilities (MREL - Minimum Requirement on Eligible Liabilities), as defined in the Bank Recovery and Resolution Directive (BRRD).

Also from the regulatory point of view, besides the current processes of alteration of the CRD IV/CRR, discussions were taking place on alterations to the calculation of risk-weighted assets (RWA). Additionally, there is the process of transformation of the sector, with the start of activities by some large techs in the e-money segment, which allows them to process electronic payments, in competition with the banking sector.

Business Areas

Commercial Banking

Individuals

In 2018, the business transformation strategy continued, based on simplification of processes and on the development of the digital platform, enabling the improvement of efficiency and of customer service quality. This strategy has been reflected in an increase of the number of principal Bank and digital customers, with annual growths of 10% and 32%, respectively. The number of digital customers, users of the App and/or NetBanco, grew by more than 82,000 in the period, or 42% of active customers.

The number of Mundo 1|2|3 customers, customers having an account, a card and insurance protection, exceeded 245,000, with a growth of more than 40,000 during the period. Mundo 1|2|3 is a multiproduct solution directed at the bank's retail customers that, in addition to the advantages of the 1|2|3 account, can provide an additional set of benefits, via cash-back in the Mundo 1|2|3| card account.

Mundo 123

29.4M€ *cash back* to customers	through the comprehensive discount program associated with the product.
246K clients Mundo 1|2|3	**with account, card and insurance, an increase of 40.1 thousand customers in the year 2018.**

Mortgage loans remained buoyant throughout 2018, with an increase of about 20% in new loans contracted and a market share of about 22%.

With regard to personal loans, **"CrediSimples"** was released in January 2017, a product only available on the digital channels, which accounted for 28% of production.

The evolution of the resources of individuals reflected the greater diversification of customer investments, the Bank having provided a set of savings-investment alternatives.

In December the **Happy** account was released, in order to attract new customers (up to the age of 20), accompanying them during their growth and relationship with the Bank. A number of services are associated with the account and it has no maintenance costs.

Loans granted to the Business/SMEs segment in 2018 were greater than last time, largely underpinned by the growth of the customer base having loans.

In Payment Means, the offer of different solutions for different customer segments continued. In the cards area, the focus is on the purchase of the credit and debit cards business of Wizink Bank, which were marketed by the branch network of the former Banco Popular Portugal, with a view to providing an integrated service to all the Bank's customers.

In the Individuals segment, placement was organised of the Mundo 1|2|3 card, an essential pillar of the Mundo 1|2|3 ecosystem and the profitability of the portfolio was promoted through various innovative initiatives to encourage the use of the cards and their associated services. In the Companies segment, the Advance offer was maintained in the areas of cards and POS, as was the preparation and provision of services that meet the transaction needs of these customers.

As regards the Private Banking area 2018 was seen to be a year of great challenges and difficulties for the global asset-management industry, with the vast majority of financial assets providing negative returns over the year. Even so, the goals set for the Private Banking of Santander in Portugal, particularly with regard to growth of the volume of the portfolios under management, growth of customer numbers and market share, and of the profitability of the business, were more than achieved. This evolution reflects the business model centred on the relationship of trust, proximity and transparency with the customer, through the offer of investment solutions based on a reasoning of diversification of the portfolios under management. The significant growth of volumes in mutual funds, financial insurance and management mandates, corroborate the trust that customers place in the Bank.

The inclusion of the Private Wealth division of the Santander Group allows the Private Banking of Santander in Portugal to achieve high quality investment product and service solutions, rendering the Private client increasingly universal, something within reach of a global Bank like Santander. This fact is materialised in the development of new technological platforms that allow ongoing improvement of processes, reflected in a better customer experience. In the wake of the growth seen in previous years, large numbers of customers also signed up for the digital channels, thereby enhancing their permanent link to the Bank.

For the 8th straight year Santander Totta Private Banking was distinguished as the best Private Banking operating in Portugal, according to *Euromoney* magazine, and also, for the 4th consecutive year, it achieved the same distinction by the *Global Finance* magazine. These awards acknowledge and enhance the quality of the teams and of the Bank's investment solutions.

Companies

Banco Santander in Portugal continued to support the business sector, with all the financial and non-financial offer, with a view to ever closer relations with customers through a number of programmes and initiatives and disclosure of contents in the Santander Advance site, which already has 9,100 registered companies.

The Santander Advance Companies programme thus maintains a leading position in the market for the number of non-financial solutions that it places at the disposal of Portuguese companies, which promote the employability of young people, ongoing training of their staff and employees, support for internationalisation and strengthening in the digital areas.

Santander Advance

696 Internships in companies	have allowed students the opportunity to have professional experiences in companies.
More than 2.000 Companies benefited	**in online and face-to-face training programs.** **6 initiatives of the "BOX - Santander Advance" in Porto, in Torres Vedras, Braga, São João da Madeira, Leiria and Santarém, in 2018.**

During 2018, six Advance programmes of Management in Academy were organised, two in Lisbon, two in Porto, one in Madeira and one in the Azores, for the intensive training of managers, managing directors, CFOs and CEOs of SMEs in the areas of management, leadership and finance, and also two Advance Journey programmes in Madeira and the Azores. These initiatives involved more than 300 companies, thus contributing to the strengthening of their competitiveness by improving the skills of their management staff and employees.

Also held were six "BOXs – Santander Advance", in Porto, Torres Vedras, Braga, São João da Madeira, Leiria and Santarém, consolidating the policy of proximity with companies, organisations, local associations and universities through exchange of experiences and opinions and knowledge sharing with all participants.

Also under the Santander Advance Companies programme, the Bank launched the "Connect Your Business" solution in order to further extend its value proposition and help companies in their digital transformation. This solution allows the creation of an App simply, quickly and cheaply, thus simplifying greater presence in the digital world and the ability to ensure greater customer loyalty, increase sales and stand out from the competitors.

Regarding the loan protocol, emphasis is given to the Bank's leadership in the SME Investments credit lines with a market share of 23% by value and 21% by number of transactions. Also in the "Capitalise 2017" line, the Bank is the leader with a market share of 25% in the system. It should be noted that in the IFRRU 2020 line the Bank has supported its customers in urban rehabilitation, in which it has the market's biggest line.

IFRRU 2020

Líder in number of contracts	for urban financing and rehabilitation.
767M€ available on the credit line	**Santander makes available 53% of the funds available in the IFRRU 2020 Line of Credit.**

Banco Santander in Portugal continues to have in its portfolio the largest Portuguese companies as users of cash-management products, having has strengthened its presence among the SMEs, with the inclusion of factoring and confirming customers from the former Banco Popular Portugal. This performance was achieved through the introduction of new products and solutions to the market, namely “Flexible Cash”, and the adaptation of the structure of the transactions to the increasingly demanding needs of businesses, as exemplified by the release of the new NetBanco factoring platform.

In 2018, the number of international business partner companies of Santander in Portugal increased by 4% compared to 2017 which was reflected in the 5% increase of the revenue of this business, with emphasis on the 4% increase of commissions, 84% of which correspond to trade-finance and cash-management business.

In the International Desk network the Bank attracted a significant number of foreign customers mainly originated in countries where the Santander Group is present, with a significant impact on direct investment in Portugal.

In 2018, the *Global Finance* magazine distinguished Santander in Portugal with the **“Best Trade Finance Provider”** award, as the preferred bank in setting up all financial transactions in support of the foreign trade of Portuguese companies.

Promoters and Estate Agents

The Promoters and Estate Agents area maintained the strategy of proximity with its partners of the external promoter and estate agent channels, seeking to suit their business models to market realities, particularly the changes arising from the entry into force of the Legal Credit Intermediaries Regime.

More specifically, and with regard to external promoters, the changes that have been introduced in the relationship with these partners were consolidated, involving rationalisation of the portfolios and of the clients attracted by them, while maintaining the concern to motivate them and with the ambition to contribute to the Bank’s results through various initiatives such as campaigns and contests that were based, in particular, on attracting and binding customers attracted through this channel.

The activity was fully involved in the process of transition of the Bank’s relationship with the estate agents channel to a new business model appropriate to the legal regime that introduced the credit-intermediary figure.

At the end of the year, it proved necessary to readjust procedures as a result of the extension of the transitional period laid down in Decree-Law 81-C/2017, which initially expired on 31/12/2018 but was extended until 31/07/2019. This extension covers only those entities that submitted applications for authorisation to the Bank of Portugal by 31/12/2018, thus allowing a very large number of current partners of the Bank to continue to collaborate with Santander pending the decision on the candidature process.

In parallel, the Bank was present at the SIL - Real Estate Fair of Portugal, the country’s major event of this sector and, like the external promoters, the activity was governed by the proximity with the partners, be it at conventions and events organised by them, be it in various work and clarification meetings related to the transition to the said legal regime.

Cross-Segment

In 2018 the Cross Segment was one of the main levers in attracting customers.

Of the main attracting factors the following are underscored:

- The commercial partnerships entered into through collective protocols in which the Bank grants advantageous financial and non-financial conditions for the employees of each company;
- The Bank’s size and the universality, which offers attractive solutions for customers of the different segments, be they companies or individuals;
- The provision of digital solutions that allowed disclosure of the solutions for each customer segment.

The articulation between the Bank’s commercial networks was instrumental in attracting individual customers and companies, allowing an increase of their tie and transaction capability.

Institutional Banking

The Institutional Banking segment includes (i) all public authorities except those that belong to the extractive, production and similar industries, and those that belong to the financial sector; as well as (ii) all private non-profit entities, ranging from religious institutions to entities that act in the social economy, regardless of the purpose of the services they provide to their users, involving a whole series of non-profit organisations in the sports, recreational, cultural, scientific, industrial, employment, professional and entrepreneurial areas.

The Institutional Banking business was based mainly on the support for Regional and Local Public Administration, meeting its needs, both in terms of credit and in terms of transactions, offering customers of this segment a diverse and innovative range of products and services.

Loans to customers in this segment stood at €1.389 billion at the yearend, with no major changes compared to 2017. Resources amounted to €1.309 billion, a growth of 35.3% compared to the previous year, the result of the Bank’s focus on increasing customer transactions with Santander in Portugal.

Omni-channelling

In 2018, Banco Santander in Portugal continued the implementation of the Multi-Channel Transformation Plan, in accordance with the strategy defined for the direct channels, in order to modernise, simplify and be closer to the customers, enabling and enhancing the offer of the Bank's digital services.

In this connection, new functions were implemented and improvements were made to the digital platforms, to broaden the offer and improve customer experience, significantly increasing adhesion to non-personalised channels and sales carried out via the channels.

Also ensured was the integration of customers of former Banco Popular Portugal, processes having been implemented for the migration of the digital customers to the Bank's platforms.

Public site

The strategy of redesigning the public website for individual customers was continued, focused on the conversion elements (call-to-action and/or online adherence) and content simplification. Investment in metrics tools and content-optimisation analysis (SEO) was increased.

Digital campaigns were drawn up for the online sale and generation of personal-loan leads and the "Digital Customer" contest and other pastimes were released in support of attracting digital customers.

Also noteworthy is the launch of the new public area for non-habitual residents in Portugal, new information aggregator pages of a didactic nature, new product information products pages, in particular for accounts, savings and funds.

In the area of the Companies public site, the Santander Companies App was promoted through videos and new contents. New pages were created with the presentation of credit lines to support the financing of companies.

The customised Mobile Apps service for companies and businesses was released and a new page was provided on the "Loose Talks" conferences as was the Santander Advance Box for Companies, with emphasis on the programmes, videos and press coverage.

The public site had an average of 1.2 million different visitors per month and more than 8.7 million views per month.

NetBanco

In the individuals segment 2018 was marked by an investment in improving customer experience in the use of the channels, by providing new features that make the channels the more practical and useful for digital customers:

- The App came to provide access to digital statements, as was already the case at NetBanco;
- The App's menus have been redesigned to allow easier access to features that are not available via the buttons of the home screen and the App's asset screen has been completely redesigned;
- The App's card area has been revamped to improve information about card balances and movements, and to ensure greater simplicity in the operations of each card (pay card, managing notifications, among others);
- Accounts in foreign currency were launched on the App;
- The information and descriptions of the movements have been improved, as has the information on the history of fund prices;
- In transfers, the customer has come to be informed in advance of the costs and execution times;
- At NetBanco, the (MiFID) knowledge and experience questionnaire was provided for private for clients;
- A questionnaire was provided on the App to assess customer satisfaction;
- From the point of view of product marketing, the most important milestones were the following releases:
  - Occasional consultancy service that generates for customers a range of investment opportunities available at Santander, resulting from answers given by them to specific questionnaires and from the analysis of the concentration of their assets;
  - "Domestic Services" insurance, a works accident insurance provided by Aegon Santander Portugal Não Vida – Companhia de Seguros, SA, geared specifically for domestic services.

In 2018, NetBanco Companies maintained a strategy of continuing to provide new functions, with a focus at all times on an intuitive design that will improve usability. Some functions are underscored:

- New form of login, simplified and secure;
- New TPA/POS management function, for queries, closes and statistics, by terminal or by group of terminals;
- New function for amortisations of guaranteed accounts;
- Access to NetBanco Companies, for customers, through the kiosks – e-Point, which are available at the branches and at the Companies Commercial Divisions;
- Immediate transfers;

- New leasing function;
- New factoring and confirming functions.

In October, the digital users of the former Banco Popular Portugal were integrated.

The Companies App, released in 2017, was clearly a priority throughout 2018, becoming a key means of attracting transactions and binding companies for its accessibility and ease of use.

Some functions are underscored:

- 4 forms of access: login with 4-digit PIN or fingerprint (touch ID) or Face ID (iOS) or through the usual NetBanco Companies codes;
- Approval of transactions pending authorisation;
- Push notifications for notice of pending transactions;
- Immediate transfers;
- Payments of services and to the State;
- Consultation of debit/credit card movements and cancellation;
- Consultation of loan details.

Contact Centre

Activity in 2018 maintained the growth seen in previous half-years, with a greater alteration of the contact mix and greater weight of the digital-channels support and incorporating the business of the former Banco Popular Portugal.

About 2.3 million contacts were made with customers, 74% were calls with human attendance, 14% calls with automatic attendance (IVR), and the remaining 12% were digital contacts (email, chats and answer to iterations on the pages and profiles of the Bank's social networks).

Contacts by companies at the Contact Centre have a weight of 10% of total activity.

The Contact Centre continues to be the main point of support for digital activity, not only as a point of support for doubt clarification and customer support, in particular in the process of subscription to the App and NetBanco, as well as in the promotion and derivation of customer activity to the digital channels.

During 2018, several functions were implemented, of which the following are underscored:

- GDPR directive support service;
- Confirming activity attendance centre;
- Pilot for rerouting calls of the branches of the Individuals and Business network;
- Compliance with the PSD2 directive, with emphasis on the launch of immediate payments;
- Implementation of various commercial actions to support the digital initiatives and campaigns.

Management of the Contact Centre of the former Banco Popular Portugal was transferred to the same space during the 1st half of 2018. As from October 14, and due to the technological integration, the attendance has been fully transferred to Santander's Contact Centre services, the previous lines having been discontinued.

During 2018, the evaluation by customers at the end of the call was extended to most services with average NPS (Net Promoter Score) figures of more than 80%, which represents high satisfaction with the service provided.

In May, the Santander in Portugal Contact Centre was considered the "Best Contact Centre of Portugal in the Financial Sector" – a prize awarded by the specialists of the sector, the Portuguese Contact Centres Association.

In November, it was considered the "Best Contact Centre of up to 150 workstations", in the Global Contact Centre – annual conference organized by the IFE.

International business – residents abroad

The residents abroad customer segment comprises two sub-segments: (i) Portuguese individuals resident abroad; and (ii) foreign individuals resident in Portugal having the status of non-habitual residents.

The main function of the customers resident abroad area is to support the Bank's individuals & 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 7 countries (South Africa, Germany, Canada, France, United Kingdom, Switzerland and Venezuela), as well in as in promoting and attracting customers and business among foreigners who choose Portugal to invest and establish their non-habitual residence.

In 2018, in addition to focusing on attracting new customers and on attracting and retaining remittances, the customers resident abroad area strongly intensified its work to raise awareness among customers of this segment of the importance of their accession to the digital channels of Banco Santander Totta (NetBanco and Mobile), thereby gaining access, simply and quickly, to the offer created specifically to meet their needs.

The Bank's presence in the various countries through representative offices, leveraged by the launch of the transfer campaign among customers resident abroad and by the financial soundness of Banco Santander in Portugal, has resulted in a significant increase in remittances from abroad, as well as in the enlargement of the customer base in this segment, thereby achieving good results both in attracting customers and ensuring their loyalty and in the evolution of the business volume.

Following the commercial strategy of proximity and multichannel accessibility with customers residing abroad:

- The digital channels were provided with new functions that allow an increase and broadening of the potential of online accession, consultation and product subscription, namely the subscription of funds and financial and life insurance, as well as consultation and subscription of savings products in foreign currency;
- Visits by branch managers and commercial managers to Portuguese communities abroad were organised. Additionally, visits were made by the heads of the representation offices to branches and estate agents in Portugal, allowing maximisation of business results and articulation with the commercial networks;
- Digital brochures were prepared for non-habitual residents and for Portuguese residents abroad, originally from Mainland Portugal, Azores and Madeira, for the purpose of strengthening communications and the Bank's position in this segment;
- The non-habitual residents public site was made available at NetBanco in Portuguese and English.

At the end of the year, the project for the closure of the London branch was finalised. To ensure continued support for the Portuguese community in the United Kingdom, the Bank is to open a representation office at the start of 2019.

Corporate & Investment Banking

Throughout 2018, the Corporate & Investment Banking area carried on its business, accompanying the trend of customers in exploring new investment opportunities. The loan portfolio increased by 5% y-o-y and operating income rose by about 3%, reinforcing Santander's presence and commitment to major economic groups in Portugal.

Within the scope of the strategy for the development of the Bank's services through the digital channels new features were introduced to the **eBroker** (Santander's online trading platform) and new initiatives were released with a view to accelerating the growth of the Bank's market share. At the end of 2018 a platform was made available to contract foreign exchange, which has permitted the extension of the offer of means for customers to better manage their needs for foreign exchange transactions. Throughout 2019 this platform will play an important role in improving the service.

The year under review was marked by the completion of several significant advisory and financing operations in a wide range of sectors such as renewable energies, transportation and logistics, beverages and telecommunications, among others, with emphasis also on various loans and refinancing in the renewables and real estate sectors, particularly shopping centres and property development for prime homes and tourism apartments.

In the bond markets, emphasis is given to Santander Totta's involvement, as bookrunner, in the inaugural issue of the NOS 5-year Bonds, in the issue of 10-year Bonds for the Autonomous Region of Madeira and in the securitisation of the tariff debt for EDP.

In Treasury the business of the Fixed Income & FX area revealed strong growth, primarily resulting from the increase of volatility in the major currency pairs (Euro-US Dollar and Euro-GBP), from the increase of foreign trade and from the reversal of the trend of interest rates, which, due to the progressive removal of some European Central Bank stimuli, presented an upward trend in the last quarter of the year.

In this connection the Bank intensified its contacts with customers, presenting risk-management proposals best suited to the needs of companies. This proximity resulted in a significant increase in the number of fixed-rate loan transactions, protecting the loans from interest-rate increases and, at the same time, in a significant increase of the number of foreign-exchange transactions.

In the Structured Products area, interest rates remained historically low, conditioning the diversity of structures presented to customers. Thus, during 2018 two structured financial insurances were marketed, of a total amount of €133.6 million and nine structured deposits (five issues denominated in euros and three in US dollars), the total amount of which standing at approximately €182.4 million.

In the Cash Equities area, despite a particularly negative year, especially in the last quarter of 2018, the Bank managed to strengthen its market share, according to the orders-reception statistics published by the CMVM (Securities Commission). The volume of orders received by financial intermediaries operating in Portugal fell by 20.1%, while at Santander in Portugal it grew by 21.8%. In the online market, the Bank grew by 13%, which compares with a market fall of 8.9%.

Insurance and investment funds marketed

Insurance business pursued a strategy of consolidation of the business relationship of proximity with customers, seeking to diversify the products from a multichannel and digital standpoint. In parallel, the Bank continued to foster a service attitude, with an intensive plan of after-sales initiatives aimed at ongoing improvement of service quality and customer experience.

Throughout year “Domestic Services Protection” insurance was released (1st protection insurance on the Santander App) as was “+Auto” via NetBanco. With regard to retirement savings plans (PPRs), the Bank continues to support its customers in preparing for the future and several PPRs were released, the amount of placements standing at about €350 million.

In the digital area, online contracting of “Safecare Protection”, “Life”, “Live More”, “Personal Accidents”, “Domestic Service” and “+Auto” insurance accounted for 37% of the total of these products and contracting financial insurance via NetBanco also performed quite positively on the digital channels.

In 2018, financial and risk insurance commissions accounted for 26% of the Bank’s total commissions. Commissions of autonomous protection insurance linked to loans made a contribution to results of about €80 million.

Relevant Facts after the close of the period

There were no relevant facts after the close of the period

The outlook for 2019

Despite a trend of deceleration economic activity is set to maintain a growth momentum, with growth rates converging to the potential, as the economic cycle consolidates.

In Portugal, the GDP will continue to grow close to 2%, while in Europe the slowdown is somewhat more pronounced.

Banks will thus continue to carry on their business in a context of moderate economic growth, while interest rates are set to remain low.

In the revision of the regulatory framework in progress within the European Union and with the formal announcement by the Single Resolution Board of the MREL (minimum requirements on own funds and eligible liabilities), with the consequent structural impact on the profitability of the financial institutions

For 2019, the main objectives continue to be the increase of market shares and customer loyalty, return on equity and turnover, at the same time as prudent management of the loan portfolio.

The integration of the former Banco Popular Portugal, concluded in October, will allow a strengthening of Santander's competitive position in the market as the largest private bank in business in Portugal, continuing to be the reference Bank in support for the community.

Santander in Portugal will pursue its strategy of support for the revitalisation of the Portuguese economy and of the companies, allied to a policy of strict control of risks with regard to the grant and monitoring of loans.

In the field of the commercial transformation process that is being implemented, the Bank will continue the policy of process simplification; strengthening the multichannel distribution model in order to provide a more complete and accessible service to customers; and making risk-management more agile, with models better suited to each customer segment, while maintaining prudent and rigorous management of the risks assumed.

Fostering a transparent internal culture, shared by all, with which employees can identify, while promoting collaboration between different areas, and the focus on the customer will also be one of the strategic priorities for 2019.

Business Support Areas

Human Resources

Santander's corporate objective is to be the best company to work for in the various countries where it is present. With this in mind, the Personnel Management lent continuity to the work begun in previous years, consolidating the process of cultural and digital transformation, promoting the value proposition to employees and strengthening measures to promote balance between personal and professional life.

The management dynamic is underscored in terms of adequacy of structures, process simplification and implementation of several corporate programmes that aim to strengthen employee commitment. Inspired by a programme developed for customers, which essentially aims to improve each point of contact of the customer with the Bank, Human Resources, too, took advantage of this synergy to develop a programme called "Employee Experience". This programme primarily aims to make the employees' experience in contacts with the organisation easier, digital, simple and pleasing, especially in the Personnel Management area.

As a lever for the promotion of the digital transformation improvements have been made to the **"We Are Santander"** APP and website – an App and site intended exclusively for employees, and continuity was also lent to the **Culture and Digital School**.

Within the scope of the Knowledge and Development area, attention is drawn to the induction training and acquisition of knowledge at operational and commercial level for employees of the former Banco Popular Portugal. Specific attendance programmes were created, involving a total of 27,393 hours and 860 attendees.

Accompanying the strategy and the priorities in terms of the business, specific programmes have been created, with emphasis on the programme for the preparation of the teams for the new branch concept: **Smart Red** and **Work Café**. Also noteworthy is the programme for business managers, comprising three pillars: risk, economic and financial analysis and behavioural aspects (Boost Your Impact) and the International business programme.

As regards the improvement of service quality, both internally and in relations with customers, a programme was constructed in e-learning format named **"Being 10 Having 10"**, consisting of 10 videos depicting real situations both in a branch environment and in central services, performed by 4,258 employees and totalling 8,516 hours.

In e-learning format attention is drawn to training in regulatory and compliance matters: prevention of money laundering, markets in financial instruments directive, insurance broker agent or reinsurance broker, euro note, prevention of employment risks and operational risk.

Within the scope of the Culture and Digital School, nine masterclasses were held, of which topics such as innovation, digital, robotics and risks are highlighted. Programmes were created for the acquisition of expertise in matters such as SAS, Scrum Master and HTML.

With regard to Leadership, the "Raise the Commitment Programme" was organised, involving 114 managers, the aim being to instruct participants in more effective management of their teams and to contribute to a better organisational climate. This component was crafted, in the open offer, with courses such as "Leader Coach", "Resonant Leadership" and "What is said without words", a total of 860 hours and 93 participants, with an average rating of 4.58 on a scale of 5.

To promote wellbeing and stress management courses were conducted such as: "Mindfulness", "Body Mind Flow" and "Bringing Performance to Human Capital". In the field of self-development the "Open Offer" was launched, consisting of five functional catalogues with an offer of 24 courses, broken down into 68 actions. Also in the field of Development, Executive Coaching programmes were organised for 31 managers.

The diversified offer in e-learning, which besides regulatory training includes technical and behavioural aspects, accounted for 46% of total training hours via the Santander Knowledge platform, thus responding more efficiently to individual needs and geographical dispersion.

Training in languages, Spanish, English and Portuguese, has allowed better adaptation in a context of interaction with customers and collaboration with other countries of the Group, totalling 5,526 hours with the participation of 110 employees.

In 2018, the part-funding programme, which supports employees who wish to improve their academic qualifications, sponsored 17 employees who attended undergraduate, postgraduate and master's degrees.

- No. of training hours – 163,345
- No. of training hours per employee – 32
- % e-learning training – 46%
- Overall evaluation – 4.03 (1- low to 5 - high)
- Investment in training - €2.15 million

In line with what has been done in recent years, a set of measures were drawn up, classifiable within the scope of the certification as "Family Friendly Enterprise".

The Nursing Office that is open throughout normal working hours, every working day, at no cost, was used as follows: 1,989 users, 2,917 nursing procedures and 594 consultations.

At the beginning of 2017, a free shuttle (mini bus) service was set up for employees of the Santander Centre. The Mini-Bus performs several daily journeys between Sete Rios, the Santander Centre and Miguel Bombarda, involving a wide-tanging timetable and several routes, both in the morning and the afternoon, to allow flexible management of timetables and to provide greater comfort and speed of travel. The Mini-Bus had an average of 322 users each day.

In January 2018, it was decided to increase the number of employees covered by benefits linked to the actual monthly salary. The limit established for access to the measures in force under the Family Friendly Enterprise was increased from €2,200 to €2,300, with regard, in particular, to the part-funding of season tickets, higher education fees for children of employees, support for the textbooks of the children of employees, supporting employees' ascendants, giving up smoking and weight-loss programmes.

There are more than 60 measures available to employees that meet the Bank's goal of being the best company to work for. The constant follow-up and monitoring of these measures, besides allowing their degree of accession to be assessed, also permit detection of their level of acceptance. Of the measures announced the following are underscored:

- Provision of €83 million, an amount higher than the €8 million established in the CBA (collective bargaining agreement) to meet the requests made in the mortgage-loan contest. 738 employees were covered;
- Offer of 174 birth kits;
- The convenience services in Lisbon and Porto received 544 requests from employees, permitting their release from personal tasks;
- Two programmes of activities for the children of employees were organised during the Easter and Christmas holidays, attended by 58 children aged 6 to 10 years;
- Offer of 4,141 Christmas gifts for children of employees;
- Grant of tuition-fee support (€310 per year per child) to 405 children of employees;
- Support through part-funding of health expenses to 21 children of employees with disabilities;
- Allocation of part-funding for medically-assisted reproduction treatment for 17 employees and spouses of employees;
- At the start of the school year, time-off was granted for employees to accompany their children on the 1st day of 1st-year schooling. This measure was enjoyed by 86% of employees of the eligible universe;
- 858 employees benefited from the part-funding of season-tickets (50% of the value);
- Ascendant relatives of 130 employees were supported.

The balance between work and family life is nowadays a need for companies and therefore Santander views the family of employees as a key pillar of this commitment. Bearing this measure in mind, there was a great focus on the Flex Friday measure, which allows employees to choose to enter at 8 am and leave at 3.30 pm, with a 30-minute meal break. A measure that allows them to bring free time forward and adjust family responsibilities or leisure. This measure already existed within the scope of the Flexiworking measures and, in 2018, it was made more dynamic through a communication and incentives campaign by the People Management area for the use of this measure, as is the case of the adjustment of the Mini-Bus timetable, which on Friday begins its journeys at 3.40 pm

Within the scope of the Diversity a number of best practices created in the past were followed up, of which emphasis is given to the creation of a gender-equality policy in which the principles, governing bodies, guidelines and quality and compliance standards are detailed for there to be, in fact, equal opportunities between men and women.

Another program to be underscored is the employability of people with motor disabilities, of the Salvador Association project, which aims to promote the integration of people with physical disabilities in society and improve their quality of life.

Additionally, and in order to strengthen the diversity factor, the possibility was also provided of three internships for people with Asperger's syndrome. These trainees ended their internship and, in 2018, came to have an employment contract.

One of the roles of the People Management area is to promote, encourage and consolidate the elements of the Santander culture and support the process of cultural and digital transformation through various tools:

- *StarmeUp*

  StarmeUp was launched at the beginning of 2017, a digital corporate platform of recognition that allows each employee to distinguish colleagues of all countries where Santander is present.

  StarmeUp is "Simple" – employees can assign stars on their mobile phone or on the website; it is "Proximate" – in that one can freely choose whom they want to distinguish regardless of the country of the addressees; and it is "Fair" –- because it recognises those who stand out for their actions that coincide with the values of the Bank.

  Monthly, each employee may assign 10 stars representing the eight conducts of Santander's culture: "I Promote Collaboration", "I Work with Passion," "I Promote Change," "I keep Promises," "I Show Respect", "I

Support People", "I Speak Clearly" and "I Listen with Attention."

In terms of accession, 73% of Santander in Portugal employees have already registered with *StarmeUp* and have assigned more than 50,000 stars.

- 2018 We are Santander Week

Every year in June, the Santander Group, in all countries, performs what is called the "We are Santander Week", which aims to strengthen the relationship between the teams, hierarchies, employees and customers.

In 2018, the week involved several concrete actions with emphasis on a masterclass on risk culture, promotion of greater proximity between the teams (with visits of the Bank's directors and managers of the bank branches) and the ceremony of recognition of 200 volunteers who took part in the Junior Achievement Programme during the 2017/18 school year and carried out the various programmes of the institution.

- We Are Santander App and Website

At the beginning of 2017, a digital multi-device was developed and implemented with all the tools and benefits offered by the Bank, which allows employees to access the **We Are Santander** App and website.

The We Are Santander App and website, as a communication support addressed to the Bank's employees, is part of the cultural and digital transformation component, providing information on everything that relates to and is of interest to employees, in a digital manner, providing a number of functions such as seeing the details, triggering the action, sharing information and seeing concrete examples.

Through a smartphone, tablet or computer, employees can access all the advantages at their disposal, such as consulting measures, documentation, schedules, requesting benefits and signing up for initiatives, thus allowing greater speed and convenience.

In 2018, several functional improvements were introduced, as were contents, with emphasis on the introduction of a new area in the App, in the BeHealthy menu, with healthy tips ranging from examples of workout plans and physical exercise, to quick and healthy recipes and muscle-recovery exercises. This area is developed in partnership with a chain of gyms that provides the contents prepared by professionals in each specialty. Additionally, and still in the health field, a chat Bot was included, which, through geolocation of each employee, indicates nearby places to carry out physical exercise. The chat Bot also answers questions about benefits or employment issues, such as absences for parenting, procedures in case of vacation or communication of the birth of a child.

- BeHealthy Programme

Santander has a corporate programme that aims to position the Bank as the world's healthiest company. This programme is called **BeHealthy** and aims to promote and create healthy lifestyles for employees

Under this programme and in connection with the World Health Day, which was celebrated on April 7, the corporate area challenged the countries to organise local initiatives to promote health and well-being during the week of April 9 to 13, with emphasis on the organisation of races and hiking, a healthy cooking workshop and wellness scans.

- Excellence Award

This measure aims to distinguish, at an award ceremony, employees' children who stood out for their school performance in secondary education. In the 2017/2018 school year, 48 youths, children of employees, with averages of 20, 19 and 18 marks respectively, were awarded top of the range computer equipment, involving a total investment of 111 000 euros by the Bank.

Following what has been done in recent years, and in line with the values of the Bank that wants to be increasingly Simple, Close and Fair, a set of measures was implemented and strengthened that fall within the scope of the "Family Friendly Enterprise" certification.

Since 2017 the Bank has decided to increase the "minimum wage" at the Bank from €1,000 to €1,200, which means that no employee of the Bank earns less than this amount (€1,200 actual monthly wage). This measure was extended to employees of the former Banco Popular Portugal incorporated into Santander with effect as from January 2018.

Global Commitment	88% Employees know what they have to do to build a more Simple, Close and Fair Bank	94% Of the employees consider their work useful and meaningful
93% participation	89% Of the employees feel proud to work at the Bank	

Other indicators

Employees:

- % Female – 44.7%
- % Male – 55.3%
- % Female Managers / Total Managers – 32%
- Academic Qualifications – Higher Education 55%
- Average age – 45.2

Technology

The operating focus, in 2018 centred on the inclusion of former Banco Popular Portugal, with optimisation of processes, reduction of operating costs and increased customer satisfaction.

In October 2018, the technological integration of the former Banco Popular Portugal into the Santander platform was concluded successfully. As from that moment, there is no longer any operational distinction and all services came to be provided via a single system. Most of the resources and efforts were directed in this sense, and the migration of all portfolios and processes of the former Banco Popular to Banco Santander in Portugal were implemented within in the time frame set, with no significant impacts and through a fully transparent process for the customer.

The Network Means area played an active role in the activities associated with the integration of the former Banco Popular, particularly in those actions impacting on the commercial network, mapping procedures and controls in place at that Bank, certifying the operational and systems tests as well as training the respective employees . In the implementation phase, it accompanied and directly supported the network business units, making several visits to the network business units in order to assess compliance with the established procedures and controls, having performed the local training activities deemed necessary.

During 2018, the area devoted to digital transformation, led by the business areas and strongly supported by Technology, continued and strengthened its activity, settling and evolving in the Agile/Scrum methodologies implemented in 2017, with a view to providing the Bank and customers, using the latest technological resources, with new processes/ functions/ products or rendering existing ones more efficient and robust. Examples of this are the implementation of applications for the proving of wills and for attachments, the implementation of new functions on the E-Broker platform, on the account opening/ customer App or on the price approval and limits platform.

Nevertheless, in the two technology fronts mentioned above, the digital challenge in banking and the integration of the former Banco Popular, compliance with all the requirements of a legal or regulatory nature that have been applied to banking in general was also assured, as was the implementation of recommendations arising from internal and external audits and of projects of a corporate nature sponsored by the parent company.

In the matter of security and technological risk, the team's resources were strengthened in the core areas of cybersecurity. In the cyber space there are no physical borders and, accordingly, Santander joined the national Computer Security Incident Response Team network, leveraging its incidents response capacity and agility. From a likewise collaborative perspective, emphasis is given to the participation in yet another edition of the most relevant national cyber exercise, the *Cyber-Perseus,* having adopted a robust framework of cybersecurity policies on key aspects such as IT requirements, services, operating model and employees. Since the promotion of cyber-culture within the organisation is also essential, several activities were drawn up focused on awareness, cyber-workshops and training throughout the year. The Cybersecurity team continued to support the business areas in the design of projects to ensure *the* cyber-resilience of the entire organisation.

At Data Governance level, the CDO (Chief Data Officer) has been working in collaboration with various areas of the Bank (risks, accounting, capital, compliance, operations, among others) to ensure the ongoing development of the data governance model, as well as the evolution of the Bank's data-quality model, with emphasis, in 2018, on the work carried out within the scope of regulatory reporting consistency.

Quality

Throughout 2018, continuity was lent to the cultural transformation strategy the strategic axis of which, at customer level, is to consider customers as the core of the business, providing them with a service of excellence.

The driving force of this cultural transformation is the "**Only the 10 complete us**" concept, through which the intention is to raise awareness and to transmit the public commitment that the Bank's professionals only consider themselves fulfilled, their mission accomplished, when all stakeholders, especially its customers, value and classify them with the highest score of the rating scale (10).

To this end, the professional and behavioural training programme was launched, of mandatory attendance and assessment for all employees, in film format, given via e-learning, "**Being 10, Having 10**", which features most of the situations and challenges of everyday banking activity, teaching performance techniques appropriate to the Bank's service and quality concepts.

In 2018, emphasis is given to the inclusion of the former Banco Popular, with acculturation of the employees in the "Santander Way" of being a Simple, Close and Fair Bank.

With regard to the positioning against the competition, the annual satisfaction poll of the individual customers shows that, in 2018, the goal was met of remaining in one of the top three places, keeping notation figures in line with the Bank's positive history, despite the impact of the inclusion of the former Banco Popular with the restructuring of the physical branch network and the integration and movement of customers. In the company customer segment, the respective specific benchmark study concluded that the Bank also met the TOP 3 goal, and was ranked first.

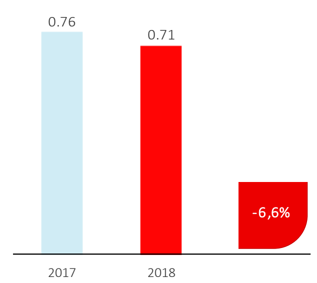
In 2018, the Bank improved and innovated in tools and methodologies, with universal polls associated with events and main customer experiences, with customer-journey methodological approach and recourse to communication technologies in order to evolve into a systematic and complete assessment of all customer interactions with the Bank.

The programme of evaluation of the business units of the commercial networks, which classifies each with the award of “stars” (from two to five, depending on the respective results in relation to a very complete and sophisticated range of attributes), found 70% of branches of excellence (for having 4 or 5 stars) and a significant reduction in 2-star branches, which mirrors the performance-asymmetries correction policy that has been followed with a view to an overall improvement of the network.

In the Companies network, 85% of the Commercial Divisions are excellent (4 or 5 stars). With regard to the evaluation of the Bank by the customers in the matter of service-quality attributes and customer experience, the main indicators of 2018, with a 9 and 10 rating (very satisfied), are: Satisfaction with the Bank - 51%; Recommendation - 52%; Simple - Bank - 46%; Close Bank - 61%, and Fair Bank Fair - 44%, an improvement compared to the performance in 2017, comparing very positively with the reference results of Portuguese and international banking, showing that the Bank is on the right track for its affirmation as best commercial bank, the one preferred by the customers.

The Bank’s quality management system obtained recertification in accordance with the ISO 9001-2015 standard, which means that it complies with the reference standard in the matter of best quality management practices. Banco Santander continues to be the only banking institution in Portugal with certification of all its activities in accordance with this standard.

Nº OF COMPLAINTS / CUSTOMERS*

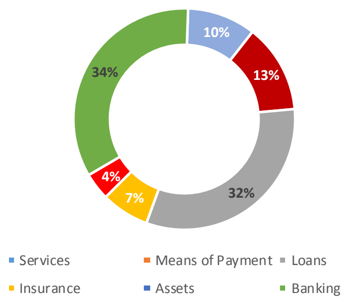


* For every 10,000 customers

With regard to customer-dissatisfaction management, there was no significant change compared to 2017, despite the impact of the inclusion of the former Banco Popular Portugal and the subsistence of still high levels of dissatisfaction originated in the former Banif customers. This was achieved by the significant reduction of the dissatisfaction with the Santander Totta service, including the positive effect on the improvement of operational processes and on the customer journey that concentrated the intervention efforts of the Customer Experience area.

Those matters subject to the greater number of complaints are unchanged from previous years and are common to the entire banking system, according to the Bank of Portugal’s reports on behavioural supervision, namely: current accounts (closing and commissions), mortgage loans, non-performing loans and cards, with a preponderance of criticism of process fluidity, information on product and service conditions and non-performing loan negotiation.

TYPOLOGY OF COMPLAINTS



Economic and Financial Information

Consolidated Business

Net income

€470 million (+11.6%)

Highlights in 2018

- The technological and operational inclusion of the former Banco Popular Portugal was finalised on October 14, having taken place in accordance with the defined strategy. Thereafter all services came to be assured through the Santander systems, in a full integration of the two groups;
- Santander in Portugal strengthens its position as the largest private bank by assets and loans (domestic business);
- The commercial and digital transformation strategy has been reflected in an increase of the number of principal Bank and digital customers, with annual growths of 10% and 32%, respectively;
- The annual evolution of the income statement reflects the impact of the inclusion of the former Banco Popular Portugal.

In 2018, Banco Santander in Portugal posted net income of €470.0 million, 11.6% more than the figure for 2017, equivalent to a return on equity (RoE) of 12.8%.

The efficiency ratio stood at 50.6%, the result of a growth of 6.3% of net income from banking activities and of 16.8% of operating costs.

Loans and advances to customers (gross) amounted to €40.7 billion, a decrease of 1.7% compared with the same period last year, influenced by the sale of non-productive portfolios. Excluding this effect, loans and advances to customers would have stabilised. Loans to individuals grew by 0.5% and loans to companies fell by 6.0%.

The Non-Performing Exposure ratio stood at 4.0%, with a coverage by provisions of 51.0%.

Customer resources totalled €39.9 billion, an increase of 6.7%, determined by a 5.6% increase of deposits and a 13.2% increase of off-balance sheet resources.

The (fully loaded) CET1 ratio stood at 13.6%, above the minimum required by the European Central Bank under the SREP - Supervisory Review and Evaluation Process.

The reserve of assets available to immediately obtain liquidity totalled €9.0 billion at the end of 2018.

The funding obtained from the Eurosystem, in the amount of €3.1 billion, remained stable compared to the end of last year, based exclusively on long-term instruments (TLTRO). At the end of 2018, the Bank reduced the net exposure at the European Central Bank (receipts net of investments with this institution) to €1.5 billion compared to €2.5 billion in December of the previous year.

In short-term financing (repos), Santander Totta continued the diversification of counterparties policy, terms and type of collateral used for the purpose, closing 2018 with an amount of €2.0 billion euros.

The LCR (Liquidity Coverage Ratio), calculated in accordance with the CRD IV rules, stood at 152%, meeting the regulatory requirement on the fully-implemented basis in force in 2018.

In 2018, Moody's increased the rating notations of the Bank's deposits to Baa2/P-2 and of long-term debt to Baa3/P-3. The DBRS agency raised the Bank's long-term rating from A (low) to A. The Bank's current long-term debt financial notations in comparison with those of the Portuguese Republic are as follows: Fitch - BBB+ (Portugal - BBB); Moody's - Baa3 (Portugal - Baa3); S&P - BBB - (Portugal - BBB-); and DBRS - A (Portugal - BBB).

The income statement and the balance sheet include the impact of the inclusion of former Banco Popular Portugal, following the acquisition and merger operation carried out at the end of 2017.

Results

CONSOLIDATED INCOME STATEMENTS (million euro)	2018	2017	Var.
Net interest income	**866.7**	**699.4**	**+23.9%**
Income from equity instruments	1.6	2.9	-45.0%
Net fees	376.2	326.3	+15.3%
Other operating results	(21.8)	(14.2)	+53.4%
Commercial revenue	**1,222.7**	**1,014.4**	**+20.5%**
Gain/losses on financial assets	(17.7)	118.9	-
Net income from banking activities	**1,205.0**	**1,133.3**	**+6.3%**
Operating costs	(610.0)	(522.3)	+16.8%
Staff Costs	(352.9)	(308.7)	+14.3%
General Administrative Costs	(215.8)	(176.5)	+22.3%
Depreciation in the year	(41.3)	(37.1)	+11.4%
Net operating Income	**595.0**	**611.0**	**-2.6%**
Impairments, net provisions and other results*	62.7	(38.2)	-
Result from Associates	7.2	6.3	+14.5%
Income before taxes and non-controlling interests*	**664.9**	**579.1**	**+14.8%**
Taxes*	(215.2)	(157.9)	+36.3%
Income after taxes and before non-controlling interests*	**449.7**	**421.2**	**+6.8%**
Non-controlling interests	0.2	0.0	>200%
Non-recurrent results	20.1	0.0	+100.0%
Consolidated net income attributable to the shareholders of BST	**470.0**	**421.2**	**+11.6%**

Note: The accounting policies used in the income statement for 2018 are consistent with those used in 2017, except those resulting from regulatory changes that came into effect on January 1, 2018
* Excludes non-recurrent results

Net interest income totalled €866.7 million, an increase of 23.9% compared to the figure determined at the end of the previous year.

Net fees stood at €376.2 million, an increase of 15.3% over 2017, influenced by the favourable evolution in various business segments, such as account management and maintenance, payment means, funds marketed by the Bank and insurance.

Other operating results amounted to -€21.8 million, including the cost of €22.2 million of the Bank's contribution to the resolution fund (€14.7 million for the Single Resolution Fund and €7.5 million for the National Resolution Fund).

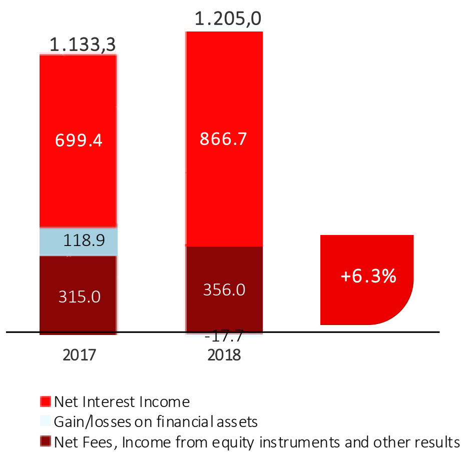
The commercial revenue, in the amount of €1,222.7 million, rose 20.5% over the amount determined in 2017.

Net income from banking activities amounted to €1,205.0 million, up 6.3% compared to 2017, with a 20.5% increase of the commercial revenue, which absorbed the entire reduction seen in the result of financial assets.

In the structure of the Net income from banking activities, it can be seen that the contribution of net interest income is preponderant at 72% (10 percentage points higher than a year earlier).

NET INCOME FROM BANKING ACTIVITIES

million euro



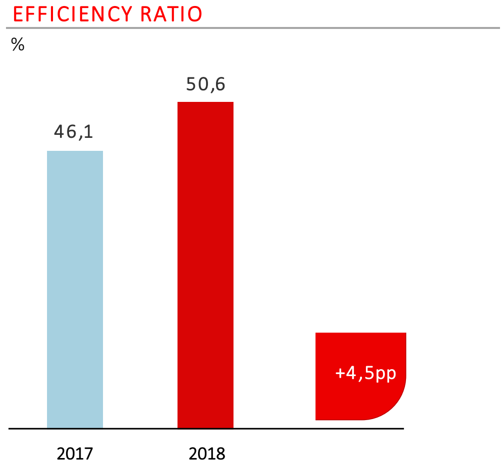
Operating costs amounted to €610.0 million, a y-o-y increase of 16.8%.

The increase of costs was transverse to all aggregates, reflecting the impact of the inclusion of the former Banco Popular Portugal. Staff costs totalled €352.9 million (up 14.3% in y-o-y terms). General administrative costs amounted to €215.8 million (y-o-y increase of 22.3%). Depreciation in the year totalled €41.3 million (up 11.4%, compared to the end of 2017). As regards the operating costs structure, it can be seen that staff costs account for 58% of the total operating costs, followed by general administrative costs at 35% and depreciation in the year at 7%.

Within the scope of the commercial and digitisation transformation, the Bank adjusted the size of the commercial network that, at the end of 2018, stood at 572 attendance points, 110 less than at the end of the previous year. Reflecting the improvement achieved in the optimisation of the structures, the Bank had 6,438 employees at the end of 2018, 339 less than in 2017.

OPERATING COSTS (million euro)	2018	2017	Var.
Staff costs	(352.9)	(308.7)	+14.3%
General Administrative Costs	(215.8)	(176.5)	+22.3%
Depreciation in the year	(41.3)	(37.1)	+11.4%
Operating costs	**(610.0)**	**(522.3)**	**+16.8%**
Efficiency ratio	50.6%	46.1%	+4.5 p.p.

The combined evolution of the net income from banking activities and operating costs led to a 4.5 percentage points change of the efficiency ratio, standing at 50.6% at the end of 2018, compared to the figure achieved in 2017.



Net operating income amounted to €595.0 million, a decrease of 2.6%.

Impairment and provisions performed well in 2018, with little default allied to conservative credit-extending criteria. The cost of credit decreased from 0.11% at the end 2017 to 0.01% in December 2018.

The result from non-current assets held for sale amounted to €21.1 million, due to real estate asset portfolio management operations and the result of associates recognised using the equity method amounted to €7.2 million, an increase of 14.5%.

Income before taxes and non-controlling interests (excluding non-recurrent results) amounted to €664.9 million, an increase of 14.8% compared to the amount determined for the same period of 2017.

Taxes (excluding non-recurrent results) amounted to €215.2 million, a y-o-y increase of 36.3%. Taxes include the special levy on the banking sector in the amount of €22.7 million in 2018.

The 2018 income statement includes non-recurrent results in the amount of €20.1 million.

At the end of 2018, the net income of Banco Santander Totta amounted to €470.0 million, a growth of 11.6% over the same period last year.

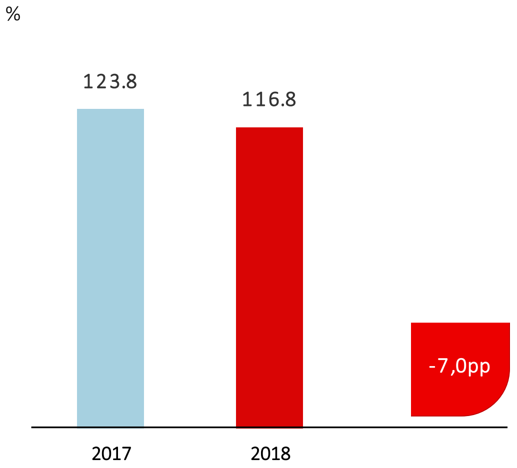
Balance Sheet and Business

At the end of 2018, business volume amounted to €80.6 billion, an annual increase of 2.3%, resulting from the 6.7% increase of customer’ resources, which offset the 1.7% decrease of loans and advances to customers (gross).

BUSINESS VOLUME (million euro)	2018	2017	Var.
Business Volume	**80,558**	**78,752**	**+2.3%**
Loans and advances to customers (gross)	40,691	41,374	-1.7%
Customers' Resources	39,867	37,378	+6.7%

The loan-to-deposit ratio measured by the ratio between net loans and deposits stood at 116.8% in December 2018, 7.0 percentage points less than the 123.8% in 2017.

LOAN-TO-DEPOSIT RATIO (Transformation ratio)



In 2018, the loans and advances to customers (gross) amounted to €40.7 billion, down 1.7% compared to the same period of 2017.

This was the result of the decrease in non-productive exposures through sales and write-offs of the loan portfolio, carried out throughout the year. Excluding the effect of these transactions, the portfolio of loans to customers would have been stable compared to the figure recorded a year earlier.

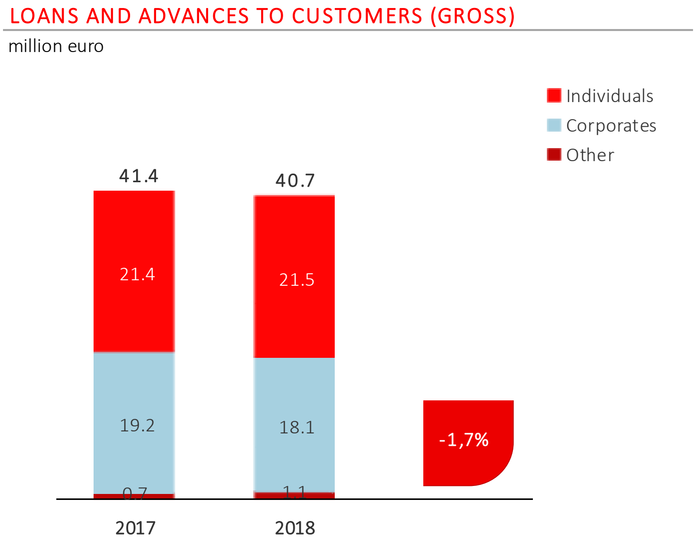
LOANS (million euro)	2018	2017	Var.
Loans and advances to customers (gross)	**40,691**	**41,374**	**-1.7%**
of which			
Loans to individuals	21,550	21,438	+0.5%
of which			
Mortgage	19,462	19,091	+1.9%
Consumer	1,635	1,598	+2.3%
Loans to corporates	18,051	19,194	-6.0%

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

Loans to individuals stood at €21.6 billion, a y-o-y increase of 0.5% in the past year, across its major components: 1.9% in mortgage loans to €19.5 billion and 2.3% in consumer credit to €1.6 billion. The market share of new mortgage loans stood at 22% at end of November.

Loans to corporates amounted to €18.1 billion, a decrease of 6.0% from last year, justified by the sale of non-productive portfolios. However, emphasis is given to Santander Totta's support for the country's business fabric, with a growth of 24% of the number of principal-bank customers, framed within a policy of greater proximity to customers, particularly in the non-financial offer of the Santander Advance Companies.

In the structure of loans and advances to customers, the individuals and companies portfolios accounted for 53% and 45% of total loans and advances respectively.



The Non-Performing Exposure ratio (NPE), calculated in accordance with the EBA definition, stood at 4.0% in December 2018, a decrease of 1.7 percentage points compared to the end of the previous year, reflecting the quality of the Bank's assets, underpinned by the strict lending policy, NPE coverage ratio standing at 51.0%.

CREDIT RISK RATIOS	2018	2017	Var.
Non-performing exposure Ratio	4.0%	5.7%	-1.7 p.p.
Non Performing Exposure coverage ratio	51.0%	55.4%	-4.4 p.p.
Cost of credit	0.01%	0.11%	-0.10 p.p.

In December 2018, customer resources amounted to €39.9 billion, up 6.7% compared to the same period last year.

RESOURCES	2018	2017	Var.
Customers' resources	**39,867**	**37,378**	**+6.7%**
On-balance sheet resources	33,938	32,137	+5.6%
Deposits	33,938	32,137	+5.6%
Off-balance sheet resources	5,929	5,240	+13.2%
Investment funds marketed by the Bank	1,926	1,944	-0.9%
Insurance and other resources marketed by the Bank	4,003	3,296	+21.4%

On-balance sheet resources stood at €33.9 billion, up 5.6% over last year. Deposits account for 85% of total resources, demonstrating the strong activity of the commercial network and customer confidence in the Bank.

Off-balance sheet resources stood at €5.9 billion, up 13.2% over December 2017. Investment funds marketed by the Bank in the amount of €1.9 billion decreased 0.9% last year, reflecting the adverse conditions seen in the financial markets and the consequent reduction of exposure to assets of this type. Insurance and other resources marketed by the Bank stood at €4.0 billion euros, advancing 21.4% over the amount carried in the same period last year, influenced by the acquisition of the former Banco Popular Portugal, which came to include the Eurovida portfolio in 2018.

Solvency ratios

At the end of December 2018, the Common Equity Tier 1 (CET1) ratio stood at 13.6% (fully implemented), complying with all the capital ratios required by the European Central Bank under the SREP-Supervisory Review and Evaluation Process).

CAPITAL (million euro)	2018	2017	Var.
Common Equity Tier 1	**2,717**	**3,120**	**-12.9%**
Tier 1 Capital	2,717	3,120	-12.9%
Total Capital	2,739	3,141	-12.8%
Risk Weighted Assets (RWA)	**19,980**	**21,863**	**-8.6%**
CET 1 ratio	13.6%	14.3%	-0.7 p.p.
Tier 1 ratio	13.6%	14.3%	-0.7 p.p.
Total Capital Ratio	13.7%	14.4%	-0.7 p.p.

Separate Activity

Banco Santander Totta recorded net income, in terms of separate accounts, of €475.5 million at the end of 2018, compared with €695.6 million for the same period last year.

Net income from banking activities amounted to €1,197.8 million in 2018, down 14.4% compared to the figure at the end of 2017. This evolution was determined by the 22.3% growth of net interest income and the 15.6% growth of net fees, though diminished by the 97.6% decrease of the income from equity instruments and of 97.1% of the results on financial transactions.

Operating costs amounted to €602.2 million, 15.9% higher that the €519.6 million determined in the same period of 2017. The efficiency ratio stood at 50.3% compared to 37.2% the previous year.

In view of the year's 14.4% decrease of revenues and of the 15.9% increase of operating costs, net operating income amounted to €595.6 million euros, a decrease of 32.2% compared to the figure recorded last time.

Impairment and net provisions were reconstituted in the amount of €55.2 million euros, compared with an allocation of €31.6 million last year.

The result of non-current assets held for sale amounted to €21.1 million.

Taxes (excluding non-recurrent results) totalled to €216.5 million, an annual growth of 42.7%.

The 2018 income statement includes non-recurrent results in the amount of €20.1 million.

Balance Sheet and Business

At the end of 2018, business volume totalled €83.6 billion, up 4.8% over the figure recorded in 2017. Gross Loans and advances to customers (€43.2 billion) increased by 2.5% in the past year, and customer resources (€40.3 billion) rose 7.4% (6.3% in on-balance sheet resources and 14.3% in off-balance sheet resources).

BUSINESS VOLUME (million euros)	2018	2017	Var.
Business Volume	**83,576**	**79,762**	**+4.8%**
Loans and advances to customers (gross)	**43,244**	**42,200**	**+2.5%**
Customers' Resources	**40,332**	**37,562**	**+7.4%**
On-balance sheet resources	34,520	32,477	+6.3%
Deposits	34,520	32,477	+6.3%
Off-balance sheet resources	5,812	5,086	+14.3%
Investment funds	2,270	2,408	-5.7%
Insurance and other resources	3,541	2,678	+32.3%

Solvency ratios

At the end of 2018, the regulatory Common Equity Tier 1 (CET1) ratio stood at 12.9% (fully implemented), complying with all the capital ratios required by the European Central Bank under the SREP-Supervisory Review and Evaluation Process).

