Proposal

Annual Report

2019

Let's continue working for a better world

#TheRightWay

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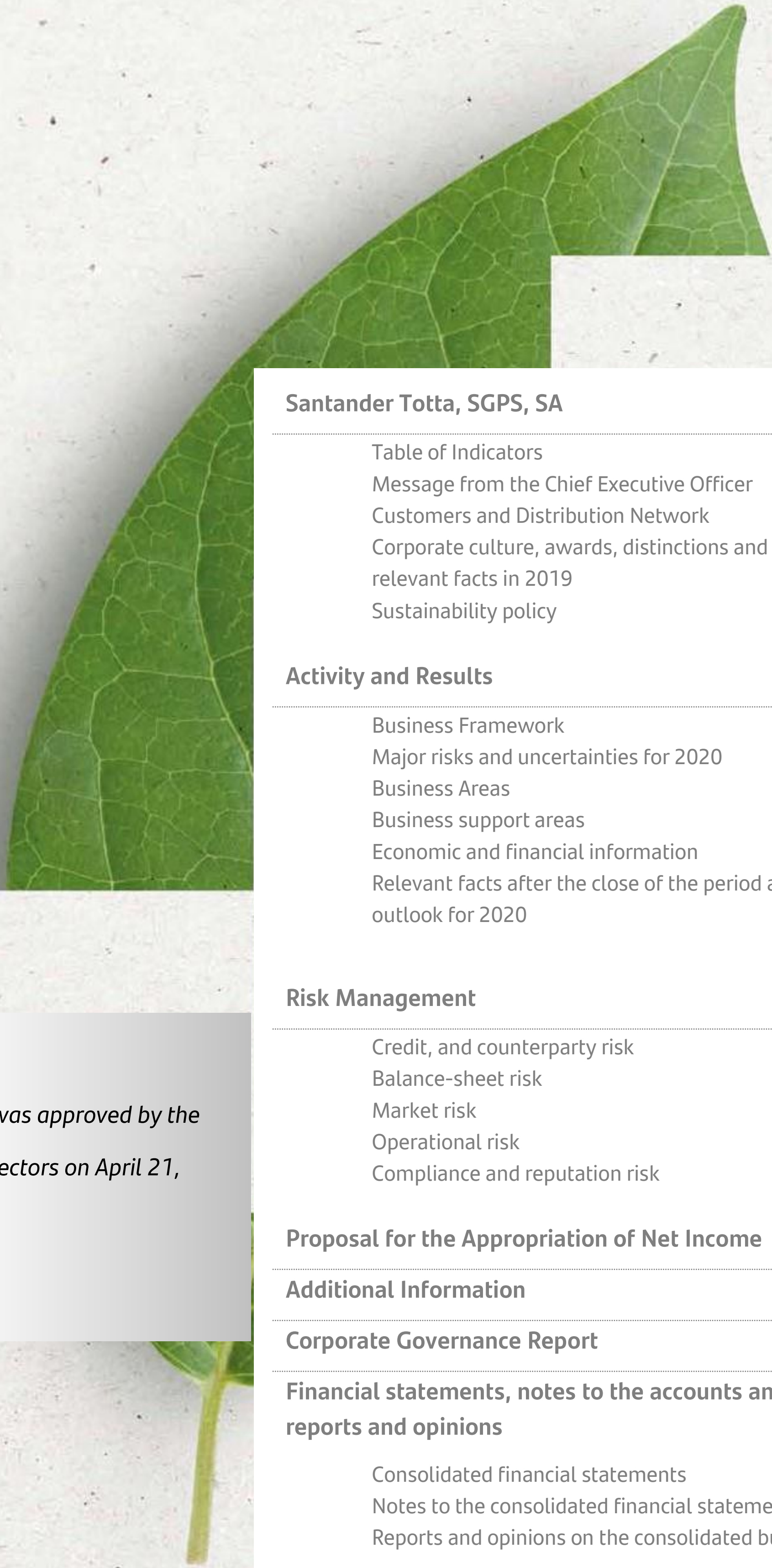
Santander

Santander Totta, SGPS



This report was approved by the Board of Directors on April 21, 2020

Santander Totta, SGPS, SA
Rua do Ouro, 88 – 1100-063 Lisbon
Share Capital: €1,972,962,079.58
Registered at the Lisbon Registry of Companies under number single registration and VAT number 507 096 851
LEI: 5493005RLLC1P7VSVC58.