CAPITAL (million euros)	2018	2017	Var.
Common Equity Tier 1	**2,561**	**2,651**	**-3.4%**
Tier 1 Capital	2,561	2,651	-3.4%
Total Capital	2,918	3,006	-2.9%
Risk Weighted Assets (RWA)	**19,848**	**21,762**	**-8.8%**
CET 1 ratio	12.9%	12.2%	+0.7 p.p.
Tier 1 ratio	12.9%	12.2%	+0.7 p.p.
Total Capital Ratio	14.7%	13.8%	+0.9 p.p.

Introduction

For Santander Totta 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.

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

The 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 behaviour and conduct that each has to embrace every day for proactive management of the sundry risks.

The Santander Totta risk management and control model is based on three lines of defence. The business and support functions constitute the first line of defence and are responsible for ensuring that risks are within predefined and approved limits. The second line of defence consists of the Risk Management Function and the Compliance and Conduct function, which independently supervise the activities carried out by the first line of defence. Lastly, the Internal audit is the third line of defence and regularly determines whether the policies, methods and procedures are adequate and are implemented effectively in the management and control of all the risks.

Credit Risk

In 2018, the activity of the Credit Risk Area maintained the following 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 risk admitted in each segment with a view to preserving the good quality of the loan portfolio;
- The inclusion of the assets and liabilities relating to clients of the former Banco Popular was carried out successfully and their internal allocation to the respective economic groups was undertaken. On these, and in line with the Bank's normal operative, as mentioned below, the Credit Risk area reviewed all the loan transactions that had been transferred, in those customers categorised as portfolio customers and reviewed of those standardised by the automated systems already in place;
- At the level of portfolio risks the policy was maintained of proximity with the customers in order to anticipate their credit needs, review their credit lines and detect possible problems in their repayment ability, including those resulting from the inclusion of Banco Popular;
- This action and the creditworthiness of the customers allowed the non-performing loans ratios to remain under control. The business support levels were intensified in attracting new good-risk transactions and customers, and improvements were implemented in the processes with a view to responding to customer requests more effectively and quickly;
- In portfolio and customer monitoring, the permanent focus was maintained on surveillance of lower-rating segments and on sectors that are, or expected to be, affected by the macro-economic context, with a view to mitigating the non-performing loan ratios. The policy of permanent review of the portfolio was maintained and intensified in the 2nd half of 2018 as a result of inclusion of new customers from the former Banco Popular, leading to the conclusion that the portfolio is analysed using appropriate criteria and the estimated impairment levels are also adequate;
- Customer monitoring and review meetings were held, the Bank's usual practice for the early detection of loan-portfolio alerts;
- Review, development and application of improvement measures in the management of the new-loan admission process, with the aim of increasing the quality of the customer service whenever they present new loan opportunities;
- As a result of the inclusion of the former Banco Popular Portugal network, several credit-risk identification and assessment tasks were finalised in respect of loan exposures, with a special focus on the major exposures. The process of temporary admission and monitoring of the transactions and customers of that network, in the Bank's models, was discontinued and the admission operative continued along the lines already implemented;
- 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, 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 recourse to behavioural systems for the identification of preventative and roll-over measures to be offered to customers;
- In order to foster commercial and cross-selling involvement of the customers and, at the same time, to increase the potential of attracting new customers, marketing campaigns were maintained for the Businesses segment, aimed at contracting new loans and customer retention and ongoing operations in order to compensate for the natural erosion of this portfolio;
- In a macroeconomic scenario, now less adverse, in which the nonperforming loan ratios are still important but less significant, a strong focus was maintained on recoveries activity, increasing intervention agility. Underscored is the activity of mass management of recoveries and permanent monitoring of special and judicial/extrajudicial cases;
- The policy of strengthening negotiations regarding payments in kind continued, so that, when they occur, the first focus will be to obtain payment in kind as an alternative to legal action;
- The process also took place of modernisation of the Recoveries area based on IT developments carefully pointed out by users as necessary, which aim to control the process from the entry into recoveries, relations with the lawyers and executive action;
- Surveillance was maintained of the work methodology with a view to optimising the various processes for the purpose of "stressing" the model, increasing the efficiency of the resources and the effectiveness of the actions to bring loan recoveries forward;
- In corporate risk management, ways were sought to provide adequate and timely management information, in order to allow 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 funds requirements, as well as their increasing inclusion in the management;
- Having studied the regulatory requirements, IT models and tools were developed for the application of IFRS 9.

Risk model

Introduction

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 retail-banking companies that are not portfolioed. 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.

Risk measurement metrics and tools

Banco Santander in Portugal uses its own in-house classification or ratings for the different customer segments 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 institutions and global wholesale banking segments, 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.

Credit risk parameters

Evaluation of the customer and/or transaction by rating or scoring constitutes an assessment of the creditworthiness, which is quantified by the probability of default (PD). In addition to the evaluation 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 as an additional business cost (reflecting the risk premium), and this cost is duly reflected in the price of the transactions. The calculation of the unexpected loss, which is the basis for the calculation of regulatory capital in keeping with the rules of the Basel (BIS II) capital accord, refers to a very large, though not very likely, 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 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 global wholesale banking, the calculation of these parameters is performed on the basis of 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 when the default occurs.

The estimated parameters are immediately 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 at 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.

At the level of 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 and rating, among others).

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, transaction 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 and its solvency and profitability. Additionally, a study and review are conducted of the valuation assigned when there is an alert or event that affects the customer/transaction.

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

In order to maintain adequate quality control of the loan portfolio, in addition to the actions carried out by Internal Audit there is a specific monitoring function within the Risks area, comprising teams and their heads. This function is also specialised on the basis 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 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, the Recoveries area will then seek 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.

The Recoveries area is structured in keeping with the commercial segmentation of the customers: Individuals and Businesses and Companies, with specific management models. The management of recoveries, so segmented, is divided into the following 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 of 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 money market transactions, contracting repos, loans of securities and derivative instruments.

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

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

During 2018 actual exposure of the transactions on interest-rate indexes (Euribor) decreased slightly, 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. New exchange rate operations were contracted, though the exposure value of the derivatives with the Financial Groups fell, albeit rather insignificantly.

Balance-sheet risk

Control of the balance-sheet risk

Control of the balance-sheet risk focuses on the risk arising from changes in interest and foreign-exchange rates, as well as on the liquidity risk, resulting from maturity lags and repricing of assets and liabilities. The measurement and control of the balance-sheet risk are carried out by a body independent of management.

Methodologies

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

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

Liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by conducting stress tests that endeavour to identify the potential risk under 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.

At the end of 2018, the LCR (Liquidity Coverage Ratio), calculated in accordance with the ECB rules, stood at 152%, thus meeting the regulatory requirements on the fully-implemented basis that will be in force in 2019.

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 of the equity;
- Liquidity: stress scenarios and short-term and structural liquidity ratios.

Management of the balance-sheet structural risk

Framework

The year under review is inextricably marked by the full integration of the Popular Portugal Group into the sphere of Santander Totta. The absorption of liquidity resulting from the purchase and merger operation has been fully restored, as set out in the business plan.

Liquidity Reserve

Santander Totta's policy is to maximise the available liquidity cushion to cope with adverse liquidity events. The impact of the acquisition and merger of Banco Popular Portugal was fully accommodated right in the first half of the year, 2018 closing with a liquidity reserve of about €3 billion, higher than the carrying amount at the end of 2017. This evolution was due mainly to proactive measures to generate eligible assets, allied to the increase of the customer-deposit base.

Funding

During 2018, there was a progressive reduction of the commercial gap, mainly through the increase of the customers' deposits base, closing the year with a loans-deposits ratio of 116%.

The funding obtained from the European Central Bank has been kept solely in long-term operations: €3.1 billion of TLTROs. The increase of the customers' deposits base allowed a reduction of the net exposure to the Eurosystem, standing at around €1.5 billion at the end of 2018.

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 €3.1 billion by the ECB, Santander Totta closed 2018 with about €0.9 billion of securitisations, €0.9 billion of loans provided by the European Investment Bank with a view financing structural projects of the Portuguese economy, and also €3.5 billion of covered bonds.

Interest-rate Risk

Commercial activity of extending credit and attracting deposits generates a naturally positive exposure to the interest-rate risk. This structural position results mainly from the fact that credit extended in Portugal is traditionally almost all indexed to market rates (Euribor) as opposed to a deposits base (at sight) with an average duration of 5 years. This asymmetry generates a reappraisal differential between assets and liabilities resulting in positive sensitivity to the interest-rate risk.

The Bank's policy is to minimise this structural balance-sheet risk, maintaining for the purpose a structural portfolio of fixed-rate bonds (high-quality liquid assets, sovereign debt above all), as well as interest-rate risk hedging derivatives positions. These positions are intended to counter the structural position resulting from the commercial activity and to align the position in terms of interest-rate risk with the market-evolution perspectives.

Market Risk

The perimeter of measurement, control and monitoring of financial risks encompasses transactions where equity risk is assumed. The risk stems from the variation of the risk factors – interest rate, exchange rate, variable income and their volatility – as well as the solvency risk and the liquidity risk of the various products and markets in which Santander Totta operates.

Depending on the purpose of the risk, the activities are segmented as follows:

- Negotiation: This includes the activity of provision of financial service to customers;
- Balance-sheet management: risk arising from the Group's commercial activities, particularly the interest-rate and liquidity risk arising resulting from time lags existing in the maturities and repricing of assets and liabilities.

Methodologies

Negotiating activity

The methodology applied in 2018 within the scope of Banco Santander in Portugal for the negotiation activity is the Value at Risk (VaR). Used as the basis is the historic simulation methodology with a 99% confidence level and a one day time horizon, statistical adjustments 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

Daily monitoring of the positions is carried out, and an exhaustive control is performed of the changes that occur in the portfolios, with a view to detecting profile changes or possible incidences for their correction. The daily preparation of the income statement is a risk indicator, to the extent that it allows identification of the impact of the changes of the financial variables or of the alteration of the composition of the portfolios.

Calibration and contrast measures (Backtesting)

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

The backtesting analyses performed at the bank comply with the BIS recommendations as regards comparison of the 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 measures, among others.

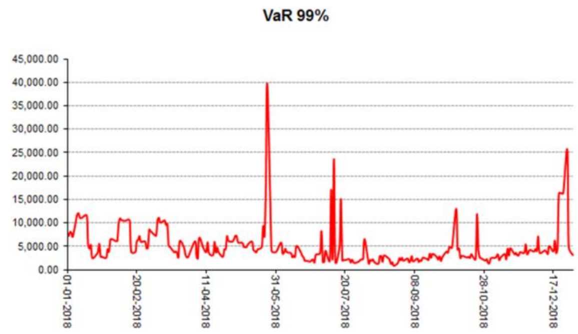
Limits

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 evolution of the risk related to trading activity in financial markets during 2018, quantified through VaR, is as follows:



VaR remained low, ranging between €1,000 and €39.5k.

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 systems, or derived from external circumstances". It distinguishes it from other types of risks in that it is not associated to products or business, but is present in processes and/or assets, and is generated internally (by people and/or systems, among others) or as a consequence of external risks, such as actions of third parties or natural disasters.

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 within their field of action.

The goal in the matter of operational-risk control and management is the identification, measurement, evaluation, control, mitigation and information of this risk.

The Bank's priority is therefore to identify and mitigate sources of risk, regardless of whether they have occasioned losses or not. The measurement also contributes to the establishment of priorities in the management of the operational risk.

For the calculation of own-funds requirements to cover the operational risk, the Group has initially chosen the standard method laid down in the BIS II rules.

Management model

The organisational management and control model results from the Group's adaptation to the Basel II approach.

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

The operational risk function is structured in three lines of defence. The first consists of all business and support areas, and it is therefore responsible for identifying, assessing, monitoring, mitigating and communicating this risk.

The second line of defence is responsible for overseeing the effective control of the operational risk in its different variables and to assess whether it is managed in accordance with the tolerance level set by the Group's senior management. The second line of defence is an independent function and complements the first-line management and control functions.

The third line of defence is Internal Audit, which must periodically assess whether the policies, methods and procedures are adequate and ensure that they are actually implemented by management.

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 objective operational-risk profile, specifying the strategies per unit and time horizon, through the establishment of the operational risk appetite and tolerance of the budget and its follow-up;
- Promotion of the involvement of all employees with the operational-risk culture through adequate training;
- Measurement and assessment of the operational risk in an objective, ongoing manner consistent with the regulatory standards (Basle, Bank of Portugal, among others) and the banking sector;
- Continuous monitoring of operational-risk exposures, setting up control procedures, improving in-house knowledge and minimising losses;
- Establishment of mitigation measures to eliminate or minimise the operational risk;
- Periodic reports to be drafted on the exposure to the operational risk, and its level of control, for the Board and the Areas, as well as informing the market and supervisory bodies.

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 information);
- Improves knowledge of the operational risks, both real and potential, and their attribution to the business and support lines;
- Operational-risk information contributes to the improvement of processes and controls, reduction of losses and revenue volatility,
- Facilitates the establishment of operational-risk appetite limits.

To carry out the identification, measurement and evaluation of the operational risk, techniques and instruments of a quantitative and qualitative nature were defined, that come together to perform a diagnosis based on the identified risks and obtain an evaluation through the measurement/assessment of each area.

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

- Internal database, whose goal is to capture all operational-risk events that may or not have impacts on the accounts. There are accounting-reconciliation procedures that ensure the quality of the information contained in the database;
- External database that provides quantitative and qualitative information, allowing a more detailed and structured analysis of relevant events that occurred in the sector;
- Scenario analysis, in which the opinions of the various business lines, risk managers and controls are obtained with a view to identifying potential events of low probability of occurrence and with a high loss for the institution. The possible impact is assessed and additional mitigation controls and/or measures are identified to reduce a possible high impact for the institution.

Qualitative analysis allows an assessment of aspects linked to risk profile. The instruments used are fundamentally:

- Operational-Risk self-assessment, whose primary purpose is to identify and assess the operational risks in relation to the controls, and identify mitigation measures in the event that the risk levels are not acceptable;
- Indicators, which are statistics or parameters that provide information about risk exposure. The indicators and their limits are reviewed periodically in order to be adjusted to reality;

- Recommendations of audits and regulators provide relevant information on the risk, allowing identification of weaknesses and controls.

Complementing this, there are various instruments that ensure a robust control environment, through policies, processes and systems, adequate internal controls, mitigation measures and appropriate transfer strategies, namely:

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

By implementing an advanced operational-risk management programme, the Bank's aim was to boost employee engagement, their awareness and their sense of responsibility and motivation, as well as to improve communication and the exchange of experiences among the Bank's employees at every level of the organisation to achieve a common goal, that is, to raise the level of operational-risk management and of the culture. All these actions have contributed to a more efficient monitoring and evaluation of the operational-risk profile, thus providing a solid foundation for business.

Additionally, consolidation of the implementation of the new operational-risk management tool is in progress, which is common to several control areas, maximising synergies between the areas and allowing the use of common risk-assessment methodologies, in particular in aligning the risk database with the identified events, internal control and respective action 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, 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 their management, as defined in the preceding paragraphs, determining the mechanisms and procedures that: i) allow minimisation of the likelihood of materialisation; ii) identification, reporting to the board and overcoming situations that may have arisen; iii) ensure monitoring and control; and iv) show, if necessary, that these risks are among the Bank's main concerns and that it has the organisation and means to prevent, detect and, where appropriate, overcome them.

In accordance with the applicable legal and regulatory framework, the Bank has set up a compliance function, in the form of 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.

Without prejudice to all other aspects arising from the foregoing, the global policies relating to compliance and reputational risks cover, in particular, the instruments listed hereunder that are mentioned for their special impact on the prevention and management of the risk:

- Corporate values;
- Compliance policy;
- Policies for the prevention of money laundering and terrorist financing;
- Codes of conduct;
- Marketing and product follow-up policies;
- Risk 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;
- Staff training policy;
- Social responsibility and environmental protection policies;
- Corporate defence policies;
- Funding policies for sensitive sectors.

Proposal for the appropriation of net income

The Net Income of the year, in separate terms and in respect of 2018 amounted to €475,534,955.94€ (four hundred and seventy-five million, five hundred and thirty-four thousand, nine hundred and fifty-five Euro and ninety-four cents) and the Consolidated Net Income in 2018 amounted to €469,951,390 (four hundred and sixty-nine million, nine hundred and fifty-one thousand, three hundred and ninety Euro).

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

- Legal Reserve: €47,553,496 (forty-seven million, five hundred and fifty-three thousand, four hundred and ninety-six Euro);
- Dividend distribution: €427,981,459.94 (four hundred and twenty-seven million, nine hundred and eighty-one thousand, four hundred and fifty-nine Euro and ninety-four cents);

Lisbon, April 9, 2019

THE BOARD OF DIRECTORS

Annexes

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 solely to the prevention and control of money laundering and terrorist financing, which is included in the Compliance and Conduct area. Additionally, 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.

Up to October, a specific programme for monitoring the activities of the business units of the former Banco Popular Portugal was applied, through the procedures and tools of this entity, in relation to the monitoring, follow-up and control of customers and accounts, and after that date, and with technological inclusion of the former Banco Popular Portugal into Santander Bank in Portugal, coming to fully implement the Bank's automated and operative procedures.

Shareholder Structure

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

Treasury shares movement

In keeping with the resolution passed by the Annual General Meeting held on May 30, 2018, Banco Santander Totta, SA, may directly or through a dependent company, acquire treasury shares as well as sell those purchased up to the limit and under the other conditions set by law.

On December 31, 2017, Banco Santander Totta, SA, held 399,215 treasury shares corresponding to 0.032% of its share capital. During 2018, Banco Santander Totta bought 7,915 treasury shares, corresponding to 0.001% of its share capital, closing the year with a total of 407,130 treasury shares.

The acquisition is part of the general policy of Banco Santander Totta, SA, to acquire shares from shareholders outside the Santander Group wishing to sell them.

TRANSACTION WITH OWN SHARES - 2018

Banco Santander Totta, S.A.	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31/12/2017	399,215	5.28	2,108,245	0.032%
Purchases	7,915	3.98	31,508	0.001%
Disposals	0	-	0	-
31/12/2018	407,130	5.26	2,139,754	0.032%

Movement of Shares and Bonds of the Members of the Management and Supervision Bodies

Shareholdings of the members of the administrative and supervisory bodies - article 447 of the Companies Act

	Entity	Number of shares at 31/Dec/2017	Transactions in 2018	Number of shares at 31/Dec/2018
António Basagoiti Garcia-Tuñón	Banco Santander, SA	419,325	15/11/2018: shares received as dividends: 3,409	422,734
António José Sacadura Vieira Monteiro	Banco Santander, SA	286,263	16/02/2018: corporate allocation: 6,716 shares - 5.60€/share 21/02/2018: corporate allocation: 63,403 shares - 5.60€/share 05/11/2018: shares received as dividends: 2,898	359,280
Enrique Garcia Candelas	Banco Santander, SA	3,438,214	12/01/2018: venda: 100.000 ações - 5,95€/ação 23/01/2018: venda: 100.000 ações - 5,96€/ação 23/01/2018: venda: 100.000 ações - 5,96€/ação 30/01/2018: venda: 100.000 ações - 6,05€/ação 13/02/2018: atribuição corporativa: 35.922 ações - 5,60€/ação 30/04/2018: atribuição corporativa: 2.600 - 5,37€/ação	3,076,736
António Manuel de Carvalho Ferreira Vitorino	Banco Santander, SA	0	-	0
Inês Oom Ferreira de Sousa	Banco Santander, SA	3,470	21/02/2018 - shares deposit: 13,035 shares 02/03/2018 - sale: 337 shares 05/11/2018 - capital increase by incorporation of reserves: 131 shares	16,299.000
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	Banco Santander, SA	0	-	0
João Baptista Leite	Banco Santander, SA	26,778	16/02/2018 - corporate allocation: 2,329 shares - 5.60€/share 21/02/2018 - corporate allocation: 20,246 shares - 5.60€/share 22/03/2018 - purchase: 1,482 shares - 5.17€/share 22/03/2018 - purchase: 686 shares - 5.17€/share 22/03/2018 - purchase: 3,178 shares - 5.17€/share 22/03/2018 - purchase: 4,654 shares - 5.17€/share 05/11/2018 - capital increase by incorporation of reserves: 482 shares	59,835
José Carlos Brito Sítima	Banco Santander, SA	36,145	16/02/2018 - shares deposit: 3,453 shares - 5.60€/share 21/02/2018 - shares deposit: 33,316 shares - 5.20€/share 05/11/2018 - capital increase by incorporation of reserves: 482 shares	71,971
José Urgel Moura Leite Maia	Banco Santander, SA	18,020	14/02/2018 - purchase: 20,000 shares - 5.49€/share 15/02/2018 - purchase: 10,000 shares - 5.60€/share 16/02/2018 - corporate allocation: 38,187 shares - 5.59€/share 22/03/2018 - purchase: 20,000 shares - 5.26€/share 25/08/2018 - purchase: 10,000 shares - 4.49€/share 13/11/2018 - capital increase - preference rights: 146 shares 13/11/2018 - capital increase by incorporation of reserves: 2.375 shares	118,728
Luís Filipe Ferreira Bento dos Santos	Banco Santander, SA	29,956	16/02/2018 - corporate allocation: 2,890 shares - 5.60€/share 21/02/2018 - corporate allocation: 24,086 shares - 5.60€/share 27/04/2018 - sale: 945 shares - 5.30/share 27/04/2018 - sale: 900 shares - 5.30/share 27/04/2018 - sale: 3.752 shares - 5.30/share 27/04/2018 - sale: 403 shares - 5.30/share 05/11/2018 - capital increase by incorporation of reserves: 413 shares	51,245
Luis Manuel Moreira de Campos e Cunha	Banco Santander, SA	0	-	0
Manuel António Amaral Franco Preto	Banco Santander, SA	81,392	16/02/2018 - corporate allocation: 2,930 shares - 5.60€/share 21/02/2018 - corporate allocation: 22,751 shares - 5.60€/share 05/11/2018 - capital increase - preference rights: 867 shares 05/11/2018 - capital increase by incorporation of reserves: 2 shares	107,942
	Totta Ireland	1	-	1
Manuel de Olazábal y Albuquerque	Banco Santander, SA	0	-	0
Pedro Aires Coruche Castro e Almeida	Banco Santander, SA	72,720	16/02/2018 - shares deposit: 3,615 shares - 5.60€/share 21/02/2018 - shares deposit: 31,439 shares - 5.20€/share 05/11/2018 - capital increase by incorporation of reserves: 876 shares	108,650
Remedios Ruiz Maciá	Banco Santander, SA	30,889	16/02/2018 - shares deposit: 14,275 shares - 5.47€/share 14/11/2018 - corporate allocation: 367 shares - 4.29€/share	45,531

Duties performed by Members of the Board of Directors of Santander Totta in other companies

Other Positions of Note

	Within the consolidation perimeter	Outside the consolidation perimeter
António Basagoiti Garcia-Tuñón	Santander Totta SGPS (Chairman)	ATKearney (External Consultive Committee); Fujitsu (External Consultive Committee); Fund. Eugenio Rodriguez Pascual (Chairman); Real Club Nautico Calpe (Deputy Chairman); Fund. Princesa Asturias (Trustee); Fundación Santander (Trustee); Colegio Libre de Eméritos (Trustee); Fundación de estudios financieros (Trustee); Fundación Silos (Trustee)
António José Sacadura Vieira Monteiro	Santander Totta SGPS (Deputy-Chairman; CEO)	Universia (Non-Executive Chairman); Vieira Monteiro Lda (Manager); Câmara Comércio Luso Espanhola (Deputy Chairman); Fundação Alfredo de Sousa (Trusttee); Instituto Superior Técnico (Advisory Board) e Nova (General Board)
Enrique Garcia Candelas	-	Inversiones Y Gestiones Patrimoniales Tharsis SL (Executive Board member); Las Fagaceas SL (Executive Board member); Bondre Capital (Executive Board member); Iberus Capital Investment (Executive Board member); Estepona Top Villages (Executive Board member); Agropecuaria Del Odiel (Executive Board member); Cítricos Tharsis (Executive Board member); Edevir Investments (Executive Board member); Bondre Costa del Sol (Executive Board member)
António Manuel de Carvalho Ferreira Vitorino *1	-	Áreas (Chairman); Siemens (Chairman Audit Board); Tabaqueira (Member Supervisory Board); EDP (Chairman General Meeting); Cuatrecasas (Partner)
Inês Oom Ferreira de Sousa	-	Universia (Non-Executive Board Member)
Isabel Maria de Lucena Vasconcelos Cruz de Almeida	-	Fundação Calouste Gulbenkian (Chairperson); Partex Oil and Gas (President Supervisory Board)
João Baptista Leite	-	SIBS SGPS (Non-Executive Board Member); Unicre (Non-Executive Board Member)
José Carlos Brito Sítima	Santander Totta SGPS (Board Member)	Universia (Chairman General Meeting)
José Urgel Moura Leite Maia	-	-
Luís Filipe Ferreira Bento dos Santos	Santander Totta SGPS (Board Member)	Universia (Non-Executive Board Member)
Luis Manuel Moreira de Campos e Cunha	-	UNL (professor)
Manuel António Amaral Franco Preto	Santander Totta SGPS (Board Member); Taxagest (Chairman); Totta Ireland (Board Member); Gamma (Chairman)	Banco Santander Consumer (Member Audit Board)
Manuel Maria de Olazábal Albuquerque	-	Peris (member Advisory Board); MCH Private Equity (member Advisory Board); Fulham Consulting S.L. (Board Member)
Pedro Aires Coruche Castro e Almeida	Santander Totta SGPS (Board Member)	ACEGE (NE Director); Centro Paroquial São Francisco de Paula (NE Director); ISEG (General Board)
Remedios Ruiz Maciá	Banco Santander SA (Global Head EWRM)	UCI SA (Administrador Não Executivo)

Table of non-financial indicators

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

I – Introduction

This report is prepared pursuant to article 70(2)(b) of the Companies Code (CC) and article 245 of the Portuguese Securities Code.

1. Of the Bank's share capital 98.763% is held by the company Santander Totta SGPS, SA, which is directly controlled by the company under Spanish law Santusa Holding, SL, which holds a percentage of 99.848% in it.

   In turn, the company Santusa Holding, SL, is wholly owned by Banco Santander, SA, which is thus the dominant shareholder of Banco Santander Totta, SA.

   Of the remainder of the Bank's share capital there is still a percentage of 1.161% belonging to a company equally under the full control, direct or indirect, of the companies Santander Totta, SGPS, SA, Santusa Holding, SL, and Banco Santander SA.

   The remainder of the share capital, 0.0432% is dispersed among various shareholders and 0.032% corresponds to treasury shares of Banco Santander Totta, SA.

2. The shares representing the share capital are all of the same type and category, conferring equal rights to their holders, including the right to vote and to participate in the profits.

   There is, therefore, no preferred stock of any kind. Similarly, there are no restrictions whatsoever on the transferability of shares, which is totally free.

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

3. The Company is not aware of any shareholders' agreement concluded between shareholders.

4. In statutory terms one vote is assigned to each share.

   For shareholders to be entitled to attend the General Meeting they must prove to the chair of the Board of the General Meeting no later than 10 days before the date set for the meeting the registration or deposit of shares with financial intermediaries no later than fifteenth day before the said date.

5. The Company has not re not established any agreements whose entry into force is dependent upon the modification of the composition of the Bank's shareholders or that are altered or terminated in consequence thereof.

   In the normal course of the banking business, in its various components, there are, however, contracts that confer on the counterparty the right to terminate them in the event of a change in the shareholder control of the Bank, in line with what is current and common in banking practice.

   Otherwise, there are no agreements that grant to the Board of Directors or employees right to compensation when the termination of the tie that binds them to the institution results from their own initiative, from dismissal for cause or occurs following a take-over bid.

6. The indication of the number of shares and obligations held by members of the management and supervisory bodies is included in the "Additional Information" section of the management report. The distinction between the executive and non-executive members of the Board of Directors is in the "Responsible Banking" chapter of the management report.

7. The Company is organically structured in in the manner provided for in article 278(1)(b) of the CC.

   The governing bodies are: the General Meeting, the Board of Directors and the Audit Committee, and there is a Statutory Auditor.

   The terms of office of the governing bodies are all of three years.

   The Board of Directors meets at least six times a year and whenever convened by its chair, by two directors or by the Audit Committee.

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

   Nor are special rules defined concerning the appointment and replacement of directors, as well as regarding statutory changes, general law applying in these matters.

8. The Board of Directors includes an Executive Committee on which all the powers permitted by article 407(4) of the CC are delegated.

   The Executive Committee is responsible for the daily management of the Bank during the term for which the appointed directors were elected, on whom all powers have been delegated, except those which are mandatorily reserved by law or the articles of association for the Bank's Board of Directors, or that the Board of Directors decides to reserve for itself or assign to other of the Bank's commissions or committees. It meets weekly or whenever convened by its chair, by other two of its members, or by the chair of the Board of Directors.

Also part of the management body are the Remuneration Committee and the Nomination Committee, each comprising three members of the Board of Directors that do not perform executive duties, and the Risk Committee, comprising five members of the Board of Directors that do not perform executive duties.

9. **The overall global model of the governance of the company is set out in point IV**

Emphasis is given to the several interdisciplinary-based committees that monitor and control all the business of the institution.

The main ones are indicated below, with a summary of their duties.

Management Committee

The Management Committee has as main objectives the analysis, decision and follow-up of:

- The evolution of the commercial activity, ensuring that it is carried on within the defined objectives and deadlines, and the suitability of the defined business strategies, as well as initiatives related with the multichannel trading activity, ensuring co-ordination between the intervening areas;
- Credit policies, risk exposure, decision models and strategic commercial plans;
- Policy, strategy, objectives and follow-up of the Quality and Customer Experience activities.

Executive Risk Committee

Highest risk-decision body, in accordance with the risk-governance model approved by the Board of Directors, exercising the powers delegated by the Executive Committee.

Risk Control Committee

Body responsible for the supervision and control of risks, ensuring that they are managed in accordance with the degree of risk appetite approved by the Board of Directors and ensuring at all times a comprehensive view of the risks identified in the General Risk Benchmark, including for the purpose identification and monitoring of the risks, current and future, and their impact on the risk profile of the Santander Totta Group.

ALCO – Assets and Liabilities Committee

Committee that aims to manage the structural market and liquidity, risk, establish contingency plans, promote hedging strategies and decide strategic positioning, in a manner such as to optimise net interest income and return on equity.

Human Resources Committee

Committee that aims to analyse and decide on the changes and exceptions to the current HR management policies, annually approve the measures and objectives presented within the scope of Family Friendly Enterprise (FFE) Certification, including the attributions of the Corporate Policy for Gender Equality and of the Volunteering Policy, promoting their development in collaboration with the Sustainability Area and ensuring and supervising the implementation of the activities laid down in the Human Resources Management Plan.

Analysis and Termination Committee

Committee whose attributions are re the prevention of money laundering and terrorist financing, also making the communications established by law.

Data and Information Committee

Committee responsible for monitoring the most relevant issues of governance and data quality and regulatory consistency.

Marketing and Product Follow-up Committees

Committees at which products and services are approved and carry out the appropriate follow-up, with special emphasis on incidents that occur and the reputational risk they may generate.

Pensions Committee

Committee whose goal is to implement the corporate pensions policy and to fully control the risks.

Internal Control and Compliance Committee

Body that aims to follow and supervise the Internal Control, Compliance and Risk Management policies, charged with acting in accordance with applicable laws and regulations and with the rules, principles and objectives set by the Board.

Operational Risk Committee

Body responsible for monitoring the exposure and operational risk profile, to ensure that it falls within the approved risk appetite.

Models Committee

Body responsible for monitoring the model exposure and risk profile in order to ensure that they fall within the approved risk appetite and ensuring the alignment of the local areas involved in the development and monitoring of models, as well as their inclusion into management.

Provisions Analysis and Follow-up Committee

Committee that aims to ensure that the financial statements reflect the best estimate of provisions for each close of accounts, performing the supervision and co-ordination of those involved in the calculation of such provisions and consequent proper accounting.

Responsible Banking, Sustainability and Culture Committee

Body that oversees the inclusion of sustainability in the business model, defining and following up the strategic social-responsibility plans, in conjunction with the Group's corporate plans.

Special Situations Management Committee

Committee whose responsibility is to manage and perform the follow-up and control of events of any nature (financial or of an operative and/or reputational nature, particularly the Entity's Continuity Plan) that can lead to serious deterioration of the Bank's liquidity and/or solvency levels or compromise its business.

Expenditure and Investments Committee

Committee that has the power to assess, decide, follow-up and manage expenditure and investment.

Capital Committee

Committee that ensures the supervision, authorisation and evaluation of all aspects related to the share capital and to the solvency of Banco Santander in Portugal.

Information Technology and Cybersecurity Committee

Body that evaluates and/or approves IT strategy proposals; monitors the IT strategic plan; monitors the Cybersecurity risk and evaluates risk-mitigation initiatives.

10. The Bank's main business areas are:

- Retail Banking – essentially refers to the granting of loans and attracting resources related with individuals and with businesses with a turnover of less than ten million euros, channelled by the branch network, and services provided by complementary channels (telephone, Internet, etc.);
- Business Banking – companies with a turnover more than ten million euros are considered in this area. This business is underpinned by the branch network, business centres and specialised services, and includes several products, in particular loans, project and trade financing, exports and real estate;
- Corporate Investment Banking – mainly includes the Bank's activity in the financial markets (interest rate, foreign exchange and equities markets) and with large companies, providing financial advisory services, in particular Corporate and Project Finance, as well as securities custody and brokerage services for stock-market orders received from customers;
- Corporate Activities – this area includes the entire business carried on at the Group that supports the main activities but is not directly related to the core business, also including liquidity management, balance-sheet hedging and the Bank's structural funding.

11. The Bank fully complies with Bank of Portugal Notice No. 5/2008 on Internal Control.

In this connection the Bank has a system of risk identification and management in keeping with articles 11 and 12 of that Notice, and it is so organised as to foster an appropriate control environment and a sound risk-management system.

Policies and procedures relating to all risks listed in the said article 11 of Bank of Portugal Notice No. 5/2008 are specifically defined and put into practice.

Such policies and procedures are available and easily accessible by all employees of the institution through their disclosure in a special area of the Bank's own Intranet system.

Since 2006 the Bank, like the Group to which it belongs, complies with the requirements of the Sarbanes-Oxley (SOX) act of the United States of America, a standard that the Securities Exchange Commission (SEC) has made mandatory for companies listed on the New York Stock Exchange and is one of the most demanding in terms of requirements of an adequate and reliable Internal Control Model.

12. Risk management, compliance and audit functions have been institutionalised in legal and regulatory terms.

There follow the guidelines that govern the organisation and working of the three functions.

a) Risk Management Function

The Risk Management Function (RMF) is transverse across the Santander Totta Group. The function is embodied in the Risk Area, under the sole responsibility of the Chief Risk Officer.

The mission of the function is the general and effective implementation of the risk management system in keeping with article 16 of the said Bank of Portugal Notice No. 5/2008, in order to assess the relevance of the risks incurred and the degree of effectiveness of the measures taken to control, mitigate and overcome them. The Internal Governance guidelines of the EBA (issued in September 2011 and revised in September 2017), in turn, strengthen and deepen in a detailed manner the main tasks of the RMF and of its head within the scope of the of internal control functions. Additionally, the Capital Requirements Regulation (CRR) No. 575/2013 (EU), the Capital Requirements Directive 2013/36/EU (CRDIV) and Directive 2014/59/EU are the basis of the legal framework of the business of credit institutions and financial companies, transposed to into the General Credit Institutions and Financial Companies Legislation (RGICSF), enacted by Decree-Law 298/92. More specifically, article 115-M of the RGICSF determines the role of the Risk Management Function in ensuring the identification, evaluation and proper reporting of all material risks, in the participation of the strategy and decision of the material-risk management, and in the independence and freedom from conflict of interests of the head of the RMF.

The RMF was created and performs its duties with the highest level of independence, that is, without direct responsibility over any business function, execution or first-line control over the activities to be evaluated.

This function was granted the broadest powers in carrying on its supervisory activity, which is governed by the law and application of the following principles and duties:

- Full access to all the activities of the institution as well as all the information considered relevant, the audit reports in particular;
- Independence in relation to the areas evaluated;
- Impartiality, integrity and objectivity;
- Confidentiality in the use of information and of the conclusions that, without prejudice to the duties of information to the authorities or supervisors, must be submitted to the Board;
- Promotion of an adequate and efficient level of internal control extensive to the entire organisation, taking into account the different risks involved, in particular the credit, market, liquidity, foreign-exchange, interest-rate, liquidation, operational, technological, compliance, reputational and strategic risks, without prejudice to others that in the judgement of the institution may be seen to be material;
- Make the connection between the local team and corporate areas with a view to determining the best practices and needs regarding the development of new tools and estimation of the risk parameters;

- Draft and submit to the Board of Directors and the Risk Committee the annual report on the risk-management function under the prescribed regulatory terms;
- Draft all the reports and perform those tasks that the Board deems opportune.

In absolute concordance with these duties, the Chief Risk Officer has direct and independent access to the Risk Committee and the Board of Directors, and may place before these bodies any matter relating to risk management and control.

In the performance of the RMF the Risk Area co-ordinates or takes part in the following processes as the second line responsible for ensuring effective questioning and independent control of risk management in its various forms:

- Approval of products and services;
- Risk consolidation;
- Definition of risk control and appetite;
- Risk identification and assessment - RIA;
- Internal Control Model;
- Self-assessment of internal capital adequacy and liquidity;
- Strategic planning;
- Scenario analysis and stress test;
- Provisions for risks;
- Business contingency and continuity procedures;
- Disclosure of the risk-management culture;
- Risk-management governance and rules;

For the purpose of identification and evaluation of material risks, the Risk Area co-ordinates the performance of periodic exercises (the RIA designated above) that, in line with the methodology developed within the Santander Group and the applicable rules, allow determination of the risk profile on the basis of an assessment in three areas:

- Risk Performance by type of risk and business;
- Self-assessment of the control environment and (mitigating) action plans;
- Identification of the Top Risks.

The activity carried on by the risk-management function is documented in a special report, published annually, the "RMF Report", the last one dated May 2018. This document is intended to provide support for the Banco Santander Totta, SA, risk-management system, and the monitoring of the controls and the promotion of internal control are very relevant, in particular through various actions listed in the said report.

b) Compliance Function

For a long time the Bank has focused on autonomising, monitoring and controlling risks leading to the possibility of incurring sanctions of a legal or regulatory nature, as well as financial or reputational losses, as a result of non-compliance with any normative provisions applicable to it, be they of a legal or regulatory nature, and also for infringement of Codes of Conduct or for procedures not in accordance with the required ethical standards or good practices.

The compliance function is embodied in the Compliance and Conduct Co-ordination Division (DCCC), which includes a department specifically assigned to the prevention of money laundering and terrorist financing, having personnel exclusively allocated that have the duties proper to the function.

During 2018 an area was especially created, charged with promoting and ensuring compliance with the rules on the protection and processing of personal data headed by the Data Protection Officer (DPO), also functionally included in the DCCC.

- The DCCC is a first-line division, directly and exclusively dependent on the Board, independent of all other areas, in particular the business areas;
- The DCCC has its own staff exclusively allocated to the performance of the duties entrusted to the Compliance Department, hierarchically and functionally dependent on the respective Manager;
- In performing its duties the DCCC acts as a second line of defence in monitoring, controlling and managing the risk of default and has free access to all information and elements relating to the Bank's business that it requests or needs, as well as to the institution's facilities and equipment;
- The DCCC has unlimited communication with the Board within the scope of its duties, carries out, proposes and recommends at its discretion whatever is required to prevent legal, reputational and compliance risks and, where appropriate, to remedy any incidents;
- The Bank has a General Code of Conduct, a specific Code of Conduct for the Securities Market and a Code of Conduct for Relations with Customers, which set out the ethical principles and procedures that preside over the activities of the subject persons and, among other relevant aspects, focus on the prevention and resolution of conflicts of interest. Compliance with the Code of Conduct for the Securities Market is especially controlled by the DCCC, which also supports and follows up compliance with the General Code, control of which, however, is entrusted to the Human Resources Co-ordination Division;
- Complementing the provisions of the General Code, the Bank also has a Corruption Prevention Programme that reinforces the corporate commitment to absolute rejection of any corrupt practices involving the entire corporate organisation in this desideratum.

In this connection specific powers are granted to the DCCC in the matter of follow-up and control of the execution of the programme and of the policies that support it.

Under the General Code of Conduct and Corruption Prevention Programme a Whistleblowing Channel is available, freely accessible to all employees, which, ensuring the confidentiality of communications and any subsequent procedures, grants them the possibility and exhorts them to provide evidence of irregular situations of which they take cognisance.

Policies and product-marketing procedures are approved and implemented, as well as the process and bodies for the respective approval and monitoring aimed, on the one hand, at ensuring prior fulfilment of all the necessary requirements for the marketing to take place with no legal, reputational and compliance risks and, on the other, at ensuring the follow-up of incidents that may occur, assessing their significance and, if appropriate, introducing such corrective measures as may be justified, which may include suspension or termination of the marketing when the circumstances so determine or recommend. In this connection, it is particularly important to evaluate and follow-up the reputational risk inherent in the products or can be generated during their lifetime by the occurrence of specific events that somehow affect them, or are projected to a relevant extent into the relationship with customers.

Though with the support and executive management of the local units, the compliance policy is extensible in all its amplitude to the affiliates and subsidiaries abroad. Some of these have local compliance officers who perform the corresponding duties there. In the other cases, in which the type and manner of exercise of the activity do not justify this option, the operative head of the unit ensures the procedure in accordance with applicable laws and regulations, both local and those that must be complied with under the impositions to which the Bank is subject in Portugal. As part of its duties, the DCCC, controls the performance of the function by those officers to whom the execution is entrusted.

At another level, and to carry out its mission in a more efficient and effective manner, the Division has promoted the institutionalisation of specific compliance committees especially oriented towards areas considered sensitive, particularly those most directly related with financial markets, which act periodically – as a rule, on a monthly basis – allowing an assessment of instituted practices, appraisal of compliance with legal and regulatory rules, keeping the areas informed of any innovations and ensuring their implementation, controlling fulfilment of information and other applicable obligations, identifying possible incidents and, where appropriate, considering and implementing appropriate measures to mitigate and prevent them. These committees are directed and co-ordinated by the DCCC, with the participation of the heads of the areas involved.

On the other hand, both within and without the scope of these committees, the DCCC maintains a regular relationship of articulation with the other control areas (Audit and General Risks Function) in order to enhance the perception, monitoring and overall control of the risks.

In this connection, attention is also drawn to the articulation institutionalised with the Quality areas – responsible for the follow-up and processing of customer complaints – in order, on the one hand, to monitor the evolution of the situation in this area and especially to scrutinise, based on the type of complaints, possible omissions or inadequate practices, in order to implement the appropriate adjustments or corrections.

The Compliance Division also includes several Bank governance committees, the aim of which is to control risks, with emphasis on the Internal Control and Compliance Committee.

Meanwhile, besides the constant and systematic contacts with the Bank's Executive Committee, and especially with the director in charge of the sector, an annual report is submitted on the activity carried on within the scope of the compliance function.

Additionally, regular interaction mechanisms of the DCCC with the Audit Committee and the Risk Committee of the Board of Directors have been established.

Accordingly, the Compliance Officer submitted to the Board the report on the compliance activity carried on between the latest report (May 2017) and the end of May 2018.

In line with the foregoing, the Compliance Officer is of the opinion that the Bank acts in accordance with the regulatory framework of the compliance function laid down in the applicable legal and regulatory framework.

c) Audit Function

The Internal Audit authority stems directly from the Board of Directors. As an independent unit, it reports periodically to the Board of Directors, at least twice a year, besides having direct access to the Board as and when necessary. It also reports to the Audit Committee and meets the requests for information that it receives from the latter in the performance of its duties.

The head of the internal audit function is Ignacio García Márquez, **Chief Audit Executive** (CAE), appointed by the Board, which granted him all the necessary powers to carry out his duties independently, with free access to all relevant information.

The Audit team comprises 40 people distributed across the Financial Risks, Credit Risks and Operating Risks areas and the Technological Risks Office, and all members have university degrees.

The Internal Audit takes unto itself the definition of internal audit of the Institute of Internal Auditors; it is a permanent function independent of any other function or unit, whose mission is to provide the Board of Directors and Top Management with independent assurance as to the quality and effectiveness of the processes and systems of internal control, of risk management (actual or potential) and of governance, thus contributing to the protection of the value of the organisation, its solvency and its reputation. For this, the Audit assesses:

- The effectiveness and efficiency of the processes and systems referred to above;
- Compliance with the applicable rules and requirements of the supervisors;
- The reliability and integrity of financial and operational information;
- Asset integrity.

Internal Audit is the third line of defence, independent of the others. To carry out its mission and achieve the established objectives, the Internal Audit teams have full, free and unrestricted access to all information.

The field of action of Internal Audit comprises:

- All the entities that form part of the Group over which effective control is maintained;
- The separate assets (for example, investment funds) managed by the entities mentioned in the previous point;
- Any entity (or separate assets) not included in the preceding points, with which there is an agreement for the performance of the internal audit function by the Group.

The scope defined subjectively in the preceding paragraphs includes, in any event, the activities, businesses and processes carried on (either directly or through externalisation), the existing organisation and, if applicable, the commercial networks.

Additionally, and also in the performance of the established mission, Internal Audit may conduct audits at other subsidiaries not included in the preceding points, where the Group has reserved this right as a shareholder.

Internal Audit will base its activities on the following principles:

- Independence, objectivity and impartiality;
- All opinions will be based on objective analysis of the facts, not affected by influences, pressures or interests of any kind;
- Integrity, ethical behaviour and confidentiality of the information managed and the conclusions drawn. The role of the auditors will be in accordance with the principles and rules of conduct established both in the Group's codes of conduct and also in the Internal Audit Code of Ethics, which must be known and acknowledged by all its members by means of their signature;
- Moreover, Internal Audit shall establish procedures to prevent conflicts of interest that might compromise the performance of their duties and responsibilities;
- Competence and professional qualifications of the auditors. For this, ongoing updating of their knowledge shall be sought;
- Quality of the work, based on reasoned, documented conclusions, supported by audit evidence, conducted with uniform criteria using common and appropriate work methodology and tools, and with due professional care;
- Guidance on the creation of value, drafting relevant and truthful reports and supporting the management of the units audited in a spirit of collaboration and contribution of improvement measures;
- Appropriate collaboration with the rest of the controls existing within the Group;
- Appropriate reciprocal co-operation with the external auditors and other providers involved in the organisation, holding regular meetings and sharing with them the results of the audits conducted and audit reports issued;
- Fluid relations with the supervisors
- Observance of international standards for the performance of the function, especially the "International Standards for the Professional Practice of Internal Auditing" issued by the Institute of Internal Auditors and the principles established by the Basel Bank for International Settlements in this matter.
- The main responsibilities of the **Chief Audit Executive** (CAE) are as follows:
- Design and implementation of an appropriate methodology;
- Preparation of an Audit Plan based on own assessment of the risks existing in the Group. The Internal Audit draws up a plan covering its audits over a period of 4 years through Top Down methodologies (considering the opinions and concerns of the Bank's management bodies, the determinations and concerns of the regulators and external auditors, as well as the corporate focuses of attention) and also makes a bottom-up analysis using a risk matrix that prioritises the units subject to audit, depending on the degree of risk they involve.
- Based on the assessment of all these factors, the units subject to audit are ranked by priority levels for their review through audits. Additionally, the audits required by regulatory requirements shall be considered and compliance with the SOX regulations verified.
- The Audit Plan is presented to the Audit Committee and Board of Directors for review and approval.
- Performance of the various works included in the Audit Plan, properly drafting and distributing the reports called for in the plan;
- Communication to the audited parties of the conclusions of the various audits and recommendations, and establishment of a timetable for their implementation and monitoring their implementation;
- Evaluation, at appropriate intervals, of the sufficiency of resources to perform the function;
- Periodic reporting to the Audit Committee of the development of the approved Audit Plan;
- Information to the Board of Directors of the work carried out by Internal Audit in accordance with the respective Plan;
- Communication to the Governing Bodies on situations that, in its opinion, require special attention;

- The performance of all these audits, special work, reports and other duties required by the Board of Directors or the Audit Committee;
- Confirmation to the Audit Committee, on annual basis at least, that the work is carried out independently and is not compromised by any impediment that has affected the independence or objectivity of the Internal Audit;
- Preparation and maintenance of a programme to ensure quality and ongoing improvement covering all aspects of the activity of Internal Audit;
- Preparation and implementation of a training plan for internal auditors.

II – Remuneration Policy of Members of the Management and Supervisory Bodies

II.1. DECLARATION ON THE REMUNERATION POLICY OF THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES OF BANCO SANTANDER TOTTA, SA.
(The "Declaration")

The following declaration on the remuneration policy of the members of the Management and Supervisory bodies of Banco Santander Totta, SA (the "Bank"), in force in 2018, is proposed to the General Meeting of shareholders for the approval of the 2017 accounts

1. Framework

The Santander Group approved a new remuneration policy on January 24, 2017 (the "Policy"), addressed to all employees, which establishes the fundamental principles concerning the payment of fixed or variable remuneration.

The policy was subject to slight amendments during 2017, centred on the regime of potential reduction or reversal of the payment of variable remuneration and performance goals.

Under the terms of the Policy, the Santander Group adopts consistent remuneration practices that comply with the applicable rules in the jurisdictions where it carries on its business.

The remuneration is defined to promote a high performance culture, in which people are rewarded and recognised for their performance and competence and for the impact they have on the success of the Group and/or its affiliates.

The remuneration practices of the Santander Group must always be aligned with the interests of its shareholders, employees, customers and society and, in particular, promote good conduct. The Santander Group ensures, through the Policy, that the remuneration promotes and is consistent with sound and effective risk management and with maintenance of a sound capital base.

This Declaration provides information on compliance by the Policy with the various requirements imposed by Portuguese law, proposing its formal approval to the Bank's shareholders.

2. Application of the Policy to the Bank

2.1. Remuneration of the Bank's governing bodies

The Bank's governing bodies are the General Meeting, the Board of Directors and the Audit Committee:

a) **General Meeting**. Its members receive a fixed remuneration, paid as follows: annual amount paid 12 times a year.

b) **Audit Committee.** Its members receive a fixed remuneration, paid as follows: annual amount paid 12 times per year.

c) **Management Body / non-executive members.** The non-executive members of the Board of Directors who are not members of the Audit Committee receive a fixed remuneration, paid as follows: annual amount paid 12 times a year.

   Non-executive directors who, however, perform management duties or others at Banco Santander, SA, or at other entities of the Santander Group, may or may not be remunerated for the exercise of that position at the Bank.

2.2. Remuneration of the Bank's executive directors

The Executive Board members earn a fixed remuneration, paid 14 times a year, which is determined taking into account the criteria used in the Santander Group, the Bank's results, the evaluation of performance and market references, and, in 2018, it is not expected to amount to less than 33% of the total remuneration.

A variable remuneration may be added to the fixed remuneration, defined under the terms of the Policy, set individually by the Remuneration Committee.

2.2.1. Determination of the variable remuneration

The variable remuneration of executive directors is determined on the basis of a benchmark standard corresponding to compliance with 100% of the established goals, and a reference value is set for each member for each year.

The final amount of the performance bonus and inherent variable remuneration will be determined at the beginning of the year next following that of the performance of duties, on the basis of the benchmark amount and in the light of the actual fulfilment of the established objectives.

The concrete variable remuneration is determined considering:

a) A set of quantitative parameters in the short term measured in accordance with the annual objectives;

b) A qualitative assessment supported by qualified evidence and cannot modify the quantitative result by more than 25% up or down;

c) An exceptional adjustment, supported by qualified evidence, which may involve modifications originating from control deficiencies and/or risks, negative results of the evaluations of supervisors or significant or unexpected events.

The overall objectives for 2018 are those set out in Annex 2, which forms part of the Declaration for all intents and purposes.

Should the quantitative metrics not reach a certain level of compliance, the amount of the variable remuneration may not exceed 50% of the benchmark amount for the year in question. If the result of the said metrics is negative, the amount of the variable remuneration shall be 0%

The maximum ratio between the amount of all components of the variable remuneration of the members of the Executive Committee and the total amount of the fixed remuneration shall not exceed 200%.

The bodies competent to carry out the assessment of individual annual performance are the Group's Managing Director, regarding the Bank's Chief Executive Officer, and the chair of the Executive Committee regarding the other executive directors.

2.2.2. Composition of the variable remuneration and its regulation

Payment of the variable part of the remuneration is subject to partial deferral, seeking a balance between the short and medium term.

a) Of the variable remuneration 50% is payable in cash and 50% in shares, a part paid in 2019 and a part deferred over three or five years, subject to observance of the following parameters:
    a. 60% (or whatever is defined in accordance with the applicable situation) of this remuneration shall be paid in 2019, in cash and in shares;
    b. The balance will be paid annually, in three or five equal parts (as applicable) in cash and shares, the conditions laid down having been observed.

b) The shares allocated do not benefit from any risk-hedging contract and, until the end of their respective terms of office, remain subject to the condition of being held until their value amounts to twice the amount of the total remuneration, without prejudice to the possibility of sale of shares required to pay taxes on the gains inherent in these same shares.

c) Additionally, the Board of Directors of the Santander Group approved a corporate stock-retention policy applicable to the executive directors of the Santander Group and to other senior staff off the Santander Group (including, in Portugal, the Country Head), which, after a transitional period, will oblige the employees in question to maintain at all times ownership of a volume of Banco Santander shares equivalent to twice their fixed annual remuneration.

d) The deferred portion of the variable remuneration, relating to the third year and also the fourth and fifth years, if applicable, is also subject to the *malus* and clawback conditions, to compliance with the Group's long-term goals for 2017-2019, in accordance with the general criteria applicable within the framework of the Santander Group, pursuant to which the amount of the variable remuneration can only diminish (by reduction of the payment in cash or in shares), as defined for the current year under the terms of Annex 3.

e) Payment of the variable remuneration shall observe the rules of deferral and the reduction (*malus*) or reversal (clawback) mechanisms in force in the Policy in order to comply with legal and regulatory requirements, as well as observe the recommendations and guidelines issued by the competent supervisory authorities. The faculty of totally or partially reducing (*malus*) the payment of deferred remuneration whose payment is not yet an acquired right, as well as retaining all or part of the variable remuneration whose payment is an acquired right (clawback), Is limited to extremely significant events, properly identified, in which the persons concerned have directly taken part in the events identified.

2.2.3. Identification of the deferred and paid portions of the variable remuneration

In respect of 2014, the last third of the deferred variable remuneration was paid in 2018.

In respect of 2015, one third of the deferred variable remuneration is still to be paid.

In respect of 2016, two thirds of the deferred variable remuneration are still to be paid.

In respect of the 2017 variable remuneration, the part not subject to deferral was paid in 2018. Payment of the remainder is deferred over three or five years, as applicable.

2.2.4. Retirement

Executive directors who at the time of the merger were directors of Banco Totta & Açores, benefit from a supplementary old-age or disability pension plan, whose terms and conditions were set in accordance with the regulation approved by the General Meeting on May 30, 2007, under the provisions of article 25(4) of the Bank's articles of association, which adopts the entire content of the regulation originally approved by the Banco Totta & Açores General Meeting on October 30, 1989. The requirements of this plan include, in particular, tenure pf office for a minimum period, the amount of the supplementary payment varying in the light of the director's seniority.

Executive directors with an employment contract with the Bank, and notwithstanding the suspension of the said contract, are covered by a supplementary pension plan established by the Santander Group for all its senior staff, the terms of which were approved by the respective Boards of Directors, no voting rights having been granted to those directors who would benefit from such a plan.

2.2.5. Other Regulations

Executive directors also benefit from health insurance and the benefits resulting from the collective bargaining agreements applicable to employees, including recourse to mortgage loans.

Executive directors benefit from life insurance, the capital covered of which is equivalent to twice the amount of the fixed annual remuneration of the holder in question;

Executive Directors, or the bank in their favour, cannot use any risk-hedging or similar mechanisms. This rule is observed and must be confirmed annually by the director before the Group.

During 2018 it is not expected that there will be amounts paid to executive directors by other companies in a controlling or group relationship with the Bank.

3. Supplementary aspects

3.1. Policy approval procedures

The Policy was approved by the Santander Group, adopting a set of national and international guidelines on the matter, the Bank having subsequently subscribed to the Policy on January 31, 2017, after presentation to the Bank's Remuneration Committee and the Board of Directors.

The Policy, under the terms of which it was approved, will be complemented by a set of additional guidelines, essentially of an interpretative nature.

Since September 16, 2016, the Bank's Remuneration Committee comprises the chair of the Board of Directors, Antonio Basagoiti, Deputy-Chairman Enrique Garcia Candelas and Isabel Mota, the majority of its members legally qualifying as independent (the chair and Isabel Mota).

In turn, the Remuneration Committee provided for in the Companies Code, which determines the actual amount of remuneration payable to all members of the governing bodies, comprises Jaime Pérez-Renovales and Roberto di Bernardini, both senior officers of the Santander Group.

Mercer Portugal assisted the Bank (in 2017), as external consultant, in the work of transposing the application of the policy to the Bank.

3.2. Other aspects

It is unlikely that, during 2018, any compensation for early termination of the duties of corporate officers will be paid.

Allocation of stock option plans in 2018 is not expected.

There are no non-cash benefits or other forms of remuneration other than those referred to in the Declaration.

4. Compliance with the rules on remuneration policy defined by the Bank of Portugal

The Bank's Policy is as a whole in line with the principles set forth in the regulation applicable in Portugal, always governed by simplicity, transparency and suitability for the medium and long term objectives.

In this way, the determination of the total remuneration, comprising a fixed and a variable part, as well as the articulation of these two components, as set forth in this Declaration and the attached Policy, allow one to conclude that the material rules set out in Portuguese regulations have, in general, been adopted.

The fact that the Bank forms part of the Santander Group, which holds more than 99% of its share capital, implies the necessary coherence of the respective corporate policies, which, in turn and given the global nature of the Group, have due regard for international regulations on the matter.

The applicable regulations also determine that a review be conducted, at least annually, of the Bank's remuneration policy and its implementation, in order to ensure that it is effectively applied, that the payments of remuneration are appropriate and that the risk profile and long-term goals of the institution are being appropriately reflected, and that the policy is in accordance with the laws and regulations in force and with the applicable principles and national and international recommendations.

This annual review should also include an assessment of the remuneration practices of the subsidiaries abroad and of the off-shore establishments, in particular on the respective effect on the management of the risks, share capital and liquidity of the institution.

The said assessment was performed, with due regard for the applicable regulation, the by the Bank's remuneration committee, the units responsible control functions having played an active role, no shortcomings have been encountered.

5. Information on the performance of the Remuneration Committee's duties

The members of the Remuneration Committee were elected at the General Meeting of May 31, 2016, having obtained non-opposition of the regulator to the performance of their duties in early September of that year, when the Committee was established.

The duties performed by the Committee during 2017 and early 2018, were those provided for in its internal regulation, which consist of making and informed and independent judgement on the remuneration policy and practices, and on the incentives created for the management of risks, share capital and liquidity, and it is also responsible for the preparation of decisions regarding remuneration.

Lisbon, April 23, 2018

Annex 1
Remuneration Policy of the Santander Group

Contents

1. Background

The growing complexity of financial services requires a strong risk culture allowing effective management, control and supervision of the variety of risks that the Group, its shareholders, employees and customers face, including those derived from incentive systems that would otherwise be neither coherent nor promote sound and effective risk management.

The Santander Group (hereinafter referred to interchangeably as "Santander Group" or "the Group") adopts consistent remuneration practices that comply with the rules applicable in the jurisdictions where the Group carries on its business. Remuneration is so defined as to promote a high-performance culture in which people are rewarded and recognised for their performance and competence and for their impact on the success of the Group and/or its subsidiaries. The remuneration practices of the Santander Group must always be aligned with the interests of its shareholders, employees, customers and society and, in particular, promote good conduct. Group also ensures that the remuneration policies promote and are consistent with sound and effective risk management and with maintenance of a sound capital base.

The Policies of the Santander Group are defined in a joint effort involving the Group's control functions (Compliance, Audit and Risks), and other functions at Group level (Finances and Financial Control) and the Legal Advisory function. Other functions at Group level (Finance and Financial Control). The commercial functions and management of the subsidiaries (boards of directors, control functions and other equivalent local areas) also play an important role in that development by providing guidance on the basis of their knowledge bases or as interested party.

2. Introduction

The purpose of this policy is to establish how Group Companies manage the remuneration for all employees, including employees who occupy "Key Positions", in accordance with the "Modelo de Gobierno Matriz - Filial", the employees designated as "Significant Risk Takers", the senior staff of the "Promontório" and "Faro" segment in accordance with the Group's corporate segmentation, or any other group of regulated employees. This Policy sets out the key principles and sets the minimum rules required by the Group and respective control functions for the design, review, implementation and supervision of the remuneration.

This policy develops the Human Resources Corporate Model, and is related with and must be applied in conjunction with the provisions established in the provisions laid down in the "Modelo de Gobierno Matriz- Filial", as applicable.

3. Governance and approval

The Board of Directors of the Santander Group approved this Policy as proposed by the Remuneration Committee.

The Group's Board of Directors is responsible for this policy and shall approve any revision and updating required in the event of significant alterations or at least once a year, with the suspension of the Human Resources Committee. New sections may be added to comply with regulatory requirements, to promote the Group's strategy and to support the plans of the business units.

The Global Compensation Function, included in the overall Human Resources function, is responsible for drafting and developing the directives to be approved at different levels, depending on the seniority and/or category of those employees to which it applies, and are provided to support the implementation of this Policy across the Group. On the other hand, approval by the local-governance bodies of this policy and the respective documents that develop it may be required. The Risk Oversight, Regulation and Compliance Committee will supervise the Remuneration Policy (or development documents) and those programmes of greater impact in order to ensure their risk alignment.

If there is any doubt as to the overall content of this Policy or any of its sections, please contact the Global Compensation function.

4. Scope of application of the Policy

This Policy was defined by Banco Santander, SA, the parent company of the Santander Group, and approved by its Board of Directors. This Policy applies to the entire Santander Group (understood as the Group, Banco Santander, SA, and all other companies that from time to time consolidate together with Banco Santander SA) and will be provided to all companies, establishing the principles applicable within the Group that every company must comply with.

To this end, all companies shall adopt this Policy and are responsible, using this document as a reference, for the creation and approval by the respective governing bodies of internal regulations allowing the application of the provisions contained herein, with such adaptations as may be essential for compliance with local regulatory requirements or following the recommendations of the supervisory bodies.

The Group's overall Human Resources function shall validate the said approval to ensure consistency with the regulatory framework of the Santander Group and the internal governance model established by the Group.

Not all sections of the Policy are applicable to all employees, but just to a relevant group of employees. Thus, the specific scope of each of the eight (8) sections included in this Policy is specified at the beginning.

5. Risks and Controls

The Human Resources function, together with the Risks and Compliance functions of each Group company shall confirm that this Policy and the remuneration practices comply with the applicable rules and implement, where possible, the key control indicators required to monitor the level of compliance.

Additionally, effective controls shall be established to verify whether the remuneration policies and practices are being complied with, and to identify and address incidents in the matter of non-compliance.

Comprehensive information, including quality models and opinions of key stakeholders, may be used to test the effectiveness of the remuneration policies.

6. Sections of the Policy

Each of the eight (8) sections dealt with in this Policy addresses a specific area of remuneration:

1. **Santander's Remuneration Principles**: establish, together with other sections of this Policy, the key principles in the matter of remuneration for all employees of the Santander Group.
2. **Variable Compensation**: contains, along with other sections of this Policy, instructions on the model and implementation of the risk-adjusted variable remuneration established at companies of the Santander Group, including the bonus systems, long-term incentives and other performance-related plans.
3. **Variable Compensation of the Sales Force**: contains instructions on the model and implementation of the remuneration of employees and other persons involved in the provision of banking, insurance and investment services or ancillary services to customers across all the distribution channels.
4. **Remuneration of the "Promontório" and "Faro" segments**: establishes, together with other sections of this Policy, the specific elements and characteristics of the remuneration of the top management of the Group.
5. **Identification of the "Significant Risk Takers**": establishes principles, guidelines and common interpretation criteria to determine the identity of employees whose professional activities may have a material impact on the Group's risk profile (the "Identified Officers) and to ensure appropriate reporting from time to time.
6. **Remuneration of "Significant-Risk Takers"**: establishes the specific elements and of the remuneration of employees of the entire Group whose professional activities may have a material impact on the Group's risk profile ("Identified officers").
7. **Remuneration of the Control Functions**: includes the principles of remuneration of the control functions and ensures that these functions are able to attract qualified talent having suitable experience to perform their functions without conflicts of interest arising from negative professional conduct and performance. Additionally, It also ensures that employees in these functions can be motivated and rewarded for the exceptional performance of their duties and for working in a unified and commercial manner with the business line under their supervision.
8. **Application of *Malus* and Clawback Clauses** defines the process of identification, assessment and review of events that, subsequent to the situations that gave rise to the payment of the variable compensation of the identified officers or regulated officers, may require the application of *malus* and clawback clauses to the persons involved and to the dimensions of the adjustment.

The eight (8) sections referred to above are gone into hereunder, structured into individual chapters.

Section 1: Remuneration Principles

Introduction

This section contains instructions on the remuneration principles established by the Santander Group. All countries must follow the instructions set forth in this section. Should it not prove possible to apply a specific clause to a particular country, the Global Compensation function of Human Resources corporate area must be consulted.

Scope of application

The principles included in this section are divided into two (2) sub-sections:

- The "All employees" subsection applies to the remuneration of all employees in all countries and functions, including Senior Staff as well as Significant Risk Takers.
- The Senior Staff and Significant Risk Takers subsection applies only to the Group's Executive Directors, other senior officers such as Country Head, CEOs of the affiliates and Heads of Divisions and Corporate areas, "Key positions" as defined in the "Modelo de Gobierno Matriz- Filial", other employees of the "Promontório" and "Faro" segments and other Significant Risk Takers.

In case of doubt regarding the functions that apply to the Senior Staff and Significant Risk Takers section, consult Sections 4 ("Promontório" and "Faro" Remuneration) and 5 (Identification of Significant Risk Takers) of this Policy.

Principles

Applicable to all Employees:

The principles of the Group's Remuneration Policy are as follows:

- The remuneration shall be aligned with the interests of shareholders, be focused on the creation of long-term value and be consistent with strict risk management and with the company's strategy, values and long-term interests;
- The fixed remuneration represents a significant proportion of the total compensation;
- The variable remuneration rewards performance for having achieved the agreed objectives, based on the post and responsibility of the employee within the scope of prudent risk management;
- The variable compensation promotes good conduct and does not encourage the sale of a product or service when there are others better suited to the needs of the customer;
- Adequate benefits are granted to support employees and their families;
- The overall remuneration package and structure shall, in general, be competitive, making it easier to attract and retain employees;
- Conflicts of interest shall be avoided when related with decisions on remuneration, so that the Group or any of its employees are not unduly influenced by a secondary interest (e.g., they must not be responsible for decisions relating to their own remuneration);
- There will be no discrimination in decisions on remuneration, unless they are performance-related;
- The structure and amount of remuneration in each country shall be compatible with local laws and regulations.

Fixed Compensation:

Applicable to all staff:

The fixed remuneration shall account for a considerable part of the total remuneration. Fixed remuneration mainly consists of:

- **Gross annual salary**: an amount consistent with the level of responsibility of the employees in question and encourages their retention and attracts the best talent. The gross annual salary may be revised annually within the context of legal and regulatory requirements, market practices and results of the Bank's business;
- **Compensation for international mobility**: supplements may be paid to compensate employees who are deployed to other countries for work reasons. Such supplements will be part of the fixed compensation and may be granted as a lump sum;
- **Supplements:** other supplements may be granted based on market conditions, policies, practices and local rules;
- **Pensions and other benefits**: All new commitments relating to pensions shall be based on defined-contribution plans, in order to mitigate the risks associated with other types of commitments. Existing defined-benefit plans shall be replaced, where possible, by defined-contribution plans with a lower risk profile.

  Adequate benefits shall be granted to support employees and their families taking into account local market practices and local public agreements.

All fixed-compensation components must comply with local legal and regulatory requirements.

Applicable to Senior Staff and Significant Risk Takers:

Decisions on the compensation of Senior Staff and Significant Risk Takers shall be reviewed by the appropriate committee.

Variable Compensation

Variable remuneration shall reward performance for having achieved the local business objectives and, where relevant, those of the Group.

Applicable to all employees:

Variable compensation shall reward performance for having achieved objectives of the local entity and, where relevant, of the Group. All variable compensation plans shall:

- Reward performance;
- Be aligned with the risk;
- Encourage good conduct (e.g. "Simple, Close and Fair" conduct on how employees carry out transactions, conduct business, take decisions and how they interact with customers, shareholders and society in general; credit-, operational- and reputational-risk management);
- Not promoting the sale of a specific product or service, if any there is another product or service that can be offered and is better suited to the customer's needs;
- Is reasonable for the function and responsibilities.

The variable compensation shall only be granted if it is not detrimental to the maintenance of a sound capital base of the country concerned and of the Group. Additionally, it should be possible that the result of the calculation of the variable compensation is zero both for the whole of the participants and for each individual participant.

Applicable to Senior Staff and Significant Risk Takers:

The main objective of the variable compensation is to provide incentives to achieve the short-, medium- and long-term objectives and to achieve and exceed the goals established at local, function or Group level, as well as progressive improvement of individual performance.

This compensation is supplementary and of a variable nature, and can in no way be consolidated into salary, while there is always the possibility that no amount is received in the current year or even in subsequent years.

The variable compensation shall comply with regulatory requirements relating to the deferral and payment by means of financial instruments, both at local and at Group level.

- **Annual bonus**

  Applicable to the Group's senior staff, the managing directors, Country Heads, senior staff of the "Promontório" and "Faro" segments identified as participants and other senior staff mainly of the global business areas also identified as participants

  Generally, an annual reference amount known as "bonus base" or reference bonus is defined for each participant . This amount is usually set in local currency and is based on the employees' level of responsibility, the evolution of their salary within the Group, as well as on market references.

  The total amount of bonuses, known as "bonus pool", of each division, country or organisational unit is calculated by the sum of the base bonuses of its participants, multiplied by the degree of achievement of the corresponding metrics and other qualitative factors and/or quantitative adjustments .

  The metrics for the calculation of the "bonus pool" shall include *ex-ante* adjustments relating to risks, in order to ensure that variable compensation is fully in line with the risks assumed.

- **Long-term incentive plan (LTI) and deferral subject to long-term performance**

  Applicable to senior staff and other employees appointed in Group terms, including senior officers of countries also indicated as participants.

  To determine the LTI that may be applicable, both in the form of a separate LTI or as part of a deferral subject to long-term performance, a set of ratios based on the Group's performance in the year in question will be applied to the established LTI.

  The LTI payment established and the amount are subject to compliance with a number of multi-annual objectives, including measures relating to risk and capital. The long-term incentive, if applicable, will be fully received on a deferred basis, at least 50% in shares, and will be subject to application of *malus* clauses.

For more detailed information of the variable compensation for Senior Staff and Significant Risk Takers, consult Sections 2 (Variable Compensation), 4 ("Promontório" and "Faro" Remuneration), 5 (Significant Risk Takers Remuneration), 7 (Control Functions Remuneration) and 8 (Application of *Malus* and Clawback Clauses) of this Policy.

Other Payments

Applicable to all staff:

- **Guaranteed variable compensation**: as a general rule, amounts received as a bonus cannot be guaranteed. However, occasionally and only during the first year of effective work at the Group, it is possible to ensure that a minimum amount of the variable compensation is paid under the following conditions:
  - The capital base must be sufficient to allow payment;
  - The local HR team must be informed of the amounts in question so they can be recorded and properly reported;
  - Any guaranteed variable compensation will be subject to the applicable deferral policies.
- **Acquisitions (buyouts)**: when employees are recruited from outside, they can only be compensated for the loss of remuneration deferred and not attributed when there is reasonable evidence of the actual grant.

  In these cases of buyouts the compensation to be granted to these employees shall be based on reasonable levels, on a basis of similarity, taking into account the amount of incentives granted, the performance conditions and the period of actual attribution of rights. When possible, the compensation must be undertaken through a similar plan based on shares of Banco Santander or of the corresponding unit.

  Guidelines on buyouts will be established to support the implementation of this specific component.

  Any buyouts will be subject to the necessary deferral policies.

Applicable to Senior Staff Significant Risk Takers:

- **Guaranteed variable compensation and buyouts**: for Significant Risk Takers the Global Compensation function of the Human Resources area shall be informed of the corresponding amounts for them to be recorded and properly reported.

Employment contracts

Applicable to all employees:

- **Code of conduct and other codes**: there is an obligation to comply strictly with the provisions of the Group's General Code and of the Securities Markets Code of Conduct.

  Any additional provision may be included in a local code of conduct, which should also be strictly complied with.

- **Termination of the employment contract**: the allocation of payments on termination of employment relations shall be authorised at the appropriate level. In the case of Executive Directors of the Group, CEOs of the affiliates and the Heads of Divisions and Corporate areas, the authorisation shall be given by the Group's Board of Directors.

  Payments to be made shall reasonable, fair and adapted to local practices and regulatory requirements. This can be adapted in the light of the specific situation in order to take into account aspects such as the strategic importance of the function, confidentiality, substitutability, etc.

  When payments within the scope of termination of the employment relationship are made outside normal policies and practices, appropriate documentation shall be prepared and maintained, including the grounds and justification for the exception.

- **Non-competition clauses**: depending on the context and general market practice, each company shall analyse the categories of employees to whom non-competition clauses shall apply. Where applicable, contracts may be suggested to employees prohibiting the conclusion of contracts for the provision of services to other companies or entities, except as expressly authorised to do so. In the case of Executive Directors of the Group, Country Heads, CEOs of the affiliates and the Heads of Corporate Divisions and areas, the authorisation shall be given by the Group's Board of Directors. Additionally, the duty of non-competition can be established in respect of companies and activities of a similar nature to those of the Group.

  On the other hand, contracts proposed to certain employees may include specific non-competition prohibitions, as well as prohibition of diverting customers, employees and suppliers, which may apply for a period of time after termination of the employment contract for several reasons, retirement, early retirement or unilateral termination by the Group.

Governance

The Group's Board of Directors approved the initial version of this section in January 2016, at the proposal of the Remuneration Committee. The alterations now introduced are subject to the same governance procedure for their approval.

Section 2: Variable Compensation

Introduction

This section contains instructions on the concept and implementation of the variable remuneration established by the Santander Group.

The Group's global Human Resources function shall issue "Variable Compensation guidelines" for the purposes of information, including examples and further clarification for the implementation of this section of the Policy.

Scope of application

This section applies to variable-compensation plans, including bonuses, long-term incentives, and other performance-related plans for all employees in all countries, companies and functions, including employees holding “Key positions” as defined in the “Modelo de Gobierno Matriz - Filial”, other employees of the “Promontório” and “Faro” segments and other Significant Risk Takers. In case of doubt as to the application of this section the Global Compensation Function of the Group’s Human Resources area should be contacted.

The Variable Compensation applicable to employees of the sales teams is dealt with in Section 3 (Variable Compensation for Sales Teams) of this Policy.

This section should be considered together with:

- The Part of the Variable Compensation referred to in Section 1 (Remuneration Principles) of this Policy, which applies to all Group employees.
- Sections 4 (“Promontório” and “Faro” Remuneration) and 6 (Significant Risk Takers Remuneration) of this Policy apply to all employees included in these groups, and contain additional information that should be considered in conjunction with this section.
- When Section 7 (Remuneration of Control Functions) is applied to specific employees, the requirements of that section shall prevail over those of this section.
- If a variable-compensation plan covers employees assigned to the sales teams and other employees who intervene in the provision of banking services, insurance, investments or ancillary services to customers, then the guidelines established in Section 3 (Variable Compensation of the Sales Force) of this Policy shall be taken into consideration.
- The deferred variable compensation shall also be subject to the conditions set out in Section 8 (Application of the *Malus* and Clawback Clauses) of this Policy.

Principles

Consult the Principles point relating to Variable Compensation set out in Section 1 (Remuneration Principles).

Attribution of the Bonus Pool by Country

The Group has implemented a specific regulation for the variable compensation of the “Promontório” and “Faro” segments, which is provided for in Section 4 (“Promontório” and “Faro” Remuneration) of this Policy.

When countries apply a bonus pool or other variable compensation for different functions of the “Promontório” and “Faro” segments, it shall be based on:

- A suitable set of metrics appropriate to the short- and long-term performance of the local businesses;
- Metrics that include risk factors, among others;
- Metrics that must, in general, be based on strategic objectives, currently divided into four categories: employees, customers, shareholders and society. The weight of each category shall be established based on the objectives of each country. Any of the categories may be removed from the local variable-compensation plans in the light of case-by-case situations.
- Metrics evaluated in the light of objectives and, where applicable and relevant, with compliance limits;
- When feasible, performance objectives shall include a balanced number of quantitative and qualitative objectives;
- Review of compliance with the performance objectives shall include, where possible, assessment of the impact of the supervisor’s reviews and other internal metrics (audit, compliance, risks);
- Determination of the bonus pool shall be reviewed in accordance with local internal governance and shall involve assessment by the risks function and other relevant control functions.

Each country shall determine the characteristics of the metrics used for groups of employees other than of the "Promontório" and "Faro" segments and will be locally authorised, complying with the principles and provisions set forth in this Policy.

The metrics used by countries for the Significant Risk Takers not included in the "Promontório" and "Faro" segments will be reviewed by the Global Compensation Function to ensure they are in line with the regulations applicable to the Group.

Individual allocation of the variable compensation

The individual bonus or any other variable compensation shall be determined according to the following principles:

1. There shall be a clear link between compensation and performance.
2. The variable compensation shall be in line with the risk profile and encourage good conduct, foster Group culture, comply with the rules and avoid conflicts of interest.

The performance-management process shall be planned and implemented in accordance with the following principles:

- Encourage alignment with the strategy and culture of the Group and of the countries;
- Be communicated to the employees in a transparent and clear manner;
- Ensure appropriate confidentiality;
- Consider the information (feedback) obtained from all sources related with the function.

The individual variable compensation based on performance shall be calculated on the basis of a formula or a reasonable discretionary criterion, with adjustments to the formula allowed only in exceptional circumstances. The exceptional discretionary criterion shall be documented and justified. Examples of exceptional circumstances include incidences in the matter of risk and conduct or applicable regulation (maximum variable-compensation ratio).

When a decision is taken on the variable compensation or bonus of an employee who does not comply with these principles, the grounds must be documented and discussed with the local HR.

Definition of variable compensation for "Key Positions":

The individual variable compensation for "Key Positions" in accordance with the "Modelo de Gobierno Matriz - Filial", shall be defined in keeping with the process described in that Model, both the local and the corporate functions intervening.

Long-term incentives and deferred remuneration subject to long-term objectives

The following principles apply to long-term incentives and to deferred remuneration subject to long-term goals - consult Section 1 (Remuneration Principles) of this Policy:

- There must be a clear link with the creation of long-term value for the shareholder;
- They shall be assessed based on metrics related to shareholders, including, but not limited to, risks and capital;
- They must be delivered in suitable instruments, as permitted by applicable regulations;
- They shall be deferred over an appropriate period as laid down in the plan's regulations and applicable legal requirements;
- They shall be subject to a retention period, according to the rules of the plan and legal requirements;
- They shall be subject to provisions on the application of *Malus* and clawback clauses as provided for in the regulation for Significant Risk Takers and other employees. Section 8 (Application of *Malus* and Clawback Clauses) of this Policy contains additional information on this matter.

The Global Compensation Function shall be consulted on new long-term incentives or deferral plans, if they are applicable to Significant Risk Takers, and be submitted to the approval of the Group's Board of Directors if they apply to employees of the "Promontório" and "Faro" segments.

The Global Compensation Function shall provide guidance on the accounting of long-term incentives for the calculation of the percentage of the variable compensation in the light of the fixed one.

Grant of the variable compensation

In general, as a condition of eligibility for the grant of bonuses, the beneficiaries must work for the Group and may not have communicated their intention to leave the Group at the time of the payment.

However, each corporate or local plan may contain its own provisions to address situations related to terminations by mutual consent or unilateral terminations. The local labour laws shall also be taken into consideration.

Documentation, reporting and accessibility

The remuneration policies and practices shall be documented and archived for audit purposes for a minimum of five (5) years from the last date on which they were applied, and made available if requested by the competent authorities.

Such documentation shall include, but not be limited to, the objectives and the employees to whom this policy is applied, the details of its approval and implementation.

The approval of local remuneration policies must be ensured within the defined governance level, and these policies as well as plans of greater impact shall be reviewed by the local Remuneration Committee. All relevant policies and plans shall be approved by the local Human Resources, as appropriate.

In any case, the Risk Oversight, Regulation and Compliance Committee shall verify and validate any remuneration policy (or document that develops it) in order to ensure its compliance with the risk profile.

Governance

This section is subject to the approval of the Group's Board of Directors at the proposal of the Remuneration Committee.

Section 3: Variable Compensation of the Sales Teams

Introduction

This section contains information on the concept of the remuneration of employees and other persons (hereinafter referred to just as "relevant persons") involved in the provision of banking services, insurance, investments and ancillary services to customers of the Santander Group.

The Group's Global Human Resources function shall issue the "Guidelines on the Variable Compensation of the Sales Teams" for information purposes, including examples and further clarification for the implementation of this section of the Policy.

Scope of Application

This section shall apply to remuneration policies and practices (including benefits in kind and bonuses and other compensation such as travel allowance, invitations to events, discounts on purchases or gifts/material goods) of employees of the sales teams and relevant persons involved in the sale of products banking and services through all the distribution channels, including branches and the digital and telephone channels.

In particular, it is applied to the following:

- Employees who take part directly in the provision of banking, insurance, investment service or ancillary services;
- Employees responsible for the supervision of those employees or are their superiors;
- Financial analysts whose reports may be used by the sales teams to assist customers in making investment decisions;
- Employees involved in the concept and development of products and services;
- Employees involved in complaint management, processing of complaints and customer retention;
- Commercial agents:
- Other external commercial agents or intermediates;
- Employees working in the recovery teams.

Companies of the Santander Group shall identify in all cases the employees and the areas to which this section applies. In case of doubt as to the application of this section consult the Global Compensation function of the Corporate Human Resources area.

Principles

The remuneration policies of employees falling within the scope of this section shall be conceived:

- In a manner such that they take into account the rights and interests of customers;
- To avoid conflicts of interest generated by remuneration practices that could harm the interests of customers or, where appropriate, to manage such conflicts adequately and effectively in accordance with the Group's business strategy and values;
- Not to promote the sale of a specific product or service if any there is another product or service that can be offered and is better suited to the customer's needs;
- To be easily accessible to all employees and that it be clear and transparent;
- To allow the attraction and retention of the best professionals.

Conception

The remuneration policy shall be conceived in a manner that:

Fixed and variable remuneration ratio:

All remuneration components are classified as fixed or variable and the ratio of these components shall be properly balanced (unless a specific local rule on positions is applied is applied to specific commercial values), to promote conduct and behaviour aligned with the Group's policies.

A flexible variable remuneration policy shall be established that sets a minimum ratio and a maximum ratio relative to the fixed remuneration. In this regard, good practice may be a variable compensation that does not exceed 100% of the fixed component. Such a policy shall also include the possibility of not paying any variable compensation.

Save authorised and justified exceptions, the ratio between fixed and variable components shall be consistent for all employees of the same category and business.

Metrics:

The remuneration shall take into account both quantitative and qualitative criteria that reflect the treatment of customers, the quality of the services provided to the customers, risk management and compliance with the rules.

The metrics shall be calibrated in a simple and transparent manner so that the specific requirements of each department and for the various levels of responsibility are met.

In order to assess the performance of an employee, the company shall define, in the remuneration policies and practices, the appropriate criteria to be used to evaluate the performance, taking into account the rights and interests of consumers. When possible, the variable compensation shall be calculated and conceived on a linear basis rather than an "all or nothing" criterion.

Taking into account the risk-authorisation models and when the functions have an impact on decisions about risks, such functions shall have a risk metric or assessment.

The following are examples of acceptable performance metrics.

- Compliance with the Group's internal policies and procedures at global or local level, especially those related to the rules of conduct (fulfilment of investment tests, customer classification, delivery of pre-contractual information and notifications, contractual documentation completeness, prevention of abuse of privileged information, etc.) and risk management (credit and operational, and any other types of risk);
- Performance-evaluation results, including aspects such as people management, leadership, risk management or other necessary parameters in the light of the post or category of the employee;
- Results of customer-satisfaction polls and/or customer processes;

- Customer complaints level;
- Contribution to the development of the Group, department or area;
- Meeting customer retention and loyalty goals;
- Getting positive feedback on investments or portfolios and on customers' products;
- Training attendance and success;
- Other quality Indicators.

Communication:

Employees must be clearly informed of the performance-evaluation criteria and of the conditions of this evaluation before its application.

The variable compensation shall be paid at the appropriate time in accordance with the rules of each plan.

Documentation, reporting and accessibility

The remuneration policies and practices shall be documented and archived for audit purposes for a minimum of five (5) years from the last date on which they were applied, and made available if requested by the competent authorities.

Such documentation shall include, but not be limited to, the objectives and the employees to whom these policies apply and the details of their approval and implementation.

The approval of local remuneration policies of the sales teams must be ensured at the level of adequate governance, and these policies as well as plans of greater impact shall be reviewed by the local Remuneration Committee. In particular, the Compliance function shall be responsible for the approval of any variable-compensation plans for the local sales teams before its implementation.

All relevant policies and plans shall be agreed by the local Human Resources areas, as appropriate.

Governance

This section is subject to the approval of the Group's Board of Directors at the proposal of the Remuneration Committee.

Section 4: "Promontório" and "Faro" Remuneration

Introduction

This section contains instructions on the remuneration of the "Promontório" and "Faro" segments established by the Santander Group.

Scope of application

This section applies to the remuneration policies and practices for the "Promontório" and "Faro" segments in all countries, companies and/or functions. To this end, employees of the "Promontório" and "Faro" segments are defined as those who perform the Group's most relevant duties, that were named "Promontório" or "Faro" by the Group's Human Resources Committee, and whose appointment was duly and individually communicated.

Specifically, for clarification purposes and as a general and non-exhaustive job description, the "Promontório" segment includes the "Country Head" of the major countries, Division and Corporate Area Managers and other functions of significant strategic impact, while the "Faro" segment generally includes the functions of the Management Bodies in the Group's main countries and businesses and employees having more relevant functions who report directly to the Divisions and Corporate Areas managers.

This section shall be considered together with:

- Section 1 (Remuneration Principles) of this Policy, which applies to all employees of the Group.
- When Section 7 (Remuneration of Control Functions) of this Policy is applied to employees included in the "Promontório" and "Faro" segments, the requirements of that section shall take precedence over the requirements of this one.
- Section 6 (Remuneration of Significant Risk Takers) of this Policy shall also apply when employees of the "Promontório" and "Faro" segments are identified as Significant Risk takers.

Principles

Consult a Section 1 (Remuneration Principles) of this Policy.

Fixed Compensation

With regard to the fixed salary, supplements and mobility payments to employees of the "Promontório" and "Faro" segments, consult Section 1 (Remuneration Principles) of this Policy.

With regard to contributions to pension plans made on behalf of employees, they shall be assigned in accordance with local practices. New provisions shall be subject to a maximum of 50% of annual base salary for employees of the "Promontório" segment and 25% of the annual base salary for "Faro" employees. The pension plans shall be defined contribution.

If required by local regulations or where it is justified for other reasons, variable-pension plans may be established. In this case, the specific use criteria are approved locally. These plans shall be considered as variable compensation, with the associated requirements as established in the variable compensation section hereunder. Under specific terms the defined contribution shall be included for assessment of the limit of the variable compensation and will be subject to appropriate deferral and to application of the "*Malus* and clawback" clauses.

Health, life and accident insurance shall be established in competitive terms in comparison with the local market.

Additional benefits can be offered to employees of the "Promontório" and "Faro" segments, in line with the local market, but they may not exceed 20% of the annual base salary.

Variable compensation

The section dealing with Variable Compensation in this Policy contains instructions on the conception and implementation of the variable compensation and must always be complied with, with the additional requirements listed hereunder for the employees of the "Promontório" and "Faro" segments.

Generally, an annual reference amount known as "bonus base/incentive base" or "reference bonus/incentive" is defined for each participant . This amount is usually set in local currency and is based on the employees' level of responsibility and evolution of their salary, as well as on the reference points of the market.

Taking into consideration an adequate balance between fixed and variable compensation, the annual amount set for the employees of the "Promontório" and "Faro" segments shall consist of a significant proportion of the respective annual base salary. A reasonable proportion thereof shall be based on long-term objectives and shall comprise a higher percentage of variable compensation for employees of the "Promontório" segment.

The final variable compensation defined taking into account the "bonus or incentive base", the available bonus pool and the individual performance of the employee.

Total variable compensation may not exceed a maximum of 100% of the fixed remuneration, even when there has been exceptional performance. However, this limit may be increased extraordinarily to a maximum of 200% of the fixed remuneration if approved by the shareholders of the Group.

Variable compensation pool:

The individual variable remuneration shall be defined on the basis of the bonus pool available for each country. The bonus pool for each country will be determined by considering:

1. Evaluation of the Country;
2. Group performance multiplier;

3. Exceptional adjustment.

The bonus pool will be reviewed annually at the Group in accordance with the approved internal governance rules.

1. Evaluation of the Country:

As defined in Section 2 (Variable Compensation) of this Policy, the evaluation of the country will be based on quantitative and qualitative metrics that cover a number of categories. These categories are currently:

- Customers;
- People;
- Community/ society;
- Shareholders (covering risk, capital and profitability).

The weighting of each category shall be established on the basis of the objectives of each country. Any of the categories might not be taken into account for a local variable-compensation plan after consideration of the decision-support grounds, to be approved by the Human Resources Committee, which will submit the changes to the Group's Remuneration Committee for consideration. Details of the metrics used by the countries shall be determined within the scope of each country and authorised by the Corporate Human Resources Function under the terms of the general plan approved by the Group's Remuneration Committee.

Performance shall be assessed on the basis of quantitative and qualitative metrics:

- Quantitative metrics are assessed considering pre-defined objectives. When the performance is less than 75% of the target, the quantitative result will be zero for this metric. Some metrics may be subject to specific limits or to binary evaluation and will impact on how other related metrics are measured. However, the qualitative assessment may also provide an upward or downward adjustment to the result.
- The qualitative assessment is finalised for each category using predefined questions, which must be answered with clear justification and supported by evidence. For each category, the overall extent of a potential qualitative adjustment entails an upward or downward adjustment of up to 25%.

When there is more than one metric in a category, they will be equally weighted. In exceptional circumstances, there is flexibility to personalise the specific weighting of the metric to reflect the local strategic management if supported by a business case.

The assessment will be reviewed in accordance with the internal governance model adopted locally and by the Group's Human Resources Committee, and it shall always count on the timely contribution of the risk function and other relevant control functions.

The weighted average of the results of the category will determine the final assessment of the Country.

2. Group Performance:

A multiplier will be applied on the country's performance based on the Group's results.

The purpose of the Group's multiplier is to partly reflect the impact of the Group's performance on the country's bonus pool.

The result of the multiplier in the assessment of the Country will vary in the light of how much the Country's performance differs from the Group's performance. The multiplier is determined at the discretion of the Group's Human Resources Committee and will be communicated transparently to all countries at the beginning of each year.

3. Exceptional adjustments:

In exceptional situations the need may arise to apply a discretionary adjustment to the Country of the bonus pool to take into account factors that have not been considered in other components of the bonus system and to ensure that the country's pool is competitive. Such factors may be internal or external (they may include, for example, the poor results of the assessments made by supervisors or by the control functions, extraordinary contributions for the country and for the Group, even in terms of financial goals).

When an exceptional adjustment is requested, the country must present sound justification. The "Country Head" of the Country and the Group's Human Resources Committee shall approve the grounds before it is submitted to the Group's Remuneration Committee for approval.

When an exceptional adjustment is requested at Group level, which is applicable to one, several or all countries, it will have to be approved by the Group's Human Resources Committee before being submitted for approval to the Group's Remuneration Committee. Justification for the exceptional adjustment shall also include comments of the relevant control functions, including the risk-control function.

The grounds for the exceptional adjustment shall be evidenced and the justification communicated to the interested parties.

This adjustment shall be through a direct increase or decrease of the bonus pool, either by a percentage thereof or by a defined amount, and it will be applied only in the reference year.

Payment method:

When employees of the "Promontório" and "Faro" segments are Significant Risk Takers in accordance with the criteria described in Section 5 (Identification of Significant Risk Takers) of this Policy, the variable compensation will be paid in shares or other instruments and in cash with equal distribution, as described in Section 6 (Remuneration of Significant Risk Takers) of this Policy.

Deferred remuneration subject to long-term objectives:

Both the last three (3) payments and also the last payment, as applicable, of the variable compensation of employees of the "Promontório" and "Faro" segments, respectively, will be subject to additional long-term objectives. These objectives shall, in general, be based on:

1) Total shareholder return (TSR) in relative terms compared with an appropriate reference group;

2) Growth of earnings per share (EPS);

3) Return on risk-weighted assets (RoRWA);

4) Compliance with the Tier 1 capital ratio (CET1).

To determine the final amount to be paid to employees, the result of each of these objectives will be weighted in terms of equality.

Each country can have long-term supplemental plans if required by local regulation or as a result of local practices or other valid reasons. These plans must comply with the requirements of the variable-compensation section of this Policy and require the approval of the Group's Human Resources Committee, which will submit them to the Group's Remuneration Committee for review. Following approval by the Remuneration Committee, the plans will be submitted to the Group's Board of Directors. Such supplemental plans shall comply with the rules set out in Section 2 (Variable compensation) of this Policy.

Variable compensation governance model

The bonus pool, categories, metrics and components of the qualitative assessment will be proposed annually by the Group's Human Resources Committee and will be submitted to the Group's Remuneration Committee for review. Following approval by the Remuneration Committee, the plans will be submitted to the Group's Board of Directors. In the case of the Group's Executive Directors, the Board of Directors will request the approval of the Group's shareholders.

The Global Compensation Function will share with all countries and global businesses the bonus pool, categories, metrics and components of the qualitative evaluation. The objectives of each metric will be established for each country in accordance with the Group's objectives and reviewed internally with the corresponding functions (i.e. Financial Control Function).

The achievement of each objective and qualitative component will be assessed at the end of the year for each Country (or Global Business) and reviewed by the Human Resources Committee, which will also propose the Group's performance and the exceptional adjustment.

The Human Resources Committee will submit the bonus pools to the Group's Remuneration Committee for review and, if so agreed, the Committee shall submit the proposals to the Group's Board of Directors.

As prescribed in Section 2 (Variable compensation), individual allocation for each employee of the "Promontório" and "Faro" segments of the Country's bonus pool will be based on the achievement of the individual objectives of the employees of these segments. There shall be a clear link between compensation and performance, and the allocation of variable compensation shall be in line with the risk and encourage good conduct.

Compensation related to contracting and retention

Consult a Section 1 (Remuneration Principles) of this Policy.

Employment contracts

- **Termination**: payment of compensation for early termination of the employment relationship shall be authorised at the appropriate level and paid in accordance with local rules. Such payments shall reflect performance and compliance.

  Notice of termination shall be reasonable, fair and adapted to local practices and local rules. The said period may be adapted to each case considering the strategic importance of the function, confidentiality, replacement, etc., but shall never be less than six (6) months for employees of the "Promontório" segment or three (3) months for employees of the "Faro" segment, unless local rules or market practice prescribe otherwise.

- **Non-competition clauses**: the duty of non-competition shall be established in respect of companies and activities of a nature similar to those of the Group. Non-competition shall be reasonable, fair and adapted to local practices and local rules. It shall never be less than two (2) years for employees of the "Promontório" segment and six (6) months for employees of the "Faro" segment, payable as 100% of the annual base salary, unless local rules or market practice prescribe otherwise.

Governance

This section is subject to the approval of the Group's Board of Directors at the proposal of the Remuneration Committee.

Section 5: Identification of Significant Risk Takers

Introduction

The purpose of this section is compliance with applicable law in this area, establishing rules, principles, guidelines and common criteria of interpretation to identify these officers and report on them from time to time. This section is developed with additional implementation guidelines.

The Group's global Human Resources Corporate function shall issue the "Guidelines for identification of Significant Risk Takers " to simplify their implementation in detail, including examples and further clarification in order to put this section of this Policy into practice.

Scope of application

This section aims to establish principles, guidelines and common interpretation criteria to assess the identification of these officers, in keeping with the legislation in force.

All subsidiaries/affiliates shall be actively involved in the implementation of and compliance with this section, based on the procedures set out in the implementing regulation and considering, where appropriate, local regulatory requirements.

In case of doubt as to the application of this section consult the Global Compensation Function within the scope of the Corporate Human Resources function.

Principles

Basic principles:

For the development of this section and implementation of the respective regulations the following basic principles were followed:

- Addressing the Group's diversity and geographic dispersal, identifying countries, divisions and, in general, "units", as required by the rules applicable to the section both individually as being part of the Santander Group.
- Providing these units with criteria for the application of the regulations on a standardised basis.
- Monitoring, as Group, the identification of these identified officers and keeping a duly updated record, making it available to the European Central Bank or any other local regulatory authority, as and when requested.
- Carrying out the identification process at least once a year.

Basic identification principles:

The section on identification of the identified officers is based on the regulations in force from time to time that establish the criteria in keeping with the following:

- Qualitative: refers to the set of criteria used to consider an individual as belonging to this group of officers due to their position within the organisation or due to their responsibility within it.
- Qualitative: refers to the set of criteria used to consider an individual as belonging to this group of officers as a result of the remuneration received for the services provided.
- Internal: refers to those criteria not expressly covered by the applicable regulations, but are deduced as a result of the respective understanding and purpose as being logical within the specific context of the Group.

Criteria will also be defined to identify and classify the units where the above criteria are to be applied. These criteria will be based on simple, known elements, such as gross margin and capital, and shall reflect the relative importance of each of the units identified that may affect the risk profile of the Santander Group.

The Global Compensation Function will define the criteria of proportionality both in relation to the relative importance of the various units and of the various levels of responsibility of the positions occupied by the individuals under consideration to facilitate the respective implementation. In this connection, a simple but objective process that can be audited will be defined, which will also allow the identification of individuals who should not be considered as identified officers due to the principle of proportionality.

Lastly, to develop and implement this section, the corporate Human Resources function shall take best practices and market trends into account.

Duties and responsibilities

It is incumbent upon the Corporate Human Resources function to ensure compliance with this section and to define the appropriate implementing regulation, together with any additional rule required to comply with this responsibility.

The Corporate Human Resources function shall determine, as provided for in the regulation, the units to which this section will apply. The function will also be responsible for the monitoring and control of such implementation within the scope of the units.

The said function must be able to provide information, at the request of any regulator or supervisor, on the identified officers, along with the basic criteria that qualifies them as such, their physical, organisational and functional location and any other element taken into consideration for this task to be satisfactorily performed by the function. In any case, the Board of Directors of the Santander Group, at the proposal of the Remuneration Committee, shall review the identified officers and the main aspects of the identification process, at least once a year.

The Human Resources function of each unit is responsible for identifying the employees who should be part of the identified officers and for providing support to the Corporate Human Resources function in the implementation of this policy. If any unit is not part of the Human Resource function itself, the management function on which that function was delegated will assume this responsibility for the unit and, in the absence thereof, the task will revert to the Corporate Human Resources function. Subsequently, this section may refer either to the global or local Human Resources functions.

The Corporate Human Resources function shall determine the following key elements for the process of identification of the officers by means of the implemented regulation:

- Parties of the process
- Necessary tools and materials;
- Calendar.

The Human Resources function of each unit is responsible for identifying the local (or other) rules that may have an objective similar to that of this section. The Human Resources functions at the subsidiaries/affiliates shall determine whether to adopt additional procedures and documents to comply with those local requirements not included in this section or in the implementing regulation.

The Human Resources function of each unit is responsible for proposing and promoting improvements in this section and/or in its basic elements. The Corporate Human Resources function shall establish any procedures that may be necessary to facilitate the fulfilment of this responsibility.

Lastly, the Corporate Human Resources function is also responsible for resolving disputes arising from the application of the regulation affecting the Group (included in this section and the documentation that develops and enables its application). Where appropriate, the Corporate Human Resources function shall submit such disputes to the Remuneration Committee for decision.

Evaluation, monitoring and control

The Corporate Human Resources function shall present to the Remuneration Committee, at least once a year, any alteration of the identified officers and basic information relating to the identification procedure performed.

Responsibility for the monitoring and evaluation of compliance with this section by the units is entrusted to the Corporate Human Resources function, which shall properly report the risks arising from insufficient compliance, obtaining the support, if necessary, of the corporate compliance areas or legal advice.

The Corporate Human Resources function will be subject to supervision and control with regard to the implementation of this section, as established by the regulatory requirements and by the Group's governance model. Specifically, the Internal Audit function will conduct a periodic review of the main aspects of the implementation of this section, a task that will be included in its plan of activities.

Governance

The Group's Board of Directors approved the initial version of this section in October 2015, at the proposal of the Remuneration Committee. The alterations now introduced are subject to the same governance procedure for their approval.

Section 6: Remuneration of Significant Risk Takers

Introduction

This section contains instructions regarding the remuneration of the Significant Risk Takers established by the Santander Group in keeping with Section 5 (Identification of Significant Risk Takers) of this Policy.

The Group's Human Resources function shall issue the "Guidelines on the remuneration of Significant Risk Takers" for the purposes of information, including examples and further clarification for the implementation of this section of the Policy.

Scope of application

This section applies to the remuneration policies and practices for Significant Risk Takers in all countries, companies and/or functions identified at Group level. Each country must have additional policies, if necessary, to cover Significant Risks Takers identifiable at local level. To obtain detailed instructions as to the identification of Significant Risk Takers consult Section 5 (Identification of Significant Risk Takers) of this Policy.

In case of doubt as to the applicability of this section consult the Global Compensation Function within the scope of the Corporate Human Resources function.

Principles

Consult Section 1 (Remuneration Principles) of this Policy.

Fixed Remuneration

With regard to the fixed salary, supplements and mobility payments for Significant Risk Takers, consult Section 1 (Remuneration Principles) of this Policy.

Variable Compensation

The section dealing with Variable Compensation in this Policy contains instructions on the conception and implementation of the variable compensation and must always be complied with, with the additional requirements listed hereunder for the Significant Risk Takers.

The total variable compensation may not exceed a maximum of 100% of the fixed remuneration, even when there has been exceptional performance. However, this limit may be increased extraordinarily to a maximum of 200% of the fixed remuneration if approved by the shareholders of the Group.

The Global Compensation Function shall provide guidelines to the countries and business areas with the criteria to take into account for the different elements of remuneration such as variable or fixed compensation.

Deferral:

A portion of the variable compensation will be deferred and subject to additional performance criteria. The proportion and the deferral period depend on the following categories in which the employee is included:

1. **Executive Directors of the Group and Significant Risk Takers having total variable compensation above a certain limit, communicated annually by the Group's HR Compensation Function**: 60% deferred, provided in equal parts over a period of five years, the last three years subject to long-term objectives.
2. **Division and Corporate Area Managers, Country Heads of countries that individually account for at least 1% of the Group's financial capital and other Significant Risk Takers having total variable compensation above a certain limit, communicated annually by the Group's HR Compensation Function**: 50% deferred, provided in equal parts over a period of five years, the last three years subject to long-term objectives.
3. **Other Significant Risk Takers (including employees of the "Promontório" and "Faro" segments not covered in points 1 and 2 above)**: 40% deferred, provided in equal parts over a period of three years; of which, solely for Promontórios and Faros, the last year subject to objectives.

In implementing the principle of proportionality, Significant Risk Takers to whom an annual variable compensation not exceeding a total of €50,000 is granted, will be excluded from the deferral scheme described above.

For details of the objectives applicable to deferred or long-term variable compensation see Section 2 (Variable Compensation) of this Policy.

Both the deferral period and the percentages may be increased if required by local rules. All deferred payments must be made in cash and instruments in the same proportion. The variable compensation shall be conceived and implemented in accordance with regulations applicable to the specific plans.

Deferred variable compensation shall be subject to the provisions on application of the *malus* clauses established in Section 8 (Application of *malus* and clawback Clauses) of this Policy.

Instruments:

At least 50% of the deferred amounts and 50% of the immediate payment of the variable compensation for the Significant Risk Takers shall be made in instruments, giving preference to shares in Banco Santander or related instruments, such as American Depositary Receipts (ADRs). Subject to the approval of the Group's Human Resources function and when the country is listed on the stock market and there is sufficient "free float" buoyancy on the local market, the entity may use local instruments, giving preference to local shares.

Each country shall use other instruments if required by the regulator or local regulations. These situations shall be reviewed by the Group's Human Resources function in order to also comply with Group regulations.

For further information on the instruments to be used, consult the Global Compensation function within the scope of the Group's Human Resources function.

Retention period:

Any instrument granted to Significant Risk Takers, be it as part of the immediate payment, be it as payment of the deferred portion, will be subject to a retention period of one year, so that during the course of the twelve (12) months next following the delivery of instruments the participant may not sell them or use hedging strategies.

Dividend-equivalent payment and dividends:

For amounts delivered after 2016, payments equivalent to dividends shall not be made on any variable compensation over the period of deferral or in the attribution relating to the deferred period.

The foregoing notwithstanding, and as has occurred to date, dividends paid in respect of any shares or similar instruments that have been granted are permitted even during the retention period of one (1) year following the award.

Interest on deferred payment in cash:

For payments delivered after 2016, the interest on payments in cash shall not be made on any deferred compensation during the retention period.

Personal coverage:

Employees are not authorised to use hedging strategies to transfer the exposure to the risk on the variable compensation, both deferred and retained, to a third party. The following agreements are not allowed:

- A contract that requires a third party to directly or indirectly make payments to an employee that is related or corresponds to amounts that have been reduced from the variable compensation of the employee.
- The acquisition or holding of derivative financial products that are intended to hedge losses associated with the instruments received as part of the variable compensation.

Contracting and retention

Consult Section 1 (Remuneration Principles) of this Policy.

Employment contracts

Consult Section 1 (Remuneration Principles) of this Policy.

Communication process

The Santander Group will implement a communication process to ensure that Significant Risks Takers understand the implications of their status, especially those relating to the application of the *malus* and clawback clauses established in Section 8 (Application of *Malus* and Clawback Clauses) of this Policy.

Governance

This section is subject to approval by the Group's Board of Directors at the proposal of the Remuneration Committee.

Section 7: Remuneration of Control Functions

Introduction

This section contains instructions on the remuneration of control functions established by the Santander Group.

The Group's Human Resources function shall issue the "Guidelines in the matter of remuneration of the Control Functions" for information purposes, including examples and further clarification for the implementation of this section of the Policy.

Scope of application

This section applies to all employees with control functions within the scope of all countries, divisions and units of the Santander Group.

Control functions are defined as positions held in the areas of risk, compliance, internal audit, financial, accounting and management control.

If necessary, the scope of this section may be extended in the future to include other employees included in the definition of control functions.

Amount of the remuneration

The total remuneration package of the control functions shall be competitive in the market, to attract sufficiently qualified and experienced staff to perform the duties.

A competitive salary level in the market shall be determined through a formal and documented procedure that includes a comparison of the salary level for similar functions within the scope of the local market.

Structure of the remuneration

All components of the remuneration (including the deferral and payment of long-term incentives) may be in keeping with local policies for other employees. There shall be no differences in the policy applied in this connection for the control function (although a different policy may be introduced at local level if necessary).

Variable compensation

The level of the variable compensation shall be taken into account and a suitable level established for the control functions.

Typically, it would be expected that this would mean that the average ratio of fixed remuneration over the variable compensation within the control functions would be less than any other business function. This percentage should harmonise with the maximum fixed-variable ration of 100%, applicable as from January 1, 2017.

For control functions, there shall be a clear connection with the performance of the control function for the determination of the degree of compliance of any long-term incentive plans where performance is evaluated at Group level. This approach may be revised if necessary following any change to the applicable regulation.

Bonus metrics and individual objectives

Bonuses of control functions may have at their origin the same bonus pool as other employees, as decided by local management, provided that the overall bonus pool is adjusted to the risk and that individual objectives are based on the performance of the control function. The bonus of employees of the “Promontório” and “Faro” segments in-control functions will have their origin in the bonus pool of the country in question as described in Section 4 (Remuneration of the “Promontório” and “Faro” segments).

The appropriate governance body (local Remuneration Committee or local Board of Directors) may decide to assign a bonus pool specific to the control functions, even in a situation of losses and, where appropriate, provided that the control functions have contributed to the long-term success of the business. In this situation and when applicable to employees of the “Promontório” and “Faro” segments, the Group’s Board of Directors, at the proposal of the Remuneration Committee, will review and approve the specific bonus pool or the individual amount.

Individual objectives shall be 100% based on the performance of the control function, rather than on the results of the business, but must be aligned with the long-term success of the business objectives.

Process for the determination of the bonus

The performance of the control function will be assessed by staff independent of the business areas they oversee.

For most employees this evaluation will be based on the taking of decisions at local level by members having greater responsibility in the same control function (i.e., the CRO – local Risk Manager for employees of the risk function, the Local Compliance Manager for employees of the same Compliance function, etc.). However, for a limited number of employees in positions of greater responsibility, identified in the “Modelo de Gobierno Matriz- Filial” (e.g. CROs of each country), this will be 30% based on a decision taken by the Group and 70% on a decision taken locally or as reflected in the Model from time to time.

For posts of greater responsibility the process of local decision-making shall be undertaken by an independent committee or governance body.

Recruiting

The posts of the control functions shall be filled under the conditions laid down in this section. Control functions hiring decisions shall be decided in accordance with the “Modelo de Gobierno Matriz- Filial”.

All other hiring procedures and policies for control-function positions shall be in keeping with the recruitment policy. Specifically, they shall comply with the definition of objectives and performance evaluation of the control functions, under the terms of the “Modelo de Gobierno Matriz - Filial.

Governance

The Group's Board of Directors approved the initial version of this section in January 2016, at the proposal of the Remuneration Committee. The alterations now introduced are subject to the same governance procedure for their approval.

Section 8: Application of the *Malus* and Clawback Clauses

Introduction

This section contains instructions on the application of *malus* and clawback clauses established by the Santander Group. After consultation with the Global Compensation function within the scope of the Human Resources function, these provisions may be adapted where necessary to comply with local rules or to follow the recommendations of local supervisory entities.

The Group's Human Resources function shall issue the "Guidelines and Procedures for Application of the *Malus* and Clawback Clauses, including examples and further clarification for the implementation of this section of this Policy, which will be submitted for approval by the Human Resources Committee.

Scope of application

This section regulates the *malus*, defined as the ability to completely or partially reduce the amount of the deferred compensation, and clawback as the ability to recover a part or the whole of the amount of variable compensation paid in the past or the right to which had already been granted.

Malus and Clawback may be applied to the whole of the variable compensation attributed and/or paid to Significant Risk Takers, as identified in Section 5 (Identification of Significant Risks Takers) of this Policy, and to those granted and/or paid to any other employee subject to *malus* and/or clawback in accordance with the regulations of a specific variable-compensation plan.

Variable compensation includes bonuses and long-term incentives covering a predetermined period, the incentives of the sales teams, retention bonuses, guaranteed variable remuneration, discretionary pension benefits, and other provisions that may be come to be considered variable compensation (including payments for contract termination).

Person covered

All persons shall be assessed who may potentially take part in an identified event (as described below), including persons with supervisory, management or control functions, in order to determine whether *malus* and clawback will have to be applied.

The foregoing notwithstanding, the application of clawback clauses shall be restricted to functions that have a more direct participation in the identified event.

Identification of Events

The application of *malus* and/or clawback begins with the occurrence of an identified event as specified in this section.

Application of clawback will be supplementary to the application of *malus*, and will thus take place when the latter is insufficient for the impact that the event should have on the variable compensation, as described below. Without prejudice to its condition as supplementary, the clawback will be applicable in addition to the *malus* in the case of very significant events, as presented hereunder.

Where an event is identified, the application of *malus* will take precedence and only when the application of the said *malus* is exhausted and insufficient will the clawback be applicable.

The identified events may be classified as minor, significant or very significant. The definitions of these three categories are set out hereunder.

The application of *malus* and/or clawback begins when at least the following circumstances occur:

a) If the institution and/or business unit is subsequently affected by a significant slowdown of its financial performance (e.g., specific business indicators);

b) If the institution and/or the business unit where the identified employee works is affected by significant failure in risk management;

c) Significant increases in the economic or regulatory own funds of the institution or business unit;

d) Any regulatory sanctions to which the identified employee has contributed;

e) Proof of misconduct or gross error by the employee (e.g., violation of the code of conduct or other internal regulations, especially those related with risks).

Additionally, the individual policies of each Country shall include any other criteria required by the regulations and/or by the local regulators themselves.

Period of application

For any variable compensation to which a deferral scheme is applied, the application period shall extend until the date on which the period of retention ends of the last delivery of the financial instrument provided for the said variable compensation.

When a deferral scheme is not applied, the period of application will fall due on the date defined in the variable compensation plan and, if not provided for, it must never exceed the date of the fifth anniversary of the date of its grant. Local rules may require a longer period to be fixed.

Control functions posts

The control and management-control functions must provide information and recommendations to the local or Group decision-making bodies regarding potential events that may result in the application of *malus* and/or clawback.

Size of the adjustment

The decision as to the size of the adjustment and on the use of *malus* and/or clawback shall be based on the circumstances of the identified event. The competent local body shall take a decision based on advice received from the local control functions and the Human Resources function.

In order to determine the size of the adjustment and the implementation of the *malus* and/or clawback, the events can be classified into three broad categories:

- **Minor event:** event that relates to a single person with limited effect on the financial or reputational risk with impact on the business unit or entity, and will just trigger the application of *malus*;
- **Significant event:** event involving a small number of employees with a significant effect on the financial or reputational risks on the business of the business unit or entity at issue, and will trigger the application of *malus* and, where applicable, of clawback only in cases where application of *malus* is deemed insufficient; and
- **Very significant event:** event that has a significant and unfavourable impact on the , financial or reputational risk profile of the entity. Observing the priorities between *malus* and clawback described above, very significant events may trigger both *malus* and clawback actions.

Identification of the event and its registration

Business units, control functions and other functions will identify events that may give rise to application of *malus* and of clawback, under the terms of the procedures established for the purpose.

Communication

Participants of incentives subject to the *malus* and clawback provisions shall be informed of these circumstances at the time of the communication of the plan and when the incentive is granted.

If a *malus* and/or clawback event is triggered, the participants shall be informed about the adjustments made to the deferred compensation and/or variable compensation granted and the reasons for such adjustments (*malus*) or penalty (clawback).

Governance Process

The decision to apply *malus* and/or clawback is the responsibility of local governance bodies of each entity and of the Group's Human Resources Committee in the case of employees of the corporate centre, except with regard to executive directors or top management. The Group's Human Resources Committee will send the application proposal regarding the latter to the Remuneration Committee and the Group's Board of Directors for approval.

The local Human Resources function will report to the Group's Human Resources Committee any proposal for the application of *malus* and clawback derived from events identified locally. The Group's Human Resources Committee may review all cases in co-ordination with the corporate control and management control functions indicated above. Similarly, the Group's Human Resources Committee may identify any event not triggered and not proposed by local decision bodies to which the *malus* and/or clawback would be applicable. The Group's Human Resources Committee shall adequately report these situations to the local human resources function for execution purposes.

The Group's Human Resources Committee shall annually report to the Remuneration Committee regarding the application of *malus* and clawback within the scope the Group for the respective evaluation in accordance with the rules and regulations of the Board of Directors of the parent company.

The corresponding governing body of each subsidiary/affiliate shall ensure that compliance with the remuneration policy regarding the variable compensation is compatible with the soundness of the capital.