TABLE OF INDICATORS

BALANCE SHEET AND RESULTS (million euro)	2019	2018	Var.
Total Net Assets	56,083	55,028	+1.9%
Loans and advances to customers (net) [1]	39,349	39,644	-0.7%
Customers' Resources	42,420	39,980	+6.1%
Total shareholders' equity	4,264	4,172	+2.2%
Net Interest Income	855.7	866.3	-1.2%
Net Fees and Other Income	381.0	382.9	-0.5%
Net Income from Banking Activities	1,344.5	1,259.5	+6.8%
Net Operating Income	740.0	633.5	+16.8%
Income before taxes and non-controlling interests*	739.8	673.8	+9.8%
Consolidated net income attributable to the shareholders of ST, SGPS	527.3	500.0	+5.5%

RATIOS	2019	2018	Var.
ROE	12.7%	12.4%	+0.3 p.p.
ROA	0.9%	0.9%	+0.0 p.p.
Efficiency ratio	45.0%	49.7%	-4.7 p.p.
CET I ratio**	15.0%	14.0%	+1.0 p.p.
Tier I ratio**	18.3%	17.0%	+1.3 p.p.
Capital ratio**	18.6%	17.1%	+1.5 p.p.
Non-Performing Exposure Ratio	3.3%	4.2%	-0.9 p.p.
Non-Performing Exposure coverage ratio	53.1%	51.0%	+2.1 p.p.
Cost of credit	(0.02%)	0.01%	-0.02 p.p.
Loans-to-deposits ratio (tranformation ratio)	112.1%	118.8%	-6.7 p.p.

RATING	2019	2018
FitchRatings	BBB+	BBB+
Moody´s	Baa3	Baa3
Standard & Poor´s	BBB	BBB-
DBRS	A	A

Other Data	2019	2018	Var.
Employees	6,226	6,476	-250
Employees in Portugal	6,188	6,437	-249
Branches	542	572	-30
Total Branches and Corporate Centers in Portugal	532	562	-30

* Excludes non-recurrent results

** Fully implemented with results net of payout

*** *Headcount criteria*

[1] Includes other balances receivable at amortised cost

Note: For the purposes of greater comparability of the information, at 2018 values, a reallocation of the corrections of assets and liabilities included in hedging operations that affected some balance sheet items, namely credit and total assets and liabilities, was made. Likewise, some accounting concepts were relocated between different items in the 2018 profit and loss account, for greater comparability with the 2019 accounts, which is shown in the table "Impact, by concept, of the reclassifications in 2018", in the " Economic and financial information "(p. 35).

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Dear Stakeholders,

Santander Portugal ended 2019 with a net income of €527 million, the largest of its history. Net income from banking activities grew by 7%, efficiency ratio amounted to 45%, and the cost of risk was very subdued.

We supported the development of Portuguese households and companies: we have a 19% market share of new mortgage-loan production and of loans to businesses (average for the year) and, on a daily basis, we have developed technological solutions to provide our customers with faster, intuitive and simple access to our services.

We offer our employees the best working conditions, because we know that our team comprises the best professionals of the sector. We again obtained confirmation by *Great Place to Work* that we are the best bank to work for in Portugal.

We have invested over €7 million in our Community. We support 330 associations connected with education, protection of minors, financial literacy, health, disability, social inclusion and care for the elderly, with a direct impact on more than 28,000 beneficiaries.

We ensured our sustainability, delivering value to our shareholders, with a RoE of 13.8%, above the cost of capital.

The quality and strength of our Bank are recognized. We received the distinction as "Best Bank in Portugal" by *Euromoney*, *The Banker* and *Global Finance*. We were considered the "Bank with Best Reputation" by *Marktest*, *OnStrategy* and *Merco*. We have the best ratings of Portuguese banking, often better than those of the Portuguese Republic.

This is our permanent commitment, we want to do things the right way, always acting in a Simple, Personal and Fair way.

For all this we are proud of belonging to Santander Portugal.

Postscript

The beginning of 2020 was unexpectedly marked by the calamity caused by the Covid-19 disease, which caused an emergency in public health and in the Portuguese and international economy.

In this connection, in March we suffered the loss of António Vieira Monteiro (Chairman of the Board of Directors), who was decisive for the success of Banco Santander in Portugal and left us a legacy of competence, rigour and independence.

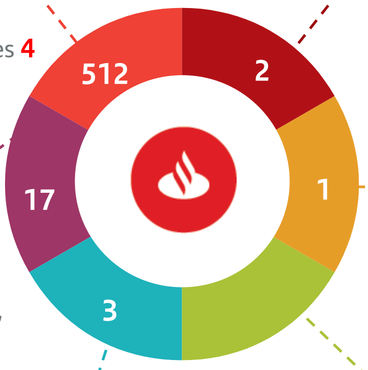
Santander Portugal will rise to any challenge brought by 2020. And our determination will also be our tribute to António Vieira Monteiro.