Specific variations for countries or groups of employees

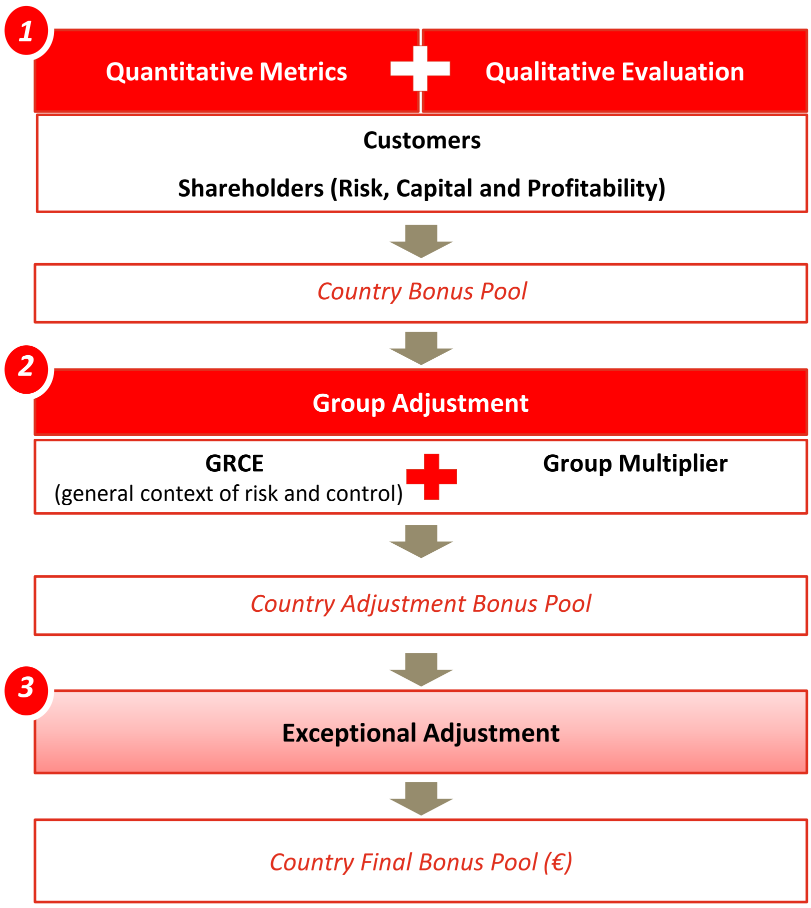
All processes within the scope of a country shall be included in the mandate of the appropriate local governance body, which include the Global Corporate Banking Division.

Governance

The Group's Board of Directors approved the initial version of this section in January 2016, at the proposal of the Remuneration Committee, as well as its amendment in January 2017.

Annex 2

Annual Objectives



Annex 3

Criteria for the determination of the deferred variable remuneration subject to performance

a) Compliance with the growth of the consolidated earnings per share ("EPS") of Banco Santander in 2020 compared to 2017. The coefficient corresponding to this objective ("EPS Coefficient") will be obtained from the following table:

EPS Growth in 2019 (% over 2016)	"EPS Coefficient"
≥ 25%	1
>0% and <25%	0 – 1 (*)
<0%	0

(*) Linear increase of the EPS Coefficient in the light of the concrete percentage of growth of the 2020 EPS compared with the 2017 EPS within this range.

b) Relative performance of the total shareholder return (TSR) of the Bank in the 2018-2020 period in relation to the TSRs of a reference group of 17 credit institutions.

For these purpose the following shall be understood:

- "TSR", the difference (expressed as percentage) between the final value of an investment in common shares of Banco Santander and the initial value of that investment, taking into account that for the calculation of this final value consideration will be given to the dividends or other similar concepts (such as the Santander Dividendo Elección programme) received by the shareholder on such investment during the corresponding time period as if they had invested in more shares of the same type on the first date on which the dividend or similar concept is due to the shareholders and the weighted average closing price on that date. To calculate the TSR consideration shall be given to the weighted average by daily volume of the weighted average prices corresponding to the fifteen stock-market sessions prior to January 1, 2018 (not included) (for the calculation of the initial value) and of the fifteen market sessions prior to January 1, 2021 (not included) (for the calculation of the final value).

- "Reference Group", the following 17 financial institutions taken as a whole: Itaú, JP Morgan, Bank of America, HSBC, BNP Paribas, Standard Chartered, Citi, Société Générale, ING, Barclays, Wells Fargo, BBVA, Lloyds, UBS, Intesa San Paolo, Deutsche Bank and Unicredit.

For this metric of the TSR, the following scale of compliance is determined:

Position of Santander's TSR	"TSR Coefficient"
Greater than 66%	1
Between 33% and 66%	0-1(*)
Less than 33%	0

(*) Proportional increase of the TSR Coefficient in the light of the number of positions that it rises in the ranking within this line of the scale.

c) Compliance with the objective of Santander Group's fully-loaded common equity tier 1 or **"CET1"**) fixed for the 2020 financial year. The coefficient corresponding to this objective ("**CET1 Coefficient**") will be obtained from the following table:

CET1 in 2019	CET1 Coefficient
≥ [11.30]%	1
≥11% but <11.30%	0 – 1 (*)
<11%	0

(*) Linear increase of the CET1 Coefficient in the light of the 2020 CET1 within this scale.

To check compliance with this objective, possible increments of the CET1 derived from share capital increases will not be taken into account (except those that implement the *Santander Dividend Elección* programme). Furthermore, the CET1 on December 31, 2020, may be adjusted to eliminate the effects on it of such regulatory changes as occur in relation to its calculation up until that date.

Thus, to determine the amount of the Deferred Part Subject to Objectives which, if applicable, must be paid to each beneficiary on the corresponding Anniversaries (each payment a **"Final Annuity"**), the following formula shall be applied to each of the Annuities pending payment, without prejudice to such adjustments as may result from application of the *malus* policy referred to above:

$$\text{Final Annuity} = \text{Imp.} \times (1/3 \times A + 1/3 \times B + 1/3 \times C)$$

Where:

- **"Imp."** corresponds to one third, in the light of the recipient's profile, of the amount deferred.
- "A" is the EPS Coefficient that results from the scale of point (a) above, in the light of the growth of the EPS in 2020, compared to that of 2017.
- "B" is the TSR Coefficient that results from the scale of point (b) above, in the light of the growth of the TSR in the 2018-2020 period by comparison with the Reference Group.
- "C" is the CET1 Coefficient that results from meeting the CET1 objective for 2020 described in paragraph (c) above.

II.2. – REMUNERATION AND OTHER BENEFITS ASSIGNED TO MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

This information is provided to comply with the provisions of article 3 of Law 28/2009 of June 19, and article 17 of Bank of Portugal Notice No. 10/2011 of December 29 (*Diário da República*, 2nd Series, of January 9, 2012), in that part referring to the disclosure of the annual amount of remuneration earned by the members of the management and supervisory bodies.

The fixed and variable remuneration, in 2018 aggregate terms, of the members of the Board of Directors and of the Audit Committee taken together, were €4.579 million for the fixed and €4.970 million for the variable remuneration, respectively.

On December 31, 2018, the current cumulated set of credits granted to the members of the Board of Directors under article 85 of the general credit institutions and financial companies legislation amounted to €533,000, as follows:

Name	Mortgages Collective Labour Agreement	Mortgages General Regime	Consumption	Total
Inês Oom Ferreira de Sousa	122	246		368
Isabel Maria Lucena V. Cruz Almeida Mota			7	7
João Baptista Leite	27			27
Luis Filipe Ferreira Bento dos Santos	124	7		131
Total	**273**	**253**	**7**	**533**

The individual remuneration paid and deferred in respect of 2018 is that detailed in the following tables.

Annual Remuneration

Board of Directors

Name	Position	Fixed remuneration
António Basagoiti Garcia -Tuñón	Chairman	838
António José Sacadura Vieira Monteiro*	Deputy Chairman	676
Enrique Garcia Candelas	Deputy Chairman	200
António Manuel de Carvalho Ferreira Vitorino **	Member	88
Inês Oom Ferreira de Sousa	Member	236
Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota	Member	150
João Baptista Leite	Member	250
José Carlos Brito Sítima*	Member	400
José Urgel Moura Leite Maia	Member	330
Luís Filipe Ferreira Bento dos Santos	Member	296
Luís Manuel Moreira de Campos e Cunha	Member	150
Manuel António Amaral Franco Preto	Member	465
Manuel Maria Olazabal Albuquerque	Member	150
Pedro Aires Coruche Castro e Almeida	Member	350
Remedios Ruiz Macia	Member	-
		4,579

*They received proportional amounts corresponding to the end of their term of office as executive

** Resigned on July 31, 2018

Annual Variable Remuneration

Portion in cash:

Board of Directors

Name	Position	Bonuses 2017 (cash)
António José Sacadura Vieira Monteiro	Deputy Chairman	313
Inês Oom Ferreira de Sousa	Member	120
João Baptista Leite	Member	120
José Carlos Brito Sítima	Member	227
José Urgel Moura Leite Maia	Member	157
Luís Filipe Ferreira Bento dos Santos	Member	153
Manuel António Amaral Franco Preto	Member	176
Pedro Aires Coruche Castro e Almeida	Member	214
		1,480

Portion in shares:

Board of Directors

Name	Position	Bonuses - 2018 (retained by one year)
António José Sacadura Vieira Monteiro	Deputy Chairman	292
Inês Oom Ferreira de Sousa	Member	112
João Baptista Leite	Member	112
José Carlos Brito Sítima	Member	212
José Urgel Moura Leite Maia	Member	146
Luís Filipe Ferreira Bento dos Santos	Member	143
Manuel António Amaral Franco Preto	Member	164
Pedro Aires Coruche Castro e Almeida	Member	199
		1,380

This amount corresponds to 344,305 shares in Banco Santander, SA, each of a value of €4.01, as this was the stock-market value on the date on which it was granted.

Deferred Remuneration

The cash portion of the deferred remuneration, in respect of 2018 is as follows:

Board of Directors

		Bonuses - 2018				
		2020	2021	2022	2023	2024
Name	Position	Cash	Cash	Cash	Cash	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	63	63	63	63	63
Inês Oom Ferreira de Sousa	Member	27	27	27	-	-
João Baptista Leite	Member	27	27	27	-	-
José Carlos Brito Sítima	Member	50	50	50	-	-
José Urgel Moura Leite Maia	Member	35	35	35	-	-
Luís Filipe Ferreira Bento dos Santos	Member	35	35	35	-	-
Manuel António Amaral Franco Preto	Member	39	39	39	-	-
Pedro Aires Coruche Castro e Almeida	Member	47	47	47	-	-
		322	322	322	63	63

The portion in shares of the deferred remuneration, in respect of 2018, is as follows:

Board of Directors

		Bonuses - 2017				
		2020	2021	2022	2023	2024
Name	Position	Shares	Shares	Shares	Shares	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	14,577	14,577	14,577	14,577	14,575
Inês Oom Ferreira de Sousa	Member	6,204	6,204	6,205	-	-
João Baptista Leite	Member	6,204	6,204	6,205	-	-
José Carlos Brito Sítima	Member	11,752	11,752	11,753	-	-
José Urgel Moura Leite Maia	Member	8,099	8,099	8,099	-	-
Luís Filipe Ferreira Bento dos Santos	Member	7,911	7,911	7,910	-	-
Manuel António Amaral Franco Preto	Member	9,094	9,094	9,094	-	-
Pedro Aires Coruche Castro e Almeida	Member	11,051	11,051	11,050	-	-
		74,892	74,892	74,893	14,577	14,575

On this date, two-thirds of the variable remuneration relating to 2017 are deferred (except for the variable remuneration of the deputy-chair of which four fifths are deferred), one third of that remuneration having been paid.

Board of Directors

		Bonuses - 2017 paid in February 2019			
Name	Position	Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	-	0	60	41
Inês Oom Ferreira de Sousa	Member	-	0	27	18
João Baptista Leite	Member	-	0	28	19
José Carlos Brito Sítima	Member	-	0	50	34
José Urgel Moura Leite Maia	Member	-	0	35	23
Luís Filipe Ferreira Bento dos Santos	Member	-	0	35	24
Manuel António Amaral Franco Preto	Member	-	0	31	21
Pedro Aires Coruche Castro e Almeida	Member	-	0	47	32
		-	2	313	211

The value of the shares corresponds to 52,585 shares in Banco Santander, SA, each of a value of €4.01, as this was the stock-market value on the date on which it was granted.

Board of Directors

		Bonuses - 2017							
		2020		2021		2022		2023	
Name	Position	Shares	Cash	Shares	Cash	Shares	Cash	Shares	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	10,104	60	10,104	60	10,104	60	10,104	60
Inês Oom Ferreira de Sousa	Member	4,551	27	4,551	27	-	-	-	-
João Baptista Leite	Member	4,678	28	4,678	28	-	-	-	-
José Carlos Brito Sítima	Member	8,359	50	8,358	50	-	-	-	-
José Urgel Moura Leite Maia	Member	5,834	35	5,834	35	-	-	-	-
Luís Filipe Ferreira Bento dos Santos	Member	5,870	35	5,870	35	-	-	-	-
Manuel António Amaral Franco Preto	Member	5,235	31	5,235	31	-	-	-	-
Pedro Aires Coruche Castro e Almeida	Member	7,954	47	7,954	47	-	-	-	-
		52,585	313	52,584	313	10,104	60	10,104	60

On this date, one-third of the variable remuneration relating to 2016 has been deferred (except for the variable remuneration of the deputy-chair, of which three-fifths are deferred), one third of that remuneration having been paid.

Board of Directors

		Bonuses - 2016 paid in February 2019			
Name	Position	Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	-	5	60	48
João Baptista Leite	Member	-	3	34	27
José Carlos Brito Sítima	Member	-	4	49	40
José Urgel Moura Leite Maia	Member	-	4	40	32
Luís Filipe Ferreira Bento dos Santos	Member	-	4	40	32
Manuel António Amaral Franco Preto	Member	-	3	39	31
Pedro Aires Coruche Castro e Almeida	Member	-	4	47	38
		-	27	316	253

the value of the shares corresponds to 62,132 shares in Banco Santander, SA, each of a value of €4.01, as this was the stock-market value on the date on which it was granted.

Board of Directors

		Bonuses - 2016					
		2020		2021		2022	
Name	Position	Shares	Cash	Shares	Cash	Shares	Cash
António José Sacadura Vieira Monteiro	Deputy Chairman	9,190	60	9,190	60	9,190	60
João Baptista Leite	Member	6,732	34	-	-	-	-
José Carlos Brito Sítima	Member	9,719	49	-	-	-	-
José Urgel Moura Leite Maia	Member	7,877	40	-	-	-	-
Luís Filipe Ferreira Bento dos Santos	Member	7,858	40	-	-	-	-
Manuel António Amaral Franco Preto	Member	7,607	39	-	-	-	-
Pedro Aires Coruche Castro e Almeida	Member	9,308	47	-	-	-	-
		59,448	316	9,190	60	9,190	60

One third of the variable remuneration relating to 2015 has been paid as of this date.

Board of Directors

			Bonuses - 2015 paid in February 2019		
Name	Position	Interests	Dividends	Cash	Shares
António José Sacadura Vieira Monteiro	Deputy Chairman	-	7	45	46
João Baptista Leite	Member	-	4	23	24
José Carlos Brito Sítima	Member	-	6	38	39
José Urgel Moura Leite Maia	Member	-	5	31	32
Luís Filipe Ferreira Bento dos Santos	Member	-	5	32	32
Manuel António Amaral Franco Preto	Member	-	5	29	29
Pedro Aires Coruche Castro e Almeida	Member	-	6	39	40
		-	-	-	-
		-	39	236	242

The value of the shares corresponds to 59,376 shares in Banco Santander, SA, each of a value of €4.01, as this was the stock-market value on the date on which it was granted.

Two-fifths of deferred variable remuneration of the deputy-chair are still deferred.

Board of Directors

		Bonuses - 2015			
		2020		2021	
Name	Position	Shares	Cash	Shares	Cash
António José Sacadura Vieira Monteiro	Vice-Presidente	11,332	45	11,332	45
João Baptista Leite	Vogal	-	-	-	-
José Carlos Brito Sítima	Vogal	-	-	-	-
José Urgel Moura Leite Maia	Vogal	-	-	-	-
Luís Filipe Ferreira Bento dos Santos	Vogal	-	-	-	-
Manuel António Amaral Franco Preto	Vogal	-	-	-	-
Pedro Aires Coruche Castro e Almeida	Vogal	-	-	-	-
		11,332	45	11,332	45

Other Benefits

With regard to post-retirement benefits, the members of the Board of directors who have an employment tie with BST and are not included in the plan hereunder, are included in the pension plan of the Collective Bargaining Agreement for the banking sector subscribed by the Bank.

In 2010, the Group established a defined-contribution plan for all its management staff. This plan also includes the members of the Board of Directors who are not included in the plan hereunder.

Executive directors who, at the time of the merger, were directors of Banco Totta & Açores, benefit from a supplementary old age or disability pension plan, whose terms and conditions were set in accordance with the regulation approved by the General Meeting on May 30, 2007, under the provisions of article 11(7) of the Bank's articles of association, and adopt the entire content of the regulation originally approved by the Banco Totta & Açores General Meeting on October 30, 1989. The requirements of this plan include in particular tenure of office for the minimum period, the amount of the supplementary payment varying in the light of the director's seniority.

As of December 31, 2018, liabilities with this plan amounted to €24.721 million and were covered by a provision carried in the balance sheet.

Contractual Terminations

During 2018, no compensation was paid for early termination of the duties of corporate officers.

II.3. – REMUNERATION POLICY FOR 2019

The remuneration policy of the Members of the Management and Supervisory Bodies of Banco Santander Totta, for 2019, will be subject to approval at the Annual General Meeting, in compliance with the applicable regulation.

III – Senior Staff Remuneration Policy

III.1. DECLARATION ON THE REMUNERATION POLICY OF THE SENIOR STAFF OF BANCO SANTANDER TOTTA, SA. (the “Bank”) (The “Declaration”)

For the purposes of this Declaration employees who are identified officers as specified hereunder and are not, at the same time, members of the management body, are considered Bank Officers and are designated as “Identified Officers” or “Managers”:

a) Managers forming part of the group known as “Faro”, under the terms approved on January 24, 2017, by the new remuneration policy of the Santander Group (the “Policy”);
b) The top management and those responsible who perform duties involving responsibility for risk-taking on behalf of the Bank or its customers, with a material impact on the Bank’s risk profile; and
c) Those responsible for carrying on their professional activity within the scope of the control functions laid down in Bank of Portugal Notice No. 5/2008, of July 1, including those responsible for the Audit Divisions, General Risk Function of the Bank, and Compliance, as well as those responsible for other areas considered equivalent to control functions by the Santander Group, including the most senior person responsible for Management Control (the “Control Functions Managers”).

The updated identification of the functions of Identified Officers is set out in Annex 1 of the Declaration, of which it forms part for all legal purposes.

1. Framework

The Policy is addressed to all Santander Group employees and it establishes the fundamental principles relating to the payment of fixed or variable remuneration.

The Policy applies to all the affiliates of the Santander Group, including the Bank, Board of Directors having already formally adhered to the Policy on January 31, 2017.

Under the terms of the Policy, the Santander Group adopts consistent remuneration practices that comply with the applicable rules in the jurisdictions where it carries on its business.
The remuneration is defined to promote a culture of high performance, in which people are rewarded and recognised for their performance and competence and for the impact they have on the success of the Group and/or its affiliates.

The remuneration practices of the Santander Group must always be aligned with the interests of its shareholders, employees, customers and society and, in particular, promote good conduct. The Santander Group ensures, through the Policy, that the remuneration policies promote and are consistent with sound and effective risk management and with maintenance of a sound capital base.

This Declaration provides information about adequacy of the Policy in connection with the various requirements imposed by Portuguese law..

2. Application of the Policy to the Bank

Fixed Remuneration

a) The fixed remuneration is paid 14 tome a year;
b) The fixed remuneration comprises the basic remuneration and some cash benefits that are assigned to all employees of the Bank, such as seniority payments or other allowances payable under legal and contractual terms;

c) The fixed remuneration is determined taking into account the criteria used at the Santander Group, the Bank's results, the evaluation of performance, the collective bargaining agreements and market references, with due safeguard of the different specificities and dimensions;
d) The fixed remuneration of the Identified Officers has the limits set each year by the Executive Committee and, in 2018, it is not expected to account for less than 55% of the Total Remuneration.

2.2.1. Determination of the variable remuneration

The variable remuneration is determined on the basis of a benchmark standard corresponding to compliance with 100% of the established goals, and a reference value is set for each member for each year.

The final amount of the performance bonus and inherent variable remuneration will be determined at the beginning of the year next following that of the performance of duties, on the basis of the benchmark amount and in the light of the actual fulfilment of the established objectives.

The concrete variable compensation is determined considering:
a) A set of quantitative parameters in the short term measured in accordance with the annual objectives;
b) A qualitative assessment supported by qualified evidence that cannot modify the quantitative results by more than 25% up or down;
c) An exceptional adjustment, supported by qualified evidence, which may involve modifications originating from control deficiencies and/or risks, negative results of the evaluations of supervisors or significant or unexpected events.

The overall objectives for 2018 are those set out in Annex 3, which forms part of the Declaration for all intents and purposes.

Should the quantitative metrics not reach a certain level of compliance, the amount of the variable remuneration may not exceed 50% of the benchmark amount for the year in question. If the result of the said metrics is negative, the amount of the variable remuneration shall be 0%
The maximum ratio between the amount of all components of the variable remuneration and the total amount of the fixed remuneration shall not exceed 200%.

With regard to the Control Functions Managers, the determination of variable remuneration meets the following criteria: (i) individual assessment of the employees, taking into account only the specific objectives related to the duties they perform; (ii) overall performance of the Bank and of the economic group of which it forms part.
The maximum ratio between the amount of all components of the variable remuneration and the total amount of the fixed remuneration of the Control Function Managers shall not exceed 100%.

The evaluation of the performance of the Managers, to be carried out annually, is carried out by their superiors or directly by the Executive Directors responsible for the area in question, where there is a direct reporting relationship. As and when these Managers are subject to the obligation of double-reporting, the evaluation is also conducted by the Group officer in charge of the area at issue.

Without prejudice to the internal provisions on fixing objectives and annual evaluation of the Control Functions Managers, their remuneration shall be monitored by the Bank's Remuneration Committee .

2.2.2. Composition of the variable remuneration and its regulation

Payment of the variable part of the remuneration is subject to partial deferral, seeking a balance between the short and medium term.

a) Of the variable remuneration 50% is payable in cash and 50% in shares, part paid in 2019 and part deferred over three or five years, subject to observance of the following parameters:

a. 60% (or whatever is defined in accordance with the applicable situation) of this remuneration shall be paid in 2019, in cash and in shares;
b. The balance will be paid annually, in three or five equal parts (as applicable) in cash and shares, the conditions laid down having been observed. However, the Bank (through its competent body and in a reasoning of congruence within the Group) reserves for itself the possibility of not applying such a deferral when the amount of the total variable remuneration does not exceed €50,000, provided always that such a possibility is not impeded by an applicable legal or regulatory determination.

b) Attributed shares do not benefit from any risk-hedging contract and are subject to the condition of being kept during one year
c) For the heads of the Faro segment, the deferred portion of the variable remuneration, relating to the third year and also the fourth and fifth year, if applicable, is subject, in addition to the *malus* and clawback conditions, to compliance with the Group's long-term goals for 2019-2020, in accordance with the general criteria within the framework of the Santander Group, pursuant to which the amount of the variable remuneration can only diminish (by reduction of the payment in cash or in shares), as defined for the current year under the terms of Annex 4.
d) Payment of the variable remuneration shall observe the rules of deferral and the reduction (*malus*) or reversal (clawback) mechanisms in force in the Policy in order to comply with legal and regulatory requirements, as well as observe the recommendations and guidelines issued by the competent supervisory authorities. The faculty of reducing (*malus*) totally or partially the payment of deferred remuneration whose payment is not yet an acquired right, as well as retaining all or part of the variable remuneration whose payment is an acquired right (clawback), is limited to extremely significant events, properly identified, in which the persons concerned have directly taken part in the events identified.

2.2.3. Identification of the deferred and paid portions of the variable remuneration

In respect of 2014, the last third of deferred variable remuneration was paid in 2018.

In respect of 2015, one third of deferred variable remuneration is still to be paid.

In respect of 2016, two thirds of the deferred variable remuneration are still to be paid.

In respect of the 2017 variable remuneration, the part not subject to deferral was paid in 2018. Payment of the remainder is deferred for three years or five years.

2.2.4. Benefits

Benefits are so granted as to ensure compatibility with the corporate strategy, objectives, values and long-term interests of the Bank.

Without prejudice to the grants on a case-by-case basis and of residual scope resulting from measures taken in the past by original employers Crédito Predial Português, Banco Totta & Açores, Banco Santander Portugal and Banco Santander de Negócios Portugal), all Managers enjoy the following benefits:

a) Health insurance complementing the Medical-Social Assistance Service (SAMS) provided for in the collective bargaining agreement of the banking sector;
b) Personal accident insurance, as defined in the collective bargaining agreement of the banking sector.

Some employees benefit from life insurance as a result of their contractual link to the former Banco Santander Portugal or to Banco Santander de Negócios Portugal.

Some employees benefit from a supplementary retirement pension plan, under the terms of the Board of Directors' resolution of February 25, 2010.

No pension benefits are granted on a discretionary basis.

No risk-hedging or similar mechanisms may be used by Managers or by the Bank on their behalf. This rule is observed and must be confirmed annually by the manager before the Group.

3. Complementary aspects

3.1. Policy approval procedures

The Policy was approved by the Santander Group, adopting a set of national and international guidelines on the matter, the Bank having subsequently subscribed to the Policy on January 31, 2017, after presentation to the Bank's Remuneration Committee and the Board of Directors.

The Policy, under the terms of which it was approved, will be complemented by a set of additional guidelines, essentially of an interpretative nature.

3.2. Other aspects

Allocation of stock option plans in 2018 is not expected.

There are no non-cash benefits or other forms of compensation other than those referred to in the Declaration.

4. Compliance with the rules on remuneration policy defined by the Bank of Portugal

The Bank's Policy is as a whole in line with the principles set forth in the regulation applicable in Portugal, governed at all times by simplicity, transparency and suitability for the medium and long term objectives.

In this way, the determination of the total remuneration, comprising a fixed and a variable part, as well as the articulation of these two components, as set forth in this Declaration and the attached Policy, allow one to conclude that the material rules set out in Portuguese regulations have, in general, been adopted.

The fact that the Bank forms part of the Santander Group, which holds more than 99% of its share capital, implies the necessary coherence of the respective corporate policies, which, in turn and given the global nature of the Group, have due regard for international regulations on the matter.

The applicable regulations also determine that a review be conducted, at least annually, of the Bank's remuneration policy and its implementation, in order to ensure that it is effectively applied, that the payments of remuneration are appropriate and that the risk profile and long-term goals of the institution are being appropriately reflected, and that the policy is in accordance with the laws and regulations in force and with the applicable principles and national and international recommendations.

This annual review shall also include an assessment of the remuneration practices of the subsidiaries abroad and of the off-shore establishments, in particular on the respective effect on the management of the risks, share capital and liquidity of the institution.

The said assessment was performed, with due regard for the applicable regulation, the by the Bank's remuneration committee, the units responsible control functions having played an active role, no shortcomings have been encountered.

Lisbon, June 26, 2018

Annex 1

Senior Staff Identified

DEPUTY-DIRECTOR AZORES AND MADEIRA
DEPUTY-DIRECTOR BMG AREA
DEPUTY-DIRECTOR TECHNOLOGY AND OPERATIONS AREA
DEPUTY-DIRECTOR FINANCIAL AREA
DEPUTY-DIRECTOR RISKS AREA
DEPUTY-DIRECTOR INTERMEDIATION PROTECTION AND INVESTMENT
DEPUTY-DIRECTOR RECOVERIES & DIVESTMENT
DEPUTY-DIRECTOR NORTH RETAIL NETWORK
DEPUTY-DIRECTOR PN COMMERCIAL POST
CONTROLLER
INTERNAL AUDIT CO-ORDINATOR MANAGER
RISK CONTROL AND CONSOLIDATION CO-ORDINATOR MANAGER
IRREGULARITIES CONTROL AND FOLLOW-UP CO-ORDINATOR MANAGER
COMPLIANCE AND CONDUCT CO-ORDINATOR MANAGER
LEGAL MATTERS AND SECRETARIAT CO-ORDINATOR MANAGER
STRATEGY AND MULTI-CHANNEL STRATEGY CO-ORDINATOR MANAGER
LARGE COMPANIES CO-ORDINATOR MANAGER
INTERNATIONAL AND INSTITUTIONAL BANKING CO-ORDINATOR MANAGER
PAYMENT MEANS CO-ORDINATOR MANAGER
METHODOLOGY AND STRESS TEST CO-ORDINATOR MANAGER
PRIVATE BANKING CO-ORDINATOR MANAGER
RECOVERIES CO-ORDINATOR MANAGER
HUMAN RESOURCES CO-ORDINATOR MANAGER
SOUTH RETAIL NETWORK CO-ORDINATOR MANAGER
CREDIT RISKS CO-ORDINATOR MANAGER
TECHNOLOGY AND PROCESS CO-ORDINATOR MANAGER
OPERATIONAL RISK MANAGER
TAXATION DEPARTMENT MANAGER
DEPARTMENT MANAGER GOVERNMENT, PRODUCTS AND CUSTOMER PROTECTION
INTERNATIONAL BUSINESS MANAGER
INFORMATION SYSTEMS MANAGER
HEAD OF COSTS, ORGANISATION, BUILDINGS AND SECURITY AREA
HEAD OF COMPANIES AREA
HEAD OF CONSTRICTION FOMENTATION AREA
HEAD OF COMMERCIAL INTELLIGENCE AREA
HEAD OF INTERNAL CONTROL FOLLOW-UP AREA

Annex 2

See Annex 1 of the Declaration on the remuneration policy of the members of the management and supervision bodies of Banco Santander SA - “Santander Remuneration Policy”

Annex 3

See Annex 2 of the Declaration on the remuneration of the members of the management and supervision bodies of Banco Santander – "Annual objectives".

Annex 4

See Annex 3 of the Declaration on the remuneration policy of the members of the management and supervision bodies of Banco Santander SA - "Criteria for the determination of the deferred variable remuneration subject to performance"

III.2. REMUNERATION AND OTHER BENEFITS ATTRIBUTED TO SENIOR OFFICERS AND MANAGEMENT STAFF

This information is provided in compliance with article 17 of Bank of Portugal Notice No. 10/2011 of December 29 (*Diário da República*, 2nd Series, of January 9, 2012), in that part referring to the disclosure, in aggregate terms, of the annual amount of remuneration paid to employees who are not members of the management or supervisory bodies of Banco Santander Totta, SA, exercise their professional activity in the field of the control functions laid down in Bank of Portugal Notice No. 5/2008, of July 1, or perform duties with responsibilities in taking risks on behalf of the Bank or its customers, with a material impact on the Bank's risk profile (hereinafter, "Senior Officers").

Annual remuneration

Amount of the fixed remuneration:	
Control Functions	€919k
Other functions	€5,645k
Amount of the variable remuneration:	
Control Functions	€537k
Other functions	€5,219k
Number of beneficiaries:	
Control Functions	4
Other functions	43

The 2018 performance bonus retained for one year in the amount of €1.575 million corresponds to 392,715 shares in Banco Santander, SA, each of a value of €4.01, as this was the stock-market value on the date on which it was granted.

On this date, the following amounts are deferred:

Bonuses - 2018						
	2020		2021		2022	
	Shares	Cash	Shares	Cash	Shares	Cash
Control functions	9,066	39	9,066	39	9,066	39
Other functions	79,764	343	79,764	343	79,764	343

As of this date, two-thirds of the variable remuneration relating to 2017 are deferred, one third of that remuneration having been paid.

Bonuses - 2017								
	Paid in 2019				2020		2021	
	Interests	Dividends	Shares	Cash	Shares	Cash	Shares	Cash
Control functions	-	0	22	33	6,119	31	6,118	31
Other functions	-	0	219	329	55,142	227	55,142	227

The value of the shares corresponds to 60,193 shares in Banco Santander, SA, each of a value of €4.01, as this was the stock-market value on the date on which it was granted.

As of this date, one third of the variable remuneration relating to 2016 is deferred, one third of that remuneration having been paid.

Bonuses - 2016						
	Paid in 2019				2020	
	Interests	Dividends	Shares	Cash	Shares	Cash
Control functions	-	2	22	28	6,016	31
Other functions	-	21	194	242	48,089	245

The value of the shares corresponds to 53,802 shares in Banco Santander, SA, each of a value of €4.01, as this was the stock-market value on the date on which it was granted.

The variable remuneration paid relating to 2015 was as follows:

Bonuses - 2015				
	Interests	Dividends	Shares	Cash
Control functions	-	4	24	23
Other functions	-	34	212	206

The value of the shares corresponds to 58,740 shares in Banco Santander, SA, each of a value of €4.01, as this was the stock-market value on the date on which it was granted.

Other Benefits

Senior Officers enjoy the health insurance benefits complementing those of the Medical-Social Assistance Service (SAMS) provided for in the collective bargaining agreement of the banking sector and personal accident insurance, as defined in the collective bargaining agreement of the banking sector.

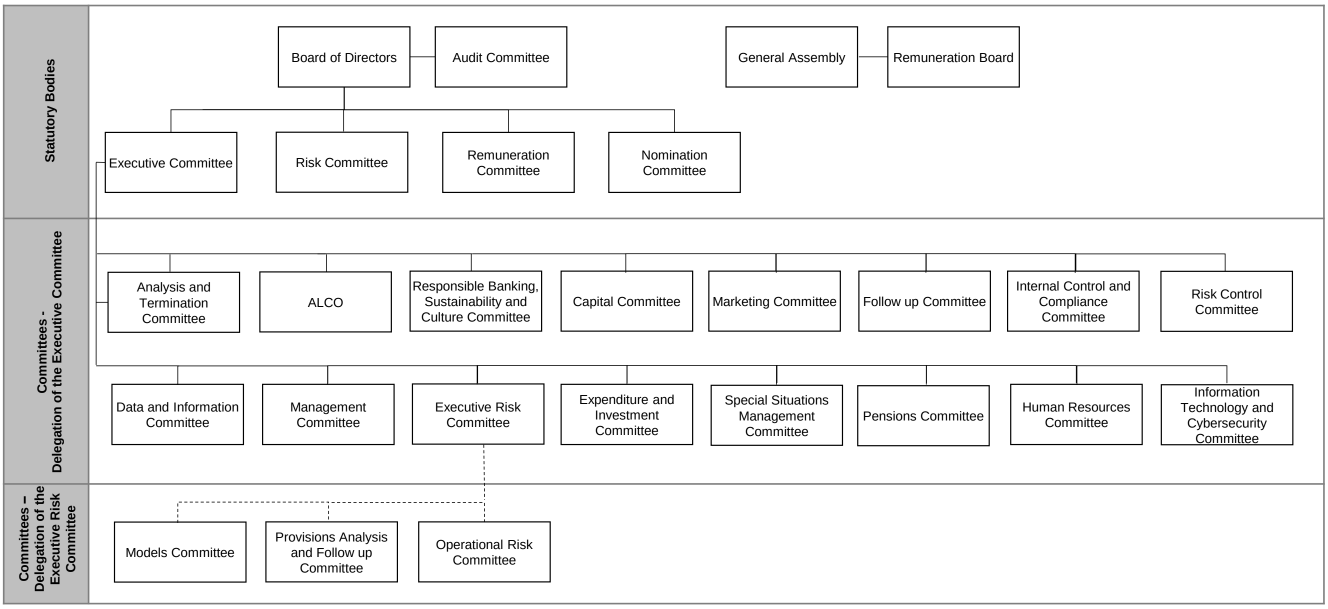
Some Senior Officers benefit from life insurance as a result of their contractual link to the former Banco Santander Portugal or to Banco Santander, SA.

Some Senior Officers benefit from supplementary retirement pension plan, under the terms of the Board of Directors' resolution of February 25, 2010.

III.3. Remuneration Policy for 2018

The current remuneration Policy for Senior Officers and Management Staff of Banco Santander Totta was approved by the Board of Directors at its meeting on June 26, 2018, applicable in the 2018 and 2019 financial years. Until new resolution is passed, this policy is the one transcribed above. Review of the matter is planned for April 2019.

IV. Internal Governance Model



Statutory Bodies - December 31, 2018 | Committees

		Executive	Non-Executive	Executive Committee	Audit Committee	Risk Committee	Remuneration Committee	Appointments Commitee
Chairman	António Basagoiti Garcia-Tuñón		■			P	P	P
Deputy-Chairman	António José Sacadura Vieira Monteiro	■		P				
	Enrique Garcia Candelas		■			■		■
Members	António Manuel de Carvalho Ferreira Vitorino *1		■			■	■	
	Inês Oom Ferreira de Sousa	■		■				
	Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota		■		■			■
	João Baptista Leite	■		■				
	José Carlos Brito Sítima	■		■				
	José Urgel Moura Leite Maia	■		■				
	Luís Filipe Ferreira Bento dos Santos	■		■				
	Luis Manuel Moreira de Campos e Cunha		■		P			
	Manuel António Amaral Franco Preto	■		■				
	Manuel Maria de Olazábal y Albuquerque		■		■	■		
	Pedro Aires Coruche Castro e Almeida	■		■				
	Remedios Ruiz Maciá		■			■	■	

P President

*1 Resigned on July 31, 2018

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-recurring 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".

Net fees and other income
Sum of "net fees" and "other operating results".

Commercial revenue
Sum of "net interest income", "Income from equity instruments", "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".

Net income from banking activities
Commercial revenue plus gain/losses on financial transactions.

Operating costs
"Staff costs" plus "general administrative costs" and "depreciation in the year"

Net operating income
Net income from banking activities minus operating costs.

Impairment and net provisions (excludes non-recurrent results)
Sum of "provisions net of reversals", "impairment on financial assets at amortised cost", "impairment on other financial assets net of reversals and recoveries", and "impairment of other assets net of reversals and recoveries

Impairment, net provisions and other results (excludes non-recurrent results)
Sum of "provisions, net of reversals", "impairment on financial assets at amortised cost", "impairment on other financial assets net of reversals and recoveries", "impairment of other assets net of reversals and recoveries and "Results from non-current assets held for sale" as presented in the Income Statement.

Income before taxes and non-controlling interests (excludes non-recurrent results)
Net operating income less impairment, net provisions and other results plus "Results from associates".

Income after taxes and before non-controlling interests (excludes non-recurrent results)
Income before taxes and non-controlling interests less "Taxes".

Non-recurrent results
Aggregate of several concepts distributed across several lines of the Bank's consolidated income statement. In 2018, it includes amounts arising from non-organic transactions, set out under provisions net of cancellations and taxes, among other lesser items.

Consolidated net income attributable to the shareholders of BST / Net income
Income after taxes and before non-controlling interests, less "non-controlling interests" plus "non-recurrent results".

Efficiency ratio
Ratio between operating costs and net income from banking activities.

Loan-to-Deposit ratio (transformation ratio)
Calculated in accordance with Bank of Portugal Instruction 23/2011.

Commercial gap
Difference between "credit granted and other balances receivable at amortised cost" and "resources of customers and other debts".

Business volume
Sum of loans and advances to customers (gross) and customer resources.

Loans and advances to customers (gross)
Corresponds to the balance sheet item "Credit granted and other balances receivable at amortised cost" before impairment and depreciation.

Loans and advances to customers (net)
Corresponds to the balance sheet item "Credit granted and other balances receivable at amortised cost" net of impairment and depreciation.

Loans to individuals (mortgage and consumer) and corporates
Defined in accordance with the management information system (MIS).

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

Cost of credit
Ratio between "impairment on financial assets at amortised cost" (of the income statement) and the average of "Credit granted and other balances receivable at amortised cost" (of the balance sheet).

Non-performing exposure coverage ratio
Impairments of non-performing exposures in relation to total non-productive exposures (NPE).

Deposits / On-balance sheet resources
Corresponds to the balance sheet item "Resources of 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).

Customer resources / Total resources
Sum of deposits and off-balance sheet resources.

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

Return on Equity (RoE)
Ratio between net income for the period (annualised) and total shareholders' equity at the beginning of the period

Return on Assets (RoA)
Ratio between net income and total net assets

Declaration to which article 245(1)(c) of the Securities Code refers

Article 245(1)(c) of the Securities Code determines that each of the persons in charge of the company issue a declaration the content of which is defined therein.

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

"I hereby declared under the terms and for the purposes of article 245(1)(c) of the Securities Code that, as far as I am aware, the Management Report, the Annual Accounts, the Legal Certification of Accounts and the other accounting documents of Banco Santander Totta, SA, all relating to 2018, have been drawn up in accordance with the applicable accounting standards, providing a true and fair image of the assets and liabilities, of the financial position and of the results of the said company and of the companies included in the consolidation perimeter, and that the management report truly sets out the evolution of the business, the performance and the position of the issuer and of the companies included in the consolidation perimeter, and that it contains a description of the main risks and uncertainties with which they are faced.

Board of Directors

António José Sacadura Vieira Monteiro

Chairman

José Carlos Brito Sítima

Deputy-chairman

Pedro Aires Coruche Castro e Almeida

Deputy-chairman

Amílcar da Silva Lourenço

Member

Ana Isabel Abranches Pereira de Carvalho Morais

Member

Andreu Plaza Lopez

Member

Daniel Abel Monteiro Palhares Traça

Member

Inês Oom Ferreira de Sousa

Member

Isabel Cristina da Silva Guerreiro

Member

Isabel Maria de Lucena Vasconcelos Cruz de Almeida Mota

Member

Manuel António Amaral Franco Preto

Member

Manuel Maria de Olazabal y Albuquerque

Member

Maria Manuela Machado Farelo Ataíde Marques

Member

Miguel Belo de Carvalho

Member

Remedios Ruiz Macia

Member

Declaration of the Audit Committee on the Conformity of the Financial Information Presented

Article 245(1)(c) of the Securities Code determines that each of the persons in charge of the company issue a declaration the content of which is defined therein.

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

“I hereby declared under the terms and for the purposes of article 245(1)(c) of the Securities Code that, as far as I am aware, the Management Report, the Annual Accounts, the Legal Certification of Accounts and the other accounting documents of Banco Santander Totta, SA, all relating to 2018, have been drawn up in accordance with the applicable accounting standards, providing a true and fair image of the assets and liabilities, of the financial position and of the results of the said company and of the companies included in the consolidation perimeter, and that the Management Report truly sets out the evolution of the business, the performance and the position of the issuer and of the companies included in the consolidation perimeter, and that it contains a description of the main risks and uncertainties with which they are faced”.

Audit Committee

Chairman: Ana Isabel Abranches Pereira de Carvalho Morais

Members: Daniel Abel Monteiro Palhares Traça

Isabel Maria Lucena Vasconcelos Cruz de Almeida Mota

Manuel Maria de Olazabal y Albuquerque

Maria Manuela Machado Farelo Ataíde Marques

Consolidated Financial Statements

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2018 AND 2017

(Amounts expressed in thousands of Euros - tEuros)

ASSETS	Notes	31-12-2018 Amounts before impairment and depreciation	31-12-2018 Impairment and depreciation	31-12-2018 Net assets	31-12-2017 Net assets
Cash and deposits at central banks	5	1,655,730	-	1,655,730	1,039,554
Balances due from other banks	6	845,003	-	845,003	658,155
Financial assets held for trading	7	1,215,956	-	1,215,956	1,515,236
Other financial assets mandatory at fair value through profit or loss	8	176,878	-	176,878	
Other financial assets at fair value through other comprehensive income	9	5,246,160	3	5,246,157	4,537,143
Financial assets at amortised cost					
Loans and advances to credit institutions	10	675,115	84	675,031	826,367
Credit granted and other balances receivable at amortized cost	10	40,690,693	1,108,584	39,582,109	39,633,212
Held to maturity investments					108,809
Hedging derivatives	11	73,464	-	73,464	15,349
Value adjustments on assets included in hedging operations	41	56,511	-	56,511	
Investment in associated companies	12	63,399	1,918	61,481	76,602
Investment properties	13	297,625	-	297,625	353,957
Other tangible assets	14	604,567	257,834	346,733	353,305
Intangible assets	14	68,868	40,390	28,478	34,299
Tax assets	15	661,395	-	661,395	467,406
Other assets	16	445,777	109,334	336,443	935,371
Non-current assets held for sale	17	48,190	18,168	30,022	87,269
Total assets		52,825,331	1,536,315	51,289,016	50,642,034

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31-12-2018	31-12-2017
Liabilities			
Financial liabilities held for trading	7	1,242,475	1,533,760
Financial liabilities at amortised cost			
Resources of central banks	18	3,050,040	3,080,538
Resources from other credit institutions	18	3,539,844	4,351,086
Resources of customers and other debts	18	33,937,757	32,137,468
Debt securities	18	4,611,944	4,581,237
Other financial liabilities	18	176,206	
Hedging derivatives	11	90,556	39,275
Value adjustments on assets included in hedging operations	41	10,399	
Provisions	19	286,446	167,550
Tax liabilities	15	244,822	232,481
Equity representative instruments	20	69,560	69,026
Other liabilities	21	476,668	788,067
Total liabilities		47,736,717	46,980,488
Shareholders' equity			
Share capital	22	1,256,723	1,256,723
Share premium account	22	193,390	193,390
Other equity instruments	22	135,000	135,000
Accumulated comprehensive income reserves	22	(238,470)	(277,225)
Other reseves and retained earnings	22	1,778,808	1,975,354
(Own shares)	22	(44,022)	(43,991)
Consolidated net income attributable to the shareholders' of BST	23	469,951	421,157
Shareholders' equity attributable to the shareholders of BST		3,551,380	3,660,408
Non-controlling interests	24	919	1,138
Total shareholders' equity		3,552,299	3,661,546
Total liabilities and shareholders' equity		51,289,016	50,642,034

The accompanying notes form an integral part of the consolidated balance sheet for the year ended December 31, 2018

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED INCOME STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Amounts expressed in thousands of Euros - tEuros)

	Notes	31-12-2018	31-12-2017
Interest income	26	1,229,348	1,061,488
Interest charge	27	(362,620)	(362,108)
Net interest income		866,728	699,380
Income from equity instruments	28	1,601	2,911
Income from services and commissions	29	453,770	391,600
Charges with services and commissions	30	(77,574)	(65,298)
Gains/Losses on financial assets			
Financial assets and liabilities at fair value through profit or loss	31	(37,929)	(11,814)
Other Financial assets at fair value through other comprehensive income	31	25,287	81,915
Exchange revaluation	31	9,524	8,377
Disposal of other assets	31	(14,533)	40,429
Other operating results	32	(21,838)	(14,240)
Net income from banking activities		1,205,036	1,133,260
Staff costs	33	(352,873)	(308,675)
General administrative costs	34	(215,804)	(176,495)
Depreciation in the year	14	(41,322)	(37,092)
Provisions, net of reversals	19	(251,025)	(32,317)
Impairment on financial assets at amortised cost	19	(3,008)	(38,760)
Impairment on other financial assets net of reversals and recoveries	19		(168)
Impairment of other assets net of reversals and recoveries	19	(30,831)	33,036
Results from associates	35	7,188	6,277
Results from non-current assets held for sale		21,107	
Income before taxes and non-controlling interests		338,468	579,066
Taxes	15	131,265	(157,909)
Income after taxes and before non-controlling interests		469,733	421,157
Non-controlling interests		218	-
Consolidated net income attributable to the shareholders´ of BST		469,951	421,157
Number of ordinary shares outstanding	23	1,241,728,211	1,241,800,284
Earnings per share (in Euros)	23	0.38	0.34

The accompanying notes form an integral part of the consolidated income statements for the year ended December 31, 2018

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR YEARS ENDED DECEMBER, 2018 AND 2017

(Amounts expressed in thousands of Euros - tEuros)

	2018		2017	
	Attributable to the shareholders of BST	Attributable to non-controlling interests	Attributable to the shareholders of BST	Attributable to non-controlling interests
Consolidated net income for the period	469,951	-	421,157	-
Items that will not be reclassified subsequently to the income statement:				
Actuarial and financial deviations				
Gross value	(28,787)	-	37,477	-
	7,524	-	(11,796)	-
Items that may be reclassified subsequently to the income statement:				
Revaluation reserves of associated companies valued by the equity method				
Fair value	699	-	767	-
Tax effect	(177)	-	(196)	-
Changes in financial assets at fair value through other comprehensive income				
Fair value	72,635	-	434,163	-
Tax effect	(21,521)	-	(132,213)	-
Changes in fair value of financial assets held to maturity				
Fair value	-	-	841	-
Tax effect	-	-	(244)	-
Changes in fair value of cash flows hedging derivatives				
Fair value	45,837	-	3,781	-
Tax effect	(14,210)	-	(818)	-
Consolidated comprehensive income for the first half year	531,951	-	752,919	-

The accompanying notes form an integral part of the consolidated statements of other comprehensive income for the years ended December 31, 2018

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER, 2018 AND 2017

(Amounts expressed in thousands of Euros)

	Share capital	Share premiun account	Other equity instruments	Accued income reserves: Legal revaluation	Accued income reserves: Fair value	Accued income reserves: Deferred taxes	Legal reserve	Other reserves	Retained earnings	Own shares	Net income for the period	Non-controlling interests	Shareholders' equity
Balances as at December 31, 2016	**1,256,723**	**193,390**	**135,000**	**23,245**	**(855,728)**	**223,333**	**311,098**	**915,175**	**726,339**	**(43,621)**	**380,032**	**670**	**3,265,656**
Appropriation of net income													
. Transfer to reserves	-	-	-	-	-	163	33,650	159,967	(116,598)	-	(77,182)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	(45,817)	-	-	(302,850)	-	(348,667)
Purchase of own shares	-	-	-	-	-	-	-	-	-	(370)	-	-	(370)
Merger & acquisition of former Banco Popular Po	-	-	-	-	-	-	-	(8,411)	-	-	-	-	(8,411)
Long ter incentives - shares	-	-	-	-	-	-	-	(24)	-	-	-	-	(24)
Other	-	-	-	-	-	-	-	(30)	5	-	-	468	443
Consolidated comprehensive income													-
for 2017	-	-	-	-	477,029	(145,267)	-	-	-	-	421,157	-	752,919
Balances as at December 31, 2017	**1,256,723**	**193,390**	**135,000**	**23,245**	**(378,699)**	**78,229**	**344,748**	**1,020,860**	**609,746**	**(43,991)**	**421,157**	**1,138**	**3,661,546**
Appropriation of net income													
. Transfer to reserves	-	-	-	-	-	-	69,563	317,177	34,417	-	(421,157)	-	-
. Distribution of dividends	-	-	-	-	-	-	-	(618,597)	-	-	-	-	(618,597)
Acquisition of own shares	-	-	-	-	-	-	-	-	-	(31)	-	-	(31)
Impact of opening IFRS9 application	-	-	-	-	-	-	-	(18,465)	-	-	-	-	(18,465)
Long ter incentives - shares	-	-	-	-	-	-	-	332	-	-	-	-	332
Other	-	-	-	(23,245)	-	-	-	151,948	(132,921)	-	-	(219)	(4,437)
Consolidated comprehensive income													
for 2018	-	-	-	-	90,384	(28,384)	-	-	-	-	469,951	-	531,951
Balances as at December 31, 2018	**1,256,723**	**193,390**	**135,000**	**-**	**(288,315)**	**49,845**	**414,311**	**853,255**	**511,242**	**(44,022)**	**469,951**	**919**	**3,552,299**

The accompanying notes form an integral part of the consolidated statements of changes in shareholders' equity for the years ended December, 2018 and 2017

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Amounts expressed in thousands of Euros)

	31-12-2018	31-12-2017
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commissions received	1,582,012	1,324,661
Payment of interest and commissions	(395,620)	(411,980)
Payment to staff and suppliers	(640,448)	(507,160)
	(46,534)	(59,329)
Foreign exchange and other operating results	(22,015)	(4,817)
Recovery of uncollectable loans	9,176	12,890
Operating results before changes in operating assets and liabilities	486,571	354,265
(Increase) / decrease in operating assets		
Loans and advances to credit institutions	148,512	(200,867)
Financial assets held for trading	299,507	265,298
Credit granted and other balances receivable at amortized cost	260,010	(2,728,445)
Assets and liabilities at fair value through profit or loss	(31,112)	(56,975)
Non-current assets held for sale	37,851	(23,843)
Investment properties	56,332	17,503
Other assets	436,046	142,883
	1,207,146	(2,584,446)
Increase / (decrease) in operating liabilities		
Resources of financial institutions	(841,247)	414,202
Resources of customers and other debts	1,815,322	(306,594)
Financial liabilities hedl for trading	(291,285)	(253,763)
Other liabilities	(241,788)	101,780
	441,002	(44,375)
Net cash flow from operating activities before income tax	2,134,719	(2,274,556)
Income tax paid	(75,030)	(38,046)
Net cash flow from operating activities	2,059,689	(2,312,602)
CASH FLOW FROM INVESTING ACTIVITIES:		
Dividends received	1,601	2,911
Purchase of financial assets at fair value through other comprehensive income	(1,299,878)	(470,931)
Sale of financial assets at fair value through other comprehensive income	634,458	2,715,002
Other financial assets mandatory at fair value through profit or loss	(128,622)	-
Sale of held-to-maturity investments	-	135,093
Income from financial assets at fair value through other comprehensive income	153,657	150,699
Purchase of tangible and intangible assets	(65,944)	(39,866)
	12,739	(3,239)
Sale of tangible assets	-	(554,000)
	21,241	-
Net cash flow from investing activities	(670,748)	1,935,669
CASH FLOW FROM INVESTING ACTIVITIES:		
Issuance/(redemption) of debt securities	80,401	645,292
Interest paid on bonds issued and other	(45,946)	(41,221)
Dividends paid	(618,597)	(348,667)
Interest paid on subordinated liabilities	(1,775)	(634)
	(585,917)	254,770
Net Increase / (Decrease) (a) in cash and cash equivalents	803,024	(122,163)
Cash and cash equivalents at the beginning of the period	1,697,709	1,536,809
Acquisition of the activity of former Banco Popular Portugal	-	283,063
Cash and cash equivalents at the end of the period	2,500,733	1,697,709

The accompanying notes form an integral part of the consolidated statement of cash flows for the year ended December 31, 2018

Notes to the Consolidated Financial Statements

INTRODUCTION

Banco Santander Totta, SA (hereinafter also "Bank” or "Group") was established in 1864 and was formerly known as Companhia Geral de Crédito Predial Português, SA (CPP), and it has its registered office in Portugal at Rua do Ouro, 88, Lisbon. The Bank was nationalised in 1975 and transformed into a state-owned public limited company in 1990. On December 2, 1992, the Bank was reprivatised by means of a public share offering at a special session of the Lisbon Stock Exchange.

As from December 2000, the Bank joined the Santander group, following the acquisition of Banco Totta & Açores, SA, by the Group (Totta). The main balances and transactions maintained with companies of the Santander Group during 2018 and 2017 are detailed in Note 39.

On December 16, 2004, the totta demerger/merger operation was registered, under which its financial holdings in Foggia, SGPS, SA and in Totta Seguros – Companhia de Seguros de Vida, SA, were spun off, the remainder of its business, together with Banco Santander Portugal, SA (BSP), having been incorporated by merger into CPP, which changed its name to the present one.

On May 3, 2010, the Bank carried out the merger by incorporation of Banco Santander de Negócios Portugal, SA (BSN). The transaction was recorded for accounting purposes with reference to January 1, 2010.

On April 1, 2011, the Bank carried out the merger by incorporation of Totta Crédito Especializado – Instituição Financeira de Crédito, SA (Totta IFIC).

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

Following the decision of the Single Resolution Council 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. In view of the restructuring of the business of Banco Popular in Portugal and its inclusion in the Santander Group, Banco Santander, SA, demonstrated the intention to transfer all the shares representing the share capital and voting rights of Banco Popular Portugal, SA (BAPOP) to the Bank.

In this sense, on December 22, 2017, the European Central Bank communicated its non-opposition to the purchase by the Bank of the whole of the share capital and voting rights of BAPOP and to the merger of BAPOP into the Bank. Consequently, the merger was registered on December 27, 2017 (Note 1.4).

The Bank is engaged in obtaining third-party financial resources, in the form of deposits and otherwise, which it invests, together with its own funds, in every sector of the economy, mainly in the form of extending credit or in securities, while also providing other banking services in the country and abroad.

The Bank has a nationwide network of 527 branches, (635 branches as at December 31, 2017) and an International Financial Branch in the Madeira Autonomous Region. As at December 31, 2018 the Bank's branch in London was closed. It also has several branches and representation offices abroad and holdings in subsidiaries and associated companies.

The Bank's financial statements for the year ended December 31, 2018, were approved at the Board of Directors meeting on April 9, 2019.

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of presentation of the accounts

The Group's consolidated financial statements have been prepared on a going concern basis, based on the books and accounting records maintained in accordance with the principles enshrined in the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Union, in accordance with Regulation (EC) nº 1606/2002 of the European Parliament and of the Council of July 19, transposed into Portuguese law by Decree-Law 35/2005, of February 17 and by Bank of Portugal Notice nº 1/2005 of February 21. As regards Group companies that use different accounting standards, adjustments are made for conversion to the IAS/IFRS.

The accounting policies used by the Bank in the preparation of its consolidated financial statements as at December 31, 2018, are consistent with those used in the preparation of the consolidated financial statements as at December 31, 2017, except those arising from regulatory changes that came into effect on January 1, 2018.

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.

Adoption of standards (new and revised) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union. On January 1, 2018, the Bank adopted the following accounting standards:

- IFRS 15 (new) – Revenue from contracts with customers This new standard applies only to contracts for the delivery of goods or provision of services, and requires the entity to recognise the revenue when the contractual obligation to deliver assets or provide services is satisfied and for the amount that reflects the consideration to which the entity is entitled, as provided for in the "5-step method".

- Amendments to IFRS 15 – Revenue from contracts with customers These amendments relate to the additional indications to be followed to determine the obligations of performance of a contract, at the moment of recognition of the revenue of an intellectual property licence, to the review of the indicators for the classification of the principal versus agent relationship, and to the new regimes intended to simplify the transition.

- IFRS 9 (new) – Financial instruments IFRS 9 replaces the requirements of IAS 39, concerning: (i) classification and measurement of financial assets and liabilities; (ii) recognition of impairment of receivables (through the expected-loss model); and (iii) requirements for the recognition and classification of hedge accounting.

- IFRS 2 (Amendment) – Classification and measurement of share-based payment transactions. This amendment clarifies the basis of measurement for cash-settled share-based payment transactions and the accounting of modifications at the level of share-based payments that alter their classification from cash-settled to equity-settled. Additionally, it introduces an exception to the principles of IFRS 2, which comes to require that a share-base payments plan be treated as if it were fully equity settled, when the employer is required to withhold an amount of tax from the employee and pay that amount to the tax authority.

- IAS 40 (Amendment) – Transfers of investment property. This amendment clarifies that the assets may only be transferred from and to the investment property category where there is evidence of the change of use. Just the change of the management's intent of is not enough to effect the transfer.

- Improvements to the 2014 – 2016 standards. This cycle of improvements affects the following standards: IFRS 1, IFRS 12 and IAS 28.

- IFRIC 22 (new) – Transactions in foreign currencies and advance consideration. It is an interpretation of IAS 21. The effects of changes in foreign exchange rates, and refers to the determination of the "transaction date" when an entity pays or receives in advance the consideration of contracts denominated in foreign currency. The "transaction date" determines the exchange rate to be used to convert foreign-currency transactions.

The adoption of the standards and interpretations referred to above had an impact mainly in terms of the disclosures and the presentation of the financial statements.

Subsequent to the aforementioned standards and interpretations, the following impacts were identified:
- the adoption and amendment of the IFRS 15 had no impact in the Bank's activity due to the fact that these are essentially of financial nature;
- the adoption of the amendment to the IFRS 2 had no impact as the stock-based long-term incentive plan is labelled equity-settled;
- the impacts linked to the adoption of IFRS 9 are presented in the next note;
- the remaining amendments had no impact to the financial statements as they were not applicable or no transactions took place in 2018.

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

- IFRS 16 (new) – Leases. This new standard replaces IAS 17, with a significant impact on the accounting by lessees who are now required to recognise a future lease liability reflecting payments of the lease and a "right of use" asset for all lease contracts, except certain short-term leases and low-value assets. The definition of a lease contract was also altered, and is based on the "right to control the use of an identified asset". With regard to the transitional regime, the new standard may be applied retrospectively or may be followed in a modified retrospective approach.

- IFRS 9 (Amendment), Prepayment features with negative compensation. This amendment introduces the possibility to classify financial assets with pre-payment conditions with negative compensation, at amortised cost, provided specific conditions are complied with, rather than being classified at fair value through profit or loss.

- IFRIC 23 (new) – Uncertainty over income tax treatment. It is an interpretation of IAS 12 – Income taxes, referring to the recognition and measurement requirements to be applied when there are uncertainties as to the acceptance of a particular tax treatment by the tax authority in respect of income tax. In case of uncertainty regarding the position of the tax authority on a specific transaction, the entity shall make its best estimate and record the income tax assets or liabilities in light of IAS 12, and not of IAS 37 – Provisions, contingent liabilities and contingent assets, based on the expected amount or the most likely amount. Application of IFRIC 23 can be retrospective or modified retrospective.

- IAS 19 (Amendment), Defined-benefit plan amendment, curtailment or settlement. This amendment to IAS 19 requires that an entity: (i) use updated assumptions to determine the current-service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and (ii) recognise in profit or loss for the period as part of past-service cost, or as a gain or loss on settlement, any reduction of the coverage surplus, even if that coverage surplus was not previously recognised because of the impact of the asset ceiling. The impact on the asset ceiling is always recorded in Other Comprehensive Income and cannot be recycled for net income of the period.

- IAS 28 (Amendment) – Long-term investments in associates and joint ventures. This amendment clarifies that long-term investments in associates and joint ventures (components of the investment of an entity in associates and joint ventures), which are not being measured using the equity method, are accounted for under IFRS 9, being subject to the impairment model of estimated losses, prior to any impairment test on the investment as a whole.

- 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 teste are now allowed to determine whether a transaction relates to the acquisition of an asset or a business.

- IAS 1 and IAS 8 (Amendment), Definition of material. This amendment introduces modification to the concept of material. It includes clarification on the reference to unclear information, corresponding to situations where its effect is similar to omitting or distorting such information, in the overall context of the financial statements; and also clarification regarding the term 'main users of financial statements', which are defined as 'current and future investors, lenders and creditors' who rely on financial statements to gain a significant part of the information they need.

- Improvements to the 2015 – 2017 standards. This cycle of improvements affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11.

- Conceptual structure, Changes in the reference to other IFRS. As a result of the publication of new conceptual framework, 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.

The adoption of the standards and interpretations referred to above had an impact mainly in terms of the disclosures and the presentation of the financial statements. Except for the purposes of IFRS 16, which at this time still cannot be estimated, no material impacts resulting from the adoption of the above standards are to be expected.

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

Regarding the effects linked to the application of IFRS 9 and the transition regime, the Bank will adopt the modified-retrospective approach adjusting the initial balance on the first day of its application (1st of January 2019). During the year of 2018, the Bank initiated a project focused on the analysis of all lease contracts celebrated. The main typology identified which requires the estimation of an asset by "right of use" and a liability by lease, are the lease of properties (branches and central services) associated with the Bank's business. The estimation of an asset by "right of use" will amount to 38 million euros, approximately.

Comparability of information

On January 1, 2018, the Bank adopted for the first IFRS 9 Financial instruments, using the modified-retrospective transition regime, which allows the Bank not to restate comparable amounts and register the cumulative effect from the impacts of financial assets and liabilities' appreciation against retained earnings on that date. IFRS 9 introduces new requirements as regards (i) classification and measurement of financial assets and liabilities, (ii) measurement and recognition of credit impairment on financial assets through an expected-loss model and (iii) hedge accounting. The main changes were:

	31-12-2017	Classification	Measurement	01-01-2018
Cash and deposits at central banks	1,039,554	-	-	1,039,554
Balances due from other banks	658,155	-	-	658,155
Fianancial assets held for trading	1,515,236	(842)	-	1,514,394
Other financial assets mandatory at fair value through profit or loss	-	115,944	(27,971)	87,973
Other financial assets at fair value through other comprehensive income	4,537,143	(115,102)	64,328	4,486,369
Financial assets at amortized cost				
Loans and advances to credit institutions	826,367	-	-	826,367
Credit granted and other balances receivable at amortized cost	39,633,212	115,960	(28,142)	39,721,030
Held to maturity investments	108,809	(108,809)	-	-
Hedging derivatives	15,349	-	-	15,349
Investment in associated companies	76,602	-	-	76,602
Investment properties	353,957	-	-	353,957
Other tangible assets	353,305	-	-	353,305
Intangible assets	34,299	-	-	34,299
Tax assets	467,406	(2,217)	28,264	493,453
Other assets	935,371	-	-	935,371
Non-current assets held for sale	87,269	-	-	87,269
Total assets	50,642,034	4,934	36,479	50,683,447
LIABILITIES AND SHAREHOLDER'S EQUITY				
Liabilities				
Financial liabilities held for trading	1,533,760	-	-	1,533,760
Financial liabilities at amortized cost				
Resources of central banks	3,080,538	-	-	3,080,538
Resources from other credit institutions	4,351,086	-	-	4,351,086
Resources of customers and other debts	32,137,468	-	-	32,137,468
Debt securities	4,581,237	-	-	4,581,237
Hedging derivatives	39,275	-	-	39,275
Provisions	167,550	-	35,062	202,612
Tax liabilities	232,481	-	19,942	252,423
Equity representative instruments	69,026	-	-	69,026
Other liabilities	788,067	-	-	788,067
Total liabilities	46,980,488	-	55,004	47,035,492
Shareholder's equity				
Share capital	1,256,723	-	-	1,256,723
Share premium account	193,390	-	-	193,390
Other equity instruments	135,000	-	-	135,000
Accumulated comprehensive income reserves	(277,225)	4,874	-	(272,351)
Other reseves and retained earnings	1,975,354	60	(18,525)	1,956,889
(Own shares)	(43,991)	-	-	(43,991)
Consolidated net income attributable to the shareholders' of BST	421,157	-	-	421,157
Shareholders' equity attributable to the shareholders of BST	3,660,408	4,934	(18,525)	3,646,817
Non-controlling interests	1,138	-	-	1,138
Total shareholders' equity	3,661,546	4,934	(18,525)	3,647,955
Total liabilities and shareholders' equity	50,642,034	4,934	36,479	50,683,447

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

The impacts result primarily from the recognition of expected loan losses, the revaluation of units and equity instruments at fair value and the changes in classifications of financial assets by way of the Bank's business model.

In order to comply with the new reports demanded by ECB regulation nº 1443/2017 and Bank of Portugal Notice nº 1/2019, the Bank proceeded to alter the structure through which presents its financial statements. The main reclassifications are divulged this annex and have the following impact:

		31-12-2017		
ASSETS	Notes	Old reporting	Reclassification	New reporting
Balances due from other banks	6 and 10	658,155	(108,569)	549,586
Financial assets at amotised cost				
Credit granted and other receivable balances at amortised cost	6, 10 and 16	39,633,212	158,002	39,791,214
Corrections in asset value from headging operations	41	-	18,408	18,408
Other assets	10 and 16	935,371	(67,841)	867,530
		41,226,738	-	41,226,738
LIABILITIES				
Financial liabilities at amortised cost				
Client resources and other loans	18	32,137,468	(109,796)	32,027,672
Other financial assets	18	-	344,371	344,371
Corrections in liability value from hedging operations	41	-	5,550	5,550
Other liabilities	18 and 21	788,067	(240,125)	547,942
		32,925,535	-	32,925,535
Income statement				
Results from fianncial operations				
Sale of other assets	31	40,429	(8,830)	31,599
Impairment on financial assets at amortised cost	19	(38,760)	32,280	(6,480)
Impairment on other assets net of	19	33,036	(32,280)	756
Results from non-current assets held for sale		-	8,830	8,830
		34,705	-	34,705

1.2. Consolidation principles and registration of associate companies

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.

Subsidiary companies are those in which the Group exercises effective control over their day-to-day management in order to obtain economic benefits from their business. Normally, control is evidenced by holding more than 50% of the share capital or voting rights, by exposure to or rights to variable results through its relationship with the company invested in and the ability to use its power over the business of the company invested in to affect the amount of their results. Additionally, as a result of the application of IFRS 10 – Consolidated financial statements, the Group includes special-purpose entities in its consolidation perimeter, in particular vehicles and funds set up within the context of securitisation operations, when it exercises effective financial and operational control over them and when it is exposed to the majority of the risks and benefits associated with their business.

The financial statements of subsidiary companies are consolidated using the full consolidation method as soon as the Group takes control over their business until such time as control ceases. All significant balances and transactions between the consolidated companies have been eliminated. Additionally, where applicable, consolidation adjustments are made in order to ensure consistency in the application of the accounting principles. The amount corresponding to the holding of third parties in subsidiaries that have been consolidated using the full consolidation method is presented under Non-controlling interests (Note 24).

The acquisition cost is measured at the fair value of the assets given in return, of the liabilities assumed and of the equity interests issued for the purpose. The transaction costs incurred are recorded as expenses in the periods in which the costs are incurred, with the exception of the costs of issuing debt or equity securities, which have to be recognised in accordance with IAS 32 and IFRS 39. Identifiable assets acquired and liabilities assumed on acquisition are measured at the fair value determined on the date of acquisition.

In the application of the purchase method, non-controlling interests are measured at fair value or in proportion to the percentage held of the acquired entity's net assets, when they represent effective rights in the entity. When control is acquired through potential rights the non-controlling interests are measured at fair value.

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

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

On the other hand, the Group manages assets held by investment funds whose units are held by third parties. The financial statements of the investment funds are not included in the Group's consolidation perimeter, except when it has control of those funds, especially when it has more than 50% of its units, in which cases those funds are consolidated using the full consolidation method. According to the requirements of IAS 32 and IFRS 10, the amount corresponding to the third-party holding in the investment funds consolidated using the full consolidation method is carried as a liability under Equity instruments. The non-controlling interests of results of the Novimovest Fund are recognised as a deduction from Other operating income given the nature of the main income earned by the fund.

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. Financial holdings in associate companies are carried using the equity method as from the moment the Group comes to have significant control until such time as it ceases.

Under the equity method, the consolidated financial statements include the portion attributable to the Group regarding the total equity and 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.

In a step-acquisition transaction resulting in the acquisition of significant influence, any interest previously held is revalued at fair value with a contra entry in profit or loss at the time of the first application of the equity method.

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.

On the other hand, the Group decided to cancel, on the date of transition to the IAS/IFRS (January 1, 2004), the reserve arising from exchange-rate fluctuations caused by the translation of the financial statements of subsidiary and associate companies with a functional currency other than euro, against retained earnings. From then on, and in accordance with IAS 21, the financial statements of subsidiaries, joint ventures and associates expressed in foreign currency are translated to euros using the following methodology:

- The conversion of assets and liabilities expressed in foreign currency is carried out on the closing exchange rate of the euro on the reporting date;

- Non-monetary assets carried at historical cost, including tangible fixed assets, continue to be carried at the original exchange rate; and

- Income and expenses determined in the different currencies are translated into euros at the average exchange rate of the month in which they are recognised.

Exchange differences arising on translation to euros are recorded in the Group's equity under Revaluation reserves – Exchange rate fluctuations.

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

1.3. Summary of the main accounting policies

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

a) Accrual accounting

The Bank uses the accrual-accounting principle for most items of the financial statements. Thus, costs and income are recorded as and when generated, regardless of the time of payment or receipt.

b) Foreign currency transactions

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

Transactions in currencies other than the functional currency and the corresponding income and expenses are recorded at the exchange rate ruling on the date on which they occur. On each reporting date, assets and liabilities expressed in a currency other than the functional currency are translated at the 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 main categories of financial assets provided for are:

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

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

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

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

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

Sale of credits

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

Securitised credit not derecognised

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

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

Credits sold and not derecognised are recorded under Customer loans and advances, and are subject to accounting criteria identical to other credit operations. Interest and commissions associated with the securitised credit portfolio are accrued in keeping with the respective term of the credit operations.

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

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

Derecognition

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

Guarantees provided and irrevocable commitments

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

Performance guarantees are initially recognised at fair value, which is normally evidenced by the amount of the commissions 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 Loans & advances to customers 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 the transaction costs and 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 and similar 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 mandatorily 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 mandatorily at fair value through profit or loss are initially recognised at fair value, with cost associated with transactions recorded at the time of their initial recognition. Gains and losses arising from subsequent valuation at fair value are recognised in the income statement.

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, 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. 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.

According to analysis carried out by the Bank with reference to January 1, 2018, no significant impacts arising from the adoption of IFRS 9 have been identified.

Repo Operations

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

Secondary market transactions

The Bank repurchases bonds issued on the secondary market. Purchases and sales of own bonds are included in the proportionately under the respective items debt issued (principal, interest and commissions) and the difference 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 Bank decided to continue applying the hedge accounting defined within the scope of IAS 39.

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

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

- Existence of formal documentation of the hedge relationship and of the Bank's risk-management strategy, including the following aspects:
  - Identification of the hedging instrument;
  - Identification of the hedged item;
  - Identification of the type of risk hedged; and
  - Definition of the form of measuring the effectiveness of the hedge and subsequent monitoring;

- Initial expectation that the hedge relationship is highly effective; and

- Over the life of the operation the effectiveness of the hedge lies in the interval between 80% and 125%. The effectiveness of the hedge is tested on each financial reporting date by comparing the change in the fair value of the hedged item relative to the risk that is being hedged, with the change in the fair value of the hedging derivative.

Hedge accounting is only applied from the time when all those requirements have been met. Likewise, if at any time the effectiveness of the hedge no longer lies in the interval between 80% and 125%, hedge accounting is discontinued.

Fair-value hedges

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

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

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

Cash flow hedge

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

In this sense, the Bank contracted financial derivatives to hedge the future interest flows of part of its mortgage loan portfolio remunerated at a floating rate and for structured deposits issued by the Bank remunerated at a floating rate.

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

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

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

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

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

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

Loan impairment

IFRS 9 introduces the concept of expected loan losses that differs significantly from the concept of losses incurred provided for in IAS 39, thus bringing forward the recognition of loan losses in the financial statements of the institutions. IFRS 9 determines that the concept of impairment based on expected losses is to be applied to all financial assets except for financial assets at fair value through profit or loss and equity instruments measured at fair value through equity.

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

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

- expected loss for credit risk at 12 months, that is, total estimated loss resulting from default events of the financial instrument events that are possible within 12 months of the reporting date (called Stage 1);
- or expected loss for credit risk to maturity, that is, 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 Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the effective interest rate of the financial instruments.

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

Impaired financial assets

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

Purchased or originated credit-impaired (POCI) financial assets

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

Significant increase of the credit risk

The Bank monitors all financial assets in order to assess whether there has been a significant increase of credit risk since their initial recognition. If there has been a significant increase of the credit risk, the Bank estimates the loan-loss provision to maturity LTPD (life time probability of default) and not over 12 months.

The Bank uses scorings and rating systems for internal credit-risk management. These notations allow an assessment of the risk level of the transactions or of the customer at all times and they are considered in the credit-risk approval and monitoring decisions. The models are based on series of data that are considered 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 Bank uses different criteria to determine if 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 Bank assumes that the credit risk of a financial asset has increased significantly since the initial recognition when the contractual payments are overdue by more than 30 days or when the transactions are identified as loans restructured 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 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 value of the valuation of the collateral, taking into account selling costs, the time to execute the guarantees, level of collateralisation, etc. The LGD models for unsecured assets consider recovery time, recovery rates and recovery costs. The calculation is based on cash flows discounted at the original effective interest rate of the loan. The estimate is based on current conditions, adjusted to take into account the estimates of future conditions that will affect the LGD.

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

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

Collective analysis

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

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

Individual analysis

The individual analysis process is applied to customers with Stage 3 exposure (assets impaired assets in default internal risk-management purposes) individually significant (exposure greater than €1 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 scenarios, the cash flows.

Incorporation of forward-looking information

The Bank's Office of Economic Studies models economic-forecast scenarios for the Bank's various planning exercises, in particular, budget, strategic planning and ICAAP. In this connection, different macro-economic scenarios are generated, including two pessimistic scenarios, one base scenario and two optimistic scenarios.
For the purpose of impairment losses a pessimistic scenario is used, the base scenario and an optimistic scenario. The Bank applies probabilities to the forecast scenarios identified. The base scenario is the most likely outcome and consists of information used by the Bank for strategic planning and budgeting. The estimates are updated at least once a year and are subject to annual monitoring exercises.

d) Tangible assets

Tangible assets used by the Bank to carry on its business are carried at acquisition cost (including directly attributable costs), 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 the Bank (leased) are depreciated over a period of time compatible with their expected useful life or of the lease, if less, which on average corresponds to a period of ten years. Expenditure to be incurred with the dismantling or removal of these assets is considered a part of the initial cost when it involves significant and reliably-measurable amounts.

As provided for in IFRS 1, tangible assets acquired until January 1, 2004 were recorded at their book value on the date of transition to the IAS/IFRS, which corresponded to the acquisition cost adjusted for revaluations performed in accordance legislation in force arising from the evolution of the general price indices. A portion corresponding to 40% of the increase of the depreciation resulting from these revaluations is not accepted as a cost for tax purposes, and the corresponding deferred tax liabilities are recorded.

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

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

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

e) Intangible assets

The Bank 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 made. An analysis is performed annually to identify possible impairment losses.

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

In 2018 the Bank recognised €2,509k of internally-generated intangible assets. In 2017, the Bank did not recognise any intangible assets generated internally.

f) 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 recognised in the income statement for the period to which they refer. Ameliorations that are expected to generate additional future economic benefits are capitalised.

g) Non-current assets held for sale

The Bank 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 16).

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

Their initial recognition is at the lower of their fair value less expected selling costs and the carrying amount of the loans granted constituting the object of the recovery. 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.

h) 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 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, tax risks, ongoing legal proceedings and other specific risks arising from its business

i) Employee post-employment benefits

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

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

As from January 1, 2009, employees taken on by the Bank came to be included in Social Security, and are covered by a supplementary defined-contribution pension plan and by the rights acquired under clause 93 of the CBA, 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, in 2011 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 maternity, paternity and adoption events. 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 that 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 recognised as at December 31, 2010, were not altered with the publication of the aforesaid decree-law, since the reduction of the amount of the pensions payable by the Bank related 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 cost 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. This understanding was also confirmed by the National Financial Supervisors

Council.

In December 2011 a tripartite agreement was concluded between the Ministry of Finance, the Portuguese Banks Association and the Financial Sector Federation (FEBASE) concerning the transfer to Social Security of part of the liabilities to retirees and pensioners who, on December 31, 2011, were covered by the replacement social security regime set out in the CBA.

Following that agreement, Decree-Law 127/2011 of December 31, was also published in 2011, which determined that Social Security was liable, as from January 1, 2012, for the pensions transferred under that decree-law, in the amount corresponding to the pensioning of the remuneration as at December 31,2011, under the terms and conditions laid down in the applicable collective labour regulation instruments of the banking sector, including the amounts relating to the Christmas bonus and the 14th month.

In accordance with that decree-law, the Bank, through its pension fund, is now liable only for the payment:

i) of the updates of the pensions referred to above, as provided for in the applicable collective labour regulation instruments of the banking sector;
ii) the employers' contributions to Social Medical Assistance Services (SAMS) managed by the respective unions, under the terms laid down in the applicable collective labour regulation instruments of banking sector;
iii) of the death benefit;
iv) of the survivor pension for children;
v) of the survivor pension for children and surviving spouse, provided that it is in respect of same worker; and
vi) the survivor pension due to the relative of a current pensioner, the conditions of its grant having occurred as from January 1, 2012.

Additionally, employees of the Bank’s former (now representation office) London Branch 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.

Tha Banks’s liabilities for retirement with 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.

On December 20, 2015, following the resolution measure applied by the Bank of Portugal to Banif, BST 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 (€87.64 per beneficiary and €37.93 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.

Application of IAS 19

On January 1, 2005, the Bank elected not to apply IAS 19 retrospectively, having then recalculated the actuarial gains and losses that would be deferred had it adopted this standard since the beginning of the pension plans. Thus, the actuarial gains and losses existing as at January 1, 2004, as well as those arising from the adoption of IAS 19 were cancelled/recorded against retained earnings on that date.

In 2011 the Bank changed the accounting policy for recognition of actuarial gains and losses, no longer adopting the corridor method, and coming to recognise actuarial gains and losses directly in equity (Other comprehensive income), as provided for in the revised version of IAS 19.

On the other hand, as from January 1, 2013, following the revision of IAS 19 – Employee benefits, the Bank came to carry the following components under Staff costs of the income statement:

- Cost of current services;
- Net interest with the pension plan;
- Cost of 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 recognised 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.

j) Corporation tax

BST and Group companies located in Portugal are subject to the tax system established in the Corporation Tax Code (IRC). The accounts of the branch are included in the Bank's accounts for tax purposes. In addition to being subject to IRC, the results of the branch are also subject to local taxes in the country where it is established. The local taxes are deductible from the IRC taxable income in Portugal under article 91 of the respective Code and of the Double Taxation Agreements concluded by Portugal.

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

As amended by the 2011 State Budget Act (Law 55-A/2010 of December 3) and in accordance with article 92 of the IRC Code, tax paid in accordance with article 90(1), net of deductions related to double international taxation and to tax benefits, cannot be less than 90% of the amount that would be determined should the taxpayer not enjoy tax benefits and the arrangements provided for in article 43(13) of the IRC Code.

Following the enactment of Law 2/2014, of January 16 (IRC Reform) and of the wording provided by the 2018 State Budget Act (Law 114/2017 of December 29), the taxation of corporate earnings for 2018 and 2017 came to be the following:

- IRC rate of 21% on taxable profit;
- Municipal surcharge at a rate between 0% and 1.5% on taxable profit;
- State surcharge at a variable rate on taxable income in accordance with the following tiers:

- Up to €1,500k	0%
- between €1,500k and €7,500k	3%
- between €7,500k and €35,000k	5%
- over €35,000k (7% in 2017)	9%

In this way, the changes mentioned above imply that the tax rate used by the Bank in determining and recording deferred taxes was 31% (29% in 2017).

Tax losses generated as from and including 2014 may be used during the 12 subsequent taxation periods. On the other hand, the reporting period for tax losses is six years for losses generated in 2008 and 2009, four years for losses generated in 2010 and 2011 and five years for losses generated in 2012 and 2013. However, the deduction of losses to be carried out each year may not exceed 70% of the respective taxable income, and the remainder (30%) may be used by the end of the reporting period.

Following the publication of Bank of Portugal Notice nº 5/2015, entities that presented their financial statements in keeping with the Adjusted Accounting Standards, issued by the Bank of Portugal (NCA) came to apply the International Financial Reporting Standards as adopted in the European Union in preparation of their separate financial statements. In this connection, in the Bank's separate financial statements, the customer loan portfolio and the guarantees provided became subject to recording impairment losses calculated in accordance with the requirements laid down in IFRS 9 (in 2018) and IAS 39 (in 2017), in the place of recording provisions for specific risks, for general credit risks and for country risk, under the terms previously set out in Bank of Portugal Notice 3/95.

Regulatory Decree 5/2016, of November 18 came to establish the ceilings for impairment losses and other value corrections for specific credit deductible for purposes of determination of taxable income under IRC in 2016. This methodology was also applied to the treatment of the transitional adjustments related to the credit impairments of entities that had previously submitted their financial statements in NCAs.

Additionally, the regulatory decree includes a transitional rule that provides for the possibility of the positive difference between the amount of provisions for loans constituted on January 1, 2016, under Bank of Portugal Notice nº 3/95 and the impairment losses recorded on that same date in respect of the same loans being considered in the determination of the 2016 taxable profit only in so far as it exceeds the tax losses generated in taxation periods started on or after January 1, 2012, and not used. The Bank elected to apply the transitional rule.

Regulatory Decree nº 11/2017 of December 28 came to extend to 2017 the same the tax regime of 2016 and Regulatory Decree nº 15/2018 of December 28 came extend the same tax regime to 2018.

The Santander Totta Group decided to apply the Special Taxation of Groups of Companies Regime (RETGS) in 2017. Under this regime, the Group's taxable profit/tax loss corresponds to the sum of the taxable profit/tax loss that comes to be determined by the parent company through the algebraic sum of tax results determined in the periodic separate statements of each company. The companies covered by this scheme are: Santander Totta, SGPS - the controlling company, and Taxagest, BST, Santander Totta Seguros and Gamma (in 2018) controlled companies.

The gain obtained by application of the RETGS is allocated to the entities in question in the taxable income of each company.

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

The Bank does not 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 enacted, or substantially approved at the time of the financial reporting, which constitute the best estimation of the current rate, 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.

Banking sector contribution

With the publication of Law 55-A/2010, of December 31, the Bank came to be covered by the banking sector contribution regime. This contribution has the following basis of incidence:

a) Liabilities determined and approved by taxpayers less the Tier 1 and Tier 2 capital and deposits covered by the Deposit Guarantee Fund. From the liabilities so determined the following are deducted:

  - Items that in accordance with the applicable accounting standards are recognised as own funds;
  - Liabilities associated with the recognition of liabilities for defined-benefit plans;
  - Liabilities for provisions;
  - Liabilities arising from revaluation of derivative financial instruments;
  - Deferred income revenues, without consideration of those in respect of borrowing operations;
  - Liabilities for assets not derecognised in securitisation operations.

b) The notional value of off-balance sheet derivative financial instruments determined by the taxpayers, with the exception of hedging derivative financial instruments or whose position at risk is mutually offset.

The rates applicable to the tax bases defined in subparagraphs a) and b) above are 0.110% and 0.0003%, respectively, as provided for in the amendment introduced by Order-in-Council 176-A/2015, of June 12, to article 5 of Order-in-Council 121/2011 of March 30.

k) Long-term share incentive plans

The Bank has long-term incentive plans on shares in Banco Santander, SA, the parent company of the Santander Group. Given their characteristics, these plans consist of equity-settled share-based payment transactions, as defined in IFRS 2 and IFRIC 11. The management, coverage and implementation of these long-term incentive plans is ensured directly by Banco Santander SA. The Bank annually pays Banco Santander, SA, the amount related to these plans.

Recording these plans consists of recognising the right of the Bank's employees to these instruments under Other reserves, with a contra-entry under Staff costs, to the extent that they correspond to remuneration for services rendered.

The description of the long-term incentive plans on options on shares in Banco Santander, SA, that are in force is included in Note 40.

l) Treasury shares

Treasury shares are carried in equity accounts at acquisition cost and are not subject to revaluation. Gains and losses realised on 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.

m) Provision of insurance mediation services

The Bank uses the accrual-accounting principle in relation to income from the provision of insurance mediation services - commissions. Thus, this income is recorded as and when generated, regardless of the time of payment or receipt. The amounts receivable are subjected to impairment loss analyses.

The Bank does not collect insurance premiums on behalf of insurers, nor does it handle funds relating to insurance contracts. There is therefore no other asset, liability, income or expense to report in respect of insurance mediation business carried on by the Bank, other than those already disclosed.

n) Cash & cash equivalents

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

1.4. Acquisition and Merger of Banco Popular Portugal

Framework

Following the decision of the Single Resolution Council 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 BAPOP.

In view of the restructuring of the business of Banco Popular in Portugal and its inclusion in the Santander Group, the Bank and Banco Santander, SA, demonstrated the intention to transfer all the shares representing the share capital and voting rights of Banco Popular Portugal, SA (BAPOP) to the Bank.

For the purpose, on September 22, 2017, the Bank submitted to the Bank of Portugal and to the ECB a request of non-opposition to the acquisition of a qualifying holding of 100% of the share capital and voting rights of BAPOP.

The acquisition by the Bank is justified in the light of the strategic project of the Santander Group, based on a financial group segmented into in subsidiaries endowed with autonomy in each of the major geographies in which it carries on its business, the aim being that this acquisition be seen to be an instrumental step to allow an immediate and subsequent merger by incorporation of BAPOP into Bank.

On December 22, 2017, the European Central Bank communicated its non-opposition to the purchase by the Bank of the whole of the share capital and voting rights of BAPOP and to the merger of BAPOP into the Bank. Consequently, the merger was registered on December 27, 2017.

The Bank acquired from BAPOP the 513,000,000 shares representing the whole of the share capital for a consideration of €554,000k.

Impact of the Acquisition and Merger

The result determined on the acquisition of BAPOP was negative in the amount of €8,411k, determined on the basis of the estimated fair value of the assets acquired and liabilities assumed or in accordance with international financial reporting standards when, for some assets and liabilities, the measurement principle is not that provided for in IFRS 3 – Business Combinations.

The Group applied IAS 19 – Employee benefits to the assets acquired and liabilities assumed related with employee benefits and IAS 12 – Income taxes to the assets acquired and liabilities assumed related with taxes.

Under the terms of IFRS 3, the Bank 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, therefore, the result determined at the time of the purchase.

The methodology used by the Bank in determining the fair value of the main assets and liabilities acquired by Bank can be summarised as follows:

- With regard to Cash and deposits at central banks and Balances due from other banks, taking their nature into account, the estimated fair value corresponds to the carrying amount of the assets acquired.

- With regard Loans and advances to credit institutions and Resources from other credit institutions, taking their nature into account, the estimated fair value corresponds to the carrying amount of the assets acquired.

- For Loans and advances to customers the fair value was determined based on the gross amount less the estimated impairment, as a fair approximation to the fair value, given that in the determination of the impairment the current value of the estimated cash flows is calculated.

- Regarding Resources from customers and other debts it was considered for the customers' demand deposits that the fair value was equal to the carrying amount. For the remaining customer deposits, the average rates of deposits contracted by Bank customers were used.

- With regard to public debt securities carried under Available-for-sale financial assets the prices available in active markets were considered.

- With regard to public debt securities carried under Investments held to maturity, they were reclassified to the Available-for-sale financial assets portfolio and valued at the prices available in active markets.

- With regard to properties received as payment in kind, the available valuations were reviewed and the Bank's criteria for hard to sell properties were applied.

Subsequent to the acquisition of BAPOP the Bank implemented the merger operation through the total transfer of BAPOP's assets and liabilities in keeping with the amounts detailed in its accounting records as of the date of acquisition on December 27, 2017.

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

We present below the reconciliation between the balance sheet on the date of acquisition and subsequent merger and the fair value of assets and liabilities acquired by the Bank:

	Balance before acquisition and subsequent merger				
	Before provisions impairment and depreciation	Provisions impairment depreciation	Net value	Fair value	Adjusted value
Assets					
Cash and deposits at central banks	212,193	-	212,193	-	212,193
Balances due from other banks	70,870	-	70,870	-	70,870
Financial assets held for trading	21,506	-	21,506	-	21,506
Available-for-sale financial assets	281,749	-	281,749	558,852	840,601
Loans and advances to credit institutions	60,497	-	60,497	-	60,497
Loans and advances to customers	6,107,711	398,320	5,709,391	(263,417)	5,445,974
Held to maturity investments	519,495	-	519,495	(519,495)	-
Other tangible assets	112,987	55,598	57,389	-	57,389
Intangible assets	6,328	4,692	1,636	-	1,636
Investments in associated companies	31,081	3,680	27,401	(6,615)	20,786
Current tax assets	10,425	-	10,425	47,088	57,513
Deferred tax assets	87,499	-	87,499	64,951	152,450
Other assets					
Assets received by credit recoverieas	224,707	33,574	191,133	(72,000)	119,133
Other assets	134,449	423	134,026		134,026
Total Assets	**7,881,497**	**496,287**	**7,385,210**	**(190,636)**	**7,194,574**
Liabilities					
Financial liabilities held for trading	20,758	-	20,758	-	20,758
Resources of other credit institutions	2,542,713	-	2,542,713	-	2,542,713
Resources of customers	3,954,233	-	3,954,233	-	3,954,233
Debt securities	1,832	-	1,832	-	1,832
Hedging derivatives	3,536	-	3,536	-	3,536
Provisions	9,706	-	9,706	-	9,706
Current tax liabilities	2,999	-	2,999	-	2,999
Other liabilities	87,208	-	87,208	26,000	113,208
Total Liabilities	**6,622,985**	**-**	**6,622,985**	**26,000**	**6,648,985**
Capital					
Share capital	513,000	-	513,000	-	513,000
Share premium account	10,109	-	10,109	-	10,109
Revaluation reserves	(43,285)	-	(43,285)	-	(43,285)
Other reserves and retained earnings	305,052	-	305,052	-	305,052
Net income	(22,651)	-	(22,651)	-	(22,651)
Popular integration	-	-	-	(216,636)	(216,636)
Total capital	**762,225**	**-**	**762,225**	**(216,636)**	**545,589**
Total Liabilities + Capital	**7,385,210**	**-**	**7,385,210**	**(190,636)**	**7,194,574**
Purchase value					**(554,000)**
Merger impact					**(8,411)**

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

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

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

Employee post-employment benefits

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 actuarial assumptions, including the discount rate, mortality and invalidity tables, pension and salary growth, among others.

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

Valuation of financial instruments not traded on active markets

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. 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

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

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

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

- For financial instruments 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.

Amortised cost:

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 amortised cost is recognised in the income statement.

Determination of impairment losses

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. The determination of impairment through collective analysis is performed on the basis of parameters for comparable types of operations, such as: - type of instrument; type of customer; credit risk degree measured by the ratings or scoring system; collateral type; date of initial recognition; relationship between loan and guarantee value (LTV).

Taxes

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. Therefore, changes in fiscal legislation or in its interpretation on the competent authorities' part, may impact the amount of current and deferred taxes. For the purpose of analysing the recoverability of deferred tax assets (tax loss), the Bank projects taxable profits based on assumptions. Hence, the recoverability of deferred tax assets depends on the ability of the Bank's Board of Directors to achieve its strategy.

In order to adapt the IRC code to the international accounting standards adopted by the European Union and to the Accounting Standardisation System (SNC), enacted by Decree-Law 158/2009 of July 13, Decree-Law 159/2009, of July 13 was enacted.

The aforesaid decree-law amended several articles of the IRC code, having also revoked article 57(2) of the 2007 State Budget. These provisions came into force on January 1, 2010.

In this sense, these rules were observed for the determination of the taxable profit in 2018 and 2017 in keeping with the Bank's interpretation thereof.

Determination of the outcome of legal proceedings in progress

The outcome of the legal proceedings in progress, as well as the respective need for provisions to be set aside, is estimated on the basis of the opinion of the Bank's lawyers/legal advisors and decisions of the courts to date, which, however, might not come about.

3. DISCLOSURES BY SEGMENTS

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

Corporate Investment Banking:

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

Retail Banking:

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

Commercial Banking:

This area comprises businesses with billing of more than €10 million and less than €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.

Corporate Activities:

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

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

The breakdown of the income statement by operating segment as at December 31, 2018 & 2017, is as follows:

	December 31, 2018				
	Corporate Investment Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Financial margin (narrow sense)	87,991	513,924	117,642	147,171	866,728
Income from equity instruments	-	-	-	1,601	1,601
Financial margin	**87,991**	**513,924**	**117,642**	**148,772**	**868,329**
Net commissions	47,007	313,883	28,498	(13,192)	376,196
Other results from banking activity	-	3,420	-	(25,258)	(21,838)
Commercial margin	**134,998**	**831,227**	**146,140**	**110,322**	**1,222,687**
Results from financial operations	13,732	4,433	1,631	(37,447)	(17,651)
Net income from banking activities	**148,730**	**835,660**	**147,771**	**72,875**	**1,205,036**
Operating costs	(24,147)	(502,494)	(38,705)	(3,331)	(568,677)
Depreciation and amortization	(2,786)	(37,696)	(840)	-	(41,322)
Net operating income	**121,797**	**295,470**	**108,226**	**69,544**	**595,037**
Impairment and provisions, net of reversals	6,208	(22,483)	1,987	(249,469)	(263,757)
Result from associates	-	-	-	7,188	7,188
Income before taxes	**128,005**	**272,987**	**110,213**	**(172,737)**	**338,468**
Taxes	(39,681)	(81,553)	(34,166)	286,665	131,265
Non-controlling interests	-	-	-	218	218
Net income for the period	**88,324**	**191,434**	**76,047**	**114,146**	**469,951**

	December 31, 2017				
	Corporate Investment Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Financial margin (narrow sense)	85,134	419,453	94,598	100,195	699,380
Income from equity instruments	-	-	-	2,911	2,911
Financial margin	**85,134**	**419,453**	**94,598**	**103,106**	**702,291**
Net commissions	39,744	285,753	18,329	(17,524)	326,302
Other results from banking activity	-	5,923	-	(20,163)	(14,240)
Commercial margin	**124,878**	**711,129**	**112,927**	**65,419**	**1,014,353**
Results from financial operations	12,166	3,961	1,860	100,920	118,907
Net income from banking activities	**137,044**	**715,090**	**114,787**	**166,339**	**1,133,260**
Operating costs	(22,936)	(426,803)	(32,882)	(2,549)	(485,170)
Depreciation and amortization	(2,853)	(33,164)	(1,075)	-	(37,092)
Net operating income	**111,255**	**255,123**	**80,830**	**163,790**	**610,998**
Impairment and provisions, net of reversals	1,103	5,641	26,387	(71,340)	(38,209)
Result from associates	-	-	-	6,277	6,277
Income before taxes	**112,358**	**260,764**	**107,217**	**98,727**	**579,066**
Taxes	(33,708)	(77,598)	(32,165)	(14,438)	(157,909)
Non-controlling interests	-	-	-	-	-
Net income for the period	**78,650**	**183,166**	**75,052**	**84,289**	**421,157**

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

As at December 31, 2018 & 2017, the breakdown of the assets and liabilities under management of each business segment, in accordance with information used by the Bank's Management for decision-making, is as follows:

	31-12-2018				
	Corporate Investment Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Assets					
Credit granted and other balances receivable at amortized cost					
Mortgage loans	-	19,462,199	-	-	19,462,199
Consumer loans	-	1,634,821	-	-	1,634,821
Other loans	3,643,925	6,105,996	8,735,168	-	18,485,089
Total allocated assets	3,643,925	27,203,016	8,735,168	-	39,582,109
Total non-allocated assets					11,706,907
Total Assets					51,289,016
Liabilities					
Resources in the balance sheet					
Resources of customers and other debts	1,853,859	26,240,113	5,378,931	464,853	33,937,757
Debt securities	-	-	-	4,611,944	4,611,944
Total allocated resources	1,853,859	26,240,113	5,378,931	5,076,797	38,549,701
Total non-allocated Liabilities					9,187,016
Total Liabilities					47,736,717
Guarantees and sureties given	303,378	541,721	722,921	-	1,568,020

	31-12-2017				
	Corporate Investment Banking	Retail Banking	Commercial Banking	Corporate Activities(1)	Total Consolidated
Assets					
Credit granted and other balances receivable at amortized cost					
Mortgage loans	-	17,214,078	-	1,877,051	19,091,129
Consumer loans	-	1,573,175	-	45,829	1,619,004
Other loans	3,531,951	4,285,335	7,582,698	3,523,095	18,923,079
Total allocated assets	3,531,951	23,072,588	7,582,698	5,445,975	39,633,212
Total non-allocated assets					11,008,822
Total Assets					50,642,034
Liabilities					
Resources in the balance sheet					
Resources of customers and other debts	1,105,358	22,802,008	3,739,715	4,490,387	32,137,468
Debt securities	-	33,652	-	4,547,585	4,581,237
Total allocated resources	1,105,358	22,835,660	3,739,715	9,037,972	36,718,705
Total non-allocated Liabilities					10,261,783
Total Liabilities					46,980,488
Guarantees and sureties given	205,505	425,552	718,156	368,389	1,717,603

(1) includes assets and liabilities of former BAPOP

As at December 31, 2018 & 2017, the Bank did not have relevant business in any distinct 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 this Notes.

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

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE YEAR

As at December 31, 2018 & 2017, the subsidiaries and associated companies and their most significant financial data taken from the respective financial statements, excluding adjustments on conversion to IAS/IFRS can be summarised as follows:

	Direct (%) participation		Effective (%) participation		Total assets (net)		Shareholders' equity		Net income of the year	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017	31-12-2018	31-12-2017
BANCO SANTANDER TOTTA, S.A.	Headquarters	Headquarters	Headquarters	Headquarters	55,173,578	52,850,084	3,404,774	3,510,488	475,535	695,630
TOTTA IRELAND, PLC (2)	100.00	100.00	100.00	100.00	491,050	449,882	460,759	449,743	2,790	812
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. (1)	100.00	100.00	100.00	100.00	239,145	122,175	25,662	116,184	(4,092)	1,819
TAXAGEST,SGPS,SA	99.00	99.00	99.00	99.00	55,740	55,745	55,739	55,742	(3)	(4)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	79.80	79.51	79.80	79.51	356,122	367,737	344,366	336,915	8,685	7,840
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	100.00	100.00	100.00	100.00	7,130	7,049	6,807	6,870	62	96
HIPOTOTTA NO. 1 PLC	-	-	-	-	-	142	-	38	-	-
HIPOTOTTA NO. 4 PLC	-	-	-	-	700,965	786,999	(3,481)	(4,492)	1,011	1,294
HIPOTOTTA NO. 5 PLC	-	-	-	-	679,746	755,365	(7,007)	(4,329)	(2,678)	361
HIPOTOTTA NO. 4 FTC	-	-	-	-	632,736	720,237	633,160	721,331	2,196	1,615
HIPOTOTTA NO. 5 FTC	-	-	-	-	612,496	685,863	610,576	684,664	2,451	3,395
ATLANTES MORTGAGE NO 1 PLC	-	-	-	-	80,717	97,900	40	40	-	-
ATLANTES MORTGAGE NO 1 FTC	-	-	-	-	62,624	75,393	60,737	73,008	127	304
Operações de Securitização geridas pela GAMMA, STC	-	-	-	-	3,591,682	1,800,914	-	-	-	-
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	25.79	25.81	25.79	25.81	n.d.	11,273	n.d.	7,431	n.d.	252
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.86	21.86	21.86	21.86	347,331	347,928	107,282	102,658	20,234	24,309
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	25.76	25.77	25.76	25.77	105,824	143,683	100,304	98,294	2,010	3,887
BANIF INTERNACIONAL BANK, LTD	100.00	100.00	100.00	100.00	596	656	96	60	36	2,218
PRIMESTAR SERVICING, S.A. (3)	79.96	80.00	79.96	80.00	1,539	17,075	1,269	2,480	(169)	(1,392)
EUROVIDA - COMPANHIA DE SEGUROS VIDA, S.A. (3)	-	15.90	-	15.90	-	984,565	-	108,669	-	7,963

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

As at December 31, 2018 & 2017, the business, the location of the registered office and the consolidation method used for the companies included in the consolidation were as follows:

Company	Activity	Headquarters	Consolidation Method
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Headquarters
TOTTA IRELAND, PLC (2)	Investment management	Ireland	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. (1)	Holding company	Portugal	Full
BENIM - Sociedade Imobiliária, S.A.	Real estate management	Portugal	Equity
BANIF INTERNATIONAL BANK	Banking	Bahamas	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 1 PLC	Investment management	Ireland	Full
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
ATLANTES MORTGAGE 1 PLC	Securitized loans fund	Ireland	Full
ATLANTES MORTGAGE 1 FTC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Fund management	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitized loans	Portugal	Full
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Real Estate Fund	Portugal	Equity
PRIMESTAR SERVICING, S.A. (3)	Investment management	Portugal	Full
EUROVIDA - COMPANHIA DE SEGUROS VIDA, S.A. (3)	Insurance	Portugal	-

(1) As at December 31, 2017, the equity of this subsidiary included supplementary capital contributions amounting to €99,760k. They were reimbursed in September 2018 reimbursed.

(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, 2018, and December 31, 2018.

(3) The holdings in these companies were included in the assets acquired by the Bank in December 2017 following the acquisition and merger of operation of BAPOP.

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.

During 2017, the Group wound up Santotta-Internacional, SGPS.

As at December 31, 2018 & 2017, the composition of the Novimovest Fund balance sheet was as follows:

	31-12-2018	31-12-2017
Securities portfolio	3,379	3,210
Real estate portfolio	297,625	353,957
Accounts receivable	8,221	9,759
Cash and banks	46,844	479
Accruals and deferrals	54	332
	356,123	367,737
Fund capital	344,366	336,915
Adjustments and provisions	4,917	5,208
Accounts payable	4,540	23,186
Accruals and deferrals	2,300	2,428
	356,123	367,737

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

As at December 31, 2018 & 2017, the consolidated net income includes a profit of €6,931k and €6,234k, respectively, attributable to the Novimovest Fund.

5. CASH AND BALANCES AT CENTRAL BANKS

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Cash	287,669	288,202
Demand deposits in central banks		
European Central Bank	1,368,061	751,352
	1,655,730	1,039,554

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. The minimum required reserves are remunerated at the RFI rate (on these dates this rate is zero), the excess has a penalty of 0.4%.

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.

6. BALANCES DUE FROM OTHER BANKS

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Balances due from domestic banks		
Demand deposits	189,872	6,548
Cheques for collection	-	106,065
Balances due from foreign banks		
Other credit institutions		
Demand deposits	655,131	543,038
Cheques for collection		2,504
	845,003	658,155

As at December 31, 2017, the Cheques pending collection sub-headings are in respect of cheques drawn by third parties on other credit institutions, which, in general, are cleared within the business days next following. December 31, 2018, these headings came to be carried under Financial assets at amortised cost as described in Note 10. At December 31, 2017, the balance of these sub-items amounted to € 108,569K, as described in Note 1.2.

As at December 31, 2018 & 2017, Balances due from credit institutions abroad – Current accounts included a current account in the amounts of €66,131k and €78,870k, respectively, which can be used as certain obligations vis-à-vis third parties are fulfilled.

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

7. FINANCIAL LIABILITIES HELD FOR TRADING

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Financial assets held for trading		
Derivatives with positive fair value	1,212,577	1,511,183
Securities - Participating units - Maxirent	3,379	3,525
Securities – Shares	-	528
	1,215,956	1,515,236
Financial liabilities held for trading		
Derivatives with negative fair value	(1,242,475)	(1,533,760)

As at December 31, 2018 & 2017, the following Derivatives are recorded:

	31-12-2018			31-12-2017		
	Assets	Liabilities	Net (Note 11)	Assets	Liabilities	Net (Note 11)
Forwards	2,157	1,817	340	7,344	7,254	90
Swaps						
Cross currency swaps	692	688	4	-	-	-
Currency swaps	7	7,055	(7,048)	161	4,988	(4,827)
Interest rate swaps	1,120,138	1,143,613	(23,475)	1,382,349	1,400,687	(18,338)
Equity swaps	9,676	9,932	(256)	10,083	11,779	(1,696)
Options						
Foreign exchange options	1,877	1,846	31	2,405	2,362	43
Interest rate options	-	-	-	154	154	-
Equity options	2,186	2,216	(30)	10,950	9,423	1,527
Caps & Floors	75,844	75,308	536	97,737	97,113	624
	1,212,577	1,242,475	(29,898)	1,511,183	1,533,760	(22,577)

As at December 31, 2018, the assets and liabilities headings relating to Derivative financial instruments are reduced by the amounts of approximately €15,550k and €22,716k of Credit Value Adjustments and Debit Value Adjustments, respectively (€25,000k and €30,594k as at December 31, 2017, respectively), in accordance with the method described in Note 41.

As at December 31, 2018 & 2017, almost all the trading derivative financial instruments were hedged back-to-back with Banco Santander, SA

As at December 31, 2018 & 2017, Securities - Units involved units of the Maxirent Closed End Real Estate Investment Fund.

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

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

As at December 31, 2018, the breakdown of this heading is as follows:

Description	Fair value
Equity Instruments	
Issued by residents	175,181
Issued by non-residents	1,697
	176,878

These assets were previously carried in the Available-for-sale financial assets portfolio (Note 9).

9. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The breakdown of this heading is as follows:

	31-12-2018							
			Fair Value Reserve					
	Acquisition cost	Interest receivable	Positive	Negative	Total (Note 22)	IFRS 9	Impairment (Note 19)	Book Value
Debt instruments								
Issued by residents								
Public residentes	4,329,379	80,969	382,440	-	382,440	-	-	4,792,788
Other residents								
Non subordinated debt	53,100	1,443	29	-	29	-	(3)	54,569
Issued by non-residents								
Foreign public issuers	311,428	1,416	5,614	-	5,614	-	-	318,458
Other non-residents	37	-	-	(1)	(1)	-	-	36
	4,693,944	83,828	388,083	(1)	388,082	-	(3)	5,165,851
Equity instruments								
Measured at fair value	15,397	-	581	-	581	64,328	-	80,306
	4,709,341	83,828	388,664	(1)	388,663	64,328	(3)	5,246,157

	31-12-2017						
			Fair Value Reserve				
	Acquisition cost	Interest receivable	Positive	Negative	Total (Note 22)	Impairment (Note 19)	Book Value
Debt instruments							
Issued by residents							
Public residentes	3,299,882	80,725	320,594	-	320,594	(90)	3,701,111
Other residents							
Non subordinated debt	250,048	8,586	1,906	-	1,906	(230)	260,310
Subordinated debt	2,825	2	-	-	-	(2,827)	-
Issued by non-residents							
Foreign public issuers	441,994	2,473	-	-	-	-	444,467
Other non-residents	776	14	-	-	-	-	790
	3,995,525	91,800	322,500	-	322,500	(3,147)	4,406,678
Equity instruments							
Issued by residents							
Measured at fair value	102,603	-	807	(127)	680	(24,410)	78,873
Measured at cost	84,906	-	-	-	-	(34,871)	50,035
Issued by non-residents							
Measured at fair value	1,429	-	-	-	-	-	1,429
Measured at cost	874	-	-	-	-	(746)	128
	189,812	-	807	(127)	680	(60,027)	130,465
	4,185,337	91,800	323,307	(127)	323,180	(63,174)	4,537,143

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

The public issuers headings had the following characteristics:

	31-12-2018				31-12-2017				
Description	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Book value	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Impairment	Book value
National public issuers									
Maturing between three and five years	23,796	184	468	24,448	-	-	-	-	-
Maturing between five and ten years	4,079,071	74,071	374,066	4,527,208	3,043,752	73,712	320,594	-	3,438,058
Others	226,512	6,714	7,906	241,132	256,130	7,013	-	(90)	263,053
Foreign public issuers									
Maturing between three and five years	1,507	4	13	1,524	1,509	4	-	-	1,513
Maturing between five and ten years	309,921	1,412	5,601	316,934	277,563	1,183	-	-	278,746
Others				-	162,922	1,286	-	-	164,208
	4,640,807	82,385	388,054	5,111,246	3,741,876	83,198	320,594	(90)	4,145,578

As at December 31, 2018 & 2017, the Group's portfolio contained Portuguese Treasury Bonds in the amounts of €311,387k and €94,669k respectively, used as collateral in financing operations (Note 18)

The other issuers headings had the following characteristics:

	31-12-2018					31-12-2017				
Description	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Impairment	Book value
Non subordinated debt										
CAIXA GERAL DEPOSITOS 3.75% JAN/2018	-	-	-	-	-	199,827	7,144	295	-	207,265
CGD 3% 2014/2019	50,000	1,443	29	(3)	51,469	49,991	1,442	1,611	-	53,044
OB.HEFESTO STC SA SERIE-1 CL-R	3,100	-	-	-	3,100	-	-	-	-	-
Other	37	-	(1)	-	36	230	-	-	(230)	-
	53,137	1,443	28	(3)	54,605	250,048	8,586	1,906	(230)	260,310

As at December 31, 2018 & 2017, Capital instruments included, among others, the following securities:

	31-12-2018			31-12-2017			
Description	Acquisition cost	Gain/losses reflected in reserves	Book value	Acquisition cost	Gain/losses reflected in reserves	Impairment	Book value
SIBS - SGPS, S.A.	3,985	64,328	68,313	3,985	-	-	3,985
ASCENDI NORTE - AUTO ESTRADAS DO NORTE	3,218	-	3,218	3,749	-	(531)	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE - PS	3,218	-	3,218	3,749	-	(531)	3,218
VISA INC series C	1,431	-	1,431	1,429	-	-	1,429
PORTUGAL CAPITAL VENTURES - SOCIEDADE DE CAPITAL DE RISCO, SA	850	-	850	1,065	-	(214)	851
FUNFRAP-FUNDICAO PORTUGUESA, S.A	274	491	765	274	491	-	765
GARVAL - SOC.DE GARANTIA MUTUA S	287	27	314	201	19	-	220
FUNDO SOLUCAO ARRENDAMENTO	-	-	-	40,366	(105)	-	40,261
AQUARIUS, FCR	-	-	-	19,753	-	-	19,753
ARRENDAMENTO MAIS -FIIFAH	-	-	-	14,431	-	-	14,431
UNICAMPUS-FEI IMOBILIARIO FECHAD	-	-	-	1,500	14	-	1,514
FCR PORTUGAL VENTURES VALOR 2	-	-	-	3,836	171	(3,099)	908
FII FECHADO GEF II	-	-	-	391	16	-	407
FUNDO RECUPERACAO FCR CATEGOR	-	-	-	30,085	-	(12,715)	17,370
FUNDO FECHADO DE INVESTIMENTO IMOBILIÁRIO - IMORENT	-	-	-	18,850	-	(4,000)	14,850
BANIF PROPERTY	-	-	-	15,350	-	(10,000)	5,350
OUTROS	2,134	63	2,197	2,675	74	(814)	1,935
SECURITIES WITH 100% IMPAIRMENT	-	-	-	28,123	-	(28,123)	-
	15,397	64,909	80,306	189,812	680	(60,027)	130,465

The reappraisal of SIBS's holding was carried out on a market valuation basis for a potential transaction of a minority interest of the participation.

As at December 31, 2018 & 2017, the negative revaluation reserves resulting from the valuation at fair value, had the following devaluation percentages compared to the respective acquisition costs:

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

	31-12-2018			31-12-2017		
	Acquisition cost	Negative reserve	Book value	Acquisition cost	Negative reserve	Book value
Debt instruments						
. Between 0% and 25%	37	(1)	36	-	-	-
Equity instruments						
. Between 0% and 25%	-	-	-	40,463	(118)	40,345
. Between 25% and 50%	-	-	-	19	(9)	10
	37	(1)	36	40,482	(127)	40,355

10. FINANCIAL ASSETS AT AMORTISED COST

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

	31-12-2018	31-12-2017
Loans and advances to other domestic banks		
Deposits	102,218	200,100
Loans	87,354	121,627
Other applications	-	260
Interest receivable	497	3,219
	190,069	325,206
Loans and advances to other foreign banks		
Very short term loans and advances	66,292	78,897
Deposits	270,562	275,006
Other applications	148,180	146,396
Loans	-	748
Interest receivable	12	114
	485,046	501,161
	675,115	826,367
Impairment of loans and advances to customers (Note 19)	(84)	-
	675,031	826,367

As at December 31, 2018 & 2017, Loans and advances to credit institutions abroad – Other investments includes margin accounts of €147, 927k and €145,501, respectively.

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

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

	31-12-2018	31-12-2017
Unsecuritized loans		
Domestic loans		
To corporate clients		
Discount and other credit securities	208,795	253,651
Loans	9,326,549	9,599,810
Current account loans	1,126,534	1,337,239
Overdrafts	139,344	147,957
Factoring	1,506,932	1,528,015
Finance leasing	1,158,855	1,158,310
Other credits	43,384	90,151
To individuals		
Mortgage loans	14,514,864	15,636,395
Consumer credit and other loans	2,148,694	2,305,899
Foreign loans		
To corporate clients		
Loans	394,738	273,386
Current account loans	10,002	8,366
Overdrafts	646	78
Factoring	65,353	50,832
Finance leasing	3,708	4,650
Other credits	7,254	55,817
To individuals		
Mortgage loans	437,347	469,823
Consumer credit and other loans	64,694	45,685
	31,157,693	32,966,064
Non-subordinated debt securities	4,081,130	4,280,415
Non-derecognized securitized assets		
- Mortgage loans to individuals	4,419,096	2,835,628
Overdue loans and interest		
Up to 90 days	23,768	45,400
More than 90 days	599,360	1,187,896
	623,128	1,233,296
	40,281,047	41,315,403
Accrued interest		
Loans and advances	75,177	87,805
Loans represented by securities	16,463	15,263
Non-derecognized securitized assets	3,138	1,462
Hedge adjustments	-	18,408
Deferred expenses	86,999	73,742
Checks payable	75,423	-
Debtors	290,564	-
Commissions associated with amortized cost (net)	(138,118)	(138,006)
	409,646	58,674
	40,690,693	41,374,077
Impairment of loans and advances to customers (Note 19)	(1,108,584)	(1,740,865)
	39,582,109	39,633,212

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

On December 31, 2018, this heading started recognising Cheques pending collection and debtors reclassified from “Balances due from other banks” (Note 6) and “Other assets”(Note 16), respectively. Additionally, Corrections in asset value from hedging were reclassified to its own heading in the balance sheet (Note 41). At December 31, 2017, the balances of these items amounted to €158,002K euros, as described in Note 1.2.