Pedro Castro e Almeida

CUSTOMERS AND THE BANK'S DISTRIBUTION NETWORK

Conventional Network

- Individuals & Business Branches **475**
- Private Centres: **8**
- Business centres: **22**
- Large Corporate and Institutional: Centres **4**



Work Cafe

- In Lisbon, Coimbra and Espinho
- Focus on customer service
- Cafeteria, reading and co-work area
- Support rooms

Smart Red

SMARTRED

- Areas differentiated by segment: *Full Concept, Agile and Basic*
- Focus on customer service: self-banking, multi-channel, availability

Money Club

- Nova SBE University
- Space 100% dedicated to students

"Próximo" Branch

- **100%** digital
- Monitoring by remote/digital manager

Channels

- *NetBanco* (Individuals and Companies)
- ATM Park **2,100**
- Available Apps **4**

Customer Centre

- Several areas of analysis indicated by customers
- 10 projects through various analysis methods
- More than 100 participants, including customers, non-customers and employees

Differentiated products and **focus on customer experience** as customer-base growth factors

Active Customers	Main Bank Customers	Digital Customers
1,709k	778k	775k
+1.0%	+2.6%	+5.6%

Ongoing Digital transformation, focusing on simplification and provision of digital solutions

45% of digital customers

35% of sales via digital channels

4.5 million transactions via digital channels (monthly average).

Optimization of work methods and simplification of internal processes, allowing better customer experience.

Process Simplification

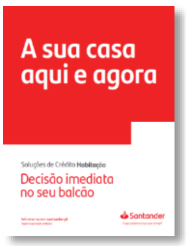
Agile workplace - New physical work spaces, aiming to enhance the collaborative capabilities through a methodology of interdisciplinary work teams.

RPA (Robotic Process Automation) – Task automation using robotics as leverage.

- 35 processes automated via robotics
- 7,500 more daily tasks with great impact on the improvement of processes, operational risk reduction and operational control.

Mortgage Loan Platform – Mortgage loan contracting process integrated with all those involved:

- Reduction of the average contracting time using the App by about 50%.
- Opening of the platform to Tied Credit Intermediaries (ICV), with road shows in the country.
- Improvement of customer satisfaction levels (NPS of 63%).[1]



Mais Simples   Mais Rápido e Próximo   Mais Eficiente   Mais Transparente

1- *Net Promoter Score Metric* (9 + 10 - ≤5 classifications)

Products and Services

CrediSimples – On-line contracting of personal loans accounted for 21% of total credit granted.

CrediSimples Business – Immediate contracting of loans through *NetBanco Empresas* involved 3,500 transactions in 2019.

Santander Wallet – Functionality that allows payments to be made around the world, using the Bank's App through a QR Code or contactless technology.

One Pay FX – Service that allows instantaneous international transfers to be made in an easy, fast, secure manner at no cost.

Open Banking – Possibility of consulting balances and movements of accounts with other banks and making SEPA transfers from those accounts.

'Dedicated' IBAN for Companies – Solution allowing precise identification of who makes the transfers, enabling automatic reconciliation.

CORPORATE CULTURE, AWARDS, DISTINCTIONS AND OTHER RELEVANT FACTS IN 2019

Corporate culture, business model and strategy

Our purpose

To help people and businesses prosper

Our aim as a bank

To be the best open financial-services platform, by acting responsibly and earning the lasting loyalty of our people, customers, shareholders and communities.

Our how

Everything we do should be

Simple I Personal I Fair

The **SPF culture** is based on our eight **corporate behaviours**...

Show respect	Trully listen	Talk straight	Keep promisses
Actively collaborate	Bring passion	Support people	Embrace change

... and a strong risk culture

risk pro

Everyone's business

Our approach

"By delivering on our purpose, and helping people and businesses prosper, we grow as a business and we can help society address its challenges too. Economic progress and social progress go together. The value created by our business is shared - to the benefit of all. Communities are best served by corporations that have aligned their goals to serve the long term goals of society."

Ana Botín

By being responsible we build loyalty

Our corporate culture: Santander Way

Santander Way reflects our mission, our vision and our way of working. It is the basis on which we are building a more responsible bank.

To be a responsible bank, we need a solid corporate culture

Our corporate culture is essential to the creation of banking that is more responsible. By fulfilling our mission of contributing to the development of people and businesses, we not only grow as a business, but also help society to face its main global challenges.

Economic development and social development go hand in hand.

The value that our business creates is shared for the benefit of all.

Santander Way The way we work

To live the Santander Way, and to be a Simple, Personal and Fair Bank (SPF) in everything we do, we defined eight corporate behaviours in 2016.

We have embedded these behaviours in each stage of the employees' life cycle, ensuring that they are present in everything we do: from recruitment and hiring, training, career development, remuneration, recognition, etc.