In the periods ended on December 31, 2018 & 2017, portfolios of loans granted to private individuals and companies were sold with a book value of 723,987 thousand euros and 526,119 thousand euros. As a result of these transactions, in 2018 and 2017 losses were recorded in the net amount of €12,480k as were gains of €31,512k, respectively (Note 31).

As at December 31, 2018 & 2017, Domestic loans – To individuals - Residential included loans assigned to the autonomous assets of the mortgage loans issued by the Bank and by the former BAPOP amounting to €8,937,341k and €9,980,181k, respectively (Note 18).

Movement under impairments losses during 2018 and 2017 is presented in Note 19.

As at December 31, 2018 & 2017, the breakdown of overdue loans and interest by period of default was as follows:

	31-12-2018	31-12-2017
Up to three months	23,767	45,400
Between three and six months	28,287	26,293
Between six months and one year	61,971	220,723
Between one year and three years	312,347	381,315
More than three years	196,756	559,565
	623,128	1,233,296

As at December 31, 2018, the detail of the division by stage of the Credit granted and other balances receivable at amortized cost is as follows:

	Gross value	Impairment	Coverage
Stage 1	36,693,093	(78,690)	0.21%
Stage 2	1,962,197	(96,651)	4.93%
Stage 3	2,035,403	(933,243)	45.85%
	40,690,693	(1,108,584)	

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

11. HEDGING DERIVATIVES

The breakdown of this heading is as follows:

	31-12-2018			31-12-2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	10,079	67,509	(57,430)	14,620	34,411	(19,791)
Equity swaps	20	1,714	(1,694)	636	2,184	(1,548)
AutoCallable Options	-	-	-	93	493	(400)
Cash-flows hedge						
Interest rate swaps	63,365	332	63,033	-	2,187	(2,187)
Forward sale	-	21,001	(21,001)			
	73,464	90,556	(17,092)	15,349	39,275	(23,926)

As at December 31, 2018 & 2017, the breakdown of derivative financial instruments was as follows:

	31-12-2018								
		Notional amounts						Notional amounts	
Type of financial instrument	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	340	183,469	118,303	10,622	32,524	136	345,054	171,021	174,033
Sold		183,335	118,190	10,600	32,503	136	344,764	171,619	173,145
Currency swaps									
Purchased	(7,048)	744,584	-	400	-	-	744,984	1,301	743,683
Sold		750,876	-	417	-	-	751,293	749,943	1,350
Interest Rate Swaps									
Currency Swaps (cross currency swaps)									
Purchased	4	7,631	-	-	-	-	7,631	7,631	-
Sold		7,631	-	-	-	-	7,631	7,631	-
Interest rate swaps	(23,475)	41,837	1,881,966	263,484	2,562,893	21,459,887	26,210,067	26,173,246	36,821
Equity swaps	(256)	138,295	-	-	-	757,869	896,164	896,163	1
Cross currency swaps									-
Purchased	31	52,276	50,603	101,607	5,240	-	209,726	-	209,726
Sold		52,232	50,646	101,607	5,240	-	209,725	-	209,725
Equity options									
Purchased	(30)	64,728	49,450	90,693	146,926	-	351,797	351,797	-
Sold		64,728	49,450	90,693	146,926	-	351,797	351,797	-
Caps & Floors	536	257,600	773,409	440,105	265,011	889,193	2,625,318	2,625,318	-
	(29,898)	2,549,222	3,092,017	1,110,228	3,197,263	23,107,221	33,055,951	31,507,467	1,548,484
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Other financial assets at fair value through other comprehensive income	(5,795)	-	-	-	-	80,000	80,000	80,000	-
Liabilities and loans	(51,635)	-	19,078	58,152	804,385	2,504,626	3,386,241	3,200,390	185,851
Equity swaps	(1,694)	26,619	16,136	30,126	35,565	-	108,446	140	108,306
Cash flow hedge									
Interest rate swaps									
Cash flows	63,033	56,746	192,081	1,102,594	9,000,000	-	10,351,421	10,351,421	-
Forwards sale	(21,001)	377,402	-	558,511	-	-	935,913	935,913	-
	(17,092)	460,767	227,295	1,749,383	9,839,950	2,584,626	14,862,021	14,567,864	294,157

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

	31-12-2017								
		Notional amounts						Notional amounts	
	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	90	180,229	15,725	8,686	355	-	204,995	91,276	113,720
Sold		157,106	34,944	21,591	1,068	-	214,709	110,440	104,269
Currency swaps									
Purchased	(4,827)	699,485	4,202	279	-	-	703,966	10,681	693,286
Sold		704,179	4,290	284	-	-	708,753	698,094	10,659
Interest rate swaps	(18,338)	30,006	58,895	33,119	4,201,883	21,633,136	25,957,039	25,917,294	39,744
Equity swaps	(1,696)	-	-	298,077	138,295	518,252	954,624	954,623	-
Cross currency swaps									-
Purchased	43	77,127	24,547	55,124	20,220	-	177,018	-	177,018
Sold		74,799	24,547	55,124	20,220	-	174,690	-	174,690
Equity options									-
Purchased	1,527	-	-	-	204,862	-	204,862	204,862	-
Sold		-	-	-	204,862	-	204,862	204,862	-
Caps & Floors	624	783	10,945	831,619	1,627,014	958,037	3,428,398	3,428,399	-
	(22,577)	1,923,714	178,095	1,303,903	6,418,779	23,109,425	32,933,916	31,620,531	1,313,386
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Available-for-sale financial assets	(3,536)	50,000	-	30,000	-	-	80,000	80,000	-
Liabilities and loans	(16,255)	641	-	23,063	297,653	2,774,714	3,096,070	2,929,306	166,764
Auto Callable options	(400)	196,916	-	-	-	-	196,916	196,916	-
Equity swaps	(1,548)	141,339	396,089	65,439	69,644	-	672,511	542,766	129,745
Cash flow hedge									
Interest rate swaps	(2,187)	-	-	172,348	351,422	-	523,771	523,771	-
	(23,926)	388,895	396,089	290,851	718,719	2,774,714	4,569,268	4,272,759	296,509

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

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

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

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

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

In accordance with IFRS 9, parts of operations, commonly known as "embedded derivatives" are also separated and carried as derivatives, in a manner such as to recognise the fair value of these operations in profit or loss.

All derivatives (embedded or autonomous) are 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 recognised in the relevant balance sheet accounts and has immediate impact on profit or loss.

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

12. INVESTMENTS IN ASSOCIATED COMPANIES

As at December 31, 2018 & 2017, the breakdown of this heading is as follows:

	31-12-2018		31-12-2017	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Domestic				
Benim - Sociedade Imobiliária, S.A.	25.81	1,918	25.81	1,853
Eurovida - Companhia de Seguros de Vida	-	-	15.90	22,579
Lusimovest	25.77	25,847	25.77	25,329
Unicre - Instituição Financeira de Crédito, S.A.	21.86	35,634	21.86	32,373
		63,399		82,134
Impairment of investments in associates (Note 19)				
Eurovida - Companhia de Seguros de Vida		-		(3,679)
Benim - Sociedade Imobiliária, S.A.		(1,918)		(1,853)
		(1,918)		(5,532)
		61,481		76,602

The holding in Benim – Sociedade Imobiliária, SA, was indirectly held by the bank through Totta Urbe – Empresa de Administração e Construções, SA (Totta Urbe). In September 2018 the Bank acquired this investment for its portfolio.

As at December 31, 2018 & 2017, 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 not are there any contingent liabilities to be recognised by the Company arising from the holdings therein.

13. INVESTMENT PROPERTY

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Properties held by Novimovest Fund	297,625	353,957

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

As at December 31, 2018 & 2017, the properties held by the Novimovest Fund balance were as follows:

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

	31-12-2018	31-12-2017
Land		
Urbanized	14,643	15,023
Non-urbanized	1,141	1,109
Finished constructions		
Rented	222,946	260,872
Not rented	41,070	60,198
Other construction projects	17,825	16,755
	297,625	353,957

On the other hand, during 2018 and 2017, the properties held by the Novimovest Real Estate Fund generated, among others, the following annual income and charges:

	31-12-2018	31-12-2017
Rents (Note 32)	15,252	15,586
Condominium expenses	(1,166)	(1,219)
Maintenance and repair expenses	(12)	(878)
Insurances	(197)	(231)
	13,877	13,259

Movement under Investment properties in 2018 and 2017 was as follows:

	31-12-2018				
	Balances at 31-12-2017	Increases	Fair value valuation	Sales	Balances at 31-12-2018
Properties held by Novimovest Fund	353,957	2,399	(2,290)	(56,441)	297,625

	31-12-2017				
	Balances at 31-12-2016	Increases	Fair value valuation	Sales	Balances at 31-12-2017
Properties held by Novimovest Fund	378,374	-	(6,914)	(17,503)	353,957

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 32).

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

As at December 31, 2018 & 2017, 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	
	31-12-2018	31-12-2017
Investment properties	297,625	353,957

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

In accordance with the requirements of IFRS 13, a summary is presented hereunder, for the investment properties of greater value in the Group's portfolio as at December 31, 2018 & 2017, of their main characteristics, of the valuation techniques adopted and of the more relevant inputs used in the determination of their fair value:

Description of the property	Use	Value on 31-12-2018	Value on 31-12-2017	Valuation technique	Relevant inputs
Hotel Delfim - Alvor					
Hotel in Portimão	Leased out	34,447	34,398	Income method	Lease value per m2 Capitalization rate
Stª Cruz do Bispo - Lots 1, 2 and 3					
Plots in Matosinhos	Leased out	41,694	41,063	Comparative market method / Residual value method	Lease value per m2 Capitalization rate
Galerias Saldanha Residence					
Shopping Center in Lisbon	Leased out	26,365	26,050	Income method / Comparative market method	Lease value per m2 Capitalization rate
Warehouse in Perafita					
Warehouse in Matosinhos	Leased out	15,896	15,916	Income method / Comparative market method	Lease value per m2 Capitalization rate
Av. Antero de Quental, 9					
Offices and store in Ponta Delgada	Leased out	11,699	11,941	Income method / Comparative market method	Lease value per m2 Capitalization rate
Estrada da Outurela, 119, Carnaxide					
Offices in Oeiras	Leased out	11,878	12,262	Income method / Comparative market method Income method / Cost method	Lease value per m2 Capitalization rate
Campos de Golf Vila Sol - G1 and G2					
Golf courses in Loulé	Leased out	12,128	12,240	Income method / Cost method Income method / Cost method	Lease value per m2 Capitalization rate
Parque Logistico SPC Armazéns 1 e 4	Leased out (SPC 1)	-	10,312	Income method / Comparative market method	Lease value per m2
Alfena - Valongo Plots					
Plots in Valongo	Construction in course	10,576	9,661	Comparative market method / Cost method Residual value method	Land value and cost of construction and marketing per m2
		164,683	173,843		

If there is an increase of the amount of rent per m^2 or an increase of the occupancy rate or a decrease of the capitalisation rate, the fair value of the investment properties will be increased. On the other hand, in the event of an increase of construction or marketing costs, an increase of the capitalisation rate, a decrease in the value of rent per square metre or a decrease in occupancy rate, the fair value of the investment properties will be decreased.

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

14. OTHER TANGIBLE ASSETS AND INTANGIBLE ASSETS

Movement under these headings during 2018 and 2017 can be presented as follows.

	31-12-2018															
	31-12-2017				Write-offs and sales			Transfers From/to non-current assets held for sale		Other transfers		Depreciation	31-12-2018			
	Gross amount	Accumulated depreciation	Impairment (Note 19)	Acquisitions	Gross amount	Accumulated depreciation	Impairment	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Gross amount	Accumulated depreciation	Impairment (Note 19)	Net amount
Tangible assets																
Property																
Property for own use	469,425	166,816	6,281	34,449	41,521	24,287	135	(26,270)	(8,354)	(4,026)	(1,075)	8,713	432,057	141,813	6,146	284,098
Leasehold expenditure	161,641	154,846	-	8	136,158	136,158	-	(1,201)	(879)	4,020	1,075	2,259	28,310	21,143	-	7,167
Other property	308	11	20	-	-	(9)	20	(141)	-	-	-	58	167	78	-	89
Unfinished tangible assets													-	-		
Property for own use	88	-	-	-	-	-	-	-	-		-	-	88	-	-	88
	631,462	321,673	6,301	34,457	177,679	160,436	155	(27,612)	(9,233)	(6)	-	11,030	460,622	163,034	6,146	291,442
Equipment																
Furniture and fixtures	28,370	22,867	-	2,385	19,962	19,960	-	-	-	-	-	1,105	10,793	4,012	-	6,781
Machinery and tools	6,936	5,883	-	234	5,555	5,555	-	-	-	245	238	274	1,860	840	-	1,020
Computer hardware	106,268	95,568	-	2,607	40,731	40,731	-	-	-	-	-	4,172	68,144	59,009	-	9,135
Indoor facilities	36,979	19,745	-	8,808	10,867	10,850	-	(35)	(15)	(6)	(11)	3,042	34,879	11,911	-	22,968
Vehicles	19,531	8,776	-	3,673	5,348	3,841	-	-	-	-	-	2,082	17,856	7,017	-	10,839
Security equipment	19,514	18,187	-	241	13,657	13,657	-	-	-	-	-	441	6,098	4,971	-	1,127
Other equipment	7,556	6,369	-	444	5,528	5,528	-	-	-	(276)	(258)	273	2,196	856	-	1,340
Unfinished tangible assets	9	-	-	-	-	-	-	-	-	-	-	-	9	-	-	9
	225,163	177,395	-	18,392	101,648	100,122	-	(35)	(15)	(37)	(31)	11,389	141,835	88,616	-	53,219
Other tangible assets																
Leased equipment	281	281	-	-	281	281	-	-	-	-	-	-	-	-	-	-
Work of Art	2,048	-	-	11	-	-	-	-	-	-	-	-	2,059	-	-	2,059
Other	3,463	3,462	-	-	3,455	3,455	-	-	-	43	31	-	51	38	-	13
	5,792	3,743	-	11	3,736	3,736	-	-	-	43	31	-	2,110	38	-	2,072
	862,417	502,811	6,301	52,860	283,063	264,294	155	(27,647)	(9,248)	-	-	22,419	604,567	251,688	6,146	346,733
Intangible assets																
Software purchased	438,890	406,376	-	10,835	388,712	388,711	-	-	-	1,817	-	18,832	62,830	36,497	-	26,333
Unfinished intangible assets	61	-	-	2,248	-	-	-	-	-	(1,817)	-	-	492	-	-	492
Business transfers	3,346	3,346	-	-	-	-	-	-	-	-	-	-	3,346	3,346	-	-
Other	1,040	476	-	-	-	-	-	-	-	-	-	71	1,040	547	-	493
Positive consolidation differences	1,160	-	-	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	444,497	410,198	-	13,083	388,712	388,711	-	-	-	-	-	18,903	68,868	40,390	-	28,478

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

31-12-2017

	31-12-2016			BAPOP Merger				Write-offs and sales		Transfers From/to non-current assets held for sale		Depreciation	31-12-2017			
	Gross amount	Accumulated depreciation	Impairment (Note 19)	Gross amount	Accumulated depreciation	Impairment (Note 19)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Gross amount	Accumulated depreciation	Impairment (Nota 19)	Net amount
Tangible assets																
Property																
Property for own use	402,284	143,664	3,870	79,645	21,816	2,411	6,779	2,497	302	(16,786)	(5,767)	7,405	469,425	166,816	6,281	296,328
Leasehold expenditure	148,941	141,295	-	11,985	11,114	-	807	151	154	59	40	2,551	161,641	154,846	-	6,795
Other property	1,307	148	20	-	-	-	-	999	141	-	-	4	308	11	20	277
Unfinished tangible assets													-	-	-	
Property for own use	88	-	-	-	-	-	-	-	-	-	-	-	88	-	-	88
	552,620	285,107	3,890	91,630	32,930	2,411	7,586	3,647	597	(16,727)	(5,727)	9,960	631,462	321,673	6,301	303,488
Equipment																
Furniture and fixtures	23,621	19,843	-	2,303	2,183	-	2,529	83	83	-	-	924	28,370	22,867	-	5,503
Machinery and tools	6,027	5,462	-	309	261	-	603	3	3	-	-	163	6,936	5,883	-	1,053
Computer hardware	95,298	83,486	-	9,170	8,841	-	2,723	923	906	-	-	4,147	106,268	95,568	-	10,700
Indoor facilities	28,458	15,404	-	2,365	2,036	-	6,177	21	15	-	-	2,320	36,979	19,745	-	17,234
Vehicles	20,470	9,800	-	35	35	-	3,058	4,032	2,983	-	-	1,924	19,531	8,776	-	10,755
Security equipment	13,264	12,368	-	5,598	5,483	-	652	-	-	-	-	336	19,514	18,187	-	1,327
Other equipment	5,546	4,706	-	1,419	1,418	-	592	1	1	-	-	246	7,556	6,369	-	1,187
Unfinished tangible assets	-	-	-	9	-	-	-	-	-	-	-	-	9	-	-	9
	192,684	151,069	-	21,208	20,257	-	16,334	5,063	3,991	-	-	10,060	225,163	177,395	-	47,768
Other tangible assets																
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1,826	-	-	149	-	-	73	-	-	-	-	-	2,048	-	-	2,048
Other	3,464	3,463	-	-	-	-	-	1	1	-	-	-	3,463	3,462	-	1
	5,571	3,744	-	149	-	-	73	1	1	-	-	-	5,792	3,743	-	2,049
	750,875	439,920	3,890	112,987	53,187	2,411	23,993	8,711	4,589	(16,727)	(5,727)	20,020	862,417	502,811	6,301	353,305
Intangible assets																
Software purchased	414,887	385,087	-	5,288	4,217	-	16,046	-	-	2,669	-	17,072	438,890	406,376	-	32,514
Unfinished intangible assets	2,894	-	-	-	-	-	(164)	-	-	(2,669)	-	-	61	-	-	61
Business transfers	3,346	3,346	-	-	-	-	-	-	-	-	-	-	3,346	3,346	-	-
Other	-	-	-	1,040	476	-	-					-	1,040	476	-	564
Positive consolidation differences	1,160	-	-	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	422,287	388,433	-	6,328	4,693	-	15,882	-	-	-	-	17,072	444,497	410,198	-	34,299

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

15. ASSETS AND LIABILITIES FOR CURRENT TAXES AND DEFERRED TAXES

As at December 31, 2018 & 2017, the breakdown of these headings is as follows:

	31-12-2018	31-12-2017
Current tax assets	21,334	19,053
Deferred tax assets	640,061	448,353
	661,395	467,406
Current tax liabilities	7,589	75,364
Deferred tax liabilities	237,233	157,117
	244,822	232,481
Deferred taxes	402,828	291,236

As at December 31, 2018 & 2017, the breakdown of taxes in the income statement is as follows:

	31-12-2018	31-12-2017
Current taxes	(11,804)	(142,945)
Deferred taxes	143,069	(14,964)
	131,265	(157,909)

Movement under deferred tax assets and liabilities in the periods ended December 31, 2018 & 2017, is as follows:

	Balances 31-12-2017	IFRS9	Other Comprehensive Income	Income statement	Other	Balances 31-12-2018
Provisions/Impairment temporarily not accepted for tax purposes						
.Deferred tax assets	288,998	19,593	-	(79,568)	-	229,023
.Deferred tax liabilities	(5,243)	-	-	-	-	(5,243)
Revaluation of tangible assets						
.Deferred tax assets	2,140	-	-	-	-	2,140
.Deferred tax liabilities	(3,193)	-	-	210	-	(2,983)
Reportable tax losses	-	-	-	219,136	-	219,136
Pensions:						
.Actuarial deviations	71,964	-	-	(16,852)	-	55,112
.Early retirement pensions	27,825	-	-	9,640	-	37,465
.Long service bonuses	516	-	-	(516)	-	-
Transfer of pension liabilities to the Social Security	4,714	-	-	(513)	-	4,201
Other financial assets through other comprehensive income	(90,982)	(22,159)	(21,521)	(176)	(6,639)	(141,477)
Hedging derivatives - cash flows	4,309	-	(14,210)	-	-	(9,901)
Other financial assets at fair value through results	-	8,671	-	12,569	-	21,240
Securitization operations:	(22,252)			(2,448)	(1)	(24,701)
Integration costs	13,536	-	-	4,201	(2)	17,735
Other	(1,096)	-	-	(2,614)	4,791	1,081
	291,236	6,105	(35,731)	143,069	(1,851)	402,828

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

	Balances 31-12-2016	Other Comprehensive Income	Income statement	BAPOP Merger	Balances 31-12-2017
Provisions/Impairment temporarily not accepted for tax purposes					
.Deferred tax assets	171,032	-	(15,954)	133,920	288,998
.Deferred tax liabilities	(4,931)	-	(312)	-	(5,243)
Revaluation of tangible assets					
.Deferred tax assets	2,140	-	-	-	2,140
.Deferred tax liabilities	(3,148)	-	-	(45)	(3,193)
Pensions:					
.Actuarial deviations	83,578	-	(11,614)	-	71,964
.Early retirement pensions	21,078	-	6,747	-	27,825
.Long service bonuses	-	-	-	516	516
Transfer of pension liabilities to the Social Security	4,536	-	(10)	188	4,714
Available-for-sale assets	34,664	(132,457)	-	6,811	(90,982)
Hedging derivatives - cash flows	5,127	(818)	-	-	4,309
Securitization operations:	(33,053)	-	10,801	-	(22,252)
Deferred commissions	2,604	-	(2,604)	-	-
Integration costs	7,314	-	(1,838)	8,060	13,536
Other	(916)	-	(180)	-	(1,096)
	290,025	(133,275)	(14,964)	149,450	291,236

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 2015. 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 19).

The Bank’s fiscal losses may be used in the amount of €51,655K until 2026 and €167,481K until 2027.

The Santander Totta Group decided to apply as from 2017 the Special Taxation of Groups of Companies Regime (RETGS). This new regime involves the algebraic sum of the tax results determined in the separate periodic returns of each company. The companies covered by this scheme are: Santander Totta, SGPS - the controlling company, and Taxagest, Banco, Santander Totta Seguros, TottaUrbe and Gamma (in 2018) controlled companies.

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

16. OTHERS ASSETS

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Debtors and other applications	447	110,852
Supply contracts	-	824
Gold, other precious metals, coins and medals	3,145	3,236
Promises and other assets received as settlement of defaulting assets received as settlement of defaulting	356,659	397,886
Income receivable and deferred income	29,294	26,484
Liabilities with pensions and other benefits		
Pension fund-BST	-	37,417
Pension fund-London branch	-	(6,729)
Pension fund-Former Banif	-	(31,936)
Pension fund-BAPOP	-	2,383
Deferred costs	2,850	7,147
Other assets pending regularization	53,382	588,019
	445,777	1,135,583
Impairment losses (Note 19):		
Debtors and other applications	-	(7,774)
Debtors, other investments and other assets		
Own properties for sale	(109,334)	(157,441)
Supplies	-	(486)
Other assets and other investments	-	(34,511)
	(109,334)	(200,212)
	336,443	935,371

As at December 31, 2018 & 2017, Income receivable mainly included commissions receivable from insurers for the marketing of their insurance (Note 36).

As at December 31, 2018, Debtors associated with amortised cost with its impairments were reclassified as Loans granted and other receivable balances at amortised cost.

As at December 31, 2018 & 2017, Other includes loan/borrowing operations pending settlement as detailed below:

	31-12-2018		31-12-2017	
	Other assets	Other liabilities (Note 21)	Other assets	Other liabilities (Note 21)
Interest receivable from swap contracts established with Portuguese State-owned companies	-	-	394,152	-
Cheques, values in transit and other transactions to be settled	29,309	(58,888)	35,229	(73,354)
Transfers within SEPA	-	(117,895)	83,994	(211,271)
Balances to be settled in ATM's	2,720	-	2,967	-
Other	21,353	(17,353)	71,677	(50,259)
	53,382	(194,136)	588,019	(334,884)

Interest receivable on swaps contracted with Portuguese public sector entities were received in January 2018.

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

Movement under Payment-in-kind promises, auctions and other assets received as payment in kind during 2018 and 2017 was as follows:

	31/12/2017						Transfers				31/12/18		
	Gross amount	Impairment	Net amount	Increases	Sales	Impairment utilization	Capital	Impairment	Allocation to impairment	Reversal of impairment	Gross amount	Impairment	Net amount
Assets received as settlement of defaulting													
Properties received as settlement of defaulting	261,866	(116,109)	145,757	9,348	(141,194)	56,142	(20,700)	5,441	(3,194)	5,565	109,320	(52,155)	57,165
Promises	12,315	(37)	12,278	987	(1,867)	-	-	-	(6)	-	11,435	(43)	11,392
Public sales	57,170	(4,135)	53,035	39,113	(48,153)	-	1,690	-	(23,347)	30	49,820	(27,452)	22,368
Other properties	20,691	(6,095)	14,596	248,225	(127,639)	298	(1,858)	(4,711)	(1,601)	7,941	139,419	(4,168)	135,251
Liquidation assets	1,783	(1,783)	-	1,924	(584)	-	(1,231)	-	(730)	621	1,892	(1,892)	-
Property for own use	44,061	(29,282)	14,779	4,495	(18,920)	12,015	15,137	-	(6,648)	291	44,773	(23,624) -	21,149
	397,886	(157,441)	240,445	304,092	(338,357)	68,455	(6,962)	730	(35,526)	14,448	356,659	(109,334)	247,325

	31/12/2016						Transfers				BAPOP Merger		31/12/2017		
	Gross amount	Impairment	Net amount	Increases	Sales	Impairment utilization	Capital	Impairment	Allocation to impairment	Reversal of impairment	Capital	Impairment	Gross amount	Impairment	Net amount
Assets received as settlement of defaulting															
Properties received as settlement of defaulting	72,893	(29,330)	43,563	-	-	-	(28,754)	15,350	-	-	217,727	(102,129)	261,866	(116,109)	145,757
Promises	3,254	(224)	3,030	2,399	(4,589)	-	-	-	(18)	205	11,251	-	12,315	(37)	12,278
Public sales	19,593	(3,976)	15,617	35,508	(41,629)	-	3,772	-	(663)	504	39,926	-	57,170	(4,135)	53,035
Other properties	8,393	(3,642)	4,751	9,390	(9,476)	51	(944)	-	(3,625)	2,932	13,328	(1,811)	20,691	(6,095)	14,596
Liquidation assets	2,268	(2,268)	-	3,124	(781)	30	(2,828)	-	(933)	1,388	-	-	1,783	(1,783)	-
Property for own use	29,948	(21,407)	8,541	871	(1,831)	972	11,196	381	(7,820)	455	3,877	(1,863) -	44,061	(29,282)	14,779
	136,349	(60,847)	75,502	51,292	(58,306)	1,053	(17,558)	15,731	(13,059)	5,484	286,109	(105,803)	397,886	(157,441)	240,445

17. NON-CURRENT ASSETS HELD FOR SALE

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Properties received as settlement of defaulting	46,277	128,551
Equipment	1,913	1,574
	48,190	130,125
Impairment losses (Note 19)	(18,168)	(42,856)
	30,022	87,269

Movement under Non-current assets held for sale in 2018 and 2017 was as follows:

	2018										
	31-12-2017					Impairment (Note 19)			31-12-2018		
	Gross amount	Accumulated impairment (Note 19)	Increases	Sales	Transfers	Increases (Note 19)	Reversals	Utilization	Gross amount	Accumulated impairment (Note 19)	Net amount
Properties:											
Received as payment	128,551	(41,576)	22,075	(126,690)	22,341	(18,654)	9,862	33,769	46,277	(16,599)	29,678
Equipment	1,574	(1,280)	486	(147)	-	(425)	85	51	1,913	(1,569)	344
	130,125	(42,856)	22,561	(126,837)	22,341	(19,079)	9,947	33,820	48,190	(18,168)	30,022

	2017										
	31-12-2016					Impairment (Note 19)			31-12-2017		
	Gross amount	Accumulated impairment (Note 19)	Increases	Sales	Transfers	Increases (Note 19)	Reversals	Utilization	Gross amount	Accumulated impairment (Note 19)	Net amount
Properties:											
Received as payment	138,310	(49,668)	54,268	(92,781)	28,754	(23,493)	17,302	14,283	128,551	(41,576)	86,975
Property for own use	3,225	(1,943)	-	-	(3,225)	-	1,943	-	-	-	-
Equipment	1,992	(1,590)	388	(806)	-	(525)	314	521	1,574	(1,280)	294
Other properties	100	-	-	-	(100)	-	-	-	-	-	-
	143,627	(53,201)	54,656	(93,587)	25,429	(24,018)	19,559	14,804	130,125	(42,856)	87,269

These assets 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. 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.

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

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 Bank to record impairment losses no longer exist, the Bank will reverse the impairment losses, up to the limit of the amount that the assets would have had they not been reclassified to non-current assets held for sale.

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

a) Market method
The criterion of market comparison 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.

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 method discounted cash flows method.

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

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

18. FINANCIAL LIABILITIES AT AMORTISED COST

The resources from central banks sub-heading comprises the following:

	31-12-2018	31-12-2017
Resources of Bank of Portugal		
Deposits	3,045,472	3,076,000
Resources of other Central Banks		
Deposits	4,568	4,538
	3,050,040	3,080,538

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

The resources of other credit institutions sub-heading comprises the following:

	31-12-2018	31-12-2017
Resources of domestic credit institutions		
Deposits	192,141	270,227
Other resources	792	23
Interest payable	6	22
Revenue with deferred income	44	-
	192,983	270,272
Resources of foreign credit institutions		
Consigned resources	900,000	950,000
Short-term resources	76,856	-
Deposits	376,488	378,798
Sale operations with repurchase agreement	1,957,342	2,710,621
Other resources	35,995	40,686
Interest payable	180	709
	3,346,861	4,080,814
	3,539,844	4,351,086

As at December 31, 2018 & 2017, the heading Resources from credit institutions abroad – Repo operations, is broken down by type of asset underlying the repo operations as follows:

	31-12-2018			
Tipe of underlying	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	311,387	(46)	(28)	311,313
Bonds issued by the group in the context of securitization operations and repurchased by BST	721,177	-	-	721,177
Covered bonds issued and reacquired by BST	924,930	(62)	(16)	924,852
	1,957,494	(108)	(44)	1,957,342

	31-12-2017			
Tipe of underlying	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	94,669	(11)	5	94,663
Non-subordinated Bonds issued by domestic credit institutions	43497	-	-	43,497
Bonds issued by the group in the context of securitization operations and repurchased by BST	997,298	47	(8)	997,337
Covered bonds issued and reacquired by BST	1,575,134	(32)	22	1,575,124
	2,710,598	4	19	2,710,621

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

The resources from customers and other debts sub-heading comprises the following:

	31-12-2018	31-12-2017
Term deposits	16,615,519	15,703,242
Demand deposits	15,412,253	13,168,309
Structured deposits	951,499	1,935,634
Savings deposits	875,550	1,180,229
Other	66,982	20,612
	33,921,803	32,008,026
Interest and costs payable	15,954	19,646
Cheques and orders payable		104,246
Hedge Adjustments		5,550
	15,954	129,442
	33,937,757	32,137,468

As at December 31, 2018, the amount for Cheques and orders payable was reclassified to Other financial liabilities. It was also reclassified to its own heading in the balance sheet to Corrections in liability value from hedging operations. As at December 31, 2017, balances from these headings amounted to €109,796k according to Note 1.2.

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

The debt securities sub-heading comprises the following:

	31-12-2018	31-12-2017
Bonds in circulation		
Covered bonds		
Issued	7,700,000	7,700,000
Repurchased	(4,200,000)	(4,200,000)
Interest payable and another deferred costs and income	(11,222)	(14,137)
Bonds issued in securitization operations		
Issued	4,898,562	3,249,292
Repurchased	(4,010,288)	(2,121,485)
Interest payable and another deferred costs and income	(62,903)	(71,535)
Cash Bonds		
Issued	-	1,072
Interest payable and another deferred costs and income	-	29
	4,314,149	4,543,237
Other		
EMTN Programme	711	25,744
Interest payable	2	224
	713	25,968
Subordinated Liabilities		
Subordinated Perpetual Bonds Totta 2000		
Issued	270,447	270,447
Repurchased	-	(270,447)
Subordinated Perpetual Bonds BSP 2001		
Issued	13,818	13,818
Repurchased	-	(13,818)
Subordinated Perpetual Bonds CPP 2001	4,275	4,275
Banco Santander Totta SA 7.5%	7,599	7,599
	2,993	2,993
	(2,394)	(2,993)
	296,738	11,874
Interest payable	344	158
	4,611,944	4,581,237

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 and cash bonds are described in Annex I, and those of the subordinated liabilities in Annex II.

Between May 2008 and December 2018, Bank undertook twenty-three covered-bond issues under the €12.5 billion Covered Bonds Programme. As at December 31, 2018 & 2017, covered bonds had autonomous assets and liabilities comprising:

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

	31-12-2018	31-12-2017
Loans and advances (Note 10)	8,937,841	9,980,181
Credit interests	7,220	8,151
Commissions	(46,134)	(45,258)
Deferred costs	2,518	2,130
Derivatives	(65,587)	(105,205)
	8,835,858	9,839,999

Movement under covered bonds and cash bonds and other debt issued by the Bank during 2018 and 2017 was as follows:

	Bonds outstanding		EMTN Programme
	Issued	Repurchased	Issued
Balances at December 31, 2016	6,975,005	(4,458,983)	28,460
.Issues ex-Banif	-	-	-
.Issues BAPOP	1,072	-	729
.Issues made	2,750,000	-	-
.Issues repurchased	(2,024,800)	258,983	-
.Exchange rate movements	(205)	-	(3,445)
Balances at December 31, 2017	7,701,072	(4,200,000)	25,744
.Issues repurchased	(1,072)	-	(25,033)
Balances at December 31, 2018	7,700,000	(4,200,000)	711

Movement within the scope of the securitisation operations during 2018 and 2017 was as follows:

	Bonds	
	Issued	Repurchased
Balances at December 31, 2016	4,509,231	(3,061,174)
. Repurchased	(1,259,939)	970,145
. Reacquired		
. Hipototta 4 - Class A	-	(30,456)
Balances at December 31, 2017	3,249,292	(2,121,485)
. Issued	2,266,000	-
. Repurchased	(616,730)	550,539
. Reacquired		
. Hipototta13	-	(2,266,000)
. Hipototta 4 e 5	-	(172,842)
. Azor mortgages	-	(500)
	1,649,270	(1,888,803)
Balances at December, 31 2018	4,898,562	(4,010,288)

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

The debt Other financial liabilities sub-heading comprises the following:

	31-12-2018	31-12-2017
Cheques and orders payable	56,413	
Creditors and other resources		
Creditors resulting from operations with futures	3,457	
Public sector	30,633	
Creditors under factoring contracts	50,442	
Other	35,261	
	176,206	-

As at December 31, 2018, "Other financial liabilities" has incorporated "Cheques and orders payable" reclassified from "Clients and other loans" and incorporated several debtors reclassified from "Other liabilities"(Note 21). As at December 31, 2017, balances from these headings amounted to €344,371k according to Note 1.2.

19. MOVEMENT IN PROVISIONS AND IN IMPAIRMENT

Movement under Provisions and under impairment during 2018 and 2017 was as follows:

	2018						
	31-12-2017	IFRS 9	Increases	Reversals	Utilization	Others	31-12-2018
Provisions for tax contingencies	11,023	-	711	(248)	(690)	-	10,796
Provisions for pensions and other charges	39,931	-	148,601	-	(60,863)	1,684	129,353
Impairment and provisions for guarantees							
and other sureties given	24,021	35,062	6,688	(12,612)	-	-	53,159
Other provisions	92,575	-	200,469	(92,584)	(25,638)	(81,684)	93,138
	167,550	35,062	356,469	(105,444)	(87,191)	(80,000)	286,446

	2017					
	31-12-2016	BAPOP merger	Increses	Reversals	Utilization	31-12-2017
Provisions for tax contingencies	11,802	-	-	(779)	-	11,023
Provisions for pensions and other charges	85,982	-	33,453	-	(79,504)	39,931
Impairment and provisions for guarantees						
and other sureties given	21,547	2,242	5,597	(5,365)	-	24,021
Other provisions	101,519	7,464	64,947	(65,536)	(15,819)	92,575
	220,850	9,706	103,997	(71,680)	(95,323)	167,550

	2018						
	31-12-2017	IFRS 9	Increases	Reversals of impairment losses	Utilization and others	31-12-2018	Recoveries of past due loans
Assets at amortized cost (Note 10)	1,740,865	28,142	963,727	(951,519)	(672,547)	1,108,668	9,176
Other assets at fair value through							
other comprehensive income (Note 9)	63,174	-	3,708	(3,797)	(63,082)	3	-
Investments in associates (Note 12)	5,532	-	1,918	(1,853)	(3,679)	1,918	-
	1,809,571	28,142	969,353	(957,169)	(739,308)	1,110,589	9,176
Tangible assets (Note 14)	6,301	-	4,665	(4,044)	(776)	6,146	-
Other assetss (Note 16)	200,212	-	35,526	(14,448)	(111,956)	109,334	-
Non recurrent assets held for sale (Note 17)	42,856	-	19,079	(9,947)	(33,820)	18,168	-
	249,369	-	59,270	(28,439)	(146,552)	133,648	-
	2,058,940	28,142	1,028,623	(985,608)	(885,860)	1,244,237	9,176

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

	2017						
	31-12-2016 Balance of the year	BAPOP Merger	Increases	Revearsals impairment losses	Utilization	31-12-2017 Balance of the year	Recoveries of past due loans
Impairment of loans and advances to customers							
Domestic loans	696,237	265,178	532,944	(709,986)	(18,457)	765,916	
Foreign loans	28,761	142	-	-	(28,761)	142	-
Non-derecognized securitized loans	10,719	-	405	(2,206)	-	8,918	-
Other securitized loans and receivables	4,053	913	9	(2,799)	-	2,176	-
Impairment of overdue loans and interest							
Foreign loans	713,229	385,624	468,366	(138,924)	(543,405)	884,890	11,098
Non-derecognized securitized loans	59,244	9,879	16,131	(10,993)	(44,334)	29,927	1,792
Foreign loans	147,560	5,279	19,013	(120,310)	(2,648)	48,894	-
Other securitized loans and receivables	3,000	-	-	-	(2,998)	2	-
	1,662,803	667,015	1,036,868	(985,218)	(640,603)	1,740,865	12,890
Impairment of available-for-sale financial assets	61,370	2,454	63	(248)	(465)	63,174	-
Impairment of investments in associated companies	1,500	3,680	353	-	(1)	5,532	-
	62,870	6,134	416	(248)	(466)	68,706	-
Impairment of financial assets							
Non-current assets held for sale	53,201	-	24,018	(19,559)	(14,804)	42,856	-
Tangible assets	3,890	2,411	380	-	(380)	6,301	-
Other assets	139,583	105,997	23,919	(61,794)	(7,493)	200,212	-
	196,674	108,408	48,317	(81,353)	(22,677)	249,369	-
	1,922,347	781,557	1,085,601	(1,066,819)	(663,746)	2,058,940	12,890

As at December 31, 2018 & 2017, the breakdown of Provisions for pensions and other charges was as follows:

	31-12-2018	31-12-2017
Restructuring plans	102,948	15,811
Retirement bonus BAPOP	1,684	-
Supplementary pension plan		
of the Board of Directors (Note 39)	24,721	24,120
	129,353	39,931

20. EQUITY INSTRUMENTS

As at December 31, 2018 & 2017, this item represented the units of the Novimovest Fund not held by the Group.

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

21. OTHER LIABILITIES

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Creditors and other resources		239,646
Relating to personnel		
Vacation and vacation subsidies	39,044	38,333
Other variable remuneration	29,698	28,161
Other personnel costs	263	7,898
Other charges	170,693	133,000
Liabilities with pensions (Note 37)		
Bank Liabilities	972,776	-
Bank pension fund book value	(979,892)	-
London branch liabilities	44,509	-
London branch pension fund book value	(38,891)	-
Former Banif liabilities	133,084	-
Former Banif pension fund book value	(100,641)	-
Former Popular liabilities	163,111	-
Former Popular pension fund book value	(163,475)	-
Other deferred income	2,596	5,332
Liability operations to be settled	9,657	813
Other (Note 16)	194,136	334,884
	476,668	788,067

As at December 31, 2018, sub-headings with zero balance were reclassified to “Other financial liabilities” (Note 18). As at December 31, 2017, balances from these sub-headings amounted to €240,125k according to Note 1.2.

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

22. EQUITY

As at December 31, 2018 & 2017, the Bank's share capital was represented by 1,256,723,284 shares, each of a par value of €1, fully subscribed and paid up by the following shareholders:

	31-12-2018		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%	1,241,180
Own Shares	15,000,445	1.19%	15,000
Other	543,326	0.05%	543
	1,256,723,284	100.00%	1,256,723

	31-12-2017		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%	1,241,180
Own Shares	14,992,530	1.19%	14,992
Other	551,241	0.05%	551
	1,256,723,284	100.00%	1,256,723

In 2018 and 2017, the Bank acquired 7,915 and 93,885 Treasury shares for the amounts of €31k and €370k, respectively.

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

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

In 2018 the Bank distributed dividends in the amount of €618,597k (amount of dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.492 per share.

In 2017 the Bank distributed dividends in the amount of €302,850k (amount of dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.241 per share. During the period the Bank also distributed free reserves in the amount of €45,817k.

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

As at December 31, 2018 & 2017, the breakdown of the revaluation reserves is as follows:

	31-12-2018	31-12-2017
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Available-for-sale financial assets (Note 9)	388,663	323,180
Held to maturity investments		(7,151)
Available-for-sale financial assets of companies under the equity method	1,668	969
Cash-flow hedging instruments	31,936	(13,901)
Actuarial gains and losses (Note 37)		
Pension Fund of BST	(686,172)	(658,333)
Pension Fund of the London branch of BST	(12,109)	(13,406)
Pension fund of Former Banif	(8,515)	(8,008)
Pension fund of Former BAPOP	(753)	-
Actuarial gains and losses of companies under the equity method	(3,033)	(2,049)
Legal revaluation reserves	-	23,245
	(288,315)	(355,454)
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
Other financial assets at fair value trough other comprehensive income	(119,314)	(99,867)
Financial assets held to maturity		2,074
Revaluation reserves of companies under the equity method	(425)	(247)
Cash-flow hedging instruments	(9,901)	4,309
Tax impact of actuarial gains and losses	181,691	174,740
Tax impact from the change in accounting policies of companies under the equity method	942	368
Relating to the revaluation of tangible assets	(3,148)	(3,148)
	49,845	78,229
	(238,470)	(277,225)

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.

During 1998, under Decree-Law 31/98 of February 11, the Bank revalued its tangible fixed assets, increasing their value, net of accumulated depreciation, by approximately €23,245k, which was recorded in revaluation reserves. The net amount resulting from revaluation carried out can only be used for share capital increases or to cover losses, as and when that are used (amortised) or the assets to which they relate are sold. In 2018 this reserve was reclassified to Other reserves.

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

As at December 31, 2018 & 2017, the breakdown of Other reserves and retained earnings is as follows:

	31-12-2018	31-12-2017
Legal reserve	414,311	344,748
Other reserves		
Reserves of consolidated companies	165,615	358,856
Reserves of companies consolidated under the equity method	5,064	3,096
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
By incorporation of BAPOP	(8,411)	(8,411)
Other reserves	23,728	60
Retained earnings	511,242	609,746
	1,778,808	1,975,354

Legal reserve

In accordance with the provisions of Decree-Law 298/92, of December 31, amended by Decree-Law 201/2002, of September 26, BST 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)

23. CONSOLIDATED PROFIT FOR THE PERIOD

In 2018 and 2017, the determination of the consolidated profit can be summarised as follows:

	31-12-2018		31-12-2017	
	Net Income for the year	Contribution to the consolidated net income	Net Income for the year	Contribution to the consolidated net income
Net income of BST (individual basis)	475,535	475,535	695,630	695,630
Net income of other Group companies:				
Totta Ireland, Plc.	9,902	9,902	105,195	105,195
Novimovest - Fundo de Investimento Imobiliário Abe	8,685	6,931	7,840	6,234
Unicre, Instituição Financeira de Crédito, S.A.	20,234	4,423	24,309	5,226
Gamma, Sociedade Financeira de Titularização de Cr	62	62	96	96
Totta Urbe, Empresa de Administração e Construções	(4,092)	(4,092)	1,819	1,819
Banif International Bank, LTD	36	36	2,218	2,218
Lusimovest Fundo de Investimento Imobiliário	2,010	518	3,887	1,002
Taxagest, S.A.	(3)	(3)	(4)	(4)
Primestar Serving	(169)	(135)	-	-
	36,665	17,642	145,360	121,786
Elimination of dividends:				
Totta Ireland, Plc.		-		(107,634)
Unicre, Instituição Financeira de Crédito, S.A.		(3,454)		(4,171)
		(3,454)		(111,805)
Adjustments related with securitization operations		(18,003)		(112,957)
Other		(1,769)		(171,497)
Consolidated net income for the period		469,951		421,157

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

	31-12-2018	31-12-2017
Consolidated net income attributable to the shareholders of BST	469,951	421,157
Weighted average number of ordinary shares issued	1,256,723,284	1,256,723,284
Weighted average number of own shares	15,000,445	14,992,530
Weighted average number of ordinary shares outstanding	1,241,728,211	1,241,800,284
Basic earnings per share attributable to the shareholders of BST (Euros)	0.38	0.34

24. NON-CONTROLLING INTERESTS

As at December 31, 2018 & 2017, the breakdown per entity of the value of third-party holdings in Group companies is as follows:

	31-12-2018	31-12-2017
Taxagest, S.A.	557	557
Other	362	581
	919	1,138

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

25. OFF-BALANCE-SHEET ACCOUNTS

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

	31-12-2018	31-12-2017
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,568,020	1,717,603
Documentary credits	388,488	347,498
Assets pledged as guarantees		
Bank of Portugal	166,024	176,242
Deposit Guarantee Fund	88,059	85,814
Investor Indemnity System	8,903	6,601
Assets pledged as guarantees in monetary policy operations	10,227,930	7,810,862
	12,447,424	10,144,620
Commitments		
Credit lines		
Revocable	5,307,745	5,192,952
Irrevocable	1,035,032	1,352,174
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	7,954	9,401
Other revocable commitments	216	215
Credit lines	-	87,221
	6,419,916	6,710,932
Liabilities for services rendered		
Deposit and custodial services	32,462,095	32,122,516
Amounts received for collection	172,451	220,568
Other values	33,686	136,972
	32,668,232	32,480,056

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.

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 a cost 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 total unpaid amounts accumulated as at December 31, 2018 and 2017, for which this commitment was entered into amounts to €68,969k. The assets pledged to the Bank of Portugal are reflected under off-balance sheet headings at their market value. In 2018 and 2017, the Bank paid 100% of the annual contribution in the amounts of €44k and €21k, respectively (Note 32).

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

Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as cost. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at December 31, 2018 & 2017, these liabilities amounted to €7,954k and €9.401k, respectively.

26. INTEREST INCOME

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Interest on cash and deposits		
In foreign credit institutions	817	99
Interest on applications		
In domestic credit institutions	2,853	2,931
In foreign credit institutions	3,334	8,778
Interest on loans and advances to customers		
Domestic loans	624,843	522,825
Foreign loans	15,913	12,856
Other loans and receivables	78,999	77,610
Interest from securitized assets not derecognized	40,894	25,470
Income from comissions received associated to amortized cost	61,646	42,515
Interest on overdue loans	8,075	10,909
Interest and similar income on other financial assets		
Available-for-sale financial assets at fair value through other comprehensive income	114,430	116,186
Hedging derivatives	245,244	231,282
Other	32,300	10,027
	1,229,348	1,061,488

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

27. INTEREST CHARGE

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Interest on resources of Central Banks		
Bank of Portugal	64	4,744
Interest on resources of credit institutions		
Domestic	289	297
Foreign	3,851	2,030
Interest on customers' deposits		
Deposits		
Residents	52,381	56,440
Non-residents	5,357	5,230
Interest on debt securities issued		
Bonds	46,066	38,060
Other debt securities	89	660
Interest on subordinated liabilities		
Subordinated loans	1,775	634
Interest on hedging derivatives	239,221	241,663
Other interest	13,527	12,350
	362,620	362,108

28. INCOME FROM EQUITY INSTRUMENTS

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

	31-12-2018	31-12-2017
SIBS – Sociedade Interbancária de Serviços, S.A.	1,159	2,798
Unicampos-Fundo Especial de Invest. Imob. Fechado	111	92
Other	331	21
	1,601	2,911

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

29. INCOME FROM SERVICES & COMMISSIONS

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
On guarantees given		
Guarantees and secureties	16,244	15,792
Documentary credits	3,360	2,734
On commitments to third parties		
Irrevocable credit lines	377	42
Revocable commitments	837	1,810
By banking services provided		
Deposit and custody services	5,221	4,630
Asset management and collection	12,636	11,192
Real estate and mutual fund management	26,983	20,858
Transfers	2,464	1,608
Card transactions	89,487	82,174
Annuities	27,256	23,602
Credit operations	50,736	46,574
Other	10,359	192
On operations carried out on behalf of third parties		
On securities	16,260	16,488
Other	614	253
Other commission received		
Insurance companies (Note 36)	98,432	88,975
Deposits	65,720	52,069
Cheques	9,303	10,632
Other	17,481	11,975
	453,770	391,600

30. CHARGES WITH SERVICES & COMMISSION

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
On guarantees received		
Guarantees and secureties	3,101	3,785
On banking services rendered by third parties		
Funds for collection and management	1,514	1,273
Transactions with customers	2,045	2,001
Credit operations	58,753	50,978
Other services rendered	5,367	3,185
On operations carried out by third parties		
Securities	2,819	1,912
Other	2,108	1,772
Other commission paid	1,867	392
	77,574	65,298

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

31. GAINS/LOSSES ON FINACIAL ASSETS

The results of 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:

	31-12-2018	31-12-2017
Financial assets held for trading:		
Equity instruments	228	94
Derivative instruments:		
Swaps:		
Currency swaps	(512)	221
Interest rate swaps	(3,653)	(10,276)
Equity swaps	1,898	(8)
Other	410	(3,579)
Options:		
Currency swaps	98	193
Equity swaps	(1,436)	1,448
Interest rate swaps	(1)	-
Interest rate guarantee contracts	209	171
	(2,759)	(11,736)
Other financial assets mandatory at fair value through P&L accounts		
Equity instruments	(35,155)	-
Hedging derivatives:		
Swaps		
Interest rate swaps	(38,407)	5,291
Equity swaps	525	2,989
Autocallable options	134	464
Value adjustment of hedged assets and liabilities	37,733	(8,822)
	(15)	(78)
	(37,929)	(11,814)

The results of other financial assets at fair value through other comprehensive income sub-heading is broken down as follows:

	31-12-2018	31-12-2017
Debt instruments		
National public issuers	25,529	81,800
Foreign public issuers	775	-
Other	(1,318)	(26)
Equity instruments	301	141
	25,287	81,915

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

The exchange revaluation sub-heading comprises the following:

	31-12-2018	31-12-2017
Gains on the revaluation of the foreign exchange position	206,177	393,257
Losses on the revaluation of the foreign exchange position	(196,653)	(384,880)
	9,524	8,377

The breakdown of the disposal of other assets is as follows:

	31-12-2018	31-12-2017
Gains on the sale of loans and advances to customers (Note 10)	43,511	33,524
Gains on non-current assets held for sale		10,286
Gains on tangible assets	2,268	3,240
Other gains on non financial operations	1,175	427
	46,954	47,477
Losses on the sale of loans and advances to customers (Note 10)	(55,991)	(2,012)
Losses on non-current assets held for sale		(1,456)
Other losses on financial operations	(2,167)	(721)
Other losses on non-financial operations	(3,329)	(2,859)
	(61,487)	(7,048)
	(14,533)	40,429

As of December 31, 2018, gains / losses on non-current assets held for sale were reclassified to the income statement item "results of non-current assets held for sale"

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

32. OTHER OPERATING INCOME

The breakdown of this heading is as follows:

	31-12-2018	31-12-2017
Other Operating income		
Rents received	16,031	15,793
Capital gains on investment properties	3,787	3,452
Reimbursement of expenses	2,710	2,729
Income from rendering of services	2,792	3,108
Rents of automatic payment terminals	19,654	20,109
Other	5,016	2,857
	49,990	48,048
Other operating expenses		
Subscriptions and donations	(7,335)	(7,682)
Contributions to the Deposit Guarantee Fund (Note 25)	(44)	(21)
Contributions to the Resolution Fund	(22,220)	(19,352)
Unrealized losses on investment properties	(4,975)	(5,163)
Charges related to transactions made by customers	(6,239)	(7,234)
Charges related to ATMs	(14,430)	(16,934)
Other charges and operating expenses	(10,607)	(2,581)
Other taxation		
Direct	(3,185)	(1,431)
Indirect	(2,793)	(1,890)
	(71,828)	(62,288)
	(21,838)	(14,240)

During the first six months of 2018 and 2017, Rents earned includes the amounts of €15,252k and €15,586k, respectively, in respect of the rents received by the Novimovest Real Estate Fund.

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 nºs 6/2013 and 7/2013, payment is laid down of an initial contribution and periodic contributions to the Resolution Fund. The Bank's periodic contribution in 2018 and 2017 amounted to €7,554k and €4,556k, respectively.

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 2017 and 2018 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 €17,253k and €17,406k, respectively.

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

33. STAFF COSTS

The composition of this heading is as follows:

	31-12-2018	31-12-2017
Remuneration		
Management and supervisory boards (Note 39)	9,549	9,231
Employees	231,139	206,302
Stock option plans (Note 40)	332	291
Other variable remuneration	34,501	23,013
	275,521	238,837
Mandatory social charges		
Charges on remuneration	62,705	56,832
Pension Funds (Note 37)	6,375	6,222
Other mandatory social charges	1,129	859
	70,209	63,913
Other staff costs		
Complementary pension plan (Note 37)	307	583
Staff transfers	1,388	569
Other	5,448	4,773
	7,143	5,925
	352,873	308,675

34. GENERAL ADMINISTRATIVE COSTS

The composition of this heading is as follows:

	31-12-2018	31-12-2017
External services		
Specialized services	83,928	66,204
Maintenance of software and hardware	45,175	39,676
Rent and leases	15,150	13,631
Communications	14,330	11,828
Advertising and publishing	13,434	11,499
Travel, lodging and representation expenses	6,196	5,675
Maintenance and repairs	7,494	4,162
Transportation	4,660	3,665
Insurance	1,828	1,289
Staff training	1,654	2,145
Other	9,034	5,920
External supplies		
Water, electricity and fuel	10,605	8,508
Current consumable material	2,015	1,934
Other	301	359
	215,804	176,495

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

35. RESULTS FROM ASSOCIATES

The composition of this heading is as follows:

	31-12-2018	31-12-2017
Unicre - Instituição Financeira de Crédito, S.A.	6,605	5,226
Lusimovest - Fundo de Inv. Imobiliario	518	1,002
Others	65	49
	7,188	6,277

36. PROVISION OF INSURANCE MEDIATION SERVICES

Income from the provision of insurance mediation services relate primarily to commissions billed for the marketing of life and non-life insurance, as follows:

	31-12-2018			31-12-2017		
	Life Products	Non-Life Products	Total (Note 29)	Life Products	Non-Life Products	Total (Note 29)
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	47,015	-	47,015	38,151	-	38,151
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	30,586	-	30,586	34,320	-	34,320
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	-	11,824	11,824	-	2,166	2,166
Liberty Seguros	-	6,629	6,629	-	13,733	13,733
Others	1,440	938	2,378	-	605	605
	79,041	19,391	98,432	72,471	16,504	88,975

As at December 31, 2018 & 2017, Other assets – Income receivable (Note 16) includes commissions receivable from insurers as detailed hereunder:

	31-12-2018	31-12-2017
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	13,093	9,958
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	2,375	2,568
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	1,585	201
Others	11	1,125
	17,064	13,852

These amounts refer essentially to the commissions determined and not yet paid in respect of premiums of insurance marketed during 2018 and 2017.

37. EMPLOYEE POST-EMPLOYMENT BENEFITS

For the determination of liabilities for past services to BST 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)

BST's liabilities for retirement pensions, health care and death benefits as at December 31, 2018, and in the four preceding periods, as well as the respective coverage, are detailed as follows:

	2018	2017	2016	2015	2014
Estimate of responsibilities for past services:					
- Pensions					
.Current employees	264,141	289,518	314,119	303,523	308,223
.Pensioners	38,877	34,059	31,526	26,928	26,343
.Retired staff and early retired staff	509,295	475,916	424,970	399,942	415,679
	812,313	799,493	770,615	730,393	750,245
- Healthcare systems (SAMS)	148,351	147,942	147,207	151,544	151,903
- Death subsidy	5,076	5,132	6,372	5,759	5,543
- Retirement bonus	7,036	6,802	8,082	-	-
	972,776	959,369	932,276	887,696	907,691
Coverage of responsibilities:					
- Net assets of the Fund	979,892	996,786	932,465	914,204	910,580
Excess / insufficient funding (Note 21)	7,116	37,417	189	26,508	2,889
Actuarial and financial deviations generated in the period/year					
- Change in assumptions	2,958	-	30,579	-	37,912
- Experience adjustments:					
.Other actuarial (gains) / losses	(4,872)	(4,319)	23,815	(9,857)	6,580
.Financial (gains) / losses	29,753	(32,933)	2,050	(17,675)	1,111
	24,881	(37,252)	25,865	(27,532)	7,691
	27,839	(37,252)	56,444	(27,532)	45,603

In 2011 a tripartite agreement was concluded between the Ministry of Finance, the Portuguese Banks Association and the Financial Sector Federation (FEBASE), within the scope of which the Bank transferred to Social Security the liabilities to retirees and pensioners who, on December 31, 2011, were covered by the replacement Social Security regime set out in the collective bargaining agreement (CBA) in force in the banking sector. As a result, the assets of the Bank's Pension Fund were transferred in that part corresponding to those liabilities. In accordance with the provisions of Decree-Law 127/2011, of December 31, the amount of the pension liabilities transferred to the State was determined taking into account the following assumptions:

Mortality table male population	TV 73/77 less 1 year
Mortality table female population	TV 88/90
Technical actuarial rate (discount rate)	4%

The amount of the liabilities transferred to Social Security determined on the basis of the above assumptions was €456,111k.