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

Ana Botín

Leadership Commitments

Leadership is critical to accelerating corporate and cultural transformation. Therefore, in 2019, we launched our Leadership Commitments. They were defined by more than 300 employees and 28 different units of the various countries where the Group is present.

To incorporate the commitments into all our operations, a major in-house communication campaign was drawn up and they were included in our leadership programmes and specific training courses. Additionally, our Global Engagement Survey incorporated four questions, which reflect the Leadership Commitments and complete our evaluation system, the *MyContribution*.

Also, we changed our Corporate Culture Policy to reflect the Leadership Commitments as common minimum standard (mandatory) at all units of the Santander Group.

Best Bank in Portugal	Santander in Portugal was distinguished by **Euromoney** magazine with the "**Best Bank in Portugal 2019**" award within the scope of the *Awards for Excellence 2019*, which took place in London with the presence of more than 500 bankers from around the world. The prizes distinguish those institutions that provided the best services to their customers, demonstrating leadership, innovation and dynamism in the markets in which they operate. This is now the 17th time that Santander's activity is distinguished in Portugal.
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 2019. The publication highlights "the position of leadership assumed by Santander in the Portuguese banking sector in recent years, describing its history of growth as a result of the customer-centred strategy and of the commitment to digital innovation".
Best Bank in Portugal	The North American **Global Finance** magazine elected Santander in Portugal as the **"Best Bank in Portugal"**, within the scope of the "*World's Best Banks 2020*". To elect the winners, objective criteria were taken into account, such as profitability, evolution of assets, geographic scope, development of new business and product innovation.
Most Reputed Banking Brand	Santander is the **brand with banking' best reputation in Portugal**, according to the ***Marktest Reputation Index (***MRI) in 2019. The Bank obtained the highest ratings of the sector in the Admiration, Confidence, Image and word-of-mouth (WOM) attributes. This year Santander rose to 1st place of the sector, standing out in the four criteria referred to above. In Familiarity it came second *ex-aequo*.
Most Reputed Banking Brand	Santander was also the **brand with banking's best reputation** in Portugal, according to the ***Global Pulse RepScore* 2020 study**, conducted by consultant **On Strategy**. It is the fourth consecutive time that Santander occupies this position, leading in the two dimensions, rational and emotional that form the analysis.

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

Other awards and distinctions:

Best Private Banking in the service categories, *Euromoney*

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

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

Market Member Award - Most Active Trading House in Derivatives Market, *Euronext*

Assesses the performance of members by the volumes of euros traded in derivatives.

No. 1 Corporate Bond House Award, *Euronext*

Distinguishes the financial intermediary with the largest volume of placement of bonds on the Portuguese Stock Exchange, listed in the Euronext regulated market segment.

Relevant facts of the year

Bank Santander in Portugal with a new Executive Committee for the 2019-2021 three-year period. Pedro Castro e Almeida is the new CEO.

Santander continued to develop new digital solutions, such as the Wallet in the App to send money and pay for purchases, and the Open Banking. The CrediSimples Business and the World 1|2|3 Businesses were also at the forefront.

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Santander aims to be an increasingly responsible Bank, having signed the Letter of Commitment to Sustainable Financing in Portugal. The launch of the “Mais Perto” Scholarships, for student access to university residences at affordable prices, was one of the novelties of the year. During this period, the Bank invested €7.2 million in support to the community.

The emblematic “Edifício dos Leões” opened to the public. Santander transformed its headquarters into a cultural space where you can get to know learn the history of the Bank, the works of art of its collection and visit temporary exhibitions. The first was "Home Sweet Home" by Joana Vasconcelos.

SUSTAINABILITY POLICY

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

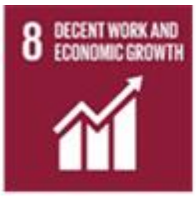
Main areas of activity as part of the sustainability policy

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

Main Sustainable Development Goals (SDG) where Banco Santander's business activities and community investments have the most weight

Boosts Higher Education to help the development of the communities in which it operates

Promotes an attitude open to diversity, as a way to increase its human capital



Aims to attract and retain the best talent and ensure that its professionals feel motivated, committed and rewarded

Analyses the social and environmental risks of its operations and boosts the funding of renewable-energy projects to support the fight against climate change

We invested €**7.2 million** in community-support projects, through sustainability actions and Santander Universities.

The Santander Group was awarded **first place** in the 2019 ranking of the **Dow Jones Sustainability Index (DJSI)** as the **world's most sustainable bank.**

The Santander Group is a **founder member of the UN Principles for Responsible Banking Principles** signed in September.
Santander joined 30 other signatory banks of the Principles to announce a **Collective Action for the Climate Commitment** in order to take tangible steps in the implementation of commitment entered into.