The main assumptions used by the Bank to determine its liabilities for retirement pensions as at December 31, 2018 & 2017, were as follows:

	2018	2017
Mortality Table		
. Women	TV 88/90 (-1)	TV 88/90
. Men	TV 88/90	TV 88/90
Rate of return on pension fund assets	2.10%	2.00%
Technical actuarial rate (discount rate)	2.10%	2.00%
Salary growth rate	0.75%	0.75%
Pension growth rate	0.50%	0.50%
Inflation rate	0.75%	0.75%

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

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, 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.

Movement under liabilities for past services during the years ended December 31, 2018 and 2017, can be detailed as follows with regard to the Bank pension plan:

	31-12-2018	31-12-2017
Liabilities at the beginning of the period	959,369	932,276
Cost of current services	4,075	4,536
Interest cost	18,418	17,912
Actuarial (gains)/losses	(1,914)	(4,319)
Early retirement	39,021	51,367
Amounts paid	(48,637)	(44,873)
Employee contributions	2,444	2,470
	-----------	-----------
Liabilities at the end of the period	972,776	959,369
	======	=======

The cost for the year relating to pensions includes the cost of current service and the interest costs, deducted from the expected return of the assets of the Pension Fund. In the years ended December 31, 2018 & 2017, the breakdown of pension costs is as follows (Note 33):

	2018	2017
Cost of current services	4,075	4,536
Interest cost	18,418	17,912
Return on assets calculated with the discount rate	(18,418)	(17,912)
	---------	---------
Defined-benefit plan	4,075	4,536
Defined-contribution plan	722	1,132
Ex-BAPOP plan	1,255	-
London Branch plan	323	554
	-------	-------
	6,375	6,222
	====	====

BST employees taken on after January 1, 2009, came to be enrolled in Social Security, and are covered by a supplementary defined-contribution pension plan, and by the rights acquired under clause 93 of the CBA (published in BTE nº 29 of August 8, 2016). The plan is funded through contributions by employees (1.5%) and by BST (1.5%) calculated on the basis of the effective monthly remuneration. For the purpose, each employee may opt for an open pension at his or her choice, to which BST transfers his or her contribution.

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

Movement under actuarial deviations during 2018 & 2017 was as follows:

Balance at December 31, 2016	695,584
Actuarial gains on pensions generated	(1,437)
Financial gains on pensions generated	(27,281)
Actuarial gains on healthcare, death benefit and retirement bonus	(2,882)
Financial gains on healthcare, death benefit and retirement bonus	(5,651)

Balance as at December 31, 2017 (Note 22)	658,333
Actuarial gains on pensions generated	(2,389)
Financial losses on pensions generated	24,699
Actuarial losses on healthcare, death benefit and premium on retirement	475
Financial losses on healthcare, death benefit and retirement bonus	5,054

Balance as at December 31, 2018 (Note 22)	686,172
	======

Actuarial deviations with pensions in 2018 and 2017 are detailed as follows:

	2018	2017
Change in actuarial assumptions	2,619	-
Change of the salary scale with impact on pensions and salaries	(1,708)	8,922
Changes in the population	(630)	(8,156)
Mortality deviations		
. For departures	(5,757)	(5,111)
. For permanence	1,789	2,432
For survivors' and orphans' pensions	4,949	2,489
Shift of early retirees to pensioners	(3,651)	(2,013)
	---------	----------
	(2,389)	(1,437)
	=====	======

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.

Actuarial deviations with health care, death benefit and retirement bonus in 2018 and 2017 can be detailed as follows:

	2018	2017
Change in actuarial assumptions	339	-
Salary and level changes	88	612
Other	48	(3,494)
	---------	----------
	475	(2.882)
	====	====

In 2019 BST expects make a contribution of €7,234k to its defined-benefit plan.

The average duration of pension liabilities of the Bank's employees is 15 years, including those in active service and pensioners.

Santander Pensões - Sociedade Gestora de Fundos de Pensões, SA, is the entity that manages the BST

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

Pension Fund. As at December 31, 2018 & 2017, the number of participants of the Fund was as follows:

	2018	2017
Employees in service[(1)]	4,582	4,789
Pensioners	1,175	1,123
Retirees and early retirees	5,689	5,561
	---------	----------
	11,446	11,473
	=====	=====

(1) Of whom 340 and 274 employees belong to the defined-contribution plan on December 31, 2018 and 2017, respectively.

The main demographic changes during 2018 & 2017 were as follows:

	Assets			
	Defined contribution plan	Defined benefit plan	Retired staff and early retired staff	Pensioners
Total number at December 31, 2016	265	4,838	5,358	1,092
Leavers:				
. Current employees	(20)	(35)	-	(6)
. Due to mortality	-	(3)	(101)	(29)
Transfers	-	(294)	294	-
Joiners	29	9	10	66
Total number at December 31, 2017	274	4,515	5,561	1,123
Leavers:				
. Current employees	(7)	(40)	-	(9)
. Due to mortality	-	(6)	(119)	(29)
Transfers	-	(228)	228	-
Joiners (net)	73	1	19	90
Total number at June 30, 2018	340	4,242	5,689	1,175

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

Movement under the BST Pension Fund during 2018 & 2017 was as follows:

Carrying amount as at December 31, 2016	932,465
Bank's contributions (cash)	55,879
Employee contributions	2,470
Net income of the Fund:	
. Return on assets calculated with the discount rate	17,912
. Return on assets calculated above the discount rate	32,933
Amounts paid	(44,873)
Carrying amount as at December 31, 2017	996,786
Bank's contributions (cash)	40,634
Employee contributions	2,444
Net income of the Fund:	
. Return on assets calculated with the discount rate	18,418
. Income of the Fund below the discount rate	(29,753)
Amounts paid	(48,637)
Carrying amount as at December 31, 2018	979,892

The rates of return of the Pension Fund in 2018 and 2017 amounted to (0.98%) and 5.45%, respectively.

The investments and allocation policy of the BST 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.

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

Asset Class	Intervals foreseen
Bonds	40% to 95%
Real estate	0% to 25%
Equities	0% to 20%
Liquidity	0% to 15%
Alternatives	0% to 10%
Commodities	0% to 5%

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

As at December 31, 2018 & 2017, the composition of the BST Pension Fund was as follows:

	31-12-2018	31-12-2017
Debt instruments:		
. Rating A	26,262	22,113
. Rating BBB	407,452	313,459
. Rating BB	14,055	58,132
. Without rating to the issuance and issuer	53,931	104,686
Real estate funds	154,781	160,019
Mutual funds	175,316	186,024
Real estate funds		
. Commercial spaces	21,313	22,059
. Land	844	863
Equity instruments:		
. Portuguese shares – listed	161	366
. Portuguese shares – not listed	34,030	51,642
Derivative financial instruments		
. Options listed	2,288	771
	890,433	920,134
Deposits	68,387	55,016
Others	21,072	21,636
	979,892	996,786

As at December 31, 2018 & 2017, the method for the determination of the fair value of the assets and liabilities mentioned above adopted by the Bank's Pension Fund Management Company, as recommended in IFRS 13 (Note 41), was as follows:

	31-12-2018				31-12-2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	447,769	-	53,931	501,700	393,704	-	104,686	498,390
Investment Funds	164,181	-	165,916	330,097	155,688	-	190,355	346,043
Equity instruments	34,191	-	-	34,191	52,008	-	-	52,008
Derivative financial instruments	2,288	-	-	2,288	771	-	-	771
Real estate	-	-	22,157	22,157	-	-	22,922	22,922
	648,429	-	242,004	890,433	602,171	-	317,963	920,134

As at December 31, 2018 & 2017, the Pension Fund's portfolio included the following assets related with companies of the Santander Group in Portugal:

	31-12-2018	31-12-2017
Rented properties	14,841	14,948
Securities (including units in funds managed)	151,881	151,199
	---------	----------
	166,722	166,147
	======	======

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 2018 and 2017 the premium paid by the Bank amounted to €307k and €583k respectively (Note 33).

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

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.

As at December 31, 2018 & 2017, 88 and 95 employees, respectively, were covered by this plan.

Defined benefit pension plan – London Branch

As at December 31, 2018 & 2017, the main assumptions used in the calculation of retirement pension liabilities covering the employees of BST's London Branch were as follows:

	31-12-2018	31-12-2017
Mortality table	AMC00/AFC00	AMC00/AFC00
Technical actuarial rate (discount rate)	2.7%	2.4%
Salary growth rate	2.5%	2.4%
Pension growth rate	2.0%	2.0%
Inflation rate	2.5%	2.4%

As at December 31, 2018 & 2017, the liabilities for the defined-benefit pension plan of the London Branch and their coverage were as follows:

	31-12-2018	31-12-2017
Estimated liabilities for past-services	44,509	47,440
Coverage – Pension Fund asset value	38,891	40,711
	--------	-------
Amount not funded – London Branch	(5,618)	(6,729)
	=====	====

With regard to the pension plan of the London Branch, the breakdown of the movement under liabilities for past services in 2018 and 2017 is as follows:

Liabilities as at December 31, 2016	49,894
Cost of current services	240
Interest cost	1,245
Actuarial gains	(3,182)
Amounts paid	(757)

Liabilities as at December 31, 2017	47,440
Cost of current services	163
Interest cost	1,120
Actuarial gains	(3,327)
Amounts paid	(887)

Liabilities as at December 31, 2018	44,509
	=====

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

Movement in the Pension Fund of the London Branch in 2018 and 2017 was as follows:

Book value as at December 31, 2016	37,501
Net income of the Fund:	
. Return on assets calculated with the discount rate	931
. Income of the Fund below the discount rate	(414)
Contribution of the Branch	3,450
Amounts paid	(757)

Book value as at December 31, 2017	40,711
Net income of the Fund:	
. Return on assets calculated with the discount rate	960
. Income of the Fund below the discount rate	(2,030)
Contribution of the Branch	137
Amounts paid	(887)

Carrying amount as at December 31, 2018	38,891
	=====

The breakdown of the costs of the defined-benefit plan of the London Branch in 2018 and 2017 is as follows:

	2018	2017
Cost of current services	163	240
Interest cost	1,120	1,245
Return on assets calculated with the discount rate	(960)	(931)
	-----	-----
	323	554
	===	===

Movement under actuarial deviations of the London Branch in 2018 and 2017 was as follows:

Balance at December 31, 2016	16,174

Actuarial gains with pensions	(3,182)
Financial losses with pensions	414

Balance as at December 31, 2017 (Note 22)	13,406
Actuarial gains with pensions	(3,327)
Financial losses with pensions	2,030

Balance as at December 31, 2018 (Note 22)	12,109
	=====

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

As at December 31, 2018 & 2017, the portfolio of the Pension Fund of the London Branch include the following assets:

	31-12-2018	31-12-2017
Debt instruments	20,908	22,332
Equity instruments	1,773	5,900
Other instruments	16,025	9,102
Deposits	185	3,377
	---------	----------
Value of the Fund	38,891	40,711
	=====	=====

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.

On December 31, 2018 and 2017, a sensitivity analysis performed on a variation of the main financial assumptions referred to those dates led to the following impacts on the current value of the Bank's past-service liabilities (excluding those associated with the London Branch):

	2018		2017	
	(Reduction)/ Increase		(Reduction)/ Increase	
	%	amount	%	amount
Discount rate alteration:				
. Increase of 0.5%	(6.7%)	(65,035)	(6.9%)	(54,871)
. Reduction of 0.5%	7.5%	72,998	7.7%	61,806
Salary growth rate alteration:				
. Increase of 0.5%	5.0%	48,876	5.9%	47,411
. Reduction of 0.5%	(4.1%)	(40,070)	(4.8%)	(38,419)
Pension growth rate alteration:				
. Increase of 0.5%	9.4%	91,311	8.9%	71,401
. Reduction of 0.5%	(8.5%)	(82,610)	(8.1%)	(64,842)
Mortality board alteration:				
. Two more years	(6.3%)	(61,300)	(6.4%)	(51,438)
. Two years less	6.3%	61,408	6.5%	51,639

The sensitivity analyses presented above may not be representative of the changes that may occur in the future in the defined-benefit plan as a result of being considered in isolation and some of them are correlated.

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.

b) Defined-benefit pension plan I– former BBCA subpopulation (closed to new subscribers): (i) payment of retirement, disability, presumable disability and survivors' pensions, in accordance with the CBA and the regimes introduced by Decree-Law 1-A/2011 of January 3 and Decree-Law 127/2011 of December 31; (ii) future payment of mandatory contributions relating to post-employment medical care (SAMS) and (iii) death benefits, both under the terms of the CBA.

Banif had two defined-contribution pension plans:

c) Pension plan II – monthly contribution by Banif of 4.5% of the remuneration to which the plan applies and an initial contribution on the date of constitution of the plan, which included all employees taken on by Banif before January 1, 2007, with the exception of those included following the merger by incorporation of the former BBCA, who are not covered by the Company Agreement. The initial contribution was calculated in the light of: (i) supplementary old-age pensions estimated in the evaluation of liabilities performed by the Responsible Actuary of the Pension Plan on December 31, 2006; and (ii) the current value of the future contributions.

d) Pension plan III contribution by Banif of 1.5% of the remuneration of employees taken on after January 1, 2007, provided they had not died, retired or rescinded by the date of entry into force of the Company Agreement.

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

The Bank assumed Banif's liabilities in the three pension plans. As at December 31, 2018 & 2017, the population covered is as follows:

	31-12-2018			31-12-2017		
	Subpopulation of former Banif	Subpopulation of former BBCA	Total	Subpopulation of former Banif	Subpopulation of former BBCA	Total
Current employees	727	174	901	749	185	934
Retired staff and pensioners	96	161	257	94	156	250
Early retired staff	10	171	181	13	175	188
Formes participants with vested rights	-	69	69	-	81	81
Retired of the defined contribution plan	175	-	175	162	-	162
Total number	1,008	575	1,583	1,018	597	1,615

Pension Plan with defined contribution - employees included

	31-12-2018	31-12-2017
Plan II	470	488
Plan III	257	261
Total number	727	749

The breakdown of the estimated liabilities for past services as at December 31, 2018 & 2017, using the Bank's assumptions, is as follows for the defined-benefit pension plan (considering both the Banif and the former BBCA subpopulations):

	31-12-2018				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	21,605	6,155	102	846	28,708
Retired staff and pensioners	74,838	7,484	384	-	82,706
Early retired staff	13,821	3,450	-	-	17,271
Former participants with vested rigths	3,241	1,158	-	-	4,399
Total liabilities for past services	113,505	18,247	486	846	133,084
Book value of the pension fund					100,641
Insufficient fund					(32,443)

	31-12-2017				
	Responsabilidades				
	Pensões	SAMS	Subsídio por Morte	Prémio na reforma	Total
Current Employees	26,301	7,966	154	1,193	35,614
Retired staff and pensioners	75,104	7,187	183	-	82,474
Early retired staff	15,963	3,832	179	-	19,974
Former participants with vested rigths	3,178	1,201	-	-	4,379
Total liabilities for past services	120,546	20,186	516	1,193	142,441
Book value of the pension fund					110,505
Insufficient fund					(31,936)

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

As at December 31, 2018 & 2017, the portfolio of the Banif Pension Fund associated with the defined-benefit pension plan by asset type is as follows:

	31-12-2018		31-12-2017	
Type of Asset	Total	Relative weight	Total	Relative weight
Debt Instruments	64,385	62.49%	63,879	56.51%
Securities investment funds	7,908	7.68%	22,015	19.48%
Real estate fund	1,946	1.89%	3,010	2.66%
Real estate properties	13,744	13.34%	14,680	12.99%
Equity instruments	6,665	6.47%	2,605	2.30%
Deposits	6,111	5.93%	5,426	4.80%
Other	2,266	2.20%	1,422	1.26%
	103,025		113,037	
Assets to be transfered	(2,384)		(2,532)	
	100,641		110,505	

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.

Pension Fund – BAPOP

Following the acquisition/merger of BAPOP on December 27, 2017, the Bank took over its Pension Fund in its entirety. The BAPOP the pension plan is a defined-benefit plan that provides the benefits laid down in the CBA. The Fund also assumes the liabilities for past services of the former employees, in the proportion of the time they have been in the service of BAPOP. This plan also includes a pension plan for the executive members of the board of directors that ensures payment of old-age, disability and survivors' pensions.

As at December 31, 2018 & 2017, the population covered is as follows:

	31-12-2018	31-12-2017
Current employees	929	847
Retired staff and pensioners	138	133
Early retired staff	23	-
Former employees (management)	2	2
Former employees	1,165	1,167
Total	2,257	2,149

The directors' plan does not have participants at this time, the 2 existing directors having left (one without vested rights and the other who became part of the population of former participants (Directors).

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

The breakdown of the estimated liabilities for past services as at December 31, 2018 & 2017, using the Bank assumptions, is as follows:

	31-12-2018			31-12-2017		
	Pensions	SAMS and Death subsidy	Total	Pensions	SAMS and Death subsidy	Total
Current employees	49,183	6,804	55,987	74,492	1,183	75,675
Retired staff and pensioners	57,755	2,529	60,284	54,728	186	54,914
Early retired staff	12,352	663	13,015			
Former employees (management)	2,718	43	2,761	2,720	5	2,725
Former employees	31,064	-	31,064	30,661	-	30,661
Total liabilities for past services	153,072	10,039	163,111	162,601	1,374	163,975
Book value of the pension fund			163,475			166,358
Over financing			364			2,383

As at December 31, 2018 & 2017, the breakdown of the BAPOP Pension Fund's portfolio by asset type is as follows:

	31-12-2018		31-12-2017	
Assets	Total	Relative weight	Total	Relative weight
Debt instruments	83,324	50.97%	87,653	52.69%
Participation units	57,519	35.19%	65,178	39.18%
Deposits	22,632	13.84%	13,527	8.13%
	163,475		166,358	

38. 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 STC, which financed the transaction through the issue of Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration. The whole of 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). BST continues managing 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.

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

On the other hand, Fundos Hipototta (nº 4 and nº 5) FTC delivered all amounts received from BST and from the Directorate General of the Treasury to Fundos Hipototta (nº 4 and nº 5) PLC, separating the instalments into principal and interest.
As a form of funding, Fundos Hipototta (nº 4 and nº 5) PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration.

As at December 31, 2018, bonds issued that are still alive have the following characteristics:

Hipototta nº4 PLC

Issued debt	Amount		Rating			Remuneration	
	Initial	Current	Fitch	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A	2,616,040	552,766	A	September 2048	December 2014	Euribor 3 months + 0,12%	Euribor 3 months + 0,24%
Class B	44,240	20,110	A	September 2048	December 2014	Euribor 3 months + 0,19%	Euribor 3 months + 0,40%
Class C	139,720	63,511	BB-	September 2048	December 2014	Euribor 3 months + 0,29%	Euribor 3 months + 0,58%
	2,800,000	636,387					
Class D	14,000	14,000	NR	September 2048	December 2014	Residual income of the securitized portfolio	
	2,814,000	650,387					

Hipototta nº 5 PLC

Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P	Moody´s			Up to early redemption date	After early redemption date
Class A1	200,000	-			February 2060	February 2014	Euribor 3 months + 0,05%	Euribor 3 months + 0,10%
Class A2	1,693,000	505,465	A	Aa3	February 2060	February 2014	Euribor 3 months + 0,13%	Euribor 3 months + 0,26%
Class B	26,000	26,000	A	Aa3	February 2060	February 2014	Euribor 3 months + 0,17%	Euribor 3 months + 0,34%
Class C	24,000	24,000	A	A1	February 2060	February 2014	Euribor 3 months + 0,24%	Euribor 3 months + 0,48%
Class D	26,000	26,000	A	Baa2	February 2060	February 2014	Euribor 3 months + 0,50%	Euribor 3 months + 1,00%
Class E	31,000	31,000	BBB-	Ba2	February 2060	February 2014	Euribor 3 months + 1,75%	Euribor 3 months + 3,50%
	2,000,000	612,465						
Class F	10,000	6,125	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	2,010,000	618,590						

The bonds issued by Hipototta nº 4 PLC earn interest quarterly on March, June, September and December 30 each year. The bonds issued by Hipototta nº 5 PLC earn interest quarterly on February 28 and on May, August and November 30 each year.

The Bank has an option to reimburse the bonds in advance, on the dates indicated above. For all the Hipototta, BST has call option to repurchase in advance the loan portfolios at par when these are equal to or less than 10% of the initial amount of the operations.

Additionally, up to 5 days before the interest-payment dates in each quarter, the Hipototta are entitled to make partial repayments of bonds issued of classes A, B and C, as well as of classes D and E in the case of Hipototta nº 5 PLC, in order to adjust the amount of the liabilities to that of the assets (loan portfolio).

The Hipototta nº 4 class D bonds and the Hipototta n° 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 service fee charged by BST, and management fee, charged by the Funds);
- Interest on the bonds of the other classes;
- Losses due to default.

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

On the date on which the securitisations were contracted, the estimated yield of the securitised loan portfolios included in the calculation of the remuneration of the Hipototta nº 4 PLC Class D bonds corresponded to an annual average rate of 0.9%. In the Hipototta n° 5 PLC class F bonds it corresponded to an average annual rate of 0.9% on the total value of the loan portfolio.

On the date on which the securitisations were contracted, subordinated loans were concluded between BST 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.

Atlantes Mortgage nº 1

Operation carried out in February 2003, in which mortgage-loan contracts were ceded. The loans were sold to a credit securitisation fund called Atlantes Mortgage nº 1 FTC, which issued units subscribed by Atlantes Mortgage nº 1 PLC having its registered office in Ireland. To finance itself, the company Atlantes Mortgage nº 1 PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. This securitisation operation is managed by Navegator.

Atlantes Mortgage nº 1 PLC

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	462,500	15,207	AA-	A1	January 2036	Euribor 3 months + 0,54%
Class B	22,500	22,500	BBB-	A1	January 2036	Euribor 3 months + 1,3%
Class C	12,500	12,500	BB-	A2	January 2036	Euribor 3 months + 2,6%
Class D	2,500	2,500	B-	Ba2	January 2036	Euribor 3 months + 4,75%
	500,000	52,707				
Class E	15,400	15,400	NR	NR	January 2036	Residual income of the securitized portfolio
	515,400	68,107				

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.

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

Azor Mortgage nº 1

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody´s		Up to early redemption date
Class A	253,000	1,136	AA-	A1	September 2047	Euribor 3 months + 0,3%
Class B	19,000	19,000	A	A1	September 2047	Euribor 3 months + 0,76%
Class C	9,000	9,000	BBB-	A3	September 2047	Euribor 3 months + 1,75%
	281,000	29,136				
Class D	10,000	10,000	NR	NR	September 2047	Residual income of the securitized portfolio
	291,000	39,136				

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

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	349,100	125,618	A	AA	September 2060	Euribor 3 months + 0,33%
Class B	18,400	13,817	BBB-	A	September 2060	Euribor 3 months + 0,95%
Class C	7,500	5,632	BB	BBB+	September 2060	Euribor 3 months + 1,65%
	375,000	145,067				
Class D	16,125	16,125	NR	NR	September 2060	Residual income of the securitized portfolio
	391,125	161,192				

Azor Mortgage nº 2

Operation carried out in July 2008, when the mortgage loans originated at the former BBCA were ceded to Gamma STC . To finance itself, Gamma STC issued Azor Mortgages nº 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage nº 2

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	253,500	97,696	AA-	A (sf)	December 2065	Euribor 3 m + 0,3%
Class B	46,500	43,080	NR	NR	December 2065	Euribor 3 m + 0,8%
	300,000	140,776				
Class C	6,750	6,750	NR	NR	December 2065	Residual income of the securitized portfolio
	306,750	147,526				

Atlantes Mortgage nº 3

Operation carried out in October 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 3, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

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

Atlantes Mortgage nº 3

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	558,600	213,544	AA-	AA	August 2061	Euribor 3 months + 0,2%
Class B	41,400	30,625	NR	NR	August 2061	Euribor 3 months + 0,5%
	600,000	244,169				
Class C	57,668	57,668	NR	NR	August 2061	Residual income of the securitized portfolio
	657,668	301,837				

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

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	514,250	242,931	AA-	AA	December 2064	Euribor 3 months + 0,15%
Class B	35,750	26,753	NR	NR	December 2064	Euribor 3 months + 0,3%
	550,000	269,684				
Class C	74,250	74,250	NR	NR	December 2064	Residual income of the securitized portfolio
	624,250	343,934				

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, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 5

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	455,000	201,613	AA-	AA	November 2068	Euribor 3 months + 0,15%
Class B	45,000	35,724	NR	NR	November 2068	Euribor 3 months + 0,3%
	500,000	237,337				
Class C	66,250	63,982	NR	NR	November 2068	Residual income of the securitized portfolio
	566,250	301,319				

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

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, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 7

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	357,300	157,928	AA-	AA	August 2066	Euribor 3 months + 0,15%
Class B	39,700	29,348	NR	NR	August 2066	Euribor 3 months + 0,3%
	397,000	187,276				
Class C	63,550	60,898	NR	NR	August 2066	Residual income of the securitized portfolio
	460,550	248,174				

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 bonds, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration. The whole of these bonds were acquired by the Bank.

Hipototta 13

Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Fitch		Up to early redemption date
Class A	1,716,000	1,473,766	NR	A (sf)	October 2072	Euribor 3 m + 0,6%
Class B	484,000	484,000	NR	NR	October 2072	Euribor 3 m + 1%
	2,200,000	1,957,766				
Class C	66,000	60,595	NR	NR	October 2072	Residual income of the securitized portfolio
	2,266,000	2,018,362				

39. RELATED ENTITIES

The Bank's related entities with which it maintained balances or transactions in 2018 are as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Banif International Bank, Ltd (Bahamas)	Bahamas
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta Ireland, PLC	Ireland
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Primestar Servicing	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, SA	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliario	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	Ireland
Atlantes Mortgage 1 PLC	Portugal
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities under direct or indirect common control by the Group	
According to Intgen annex (BSCH Group)	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Allfunds Bank International S.A.	Luxembourg
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
Consulteam (Banco Popular España)	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banco Popular	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Popular Gestao de Activos	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities,SL	Spain
Santander Global Thechnology, S.L., Soci	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 Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Santander UK plc	United Kingdom
Sovereign Bank	USA
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

The Bank's related entities with which it maintained balances or transactions in 2017 are as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
Entities under direct or indirect control by the Group	
Banif International Bank, Ltd (Bahamas)	Bahamas
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Santotta Internacional, S.G.P.S, Sociedade Unipessoal, LDA	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta Ireland, PLC	Ireland
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Primestar Servicing	Portugal
Entities significantly influenced by the Group	
Benim - Sociedade Imobiliária, SA	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Eurovida - Companhia de Seguros de Vida	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Special purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 1 PLC	Ireland
Hipototta NO. 1 FTC	Portugal
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	Head office
Entities under direct or indirect common control by the group	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Allfunds Bank International S.A.	Luxembourg
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
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banco Popular	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander 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 Global Facilities,SL	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Issuances, SA	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 Totta Seguros, Companhia de Seguros de Vida, S.A.	Spain
Sovereign Bank	USA
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

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

As at December 31, 2018 & 2017, the balances and transactions maintained during these years with related parties were as follows:

	31-12-2018		
	Entities that directly or indirectly control the Group	Entities significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	91,713	-	6,633
Financial assets held for trading	162,071	-	11,289
Loans and advances to credit institutions	310,846	50,072	108,146
Credit granted and other balances receivable at amortized cost	-	15	60,145
Hedging derivatives	9,970	-	-
Investment in associated companies	-	61,481	-
Current Tax Assets	228	-	-
Other assets	3,482	-	18,429
Liabilities:			
Financial liabilities held for trading	1,197,394	-	2,762
Resources from other credit institutions	290,308	-	21,771
Resources of customers and other debts	61,399	4,048	517,822
Debt securities	63,824	-	-
Hedging derivatives	21,242	-	5,795
Subordinated liabilities	335,049	-	4,297
Current tax liabilities	10,404	-	-
Other liabilities	7,061	-	3,772
Costs:			
Interest charge	223,607	-	19,326
Charges with services and commissions	872	-	2,753
Results from assets and liabilities at fair value through profit or loss	586,111	-	195,805
Results from other financial assets at fair value through comprehensive income	1,318	-	-
General administrative costs	7,061	-	36,010
Other operating results	-	-	7,170
Impairment of investments in associates	-	65	-
Results from other assets	-	-	2,168
Income:			
Interest income	213,471	1,318	3,232
Income from services and commissions	409	283	64,864
Results from assets and liabilities at fair value through profit or loss	482,511	-	190,779
Results from foreign exchange revaluation	1,176	-	-
Disposal of other assets	1,756	-	-
Result from associates	-	7,188	-
Other operating results	-	-	793
Off balance sheet items:			
Guarantees provided and other contingent liabilities	31,197	22	79,452
Guarantees received	1	-	162
Commitments to third parties	110,000	29,500	105,718
Currency operations and derivatives	26,406,931	-	581,731
Responsibilities for services rendered	3,578,893	1,027	5,451,192

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

	31-12-2017		
	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	29,109	-	43,726
Financial assets held for trading	209,479	-	5,710
Loans and advances to credit institutions	312,676	50,025	276,225
Credit granted and other balances receivable at amortized cost	-	67,053	51,250
Hedging derivatives	14,755	-	-
Current Tax Assets	317	-	-
Other assets	4,227	3,920	15,673
Liabilities:			
Financial liabilities held for trading	1,461,194	-	27,266
Resources from other credit institutions	41,161	1,656	305,053
Resources of customers and other debts	153,550	491	830,580
Debt securities	97,727	-	310
Hedging derivatives	10,929	-	3,536
Subordinated liabilities	-	-	4,297
Current tax liabilities	71,725	-	-
Other liabilities	118	-	24,660
Costs:			
Interest charge	227,673	-	22,770
Charges with services and commissions	3,829	-	2,001
Result of assets and liabilities at fair value through profit or loss	1,034,609	-	125,866
General administrative costs	3,133	-	42,460
Other operating results	12	-	-
Impairment of investments in associates	-	353	-
Income:			
Interest income	216,349	1,004	2,520
Result of assets and liabilities at fair value through profit or loss	1,057,021	-	125,866
Income from services and commissions	427	393	56,797
Result of foreign exchange revaluation	1,774	-	-
Result from associates	-	6,226	-
Other operating results	-	-	229
Off balance sheet items:			
Guarantees provided and other contingent liabilities	54,830	26	101,586
Guarantees received	1	-	162
Commitments to third parties	150,000	52,000	139,842
Currency operations and derivatives	26,159,458	-	753,419
Responsibilities for services rendered	3,834,653	1,070	3,644,677

GOVERNING BODIES

Board of Directors

As at December 31, 2018 & 2017, advances or loans granted to members of the governing bodies, considered key management personnel of the Bank, amounted to €533k and €481k respectively. As at December 31, 2018 & 2017, the fixed and variable remuneration totalled €9,549k and €9,231k respectively (Note 33).

The Bank has a Long-term Individual Incentive Plan within the framework of the multi-year remuneration, which is described in Note 40. For the members of the Board of Directors, the amount carried under Staff costs in 2018 and 2017 is presented below:

	2018	2017
Long-Term Individual Incentive Plan	119	107
	===	===

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

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(i).

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 December 31, 2018 & 2017, liabilities with this plan amounted to €24,721k and €24,120k, respectively, and were covered by a provision of the same amount carried under Provisions for pensions and other charges (Note 19).

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.

Audit Firm

The fees billed or to be billed by the audit firm and respective firms of the same network in 2018 and 2017, excluding value added tax, were as follows:

	2018			2017		
	Bank	Group	Total	Bank	Group	Total
Audit and statutory audit services (a)	1,284	100	1,384	1,712	83	1,795
Other assurance services [a]	766	-	766	668	-	668
Fiscal consulting services [b]	-	-	-	-	-	-
Other services [b]	163	-	163	111	-	111
	2,213	100	2,313	2,491	83	2,574

[a] Corresponds to the amounts contracted for the year, irrespective of their billing date.
[b] Corresponds to the amounts billed during the year.

Other reliability assurance services include fees for the following services:

(i) Assessment of the impairment of the loan portfolio, as required by Bank of Portugal Instruction nº 5/2013;
(ii) Review of the internal control system, as required by Bank of Portugal Notice nº 5/2008;
(iii) Limited review of the quarterly financial information (1st and 3rd quarters of 2017) prepared for the purpose of consolidation of Banco Santander, SA;
(iv) Review of procedures for the safeguard of customer assets, as required under article 304-C of the Securities Code;
(v) Verification of the covered bonds, as required by article 34 of Decree-Law 59/2006 of March 20;
(vi) Verification of the information on monetary policy operations, as required Bank of Portugal Instruction nº 3/2015;

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

(vii) Verification of legal and regulatory requirements relating to the issue of the covered bonds programme;
(viii) Agreed procedures on the information of the loan portfolios included in a securitisation operation; and

Other services includes fees related to the following services:

(i) Issuance of comfort letter for the update of the prospects regarding the covered bonds and EMTN programme;
(ii) Review of the contents presented in the 2017 sustainability report; and
(iii) Gap analysis on the impacts from the new insurance distribution directive; and
(iv) Access to the Inforfisco database containing information on tax law, doctrines and court decisions.

40. INCENTIVE PLANS - SHARES

The Group has an active Long-term Individual Incentive Plan forming part of the multi-year variable remuneration, for a restricted number of employees. Implementation of this plan is subject to the performance according to metrics defined by Banco Santander, S.A., between the years 2015 and 2017 as well as meeting the following objectives:

i) Growth of the consolidated earnings per share ("EPS") of Banco Santander between 2015 and 2017 and compared to a reference peer group of 17 entities;
ii) Santander Group’s ROTE for 2017
iii) Employee satisfaction measured through the inclusion of the entity in the Top 3 best banks to work;
iv) Customer satisfaction measured through the inclusion of the entity in the Top 3 best banks in the customer satisfaction index;
v) Number of loyal customers as at December, 31 2017.

As described in Note 1.3(k), the accounting record of the share incentive plans is intended to recognise the right of the Bank's employees to these instruments in the income statement for the period, under Staff costs, to the extent that they correspond to a consideration for services rendered. The management, coverage and implementation of the plans was ensured by Banco Santander, SA, for all employees covered by the plan worldwide.

As at December 31, 2018 & 2017, the total cost of the Share Incentive Stock Plan for all employees of the Bank covered by it is as follows:

	2018	2017
Long-Term Individual Incentive Plan (Note 33)	332	291
	===	===

Availability of the shares is subject to continuation of the employees in the Santander Group .

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

41. DISCLOSURES WITHIN THE SCOPE OF APPLICATION OF THE IFRS 7 and IFRS 13 STANDARDS

BALANCE SHEET

Categories of financial instruments

As at December 31, 2018 & 2017, the carrying amount of financial instruments was as follows:

	31-12-2018				
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	1,368,061	287,669	-	1,655,730
Balances due from other banks		845,003	-	-	845,003
Financial assets held for trading	1,215,956	-	-	-	1,215,956
Other financial assets mandatory at fair value through profit or loss	176,878	-	-	-	176,878
Other financial assets at fair value through other comprehensive income	5,246,160	-	-	(3)	5,246,157
Loans and advances to credit institutions	-	675,115	-	(84)	675,031
Credit granted and other balances receivable at amortized cost	3,281,500	37,333,770	75,423	(1,108,584)	39,582,109
Hedging derivatives	73,464	-	-	-	73,464
	9,993,958	40,221,949	363,092	(1,108,671)	49,470,328
Liabilities					
Financial liabilities held for trading	1,242,475	-	-	-	1,242,475
Resources of central banks	-	3,050,040	-	-	3,050,040
Resources from other credit institutions	-	3,539,844	-	-	3,539,844
Resources of customers and other debts	359,471	33,578,286	-		33,937,757
Debt securities	-	4,661,944	-	-	4,661,944
Other liabilities	-	119,793	56,413	-	176,206
Hedging derivatives	90,556	-	-	-	90,556
	1,692,502	44,949,907	56,413	-	46,698,822

	31-12-2017				
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	751,352	288,202	-	1,039,554
Balances due from other banks		549,586	108,569	-	658,155
Financial assets held for trading	1,515,236	-	-	-	1,515,236
Available-for-sale financial assets	4,514,537	-	85,780	(63,174)	4,537,143
Loans and advances to credit institutions	-	826,367	-	-	826,367
Loans and advances to customers	2,985,884	38,388,193	-	(1,740,865)	39,633,212
Held-to-maturity investments	-	-	108,809	-	108,809
Hedging derivatives	15,349	-	-	-	15,349
	9,031,006	40,515,498	591,360	(1,804,039)	48,333,825
Liabilities					
Resources of central banks	-	3,080,538	-	-	3,080,538
Financial liabilities held for trading	1,533,760	-	-	-	1,533,760
Resources of other credit institutions	-	4,351,086	-	-	4,351,086
Resources of customers and other debts	1,366,902	30,666,320	104,246	-	32,137,468
Debt securities	-	4,581,237	-	-	4,581,237
Hedging derivatives	39,275	-	-	-	39,275
	2,939,937	42,679,181	104,246	-	45,723,364

The items of credit granted and other balances receivables at amortized cost and customer funds and resources from customers and other debts include financial assets and liabilities for which hedge accounting was applied 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)

INCOME STATEMENT

In the periods ended on December 31, 2018 & 2017, the breakdown of net gains and losses on financial instruments was a follows:

	31-12-2018					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,229,735	(1,232,493)	(2,758)	-	-	-
Other financial assets mandatory at fair value through profit or loss	6,888	(41,745)	(34,857)	-	-	-
Other financial assets at fair value through other comprehensive income	150,930	(6,948)	143,982	72,635	-	72,635
Cash and deposits at central banks and credit institutions	7,004	-	7,004	-	-	-
Credit granted and other balances receivable at amortized cost	1,914,130	(1,023,479)	890,651	-	-	-
Hedging derivatives	246,991	(278,716)	(31,725)	45,837	-	45,837
Resources of central banks and from credit institutions	-	(4,204)	(4,204)	-	-	-
Resources of customers and other debts	98,079	(58,412)	39,667	-	-	-
Debt securities	3,049	(56,210)	(53,161)	-	-	-
	3,656,806	(2,702,207)	954,599	118,472	-	118,472
Guarantees given	19,604	(3,101)	16,503			
Credit lines	1,214	-	1,214			

	31-12-2017					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,829,374	(1,841,109)	(11,735)	-	-	-
Available-for-sale financial assets	170,735	(464)	170,271	435,004	-	435,004
Balances in central banks and other credit institutions	11,808	-	11,808	-	-	-
Loans and advances to customers	1,832,715	(1,080,346)	752,369	-	-	-
Held-to-maturity investments			-	-	-	-
Hedging derivatives	266,509	(268,148)	(1,639)	3,781	-	3,781
Resources in central banks and other credit institutions	-	(7,071)	(7,071)	-	-	-
Resources of customers and other debts	82,429	(65,360)	17,069	-	-	-
Debt securities	587	(48,401)	(47,814)	-	-	-
	4,194,157	(3,310,899)	883,258	438,785	-	438,785
Guarantees given	18,526	(3,785)	14,741			
Credit lines	1,852	-	1,852			

The amounts referred to above do not include gains and losses arising from foreign exchange revaluation of the respective financial instruments which, on December 31, 2018 & 2017, corresponded to net gains in the amounts of €9,524k and €8,377k, respectively (Note 31).

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

In the periods ended on December 31, 2018 & 2017, the breakdown of interest and commission income and expenses, determined in accordance with the effective interest-rate method, in respect of financial assets and liabilities not carried at fair value through profit or loss, was as follows:

	31-12-2018			31-12-2017		
	Income	Expense	Net	Income	Expense	Net
Assets						
Balances due from other banks	817	-	817	99	-	99
Other financial assets at fair value through other comprehensive income	114,430	-	114,430	116,186	-	116,186
Loans and advances to credit institutions	6,187	-	6,187	11,709	-	11,709
Credit granted and other balances receivable at amortized cost	830,369	(21)	830,348	692,185	(28)	692,157
Held to maturity investments				6,468	-	6,468
	951,803	(21)	951,782	826,647	(28)	826,619
Liablities						
Resources of central banks	-	(64)	(64)	-	(4,744)	(4,744)
Resources from other credit institutions	-	(4,140)	(4,140)	-	(2,327)	(2,327)
Resources of customers and other debts	-	(47,930)	(47,930)	-	(61,671)	(61,671)
Debt securities	-	(19,604)	(19,604)	-	(48,401)	(48,401)
	-	(71,738)	(71,738)	-	(117,143)	(117,143)
Guarantees given	19,604	(3,101)	16,503	18,526	(3,785)	14,741
Credit Lines	1,214	-	1,214	1,852	-	1,852

In 2018 and 2017, the breakdown of commission income and costs, not included in the calculation of the effective interest rate, in respect of financial assets and liabilities not carried at fair value through profit or loss, was as follows:

	31-12-2018			31-12-2017		
	Income	Expense	Net	Income	Expense	Net
Assets						
Credit granted and other balances receivable al amortized cost	60,095	(17,137)	42,958	55,351	(10,873)	44,478
Liabilities						
Resources of customers and other debts	92,920	-	92,920	77,527	-	77,527

During 2018 and 2017 the Bank recognised financial income in respect of Interest income on non-performing loans, or in situations of impairment, in the amounts of €8,075k and €10,9097k, respectively (Note 26).

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

OTHER DISCLOSURES

Hedge accounting

As at December 31, 2018 & 2017, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	31-12-2018					
	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	3,274,106	3,279,651	47,162	3,326,813	3,283,020	(55,944)
Other financial assets at fair value through other comprehensive income	80,000	89,046	1,295	90,341	80,000	(5,795)
Resources of customers and other debts	(358,688)	(359,471)	(2,345)	(361,816)	211,667	2,615
Cash flow hedge:						
Other financial assets at fair value through other comprehensive income	850,000	850,000	-	850,000	935,913	(21,001)
Credit granted and other balances receivable at amortized cost	10,000,000	10,000,000	-	10,000,000	10,000,000	63,365
Resources of customers and other debts	351,421	351,421	-	351,421	351,421	(332)
	14,196,839	14,210,647	46,112	14,256,759	14,862,021	(17,092)

	31-12-2017					
	Hedged item				Hedging instrument	
	Nominal amount	Value net of impairment	Fair value adjustments	Book value	Nominal amount	Fair Value
Fair value hedge:						
Loans and advances to customers	2,961,958	2,967,188	18,408	2,985,596	2,961,934	(26,116)
Available-for-sale financial assets	80,000	92,722	-	92,722	80,000	(3,536)
Resources of customers and other debts	(1,358,810)	(1,361,352)	(5,550)	(1,366,902)	1,003,563	7,913
Cash flow hedge:						
Resources of customers	523,771	523,771	-	523,771	523,771	(2,187)
	2,206,919	2,222,329	12,858	2,235,187	4,569,268	(23,926)

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:

	31-12-2018					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	4,802	9,926	21,026	27,279	-	63,033

	31/12/2017					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	-	-	(761)	(1,426)	-	(2,187)

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

Gains and losses recognised in the 2018 and 2017 income statements with fair-value hedge transactions were as follows:

	31-12-2018			31-12-2017		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Credit granted and other balances receivable at amortized cost	28,754	(28,754)	-	20,379	(20,379)	-
Other financial assets at fair value through other comprehensive income	4,493	(4,493)	-	(30,573)	30,573	-
Resources of customers and other debts	4,486	(4,501)	(15)	1,216	(1,294)	(78)
Debt securities	-	-	-	160	(160)	-
	37,733	(37,748)	(15)	(8,818)	8,740	(78)

Fair value of financial instruments

As at December 31, 2018 & 2017, the detail of the financial instruments was as follows:

	31-12-2018			31-12-2017		
	Measured at fair value	Not measured at fait value	Total	Measured at fair value	Not measured at fait value	Total
Assets						
Cash and deposits at central banks	-	1,655,730	1,655,730	-	1,039,554	1,039,554
Balances due from other banks	-	845,003	845,003	-	658,155	658,155
Financial assets held for trading	1,215,956	-	1,215,956	1,515,236	-	1,515,236
Other financial assets at fair value through profit or loss	176,878	-	176,878	-	-	-
Other financial assets at fair value through other comprehensive income	5,246,157	-	5,246,157	4,486,980	50,163	4,537,143
Loans and advances to credit institutions		675,031	675,031	-	826,367	826,367
Credit granted and other balances receivable at amortized cost	3,279,651	36,302,458	39,582,109	2,985,596	36,647,616	39,633,212
Held to maturity investments	-	-	-	-	108,809	108,809
Hedging derivatives	73,464	-	73,464	15,349	-	15,349
	9,992,106	39,478,222	49,470,328	9,003,161	39,330,664	48,333,825
Liabilities						
Financial liabilities held for trading	1,242,475	-	1,242,475	1,533,760	-	1,533,760
Resources of central banks	-	3,050,040	3,050,040	-	3,080,538	3,080,538
Resources from other credit institutions	-	3,539,844	3,539,844	-	4,351,086	4,351,086
Resources of customers and other debts	359,471	33,578,286	33,937,757	1,366,902	30,770,566	32,137,468
Debt securities	-	4,661,944	4,661,944	-	4,581,237	4,581,237
Other liabilities	-	176,206	176,206	-	-	-
Hedging derivatives	90,556	-	90,556	39,275	-	39,275
	1,692,502	45,006,320	46,698,822	2,939,937	42,783,427	45,723,364

Financial assets and liabilities for which hedge accounting was applied 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)

As at December 31, 2018 & 2017, the fair value of financial assets and liabilities measured at fair value or subject to fair value corrections in accordance with the application of hedge accounting, was as follows:

	31-12-2018				
	Acquisition cost	Accruals interest	Valuation	Impairment	Net book value
Assets					
Financial assets held for trading	2,500	-	1,213,456	-	1,215,956
Other financial assets at fair value through profit or loss	176,878	-	-	-	176,878
Other financial assets at fair value through other comprehensive income	4,709,341	83,828	452,991	(3)	5,246,157
Credit granted and other balances receivable at amortize	3,274,106	7,394	-	(1,849)	3,279,651
Hedging derivatives	-	-	73,464	-	73,464
	8,162,825	91,222	1,739,911	(1,852)	9,992,106
Liabilities					
Financial liabilities held for trading	-	-	1,242,475	-	1,242,475
Resources of customers and other debts	358,688	783	-	-	359,471
Hedging derivatives	-	-	90,556	-	90,556
	358,688	783	1,333,031	-	1,692,502

	31-12-2017					
	Acquisition cost	Accruals interest	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	3,342	-	1,511,894	-	-	1,515,236
Available-for-sale financial assets	4,099,557	91,800	323,180	-	(27,557)	4,486,980
Loans and advances to customers	2,961,958	5,517	-	18,408	(287)	2,985,596
Hedging derivatives	-	-	15,349	-	-	15,349
	7,064,857	97,317	1,850,423	18,408	(27,844)	9,003,161
Liabilities						
Financial liabilities held for trading	-	-	1,533,760	-	-	1,533,760
Resources of customers and other debts	1,358,810	2,542	-	5,550	-	1,366,902
Hedging derivatives	-	-	39,275	-	-	39,275
	1,358,810	2,542	1,573,035	5,550	-	2,939,937

To determine the fair value of financial instruments, the valuation methods consisted of obtaining prices on active markets or other valuation techniques, in particular through updating future cash flows.

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

As at December 31, 2018 & 2017, the carrying amount of financial instruments measured at fair value or subject to value adjustments for hedging operations, had the following detail by valuation methodology:

	31-12-2018			
	Methodology of determining fair value			
	Listed in active markets (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	1,212,577	3,379	1,215,956
Other financial assets at fair value through profit or loss	10,503	-	166,375	176,878
Other financial assets at fair value through other comprehensive income	3,098,805	2,136,790	10,562	5,246,157
Credit granted and other balances receivable at amortized cost	-	3,279,651	-	3,279,651
Hedging derivatives	-	73,464	-	73,464
	3,109,308	6,702,482	180,316	9,992,106
Liabilities				
Financial liabilities held for trading	-	1,242,475	-	1,242,475
Resources of customers and other debts	-	359,471	-	359,471
Hedging derivatives	-	90,556	-	90,556
	-	1,692,502	-	1,692,502

	31-12-2017			
	Methodology of determining fair value			
	Listed in active markets (Level 1)	Other valuation techniques (Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	312	1,511,184	3,740	1,515,236
Available-for-sale financial assets	2,364,892	2,043,671	78,417	4,486,980
Loans and advances to customers	-	2,985,596	-	2,985,596
Hedging derivatives	-	15,349	-	15,349
	2,365,204	6,555,800	82,157	9,003,161
Liabilities				
Financial liabilities held for trading	-	1,533,760	-	1,533,760
Resources of customers and other debts	-	1,366,902	-	1,366,902
Hedging derivatives	-	39,275	-	39,275
	-	2,939,937	-	2,939,937

The valuation at fair value of the Bank'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 financial instrument	Main valuation techniques
Forwards	Present value model
Swaps de taxa de juro	Present value model
Swaps de divisas	Present value model
Swaps sobre cotações	Present value model
Opções de moeda	Black-Scholes model, Monte Carlo model
Opções obre cotações	Black-Scholes model, Heston model
Opções de taxa de juro	Black-Scholes model, Heath-Jarrow-Morton model
Opções - outras	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

The Bank calculates the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA) for derivative financial instruments 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).

- Level 3 – The Bank 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 Bank uses extrapolations of market data were classified in this category.

In 2018 and 2017, the movement under financial instruments classified as Level 3 was as follows:

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

	Financial assets held for trading		Other financial assets mandatory at fair value through profit or loss	Other financial assets mandatory at fair value through comprehensive income	Available-for-sale financial assets	Total
	Securities	Derivatives				
December 31, 2016	3,175	-	-	-	32,598	35,773
Acquisitions	530	-	-	-	46,282	46,812
Liquidation	-	-	-	-	(354)	(354)
Reclassifications	-	-	-	-	-	-
Changes in fair value	35	-	-	-	(109)	(74)
December 31, 2017	3,740	-	-	-	78,417	82,157
First implementation of IFRS9	(530)	-	77,613	1,334	(78,417)	-
Acquisitions	-	-	120,249	4,757	-	125,006
Sales	-	-	(897)	(3,993)	-	(4,890)
Reclassifications	-	-	36,624	13,510	-	50,134
Changes in fair value	169	-	(67,214)	(5,046)	-	(72,091)
December 31, 2018	3,379	-	166,375	10,562	-	180,316

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

	31-12-2018		31-12-2017	
	EUR	USD	EUR	USD
Overnight	-0.25%	2.75%	-0.28%	1.77%
1 month	-0.25%	2.76%	-0.28%	1.77%
3 months	-0.24%	2.76%	-0.27%	1.69%
6 months	-0.24%	2.74%	-0.27%	1.74%
9 months	-0.23%	2.73%	-0.26%	1.82%
1 year	-0.23%	2.73%	-0.25%	1.88%
3 years	-0.07%	2.60%	0.01%	2.15%
5 years	0.20%	2.61%	0.32%	2.23%
7 years	0.47%	2.66%	0.57%	2.30%
10 years	0.81%	2.75%	0.89%	2.38%

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

As at December 31, 2018 & 2017, the carrying amount and fair value of the financial instruments measured at amortised cost or historical cost was as follows:

	31-12-2018		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	1,655,730	1,640,365	(15,365)
Balances due from other banks	845,003	845,003	-
Loans and advances to credit institutions	675,031	675,571	540
Credit granted and other balances receivable at amortized cost	36,302,458	35,954,166	(348,292)
	39,478,222	39,115,105	(363,117)
Liabilities			
Resources of central banks	(3,050,040)	(3,038,968)	11,072
Resources from other credit institutions	(3,539,844)	(3,544,490)	(4,646)
Resources of customers and other debts	(33,578,286)	(33,599,176)	(20,890)
Debt securities	(4,661,944)	(4,664,850)	(2,906)
Other liabilities	(176,206)	(176,206)	-
	(45,006,320)	(45,023,690)	(17,370)

	31-12-2017		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	1,039,554	1,027,786	(11,768)
Balances due from other banks	658,155	658,155	-
Available-for-sale financial assets	50,163	50,163	-
Loans and advances to credit institutions	826,367	829,678	3,311
Loans and advances to customers	36,647,616	36,956,365	308,749
Held to maturity investments	108,809	114,936	6,127
	39,330,664	39,637,083	306,419
Liabilities			
Resources of central banks	(3,080,538)	(3,083,784)	(3,246)
Resources of other credit institutions	(4,351,086)	(4,363,550)	(12,464)
Resources of customers and other debts	(30,770,566)	(30,779,154)	(8,588)
Debt securities	(4,581,237)	(4,869,258)	(288,021)
	(42,783,427)	(43,095,746)	(312,319)

To determine the fair value of financial instruments carried at amortised cost or historical cost, the valuation methods used consisted of valuation techniques involving, in particular, updating future cash flows.

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

As at December 31, 2018 & 2017, details of the valuation methods used to determine the carrying amount of financial instruments recorded at amortised cost or historical cost were as follows:

	31-12-2018			
	Methodology for determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	1,640,365	-	1,640,365
Balances due from other banks	-	845,003	-	845,003
Loans and advances to credit institutions	-	675,571	-	675,571
Credit granted and other balances receivable at amortized cost	-	497,136	35,457,030	35,954,166
	-	3,658,075	35,457,030	39,115,105
Liabilities				
Resources of central banks	-	(3,038,968)	-	(3,038,968)
Resources from other credit institutions	-	(3,544,490)	-	(3,544,490)
Resources of customers and other debts	-	-	(33,599,176)	(33,599,176)
Debt securities	-	(4,664,850)	-	(4,664,850)
Other liabilities	-	-	(176,206)	(176,206)
	-	(11,248,308)	(33,775,382)	(45,023,690)

	31-12-2017			
	Methodology for determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	1,027,786	-	1,027,786
Balances due from other banks	-	658,155	-	658,155
Available-for-sale financial assets	-	-	50,163	50,163
Loans and advances to credit institutions	-	829,678	-	829,678
Loans and advances to customers	-	497,136	36,459,229	36,956,365
Held to maturity investments	9,364	-	105,572	114,936
	9,364	3,012,755	36,614,964	39,637,083
Liabilities				
Resources of central banks	-	(3,083,784)	-	(3,083,784)
Resources of other credit institutions	-	(4,363,550)	-	(4,363,550)
Resources of customers and other debts	-	-	(30,779,154)	(30,779,154)
Debt securities	-	(4,869,258)	-	(4,869,258)
	-	(12,316,592)	(30,779,154)	(43,095,746)

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.

RISK MANAGEMENT

CREDIT RISK

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

Credit-risk management is carried out by an independent body, the Risks Area, which is responsible in particular for managing the special customer monitoring system, 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 Bank.

The counterparty risk consists of the latent credit risk in financial markets transactions corresponding to the possibility of default by the counterparties of the contracted terms and subsequent occurrence of financial losses for the Bank. The types of transactions covered include the purchase and sale of securities, contracting repos, securities lending and derivative instruments. Given the high complexity and volume of transactions, as well as the requirements of adequate control of the consolidated risks in certain customer segments, the control perimeter is defined in keeping with the segments at issue.

Control of these risks is performed on a daily basis in accordance with an integrated system that allows registration of the approved limits and real-time updating of positions, and provides information on the availability of limits and aggregate exposure, also in real time, for the various products and maturities. The system also allows transverse control (at different levels) of the concentration of risks by groups of customers/counterparties.

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

For specific customer segments (namely global corporate clients) emphasis is given to the implementation of economic-capital limits, incorporating in the quantitative control the variables associated with the creditworthiness of each counterparty.

Risk analyses for customers or economic groups where the Bank has an exposure of more than €500,000 are performed by risk analysts who monitor the customers and are supported by rating models developed by the Bank and approved by the regulatory entities. Preparation of these models is mandatory. The assignment of various internal rating levels, ranging from 1.0 to 9.3, is underlaid 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.

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

In concrete terms, the rating is determined by the analysis of the following factors to which are assigned a rating from 1 (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 Bank's information technology system.

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

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

As at December 31, 2018 & 2016, the maximum exposure to the credit risk and the respective carrying amount of the financial was as follows:

	31-12-2018		31-12-2017	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	1,655,730	1,655,730	1,039,554	1,039,554
Balances due from other banks	845,003	920,425	658,155	658,155
Financial assets held for trading	1,215,956	1,215,956	1,515,236	1,515,236
Other financial assets at fair value through profit or loss	176,878	179,978		
Other financial assets at fair value through other comprehensive income	5,246,157	5,244,352	4,537,143	4,537,143
Loans and advances to credit institutions	675,031	675,031	826,367	826,367
Credit granted and other balances receivable at amortized cost	39,582,109	45,924,886	39,633,212	46,178,338
Held to maturity investments			108,809	108,809
Hedging derivatives	73,464	73,464	15,349	15,349
Investment in associated companies	61,481	61,481	76,602	76,602
	49,531,809	55,951,304	48,410,427	54,955,553
Guarantees provided	1,956,508	1,956,508	2,065,101	2,065,101

The maximum exposure in Loans granted and other balances receivable at amortised cost as at December 31, 2018, included €1,035,032k and €5,307,745k relating to irrevocable credit lines and revocable credit lines, respectively (€1,352,174k and €5,192,952k as at December 31, 2017, respectively).