Support for the environment: At the COP 25, Banco Santander announced its **commitment to be carbon neutral in 2020** by offsetting all emissions it generates in its day-to-day activity. The Bank's aim is also **total elimination of single use plastics at its facilities** and the **purchase of 100% of energy from renewable sources** at its premises.

Commercial offer of sustainable products: The Santander Sustainable Fund, for socially responsible investment; Renewable Energies Loan for investment in alternative energies; Credit Line for Decarbonization and Circular Economy.

The Great Place to Work Institute recognized Santander as **one of the World's 25 best companies to work for**. In Portugal, Santander is the first bank and the 2nd large company of the ranking.

Financial culture and financial literacy initiatives **and support for people in poor socio-economic situations: 135,000 people supported**.
375 volunteers and 3,895 hours of volunteering with emphasis in the entrepreneurship programmes of the Junior Achievement

50 protocols with Universities and Polytechnic Institutes.
1,700 scholarships involving social support, international mobility, entrepreneurship and employability.
Realization of the largest edition of the ***European Innovation Academy*** – accelerator of start-ups of a university digital base;
Launch of the "Closer" grants for affordable accommodation for university students;

28,000 people helped in the local community.
330 Associations supported.
Santander is committed to the **inclusion and employment qualification of the disabled**.

Banco Santander leads the Bloomberg 2020 Gender Equality Index

Banco Santander’s score was the highest in Bloomberg's 2020 Gender Equality Index (***Bloomberg Gender-Equality Index, GEI***). Inclusion in the Bloomberg index has become the mark of excellence for companies around the world that publicize their commitment to equality and advancement of women in the labour market through the implementation of policies, representation and transparency

For the preparation of the index an evaluation was performed of 6,000 companies of 84 countries, and 322 companies were finally included in it. Companies that have revealed their data on gender represent a combined market capitalization of over US$ 14 billion. The 2020 evaluation included 75 metrics in five areas: dimension of female talent and leadership; equality and equal gender pay; policies to combat sexual harassment; inclusive brand; and in favour of women. In total, Santander earned a score of 429 out of a maximum of 500.

Fostering an inclusive and diverse workplace is a key element of Santander’s culture and values. In 2019, the Bank set principles of diversity and inclusion establishing the minimum standards in Santander’s markets, which are embedded in the culture policy approved by the entity's board of directors. The standards aim to achieve impartial and inclusive processes, systems, tools and policies, talent management and equal pay. Santander is committed to publicly increasing the percentage of women in senior management positions by up to 30% and to eliminate the wage gap between men and women in 2025. It is still implementing initiatives to support diversity in companies, including funds to support SMEs managed by women, training and networking opportunities, marketing campaigns and support for entrepreneurs. In 2019, Santander was also recognized as the world’s most sustainable bank in the Dow Jones Sustainability Index, having adhered to the UN’s Women’s Empowerment Principles.

Banco Santander is committed to society and to its mission to help businesses and families to thrive, changing people's lives and contributing to a greener future. In this connection, in 2019 Santander announced **ten Responsible Banking goals** that reflect its commitment to contribute to the **United Nations Sustainable Development Goals** and ensure that it carries on its business in a responsible manner:

	2018	2019	2020	2021	2022	2023	2024	2025
To be among the 10 best companies to work for (in the major geographies)	4			6				
Women on the Board of Directors	33%			40% - 60%				
Women in management positions	20%							30%
Equal pay gap	3%							~0%
Financially empowered people								10mn
Green financing								120bn
Electricity used obtained from renewable sources	43%			60%				100%
Eliminate single-use plastic at the central services and branches				0 tonnes				
Scholarships, internships and entrepreneurship programmes				200 k				
People supported through our programmes of investment in the community				4mn				

----------> accumulated goal -------------- From ... to ...

BUSINESS FRAMEWORK

International Economy

In 2019, economic growth globally was the weakest since the great recession, at just 2.9%, according to the latest IMF projections.

This slowdown was the result of the materialization of various latent risks such as the trade "wars", geopolitical uncertainty, specific factors in some emerging economies, and climate events, with repercussions on the manufacturing sector and on trade.

The slowdown was widespread among the developed and emerging economies, but more pronounced in the former. The effects of the trade "wars" between the US and China had clear effects of contagion to Europe, amplifying the adverse impacts on developed economies.

The materialization of the aforesaid risks affected the confidence of economic agents and, consequently, investment, increasing the slowdown in activity globally.

World Economic Growth

	2017	2018	2019
World	3.8	3.6	2.9
Advanced Economies	2.5	2.2	1.7
USA	2.4	2.9	2.3
Euro Area	2.5	1.9	1.2
United Kingdom	1.8	1.3	1.3
Japan	1.9	0.3	1.0
Developing Countries	4.8	4.5	3.7
Africa	3.0	3.2	3.3
Asia	6.6	6.4	5.6
China	6.8	6.6	6.1
Central and Eastern Europe	3.9	3.1	1.8
Middle East	2.3	1.9	0.8
Latin America	1.2	1.1	0.1
Brazil	1.1	1.3	1.2

Source: IMF (January 2020)

The trade "wars" between the US and China, with bilateral imposition of tariffs between the two countries, played a clear role in the reduction of international trade between the two economies, and with contagion to other trade flows. In 2019, the volume of world trade declined for the first time since the Great Recession in 2008, due largely to this factor.

In 2019, **China** grew by 6.1%, thus prolonging the secular trend of slowdown, to which must be added the said effects of the trade "wars" and the effects of measures to curb the over-indebtedness of the economy, in particular of the "*shadow banking system*". In August, the North American Administration accused China of manipulating the exchange rate, after the Chinese currency depreciated to over 7 renminbi per dollar for the first time since 2008.

The **US** also decelerated, partly through the exhaustion of the positive effects of the fiscal shock adopted in early 2018, but above all by the effects of the trade "wars", which spread to exports and investment. Private consumption continued to be supported, benefiting from the low unemployment levels, which dropped to 3.5% at the end of the year, clearly revealing a situation of full employment. However, this cycle was also marked by moderate salary increases and, consequently, the absence of major inflationary pressures.

The current US economic cycle is already one of the longest in history, moving into its 11th year. However, the average growth rates are lower than in previous cycles (2.3% in the current cycle, compared with 3.3% in the 1990 to 2000 cycle).

The absence of inflationary pressures and the risks that were producing throughout the year and also influenced the financial markets, led to a change of attitude and action by the US Federal Reserve. Its orientation, communicated at the beginning of the year, that the reference interest rates could rise in 2019, gave way to three downward movements, each of 25b.p. in August, September and October, in what were the first rate reductions since 2008, and leading the fed funds reference rate the range of 1.5% to -1.75%

In the **Eurozone**, growth slowed significantly, with the GDP growing just 1.2% in 2019, compared with 1.9% the previous year. This slowdown, though widespread, was not uniform among the various member states, and was especially pronounced in the central countries, such as Germany, France and also Italy, albeit for different reasons.

The trade "wars" had clear contagion effects on the Eurozone, in that **Germany** is an important trading partner of China, and the transmission channels affected industrial production in this country, where effects of the energy transition and adaptation to the new greenhouse-gas emissions regulation were felt in the car sector. The year under review proved to be a year of transition, in which the leading German manufacturers are preparing for the electrification of its offer as from 2020. GDP in Germany grew by 0.6% in 2019. The budgetary room for manoeuvre created by the decrease of the burden of debt service charges was not used to stimulate the economy, rather resulting in a larger budget surplus.

In **France**, activity also slowed, with the GDP growing by 1.2%, largely influenced by the constant protests that marked the political scene. The movement of the "yellow jackets" lost some strength, but came to be supplemented/replaced by the protests against the reform of the pension system. The automotive sector, relevant in France too, was also affected.

In **Italy**, it was the political environment that constrained economic development, with GDP growing just 0.2% (and with a contraction in the fourth quarter). The permanent tensions in the coalition government between the League and the 5 Star Movement led the former to abandon the government. However, a scenario of early elections in 2019 was avoided.

In **Spain**, the political environment did not seem to have had an impact on the economic dynamic, with the economy slowing, but still growing 2.0%. Two general elections were held in April and November, the latter resulting in a coalition government between the PSOE and Unidas Podemos, formed in January 2020.

Already formally outside the European Union, as from February 1, 2020, the **United Kingdom** grew 1.3% in 2019, unchanged from the previous year. The evolution of the activity was conditioned by the political process surrounding Brexit. In October, Boris Johnson took over the of office of prime minister, replacing Theresa May, but was initially unable to unlock the process, even with surgical alterations to the agreement in order to eliminate the so-called Irish "backstop ", under which a border would be created between Great Britain and Northern Ireland. In December, general elections were held, which gave a clear majority to Johnson, who pushed through the exit agreement and implemented Brexit at the end of January.

	GDP	Inflation
Euro Area	1.2	1.2
Germany	0.6	1.4
France	1.2	1.3
Spain	2.0	0.8
Italy	0.2	0.6

Source: EC (February 2020)

Throughout the year, the European Central Bank also incorporated the various risk factors in its growth and inflation forecasts, which were revised downwards, and consequently reversed its message of "normalisation" of monetary policy and reinforced the "forward guidance" regards the expansionist nature of the policy.