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

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

In this sense, as at December 31, 2018 & 2017, the breakdown of performing and non-performing exposures was as follows:

	31-12-2018			31-12-2017		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	38,655,290	(175,341)	0.5%	38,375,856	(246,286)	0.6%
Non-performing exposures						
. Loans represented by securities	619	(494)	79.8%	1,613	(318)	19.7%
. Households	601,095	(233,314)	38.8%	825,187	(310,259)	37.6%
. Corporates	1,433,689	(699,435)	48.8%	2,171,421	(1,184,002)	54.5%
	2,035,403	(933,243)		2,998,221	(1,494,579)	
	40,690,693	(1,108,584)		41,374,077	(1,740,865)	

As at December 31, 2018 & 2017, the degree of cover of the non-performing exposures by real guarantees was as follows:

	31-12-2018			31-12-2017		
	Valor de balanço	Colaterais	Cobertura	Valor de balanço	Colaterais	Cobertura
Non-performing exposures						
. Loans represented by securities	619	-	-	1,613	-	-
. Households	601,095	319,151	53.1%	825,187	462,708	56.1%
. Corporates	1,433,689	381,567	26.6%	2,171,421	546,194	25.2%
	2,035,403	700,718		2,998,221	1,008,902	

Forborne exposures

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

As at December 31, 2018 & 2017, the breakdown of deferred exposures was as follows:

	31-12-2018			31-12-2017		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	866,312	(39,221)	4.5%	1,321,740	(83,046)	6.3%
Non-performing exposures						
. Households	378,604	(139,785)	36.9%	469,715	(143,945)	30.6%
. Corporates	1,048,822	(517,521)	49.3%	1,347,323	(771,626)	57.3%
	1,427,426	(657,306)		1,817,037	(915,571)	
	2,293,738	(696,527)		3,138,777	(998,617)	

Encumbered assets

An encumbered asset is considered to be an asset explicitly or implicitly constituted as collateral or subject to an agreement to guarantee, collateralise or improve credit quality in any transaction that cannot be freely withdrawn.

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

In accordance with the requirements set out in Bank of Portugal Instruction No. 28/2014, the Bank now provides information on the encumbered assets.
As at December 31, 2018 & 2017, the breakdown of encumbered and unencumbered assets is as follows:

	2018			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of the unencumbered assets	Fair value of unencumbered assets
Balances due at central banks other credit institutions	-	-	2,500,733	-
Equity instruments	-	-	257,184	257,864
Debt securities	2,076,282	2,076,282	7,170,699	7,170,699
Loans and advances to customers in credit institutions	11,553,395	-	25,732,009	-
Ohter assets	-	-	1,998,714	-
	13,629,677	2,076,282	37,659,339	7,428,563

	2017			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of the unencumbered assets	Fair value of unencumbered assets
Balances due at central banks other credit institutions	-	-	1,697,709	-
Equity instruments	-	-	134,528	134,528
Debt securities	2,015,002	2,015,002	6,672,091	6,672,091
Loans and advances to customers in credit institutions	13,537,188	-	24,364,433	-
Ohter assets	-	-	2,221,083	-
	15,552,190	2,015,002	35,089,844	6,806,619

As at December 31, 2018 & 2017, liabilities associated with encumbered assets and collaterals received are as follows:

	2018	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, received collateral and own debt securites issued excluding own covered bonds or ABS
Carrying amount of financial liabilities	6,732,748	8,503,740
Other	635,000	725,178
	7,367,748	9,228,918

	2017	
	Associated liabilities, contingent liabilities and borrowed securities	Assets, received collateral and own debt securites issued excluding own covered bonds or ABS
Carrying amount of financial liabilities	7,709,673	4,001,027
Other	685,000	215,860
	8,394,673	4,216,887

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

As at December 31, 2018 & 2017, the main headings of assets had the following breakdown by external rating (internal rating for credit extended), in keeping with the rating assigned by Standard & Poor's:

	31-12-2018	31-12-2017
Cash and deposits at central banks		
Rating S&P		
AAA+ /AAA /AAA-	1,368,061	751,352
Not subject	287,669	288,202
	1,655,730	1,039,554
Balances due from other banks		
Rating S&P		
AAA+ /AAA /AAA-	180,861	-
AA+ /AA /AA-	173,921	246,901
A+ /A /A-	384,205	245,829
BBB+ / BBB / BBB-	88,300	32,574
No external rating	17,716	24,353
Not subject	-	108,498
	845,003	658,155
Other assets at fair vlue through other comprehensive income		
Rating S&P		
A+ /A /A-	318,459	-
BBB+ / BBB / BBB-	4,792,824	4,405,888
CCC+ / CCC / CCC-	51,468	-
No external rating	3,100	790
	5,165,851	4,406,678
Loans and advances to credit institutions		
Rating S&P		
A+ /A /A-	516,036	708,419
BBB+ / BBB / BBB-	88,146	40,073
BB+ / BB / BB-	-	5,710
No external rating	70,933	72,165
	675,115	826,367
Loans to customers		
Internal Rating		
Low credit risk	25,261,445	19,716,867
Medium credit risk	11,344,107	9,340,858
High credit risk	2,667,778	3,358,527
BAPOP Portfolio	-	6,107,712
No rating	1,417,363	2,850,113
	40,690,693	41,374,077
Held to maturity investments		
Rating S&P		
BBB+ / BBB / BBB-	-	9,364
No external rating	-	99,444
	-	108,808
	49,032,392	48,413,639

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

For cases in which the Standard & Poor's rating was not available, the ratings issued by Moody's or Fitch were presented.

LIQUIDITY RISK

The balance sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury, 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
- Limits intended to control the liquidity risk through the net accumulated liquidity and illiquidity coefficient indicators.

The Bank's funding policy considers the evolution of the balance-sheet aggregates, the structural situation of the maturities of assets and liabilities, the net interbank debt level in the light of the available lines, maturity dispersal and minimisation of the costs associated with the funding activity.

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

As at December 31, 2018 & 2017, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their maturities, was as follows:

	31-12-2018							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	287,669	-	-	-	1,368,061	-	-	1,655,730
Balances due from other banks	845,003	-	-	-	-	-	-	845,003
Financial assets held for trading	1,215,956	-	-	-	-	-	-	1,215,956
Other financial assets mandatory at fair value through profit or loss	-	-	-	-	-	-	176,878	176,878
Other financial assets at fair value through other comprehensive income	2	474,354	568,589	205,728	227,222	4,056,132	82,825	5,614,852
Loans and advances to credit institutions	93,029	4,663	114,770	440,916	28	21,199	-	674,605
Credit granted and other balances receivable at amortized cost	144,638	2,585,775	4,673,292	9,208,935	5,884,763	22,278,643	-	44,776,046
Hedging derivatives	73,464	-	-	-	-	-	-	73,464
Investments in associates	-	-	-	-	-	-	63,399	63,399
	2,659,761	3,064,792	5,356,651	9,855,579	7,480,074	26,355,974	323,102	55,095,933
Liabilities								
Resources of central banks	4,517	-	-	3,025,116	-	-	-	3,029,633
Financial liabilities held for trading	1,242,475	-	-	-	-	-	-	1,242,475
Resources of other credit institutions	499,400	1,316,413	575,107	352,944	499,809	300,000	-	3,543,673
Resources of customers and other debts	15,729,416	6,233,232	8,169,095	3,400,782	494,453	1,929	-	34,028,907
Debt securities	-	9,528	822,353	863,699	139,172	3,287,249	-	5,122,001
Other liabilities	176,206	-	-	-	-	-	-	176,206
Hedging derivatives	90,556	-	-	-	-	-	-	90,556
	17,742,570	7,559,173	9,566,555	7,642,541	1,133,434	3,589,178	-	47,233,451

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

	31-12-2017							
	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	Total
Assets								
Cash and deposits at central banks	288,202	-	-	-	750,711	-	-	1,038,913
Balances due from other banks	658,155	-	-	-	-	-	-	658,155
Financial assets held for trading	1,515,236	-	-	-	-	-	-	1,515,236
Available-for-sale financial assets	2	269,082	39,244	282,819	232,741	4,158,575	189,812	5,172,275
Loans and advances to credit institutions	121,812	20,161	171,647	477,281	-	-	-	790,901
Loans and advances to customers	290,673	2,929,461	4,626,212	8,740,195	6,557,776	22,344,748	-	45,489,065
Held-to-maturity investments	-	11,621	8,434	19,869	18,366	70,382	-	128,672
Hedging derivatives	15,349	-	-	-	-	-	-	15,349
Investments in associates	-	-	-	-	-	-	82,134	82,134
	2,889,429	3,230,325	4,845,537	9,520,164	7,559,594	26,573,706	271,946	54,890,700
Liabilities								
Resources of central banks	4,538	-	-	2,446,000	630,000	-	-	3,080,538
Financial liabilities held for trading	1,533,760	-	-	-	-	-	-	1,533,760
Resources of other credit institutions	431,699	1,494,882	1,274,616	1,478	550,751	600,000	-	4,353,426
Resources of customers and other debts	13,547,552	6,234,421	7,000,193	5,323,558	136,317	9,338	-	32,251,379
Debt securities	-	59,048	142,894	1,828,671	302,636	2,589,867	-	4,923,116
Hedging derivatives	39,275	-	-	-	-	-	-	39,275
	15,556,824	7,788,351	8,417,703	9,599,707	1,619,704	3,199,205	-	46,181,494

Determination of the projected cash flow was based on the principles and assumptions used by the Bank 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 Other financial assets at fair value through other comprehensive income, which were considered as having indeterminate maturity. Non-structural financial assets and liabilities correspond to assets not subject to interest-rate variations (cash, deposits at credit institutions and equity instruments classified as other financial assets at fair value through other comprehensive income), other financial assets mandatorily at fair value through profit or loss and trading assets and liabilities, whose management is based on control of the exposure to market risk. In this connection, the Bank considers the fair value of 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 Bank may make early redemption of the bonds that make up this heading was considered;

- The projected flows relating to current accounts have been considered as payable on demand.

MARKET RISK

Market risk generally consists of the potential variation of the value of a financial instrument due to unexpected changes of market variables such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard method applied for the Bank's trading activity is Value at Risk (VaR). The Historic Simulation standard is used as the basis with a confidence level of 99% and a time horizon of one day, statistical adjustments being applied in order to include the more recent events that condition the risk levels assumed.

The 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 Bank also uses sensitivity measures and equivalent positions. In the case of the interest rate use is made of the basis point value (BPV) – estimated impact 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 Bank's equity. Additionally, other risk indicators are calculated, such as value at risk (VaR) and scenario analysis (stress test).

Liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by conducting stress tests that endeavour to identify the potential risk under 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 December 31, 2018 & 2017, the breakdown of financial instruments by exposure to the interest-rate risk was as follows:

	31-12-2018				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	1,368,061	287,669	-	1,655,730
Balances due from other banks	-	-	845,003	-	845,003
Financial assets held for trading	-	-	3,379	1,212,577	1,215,956
Other financial assets mandatory at fair value through profit or loss	-	-	176,878	-	176,878
Other financial assets at fair value through other comprehensive income	4,690,844	-	555,313	-	5,246,157
Loans and advances to credit institutions	102,310	562,642	10,079	-	675,031
Credit granted and other balances receivable at amortized cost	8,332,714	31,075,865	173,530	-	39,582,109
Hedging derivatives	-	-	-	73,464	73,464
	13,125,868	33,006,568	2,051,851	1,286,041	49,470,328
Liabilities					
Financial liabilities held for trading	-	-	-	1,242,475	1,242,475
Resources of central banks	3,050,040	-	-	-	3,050,040
Resources of other credit institutions	153,057	3,386,601	186	-	3,539,844
Resources of customers and other debts	17,442,358	16,429,444	65,955	-	33,937,757
Debt securities	3,507,599	1,228,124	(73,779)	-	4,661,944
Other liabilities	-	-	176,206	-	176,206
Hedging derivatives	-	-	-	90,556	90,556
	24,153,054	21,044,169	168,568	1,333,031	46,698,822

	31-12-2017				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	751,352	288,202	-	1,039,554
Balances due from other banks	-	-	658,155	-	658,155
Financial assets held for trading	-	-	4,053	1,511,183	1,515,236
Available-for-sale financial assets	3,992,470	192,867	351,806	-	4,537,143
Loans and advances to credit institutions	288,704	497,128	40,535	-	826,367
Loans and advances to customers	8,094,066	31,976,135	(436,989)	-	39,633,212
Held-to-maturity investments	9,057	99,173	579	-	108,809
Hedging derivatives	-	-	-	15,349	15,349
	12,384,297	33,516,655	906,341	1,526,532	48,333,825
Liabilities					
Resources of central banks	3,080,538	-	-	-	3,080,538
Financial liabilities held for trading	-	-	-	1,533,760	1,533,760
Resources of other credit institutions	124,560	4,225,795	731	-	4,351,086
Resources of customers and other debts	18,806,798	13,201,228	129,442	-	32,137,468
Debt securities	3,533,686	1,132,847	(85,296)	-	4,581,237
Hedging derivatives	-	-	-	39,275	39,275
	25,545,582	18,559,870	44,877	1,573,035	45,723,364

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

As at December 31, 2018 & 2017, the breakdown of financial instruments by exposure to the interest-rate risk, per rate interval, was as follows:

	Rate intervals					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
Assets								
Cash and deposits at central banks	1,368,061	-	-	-	-	287,669	-	1,655,730
Balances due from other banks	-	-	-	-	-	845,003	-	845,003
Financial assets held for trading	-	-	-	-	-	-	1,215,956	1,215,956
Other financial assets mandatory at fair value through profit or loss	-	-	-	-	-	176,878	-	176,878
Other financial assets at fair value through other comprehensive income	1,507	2,190,033	2,466,634	32,669	-	555,313	-	5,246,157
Loans and advances to credit institutions	538,504	136,018	-	-	-	509	-	675,031
Credit granted and other balances receivable at amortized cost	13,117,126	19,105,978	5,616,926	1,368,973	501,497	(128,391)	-	39,582,109
Hedging derivatives	-	-	-	-	-	-	73,464	73,464
	15,025,198	21,432,030	8,083,560	1,401,642	501,497	1,736,981	1,289,420	49,470,328
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	1,242,475	1,242,475
Resources of central banks	3,074,860	-	-	-	-	(24,820)	-	3,050,040
Resources of other credit institutions	3,436,563	103,057	-	-	-	224	-	3,539,844
Resources of customers and other debts	32,237,412	1,359,174	255,368	85,804	-	-	-	33,937,757
Debt securities	2,878,444	1,773,000	2,500	8,000	-	-	-	4,661,944
Other liabilities	-	-	-	-	-	176,206	-	176,206
Hedging derivatives	-	-	-	-	-	-	90,556	90,556
	41,627,279	3,235,230	257,868	93,804	-	151,610	1,333,031	46,698,822

	Rate intervals					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
Assets								
Cash and deposits at central banks	751,352	-	-	-	-	288,202	-	1,039,554
Balances due from other banks	-	-	-	-	-	658,155	-	658,155
Financial assets held for trading	-	-	-	-	-	4,053	1,511,183	1,515,236
Financial assets available-for-sale	1,509	1,318,074	2,964,994	33,448	-	219,118	-	4,537,143
Loans and advances to credit institutions	639,570	145,015	-	1,247	1	40,535	-	826,367
Loans and advances to customers	13,803,654	18,049,948	6,180,425	1,438,036	610,046	(448,895)	-	39,633,212
Held to maturity investments	2,879	90,552	14,799	-	-	579	-	108,809
Hedging derivatives	-	-	-	-	-	-	15,349	15,349
	15,198,964	19,603,588	9,160,217	1,472,731	610,047	761,747	1,526,532	48,333,825
Liabilities								
Resources of central banks	3,076,000	-	-	-	-	4,538	-	3,080,538
Financial liabilities held for trading	-	-	-	-	-	-	1,533,760	1,533,760
Resources of other credit institutions	4,302,827	47,528	-	-	-	731	-	4,351,086
Resources of customers and other debts	29,387,453	2,170,685	264,254	185,618	16	129,442	-	32,137,468
Debt securities	1,858,144	2,798,289	2,500	7,599	-	(85,296)	-	4,581,236
Hedging derivatives	-	-	-	-	-	-	39,275	39,275
	38,624,424	5,016,502	266,754	193,217	16	49,415	1,573,035	45,723,363

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 December 31, 2018 & 2017, the sensitivity of the asset value of the Bank's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	31-12-2018		31-12-2017	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash and deposits at central banks	577	54,845	395	30,772
Other financial assets at fair value at fair value through profit or loss	(321,428)	331,587	(332,156)	355,694
Loans and advances to credit institutions	(313)	702	(1,430)	409
Credit granted and other balances receivable at amortized cost	(742,446)	690,663	(627,248)	578,901
	(1,063,610)	1,077,797	(960,439)	965,776
Hedging derivatives	(9,444)	(159,475)	169,730	(199,282)
Liabilities				
Resources of central banks	(49,154)	15,495	(80,016)	37,533
Resources of other credit institutions	(9,095)	19,820	(14,387)	24,449
Resources of customers and other debts	(823,399)	654,418	(750,746)	650,832
Debt securities	(158,567)	144,213	(189,257)	186,169
	(1,040,215)	833,946	(1,034,406)	898,983

Financial Instruments – trading

The basic parameters for calculation of the VaR applicable in general are, besides the calculation method itself, as follows:

- Time horizon: The time period for which potential losses of a portfolio are calculated for the measurement of the (daily) VaR is 1 day.

- Confidence level: both the VaR (potential loss) and the VaE (potential gain) are determined with a confidence level of 99% (1% and 99% percentiles, respectively, of the losses and gains distribution). For purposes of contrast analysis a VaR and a VaE will also be calculated at a confidence level of 95% (5% and 95% percentiles, respectively).

- Exponential decrease factor: Allows exponential weighting of the amount of the variations in market factors over time, giving less weight to observations more distant in time. The exponential decrease factor applied is determined periodically by Market Risk

The VaR values used correspond to the highest of those calculated with the decrease factor in force and those calculated using uniform weighting;

- Calculation currency: In the process of calculating the VaR all positions are valued in euros, which guarantees that the risk-free currency is the local currency. However, VaR values are reported in US dollars (USD) in order to allow the aggregation of different units; and

- Market 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.

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

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 revaluation forms, nonlinear implicit 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 December 31, 2018 & 2017, the VaR associated with the interest-rate risk corresponded to:

	31-12-2018	31-12-2017
VaR Percentil 99%	-	(1)
VaR Weighted Percentil 99%	-	(1)

Exchange-rate Risk

The profile defined for the exchange-risk is quite conservative and is embodied in the hedging policy used. It implementation is the responsibility of the Treasury Area, so that 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.

As at December 31, 2018 & 2017, the detail of the financial instruments was as follows per currency:

	31-12-2018			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	1,648,952	2,785	3,993	1,655,730
Balances due from other banks	415,917	277,247	151,839	845,003
Financial assets held for trading	1,214,425	1,518	13	1,215,956
Other financial assets mandatory at fair value through profit or loss	176,878	-	-	176,878
Other financial assets at fair value through other comprehensive income	5,246,157	-	-	5,246,157
Loans and advances to credit institutions	608,706	17	66,308	675,031
Credit granted and other balances receivable at amortized cost	38,935,530	614,968	31,611	39,582,109
Hedging derivatives	67,718	5,746	-	73,464
Investments in associates	61,481	-	-	61,481
	48,375,764	902,281	253,764	49,531,809
Liabilities				
Financial liabilities held for trading	1,240,954	1,520	1	1,242,475
Resources of central banks	3,050,040	-	-	3,050,040
Resources of other credit institutions	3,411,006	128,496	342	3,539,844
Resources of customers and other debts	32,379,754	1,333,833	224,170	33,937,757
Debt securities	4,661,944	-	-	4,661,944
Other liabilities	176,206	-	-	176,206
Hedging derivatives	88,714	1,728	114	90,556
	45,008,618	1,465,577	224,627	46,698,822

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

	31-12-2017			
	Euros	US Dollars	Other currencies	Total
Assets				
Cash and deposits at central banks	1,033,618	1,960	3,976	1,039,554
Balances due from other banks	373,489	163,024	121,642	658,155
Financial assets held for trading	1,512,930	2,103	203	1,515,236
Financial assets available-for-sale	4,537,143	-	-	4,537,143
Loans and advances to credit institutions	726,613	78,897	20,857	826,367
Loans and advances to customers	39,184,885	41,745	406,582	39,633,212
Held to maturity investments	108,809	-	-	108,809
Hedging derivatives	10,995	4,354	-	15,349
Investments in associates	76,602	-	-	76,602
	47,565,084	292,083	553,260	48,410,427
Liabilities				
Resources of central banks	3,080,538	-	-	3,080,538
Financial liabilities held for trading	1,531,476	2,094	190	1,533,760
Resources of other credit institutions	4,271,833	29,603	49,650	4,351,086
Resources of customers and other debts	30,685,451	419,792	1,032,225	32,137,468
Debt securities	4,556,222	-	25,015	4,581,237
Hedging derivatives	37,495	1,765	15	39,275
	44,163,015	453,254	1,107,095	45,723,364

As at December 31, 2018 & 2017, the VaR associated with the exchange-rate risk corresponded to:

	31-12-2018	31-12-2017
VaR Percentil 99%	(3)	(7)
VaR Weighted Percentil 99%	(3)	(4)

Asset price risk

Financial Instruments – trading

As at December 31, 2018 & 2017, the Bank had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

Offsetting financial assets and liabilities

As at December 31, 2018 & 2017, the value of derivative financial instruments traded over the counter, offset by related financial derivatives, by type of counterparty, is as follows:

	31-12-2018			
	Financial assets/liabilities as presented in the financial statements	Amounts related not offset in the financial statements: Financial instruments	Amounts related not offset in the financial statements: Collateral in cash received as guarantee	Net amount
Financial institutions	(859)	-	28,250	27,391
Group Companies	(1,312,470)	-	413,409	(899,061)
	(1,313,329)	-	441,659	(871,670)

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

	31-12-2017			
	Financial assets/liabilities as presented in the financial statements	Amounts related not offset in the financial statements: Financial instruments	Collateral in cash received as guarantee	Net amount
Financial institutions	600	-	(620)	(20)
Group Companies	(1,279,832)	-	296,570	(983,262)
	(1,279,232)	-	295,950	(983,282)

As at December 31, 2018 & 2017, the value repo transactions, by type of counterparty, is as follows:

	31-12-2018			
Counterpart	Financial assets/liabilities as presented in the financial statements	Amounts related not offset in the financial statements: Financial instruments	Collateral in cash received as guarantee	Net amount
Financial institutions	(1,957,342)	1,957,494	25,700	25,852
	(1,957,342)	1,957,494	25,700	25,852

	31-12-2017			
Counterpart	Financial assets/liabilities as presented in the financial statements	Amounts related not offset in the financial statements: Financial instruments	Collateral in cash received as guarantee	Net amount
Financial institutions	(2,710,621)	2,710,598	24,402	24,379
	(2,710,621)	2,710,598	24,402	24,379

41. SHARE CAPITAL MANAGEMENT

The Bank 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 Bank to sustain the performance of its operations within its risk policy.

The Bank uses the mixed method for the credit risk, in particular the advanced method (IRB) for most credit segments and the standard method for leasing, factoring, manual operations and portfolio of the former Banif and the BAPOP portfolio.

In December 2010, the Bank began to use the mixed method for the market risk, in particular internal models for the majority of the trading derivatives (IRB) and the standard method for the rest of the trading portfolio.

In June 2012, the Bank began using the standard method for the determination of the operational risk requirements, having till then used the basic indicator method.

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

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

Equity Tier I CET1), in particular through additional deductions and higher weighting in the calculation of the positions at risk.

The following table summarises the composition of the regulatory capital and prudential ratios of the Bank as of December 31, 2018 and 2017 (BIS III - Phasing in):

Amounts in million euros

	dec 18	dec 17
	BIS III Phasing In	BIS III Phasing In
A - BASE OWN FUNDS (TIER I)	2,758	3,104
Share Capital	1,541	1,541
Reserves and Retained earnings (excluding Non-controlling interests)	1,532	1,694
Non-controlling interests	-	-
Deduction to base own funds	(315)	(131)
B - COMPLEMENTARY OWN FUNDS (TIER II)	22	12
Perpetual subordinated liabilities	12	12
Non-controlling interests	-	-
Other elements/deductions to complementary own funds	10	(0)
C - DEDUCTIONS TO OWN FUNDS	-	-
D - TOTATOTAL OWN FUNDS (A+B+C)	2,780	3,116
E - ASSETS WEIGHTED BY RISK	19,980	21,858
CAPITAL RATIOS	dez 18	dez 17
TIER I (A/E)	13.8%	14.2%
CORE CAPITAL (CET1)	13.8%	14.3%
TIER II (B/E)	0.1%	0.1%
CAPITAL ADEQUACY RATIO (D/E)	13.9%	14.3%
LEVERAGE RATIO	4.6%	

42. 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 2018, the periodic contribution made by the Bank amounted to €7,554k, based on a contribution rate of 0.0459%.

Resolution measure applied to Banco Espírito Santo, SA

As part 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, on May 24, 2018, the Resolution Fund made a payment of €791,695k to Novo Banco in respect of the 2017 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 €430 million under the framework agreement between the Portuguese State and the Resolution Fund. According to information provided by Novo Banco, as of December 31, 2017, the net value of the assets falling within the perimeter of the contingent capitalisation mechanism amounted to approximately €5.4 billion.

According to the 2018 results recently released by Novo Banco, the amount claimed of the Resolution Fund in 2019, under this mechanism, will be €1,149 million.

This mechanism will be in force until December 31, 2025 (which may be extended until December 31, 2026) and is limited to an absolute maximum of €3,890 million.

<u>Resolution measure applied to Banif – Banco Internacional do Funchal, SA</u>

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 €163,120k 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.

<u>Resolution Fund's liabilities and funding</u>

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 consolidated financial statements reflect the Board of Directors' expectation that no special contributions or any other type of extraordinary contributions will be required to finance the Resolution Fund.

Any significant changes regarding this matter may have relevant implications for the Bank's consolidated financial statements of the Bank.

43. 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.

The Competition Authority decreed confidentiality of the investigations of the administrative-offence proceedings, taking into account the interests of the investigation and the rights of procedural subjects, which would be incompatible with publicity of the proceedings.

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.

The Bank, which strongly refutes all the theories of the AdC, presented its written defence to the aforementioned statement of objections by the deadline for response, September 27, 2017, this defence having been complemented later by a hearing on December 18, 2017. Recently, the deadline for the fact-finding of the proceedings in question was extended by the AdC until December 31 2019.

The communication of a statement of objections does not constitute a final decision regarding the proceedings in question, the addressee being entitled to exercise its rights of defence. Following this, the AdC will take a decision.

The AdC may issue a final condemnation decision leading to the application of a fine within the limits of the law, which determines a maximum limit equivalent to 10% of the annual turnover of the infringing company in the year next before the decision. As such a decision may be challenged, that is, the party in question may request a judicial review for the relevant courts of appeal to appraise the legality of the decision.

The Bank will not waive the exercise of all the legal and judicial faculties ensuring the protection of its interests.

44. SUBSEQUENT EVENTS

To the date of approval of the following consolidated financial statements by the Board of Directors, no events took place after December 31, 2018, date of referral for the abovementioned financial statements, that would warrant adjustments or modifications to the assets and liabilities reported amounts, according to IAS 10 – Events that took place after the date of the Balance Sheet.

45. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on April 9, 2019.

46. NOTE ADDED FOR TRANSLATION

These financial statements are a free translation of the financial statements originally issued in the Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

BANCO SANTANDER TOTTA, SA

DEBT SECURITIES AS AT DECEMBER 31, 2018 (Note 18)

(Amounts expressed in thousand euros)

Securities issued	Currency	Amount issued Total	Amount issued Subscribed by the Group	Amount issued Consolidated Balance sheet	Accrual	Total Consolidated Balance sheet	Interest rate	Issue date	Maturity date	Index
Hipotecária XIII	EUR	750,000	-	750,000	(2,776)	747,224	1.63%	11/Jun/14	11/Jun/19	Fixed interest rate
Hipotecária XIV	EUR	750,000	750,000	-	-	-	0.75%	4/Mar/15	4/Mar/22	Fixed interest rate
Hipotecária XV	EUR	750,000	-	750,000	722	750,722	0.88%	27/Oct/15	27/Oct/20	Fixed interest rate
Hipotecária XVI	EUR	200,000	200,000	-	-	-	0.84%	24/Feb/16	24/Feb/22	Fixed interest rate
Hipotecária XVII	EUR	750,000	750,000	-	-	-	0.90%	15/Apr/16	15/Apr/23	Fixed interest rate
Hipotecária XVIII	EUR	750,000	750,000	-	-	-	0.65%	26/Jul/16	26/Jul/23	Fixed interest rate
Hipotecárias XX	EUR	750,000	750,000	-	-	-	1.20%	7/Dec/17	7/Dec/27	Fixed interest rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	-	-	1.48%	10/Apr/17	10/Apr/27	Fixed interest rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	(2,190)	997,810	0.88%	25/Apr/17	25/Apr/24	Fixed interest rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(6,978)	993,022	1.25%	26/Sep/17	26/Sep/27	Fixed interest rate
		7,700,000	4,200,000	3,500,000	(11,222)	3,488,778				
Bonds issued on securitization operations										
Hipototta 4 - Class A - Notes	EUR	552,766	404,510	148,256	(486)	147,770	Floating	9/Dec/05	30/Dec/48	Euribor 3m+0,12% (up to early redemption date in December 2014); Euribor 3m+0,24% (After early redemption date)
Hipototta 4 - Class B - Notes	EUR	20,110	20,110	-	-	-	Floating	9/Dec/05	30/Dec/48	Euribor 3m+0,19% (up to early redemption date in December 2014); Euribor 3m+0,40% (After early redemption date)
Hipototta 4 - Class C - Notes	EUR	63,511	63,511	-	-	-	Floating	9/Dec/05	30/Dec/48	Euribor 3m+0,29% (up to early redemption date in December 2014); Euribor 3m+0,58% (After early redemption date)
Hipototta 4 - Class D - Notes	EUR	14,000	14,000	-	-	-	Floating	9/Dec/05	30/Dec/48	Residual return generated by securitized portfolio
Hipototta 5 - Class A2 - Notes	EUR	505,465	356,602	148,863	(205)	148,658	Floating	22/Mar/07	28/Feb/60	Euribor 3m+0,13% (up to early redemption date in February 2014); Euribor 3m+0,26% (After early redemption date)
Hipototta 5 - Class B - Notes	EUR	26,000	26,000	-	-	-	Floating	22/Mar/07	28/Feb/60	Euribor 3m+0,17% (up to early redemption date in February 2014); Euribor 3m+0,34% (After early redemption date)
Hipototta 5 - Class C - Notes	EUR	24,000	24,000	-	-	-	Floating	16/Mar/07	28/Feb/60	Euribor 3m+0,24% (up to early redemption date in February 2014); Euribor 3m+0,48% (After early redemption date)
Hipototta 5 - Class D - Notes	EUR	26,000	26,000	-	-	-	Floating	22/Mar/07	28/Feb/60	Euribor 3m+0,50% (up to early redemption date in February 2014); Euribor 3m+1,00% (After early redemption date)
Hipototta 5 - Class E - Notes	EUR	31,000	31,000	-	-	-	Floating	22/Mar/07	28/Feb/60	Euribor 3m+1,75% (up to early redemption date in February 2014); Euribor 3m+3,50% (After early redemption date)
Hipototta 5 - Class F - Notes	EUR	6,125	6,125	-	-	-	Floating	22/Mar/07	28/Feb/60	Rendimento residual gerado pela carteira titularizada

BANCO SANTANDER TOTTA, SA

DEBT SECURITIES AS AT DECEMBER 31, 2018 (Note 18)

(Amounts expressed in thousand euros)

Securities issued	Currency	Amount issued: Total	Amount issued: Subscribed by the Group	Amount issued: Consolidated Balance sheet	Accrual	Total Consolidated Balance sheet	Interest rate	Issue date	Maturity date	Index
Atlantes Mortgage PLC - Class A	EUR	15,207	2,492	12,715	6	12,721	Floating	13/Feb/03	17/Jan/36	Euribor 3m+0,54%;
Atlantes Mortgage PLC - Class B	EUR	22,500	-	22,500	47	22,547	Floating	13/Feb/03	17/Jan/36	Euribor 3m+1,30%;
Atlantes Mortgage PLC - Class C	EUR	12,500	-	12,500	60	12,560	Floating	13/Feb/03	17/Jan/36	Euribor 3m+2,60%;
Atlantes Mortgage PLC - Class D	EUR	2,500	-	2,500	23	2,523	Floating	13/Feb/03	17/Jan/36	Euribor 3m+4,75%;
Atlantes MTG n1 CL E 2036	EUR	15,400	15,400	-	-	-	Floating	13/Feb/03	17/Jan/36	Residual return generated by securitized portfolio
Azor Mortgage PLC Class A	EUR	1,135	233	902	-	902	Floating	25/Nov/04	20/Sep/47	Euribor 3m + 0,30%
Azor Mortgage PLC Class B	EUR	19,000	1,000	18,000	167	18,167	Floating	25/Nov/04	20/Sep/47	Euribor 3m + 0,76%
Azor Mortgage PLC Class C	EUR	9,000	2,500	6,500	208	6,708	Floating	25/Nov/04	20/Sep/47	Euribor 3m + 1,75%
Azor Mortgage PLC Class D	EUR	10,000	10,000	-	-	-	Floating	25/Nov/04	20/Sep/47	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 2 - A	EUR	125,618	-	125,618	(16,663)	108,955	Floating	5/Mar/08	18/Sep/60	Euribor 3m + 0,33%
Atlantes Mortgage PLC serie 2 - B	EUR	13,817	13,817	-	-	-	Floating	5/Mar/08	18/Sep/60	Euribor 3m + 0,95%
Atlantes Mortgage PLC serie 2 - C	EUR	5,632	5,632	-	-	-	Floating	5/Mar/08	18/Sep/60	Euribor 3m + 1,65%
Atlantes Mortgage PLC serie 2 - D	EUR	16,125	16,125	-	-	-	Floating	5/Mar/08	18/Sep/60	Residual return generated by securitized portfolio
Azor Mortgage PLC serie 2 - A	EUR	97,696	97,696	-	-	-	Floating	24/Jul/08	14/Dec/65	Euribor 3m + 0,30%
Azor Mortgage PLC serie 2 - B	EUR	43,080	43,080	-	-	-	Floating	24/Jul/08	14/Dec/65	Euribor 3m + 0,8%
Azor Mortgage PLC serie 2 - C	EUR	6,750	6,750	-	-	-	Floating	24/Jul/08	14/Dec/65	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 3 - A	EUR	213,543	66,554	146,989	(11,887)	135,102	Floating	30/Oct/08	20/Aug/61	Euribor 3m + 0,20%
Atlantes Mortgage PLC serie 3 - B	EUR	30,625	30,625	-	-	-	Floating	30/Oct/08	20/Aug/61	Euribor 3m + 0,50%
Atlantes Mortgage PLC serie 3 - C	EUR	57,668	57,668	-	-	-	Floating	30/Oct/08	20/Aug/61	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 4 - A	EUR	242,931	-	242,931	(34,173)	208,758	Floating	16/Feb/09	30/Dec/64	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 4 - B	EUR	26,753	26,753	-	-	-	Floating	16/Feb/09	30/Dec/64	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 4 - C	EUR	74,250	74,250	-	-	-	Floating	16/Feb/09	30/Dec/64	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 5 - A	EUR	201,613	201,613	-	-	-	Floating	21/Dec/09	23/Nov/68	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 5 - B	EUR	35,724	35,724	-	-	-	Floating	21/Dec/09	23/Nov/68	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 5 - C	EUR	63,982	63,982	-	-	-	Floating	21/Dec/09	23/Nov/68	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 7 - A	EUR	157,929	157,929	-	-	-	Floating	19/Nov/10	23/Aug/66	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 7 - B	EUR	29,348	29,348	-	-	-	Floating	19/Nov/10	23/Aug/66	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 7 - C	EUR	60,898	60,898	-	-	-	Floating	19/Nov/10	23/Aug/66	Residual return generated by securitized portfolio
Hipototta nº13 Class A	EUR	1,473,766	1,473,766	-	-	-	Floating	9/Jan/18	23/Oct/72	
Hipototta nº13 Class B	EUR	484,000	484,000	-	-	-	Floating	9/Jan/18	23/Oct/72	
Hipototta nº13 Class C	EUR	60,595	60,595	-	-	-	Floating	9/Jan/18	23/Oct/72	
Hipototta nº13 Class D	EUR	-	-	-	-	-				
		4,898,562	4,010,288	888,274	(62,903)	825,371				
Other										
Euro medium Term Note-37ª	EUR	212	-	212	-	212	0.75%	9/Aug/16	9/Aug/19	Variable interest rate
Euro medium Term Note-38ª	EUR	499	-	499	2	501	0.75%	29/Sep/16	29/Sep/19	Variable interest rate
		711	-	711	2	713				
		12,599,273	8,210,288	4,388,985	(74,123)	4,314,862				

BANCO SANTANDER TOTTA, SA

SUBORDINATED LIABILITIES AS AT DECEMBER 31, 2018 (Note 18)

(Amounts expressed in thousand euros)

		Amount issued			Accruals						
Securities issued	Currency	Total	Subscribed by the Group	Total Balance sheet	Total	Subscribed by the Group	Total Balance sheet	Total Balance sheet	Interest rate	Maturity	Early repayment as from
Obrigações Perpétuas Subordinadas 2000	EUR	270,447	-	270,447	112	-	112	270,559	1.51%	Perpetual	June 22, 2010
Obrigações Perpétuas Subordinadas BSP 2001	EUR	13,818	-	13,818	73	-	73	13,891	1.48%	Perpetual	February 23, 2011
Obrigações Perpétuas Subordinadas CPP 2001	EUR	4,275	-	4,275	23	-	23	4,298	1.48%	Perpetual	February 23, 2011
Obrigações Banco Santander Totta,SA 7,5%	EUR	7,599	-	7,599	136	-	136	7,735	7.50%	Perpetual	October 6, 2026
Obrigações subordinadas MC factor	EUR	2,993	(2,394)	599	-	-	-	599	2.28%	Perpetual	
		299,132	(2,394)	296,738	344	-	344	297,082			

Consolidated Reports and Opinions

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Banco Santander Totta, S.A. (the "Group" or "Bank"), which comprise the consolidated balance sheet as at 31 December 2018 (which shows total assets of Euros 51.289.016 thousand and total shareholders' equity of Euros 3.552.299 thousand including a net profit of Euros 469.951 thousand), the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated statement of changes in shareholder's equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Banco Santander Totta, S.A. as at 31 December 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law, we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Matriculada na CRC sob o NUPC 506 628 752, Capital Social Euros 314.000
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

Key Audit Matter	*Summary of the Audit Approach*
Impairment losses on credit granted and other balances receivable at amortized cost *<u>Measurement and disclosures related to impairment losses on credit granted and other balances receivable at amortized cost presented in notes 1.3 c), 2, 10, 19 and 41 attached to the consolidated financial statements of the Bank</u>*	
The significant expression of credit granted and other balances receivable at amortized cost and associated impairment losses, which require a set of complex assumptions and judgments from the Bank's management in relation to the identification of clients with a significant increase in credit risk or in default, as well as the corresponding amount of impairment losses, justify that these constitute key matters for the purposes of our audit. As at 31 December 2018, the gross amount of credit granted and other balances receivable at amortized cost amounted to Euros 40.690.693 thousand and the corresponding impairment losses recognized at that date amounted to Euros 1.108.584 thousand. The implementation of IFRS 9 - Financial Instruments ("IFRS 9") on 1 January 2018 by the Bank implied the introduction of a set of new requirements with impact on the measurement and recognition of impairment of credit on financial assets, calculated by means of an expected losses model to the detriment of the model of losses incurred under IAS 39. The impacts on the Bank's consolidated financial statements arising from the adoption of this new standard were estimated with reference to 1 January 2018, based on the information available at that date and the assumption of a set of assumptions, which are presented in notes 1.1 and 1.3 c) attached to the consolidated financial statements of the Bank. Impairment losses on credit granted and other balances receivable at amortized cost are determined by management on an individual basis, through a case-by-case analysis of a significant component of the total loan portfolio, and for the remaining portfolio impairment is determined through a collective analysis. This process is summarized as follows:	The audit procedures developed included the identification, understanding and evaluation of key controls established by the Bank with respect to the approval, recording and monitoring of credit risk granted to customers as well as key Bank controls underlying the timely identification, recording and correct measurement of impairment losses. In the specific scope of the implementation of IFRS 9 on 1 January 2018, we followed the action plan developed by the Bank and developed among others the following procedures: • Meetings with management and with those principally responsible for the action plan in order to understand and follow the schedule, scope and depth of the work to be carried out by the different areas of the Bank; • Understanding of the Bank's governance process, namely regarding the controls implemented on the review and approval of the main assumptions, judgments and future economic perspectives used in the models defined for the measurement of impairment losses; • Reading and analysing the methodological documents for the adoption of IFRS 9 prepared by the Bank and reviewing its adherence to the principles of said standard; and • Review of the effects identified by the Bank arising from the adoption of IFRS 9 with impact on the Bank's net equity position as at 1 January 2018. On a sample basis, we analysed a group of clients within the Bank's individual analysis perimeter, based on the criteria defined in internal regulations, with the objective of: (i) reviewing the conclusions and results obtained by the Bank in the individual analysis of

Key Audit Matter	*Summary of the Audit Approach*
• For the most significant exposures, evaluated in terms of the total amount of responsibilities to the Bank and the possible existence of signs of default, the Bank performs an individual impairment measurement analysis ("IIA") only for exposures classified as stage 3, in which the amount of impairment is determined through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimated cash flows that may be generated in the future for the fulfilment of their responsibilities; or (ii) the evaluation attributed to the collateral received in the scope of the credit granted, whenever the recovery is anticipated by means of the assignment, execution and/or sale of the collateral, less the costs inherent to its recovery and sale. • For exposures not covered by the individual analysis, the Bank developed collective analysis models to calculate expected impairment losses, in light of the requirements of IFRS 9, namely the classification of exposures by different stages according to the evolution of their credit risk since the date of its concession, and not according to the credit risk at the reporting date (stages 1, 2 or 3). These internal models are based on the internal historical information of defaults and recoveries. In order to be representative of the current economic context, but also to incorporate a perspective of future economic evolution, these models use forward looking prospective information such as (i) the GDP growth rate; (ii) the unemployment rate; (iii) the evolution of the interest rate; and / or (iv) the prospects for the real estate market. On the basis of these macroeconomic data, potential scenarios are developed that allow estimating the expected loss in each segment based on a probability of occurrence. In this context, changes in the assumptions or methodologies used by the Bank in the analysis and quantification of impairment losses of the credit granted and other balances receivable at amortized cost, as well as different recovery strategies, condition the estimation of recovery flows and timing of their receipt may have a material impact on the determination of the amount of impairment losses	impairment measurement; (ii) obtain our own judgment on the existence of situations of significant increase in credit risk and default; and (iii) assess how the impairment losses were timely identified, measured and recognized by management. In this process, it was also confirmed that the perimeter of individual analysis included all the exposures that met the criteria defined by the Bank in its methodology. For a sample of exposures classified in stage 3, representative of the credit population subject to individual analysis by the Bank as at 31 December 2018, the procedures we have developed consisted of: (i) reviewing the available documentation on credit processes; (ii) verify the adequacy of the cash flows used to determine impairment with those reflected in the contractual support; (iii) analyse the contractual support and the most relevant collaterals and confirm the registration of them in favour of the Bank; (iv) to analyse the evaluations of collaterals that were available; (v) to examine the criteria for classification under impairment (stage 3) on an individual basis; (vi) review the incorporation of forward looking information; (vii) a critical analysis of the discounted cash flows underlying the calculation of impairment; (viii) to assess the evolution of exposures; and (ix) understand the views of the Bank's officers regarding the economic and financial situation of the clients, as to the predictability of expected cash flows of the respective businesses, as well as the prospects of collectability of credits. Whenever we concluded for the need to review some assumption used by management, we recalculated the estimated amount of impairment and compared the results obtained with those calculated by the Bank, in order to assess the existence of possible divergences. For the portfolio whose impairment is assessed through the collective analysis model, a set of specific procedures were developed with the objective of evaluating how the assumptions considered by management include the risk variables by comparison to the historic performance and recoveries of the Bank's loan portfolio, namely: (i) review of the methodological documentation for the development and validation of the models; (ii) analysis of the documentation of the backtesting exercise of the risk parameters and its results; (iii) review and testing of portfolio segmentation; (iv) analysis of the Bank's definition of default and the criteria applied in the classification of staging, on a sample basis; (v) review

Key Audit Matter	*Summary of the Audit Approach*
recognized in the Bank's consolidated financial statements as at 31 December 2018.	and testing of the main risk parameters; (vi) critical analysis of the main assumptions and sources of information used in the future recoveries incorporated in the LGD (Loss Given Default), including the test of historical recoveries incorporated in this calculation, on a sampling basis; and (vii) recalculation of Expected Credit Loss ("ECL") for the loan portfolio, with reference to 31 December 2018. Our auditing procedures also included a review of the disclosures for credit granted and other balances receivable at amortized cost, as well as the related impairment losses, in the accompanying notes to the consolidated financial statements, taking into account applicable and current accounting standards.
Provisions and contingent liabilities *Measurement and disclosures related to provisions and contingent liabilities presented in notes 1.3.h), 2, 19 and 43 attached to the Bank's consolidated financial statements* As at 31 December 2018, the balance of the liability caption "Provisions" amounted to Euros 286.446 thousand and is intended to cover various liabilities, including post-employment benefits specific to certain Bank management, restructuring plans, tax risks, legal proceedings in progress and other specific risks arising from the Bank's activity, as well as situations associated with the acquisition, in 2015, of a significant part of Banif's activity. The determination of these provisions implies that the Bank's management uses complex estimates and judgments as to the probability of materialization and quantification of the amounts of liabilities that may result from the litigation and contingencies to which the Bank is a party and, to that extent, this was considered a key matter for the purposes of our audit.	The audit procedures we have developed in this area included the understanding and evaluation of the key processes and controls established by the Bank with respect to the approval, registration and monitoring of these matters, as well as the assessment of the methodologies, data and assumptions adopted management in the assessment and quantification of contingencies and in the eventual recognition of provisions. In this context, due to the relevance of the judgments required of the management, (i) we have examined in detail the litigation in progress; (ii) we confirmed the existence of contingencies and litigation and their procedural status with the Bank's external legal counsel, and (iii) we reviewed the most significant provisions obtaining additional audit evidence, when deemed necessary. We evaluated management's assessment of the nature and status of existing litigation proceedings and the corresponding provisions, where applicable, and discussed with the legal counsel of the Bank the basis and grounds for setting the most significant provisions. For some of these situations, we have also confirmed the information gathered with the Bank's external lawyers who accompany each case.

Key Audit Matter	Summary of the Audit Approach
	We have also analysed the information available on the developments that occurred after 31 December 2018 on the most relevant litigation. Our audit procedures also included the review of the disclosures on provisions and contingent liabilities, included in the accompanying notes to the consolidated financial statements, taking into account applicable and current accounting standards.
Financing of the Resolution Fund *Disclosures related to the Resolution Fund presented in notes 32 and 42 attached to the Bank's consolidated financial statements* The resolution measures applied in 2014 to Banco Espírito Santo, SA - a process that led to the creation of Novo Banco, SA ("Novo Banco") - and in 2015 to Banif - Banco Internacional do Funchal, SA ("Banif") created uncertainties related to the possible insufficiency of resources of the Resolution Fund to ensure the fulfilment of its responsibilities, in particular the short-term repayment of the financing it has contracted for this purpose. These uncertainties have become more relevant due to the liabilities and contingent liabilities assumed, namely those resulting from: • effects of the application of the principle that no creditor of the credit institution under resolution may incur greater loss than it would if it had entered into liquidation; • legal proceedings against the Resolution Fund; • negative effects arising from the resolution process resulting in additional responsibilities or contingencies for Novo Banco that must be neutralized by the Resolution Fund; • contingent capitalization mechanism associated with Novo Banco's sale process to Lone Star, under which the Resolution Fund, as shareholder of Novo Banco, may be called upon to make capital injections in the event of certain conditions related to the performance of a restricted set of assets of Novo Banco and the evolution of its capitalization levels; and • guarantee given to the obligations issued by the Oitante, and this guarantee is counter-guaranteed by the Portuguese State.	In the scope of our audit, we performed, among others, the following procedures: • confirmation to the Bank that there were no changes to the contractual terms of the loan agreements entered into between the Banks and the Resolution Fund, as well as the amendments thereto signed in August 2016 and February 2017; • monitoring of changes of greater significance to the simplified model of cash flow projections of the Resolution Fund presented by the Bank when renegotiating loans obtained by the Resolution Fund; • follow-up of the relevant communications on the liabilities and contingent liabilities assumed by the Resolution Fund and / or Portuguese State; • analysis of the public communication of the Resolution Fund of 28 March 2018 and of 1 March 2019, regarding the payment to be made by the Resolution Fund to Novo Banco under the contingent capitalization mechanism established in Novo Banco; • reading the latest reports and accounts available from the Resolution Fund and Novo Banco; • analysis of the evolution of the Bank's exposures to the Resolution Fund as well as an understanding of the Bank's views on the economic and financial situation of the Resolution Fund and the predictability of expected cash flows from its regular revenues; and • holding meetings with the Bank's management body to monitor available information on: (i)

Key Audit Matter	*Summary of the Audit Approach*
The contingent capitalization mechanism was first activated by Novo Banco in the amount of Euros 791.695 thousand related to audited accounts with reference to 31 December 2017, which resulted in the contraction of a loan in the amount of Euros 430.000 thousand from the Portuguese State. According to the results of the 2018 fiscal year, recently announced by Novo Banco, the amount claimed in 2019 to the Resolution Fund, under this mechanism, will amount to Euros 1.149.000 thousand. At the beginning of 2017, the Resolution Fund publicly announced the contractual review of the financing it contracted with the Portuguese State and the participating banks to adjust and match the terms and conditions associated with such financing, in particular the extension of the repayment term, to enable the Resolution Fund to fully meet its obligations on the basis of its regular revenues, i.e. without charge, to the banks participating in the Resolution Fund, special contributions or any other extraordinary contribution. The evaluation of this capacity, and consequently of the risk of impairment of the financing granted by the Bank to the Resolution Fund, was based on a set of assumptions and estimates whose future evolution requires continuous monitoring. In these circumstances, the possibility that banks participating in the Resolution Fund will be called upon to make extraordinary contributions to the Resolution Fund is a concern for the Bank and for the banking sector in general, and to this extent the future evolution of this issue requires an attentive follow-up on our part, and therefore this was considered a key matter for the purposes of our audit.	the outcome of legal actions in progress related to such resolution measures; and (ii) the contingent capitalization mechanism associated with the sale of Novo Banco to Lone Star and the liabilities assumed by the Resolution Fund under this transaction. Our audit procedures also included the revision of the disclosures on provisions and contingent liabilities in the notes to the consolidated financial statements of the Bank, taking into account applicable and current accounting standards.
Employees post-employment benefits *Measurement and disclosures related to employees' post-employment benefits presented in notes 1.3 (i), 2 and 37 attached to the Bank's consolidated financial statements* At 31 December 2018, the liabilities for past services of the Bank in relation to its pensioners, employees and directors amounted to Euros 1.313.480 thousand, mainly covering retirement and survivors' pensions, disability, health care and death benefit , in particular those provided for in the Acordo Coletivo de Trabalho ("ACT") for the banking sector.	The audit procedures developed included the identification and understanding of the key controls instituted by the Bank to ensure that the information collected and provided to the independent actuary is correct and complete to calculate the plan's liabilities and funding needs, as well as the suitability of the process of the fair value of the assets of the fund.

Key Audit Matter	*Summary of the Audit Approach*
These liabilities are estimated based on actuarial valuations performed by an actuary certified by the Insurance and Pension Funds Supervisory Authority ("ASF"). These assessments incorporate a set of financial and actuarial assumptions, such as the discount rate, inflation rate, mortality and disability tables, pension and wages growth rates, among others, defined by management and adjusted to the characteristics of the benefits and the population of managers, employees and pensioners, and the current and future behaviour of these variables. In the specific case of the discount rate used in the actuarial studies, it is determined based on the market rates for high-quality entities in terms of credit risk, denominated in the currency in which the benefits will be paid (euros) and with a similar maturity the duration of the payment of the benefits of the plan. In this context, future changes in the assumed financial and actuarial assumptions may give rise to material impacts on net liabilities as well as assets held to meet these liabilities, and this issue was considered a key matter for the purposes of our audit.	The audit work included meetings with the Bank and the independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. Given the relevance of the judgments required of management, we proceeded to evaluate the reasonableness of the main assumptions, comparing them with the data that, independently, we were able to obtain. A conformity review was performed to: (i) the employee information history used for the purposes of calculating responsibilities; (ii) the accounting recognition of plan cuts or liquidations, costs related to past services and other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the assets of the fund, calculating it, whenever possible, independently for a sample of assets. Finally, we have developed the detailed analysis of the actuarial study prepared with reference to 31 December 2018, based on the results of the procedures referred to above. The audit procedures included the review of the disclosures on the post-employment benefits of directors, employees and pensioners in the notes to the consolidated financial statements of the Bank, taking into account applicable and current accounting standards.
Fair value of financial instruments not quoted in an active market *Measurement and disclosures related to the fair value of financial instruments not listed on an active market presented in notes 1.3 c), 2, 7, 8, 9 and 41 attached to the Bank's consolidated financial statements* Due to its relevance in the context of the Bank's consolidated financial statements and the associated judgment, the fair value measurement of financial instruments not quoted in an active market was a relevant matter for the purposes of our audit. At 31 December 2018, the balance sheet balances of financial instruments of levels 2 and 3 of the fair value hierarchy or subject to value adjustments by hedge accounting amounts to Euros 6.882.798 thousand of assets and Euros 1.692.502 thousand of liabilities.	The audit procedures we have developed included the identification, understanding and evaluation of key controls established by the Bank to identify, quantify and monitor market risk as well as the key controls underlying fair value measurement methodologies. In the specific scope of the implementation of IFRS 9 on 1 January 2018, we followed the action plan developed by the Bank and, among others, we developed the following procedures:

Key Audit Matter	*Summary of the Audit Approach*
The implementation of IFRS 9 - Financial Instruments ("IFRS 9") on 1 January 2018 by the Bank implied the introduction of a set of new requirements with an impact on the classification of financial assets essentially resulting from (i) the business model under which financial assets are managed; and (ii) the characteristics of contractual cash flows of debt financial instruments (representing solely payments of principal and interest). The impacts on the Bank's consolidated financial statements arising from the adoption of this new standard were estimated by reference to 1 January 2018, based on the information available at that date and assuming a set of assumptions, which are presented in notes 1.1 and 1.3 c) attached to the consolidated financial statements of the Bank. As at 31 December 2018, financial instruments not listed in an active market are composed of (i) debt financial instruments whose business model is "hold to collect and sale" or trading, (ii) derivatives classified as trading or hedging; (iii) equity instruments, (iv) assets and liabilities subject to value adjustments by accounting for hedge accounting, namely the customer loan portfolio, customer funds and other loans and liabilities represented by securities, and v) other financial liabilities measured at fair value (fair value option). For financial instruments classified in levels 2 and 3 of the fair value hierarchy, and when no observable market data are available, the Bank establishes fair value using estimates, namely through the use of valuation models based on techniques of cash flows, and which usually involve a high degree of judgment of the management body in the definition of the assumptions and inputs to be used. Regarding derivative financial instruments, the Bank recognizes adjustments to own credit risk and to counterparties that are not fully collateralized (DVA - Debit Value Adjustments and CVA - Credit Value Adjustments), which are estimated based on in projections of potential future exposures or in the amount that would have been received or paid to settle the contract on the date in question, considering the current market conditions, as well as the credit quality of the intervening entities, which is estimated based on quotations published in markets assets when available or, in its absence, internally determined by the Bank through its internal risk rating model.	• Meetings with those principally responsible for the action plan in order to understand and follow the schedule, scope and depth of the work to be carried out by the different areas of the Bank; • Understanding of the Bank's governance process, namely regarding the controls implemented on the review and approval of the main assumptions and judgments used in the definition of the Bank's business models and in the analysis of the characteristics of the contractual cash flows of the debt financial instruments; • Analysis of the methodological documents for adoption of IFRS 9 prepared by the Bank and review of its adherence to the principles of said standard; • Review, on a sampling basis, of the combined application of the tests to the characteristics of the contractual flows of the financial assets and the business models of the Bank, based on the analysis of the available supporting documentation; and • Review of the effects identified by the Bank arising from the adoption of IFRS 9 with impact on the Bank's net equity position as at 1 January 2018. For a sample of instruments the measurement of which consisted substantially of unobservable data, our procedures also included an assessment of whether the models developed by the Bank and the data and assumptions used are adequate, comparing the data observable with the information collected from external and independent sources, whenever available. We also reviewed the methodology and data used by the management body to determine the adjustments to own credit risk and counterparty risk recorded for exposures with uncollateralized derivative instruments in their totality and for other liabilities measured at fair value, and compared the observable data against market information collected from external and independent sources, whenever available. Our audit procedures also included the review of

Key Audit Matter	*Summary of the Audit Approach*
In this context, changes in the assumptions used in the measurement techniques used by the management body may give rise to material impacts in the determination of the fair value of the instruments recognized in the consolidated financial statements of the Bank.	disclosures about financial instruments not listed on an active market, included in the accompanying notes to the consolidated financial statements, taking into account applicable and current accounting standards.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Non-financial information set forth in article No. 508-G of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the entity stated in its Director's report that it will prepare a separate report of the Director's report that will include the non-financial information set forth in article No. 508-G of the Portuguese Company Law, which should be published on its website until the legal deadline.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Banco Santander Totta, S.A. in the Shareholders' General Meeting of 31 May 2016 for the period from 2016 to 2018.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of 10 April 2019.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

10 April 2019

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

[Original in Portuguese signed by]
Aurélio Adriano Rangel Amado, R.O.C.