Initially, it announced new long-term lending (TLTRO III) operations starting in September 2019, extended until June 2020 the period in which interest rates could remain at minimum levels, and left open the possibility of new measures at the end of the summer.

In September, it announced another package of stimulus measures. The deposit rate was reduced by 10b.p. to -0.5%, the interest rate would be kept to a minimum until inflation converged to 2% (replacing the previous fixed time horizon), a new acquisition of financial assets programme was launched, to the tune of €20 billion per month, and the TLTRO III rules were changed to have more favourable conditions

To mitigate the adverse effects of the negative interest rates on the banking sector a tiering system was adopted for excess reserves, which are exempt from the application of the negative deposit rate of application up to an amount of 6 times the minimum mandatory reserves.

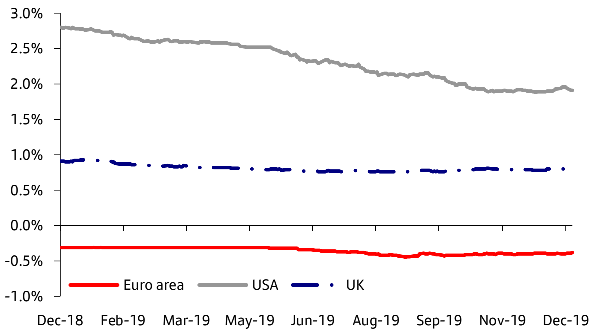
In the **emerging economies**, the slowdown of growth was particularly marked in the first half of the year, later corrected, but always implying a moderation of growth over the previous year. In **India**, annual growth was 4.8% (2pp less than in 2018), the result of disruptions in the automotive and real estate sectors.

In **Latin America**, economic activity virtually stalled, largely due to the evolution of the Mexican economy, which stagnated as a result of conditioning policies after the presidential election of 2018, and effects related to the trade relationship with the US (for example, trade agreements and migration). **Brazil** grew by 1.2%, in line with the dynamics of the previous year, despite a clearly weaker start to the year.

As mentioned, in the major economies, monetary policy took up once again (in the US) or strengthened (in the Eurozone) a clear expansionary stance with reference interest rate decreases and/or recuperation of the quantitative easing programmes. This was reflected over the entire yield curve, with a general decline of interest rates.

Short-term interest rates fell, in this way, in the US and in the Eurozone, while in the United Kingdom, despite the uncertainty associated with the Brexit process, the three-month interest rates were almost unchanged.

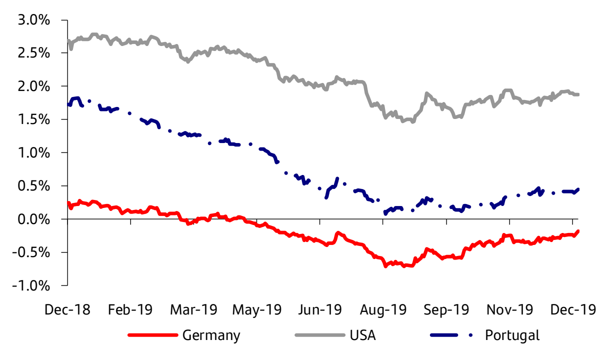
3-Months Interest Rates



Source: Bloomberg

In long-term interest rates, movement between the main countries occurred in tandem with a general downward trend of the yields, in line with the signs of slowdown of activity and/or materialization of the risk factors. The lowest point was observed during August, in anticipation of intervention by the central banks, correcting later. In the US, the 10-year interest rate fell by about 80b.p. and in Germany it resumed negative levels, with a decline of 40b.p. compared to the levels of the beginning of the year.

10 Year Bond Yields

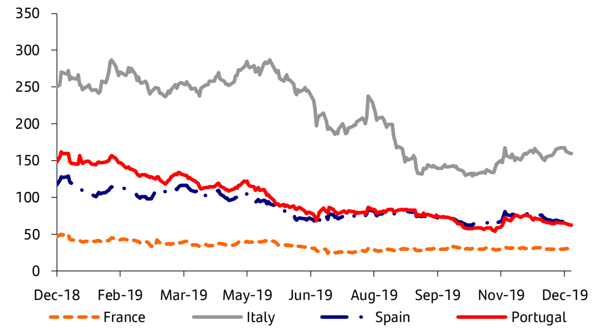


Source: Bloomberg

Credit spreads fell continuously throughout the year, with a differentiated analysis of the risk profiles. For example, the end of the coalition in Italy was received with a reduction of the spread against Germany of about 100b.p. to levels around 150b.p..

In Portugal, the 10-year spread against Germany declined to around 60b.p., and in the second half of the year it even registered levels below those of Spain, which was conditioned by the political environment. This dynamic was also influenced by the improvement of the Republic's risk ratings, by S&P Global, in March, to BBB, and, in October, by DBRS, to BBB (high). S&P and Moody's maintain a positive outlook for the rating of the Republic, indicating a possible upward revision of the risk notation, should the economic and financial variables continue to develop favourably.

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

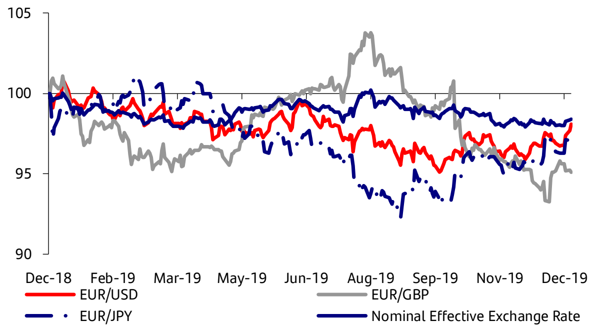


Source: Bloomberg

In the **foreign exchange market**, the euro was characterized by a trend of depreciation against the major currencies, in which the uncertainties as to the dynamics of the European economy dominated the evolution. Against the dollar, the euro ended the year at around €1.12, a depreciation of about 2%, while against the yen the depreciation was about 3%.

The evolution of sterling was dependent on the Brexit process, showing greater volatility throughout the year due to the advances and setbacks in the process. At the end of the year, with the elections and the approval of the withdrawal agreement, the pound recovered to around 85 pence per euro.

Main Exchange Rates (Dec-2018 = 100)



Source: BCE

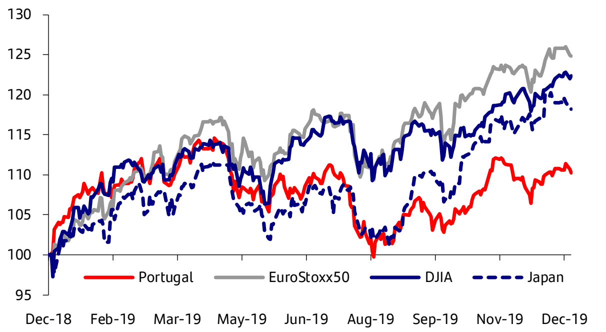
The **equity markets** showed a continuous upward trend, recording, in some cases, absolute historical maximums.

Despite the uncertainties about the evolution of economic activity and the potential impacts of the trade "wars", the scenario of low interest rates over the entire yield curve continued to lend support to the equity markets.

In the US, the major equity indices closed at absolute historical maximums. In Europe, the trend was also of appreciation, despite the less favourable evolution of the banking sector, performance of which is still conditioned by the prospects of evolution of short-term interest rates.

Portugal accompanied the global trend, but more modestly, with the PSI-20 rising by 10%, with emphasis on the behaviour of sectors such as retail and energy. Banking followed the European trend, with a devaluation.

Equity Markets (Dec-2018 = 100)



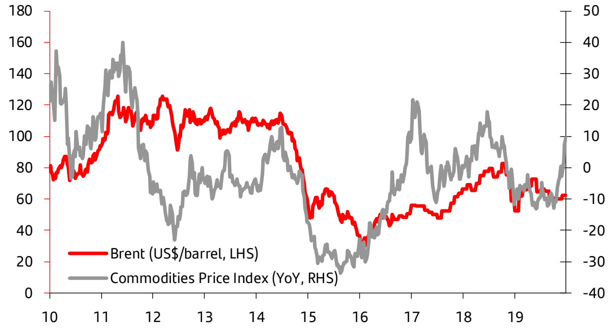
Source: Bloomberg

The volatility and uncertainty were transmitted to the raw-materials markets, with some volatility during the year, but ending with a trend of appreciation. **Oil** rose by 6%, to 62 dollars per barrel, but below the year's maximums (of about 72 dollars observed in May). The other raw materials also appreciated, by about 10%.

Gold maintained its safe haven status, appreciating 18% during 2019 to 1,517 US dollars per ounce.

Portuguese Economy

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



Source: Bloomberg

Observation:

In March 2020 a pandemic situation was declared due to the outbreak of Covid-19, with an aggressive response by the health authorities of each country, significantly altering the environment and the economic outlook, as we shall analyse in chapters on the risks and uncertainties, and prospects for 2020.

In 2019, the Portuguese economy continued the expansion cycle started in 2013, though continuing the trend of moderate growth. Despite accompanying the European trend, Portugal continued to be characterized by growth rates above the long-term trend.

Macroeconomic Data

	2017	2018	2019
GDP	3.5	2.6	2.2
Private Consumption	2.1	2.9	2.3
Public Consumption	0.2	0.9	0.8
Investment	11.9	6.2	6.5
Exports	8.4	4.5	3.7
Imports	8.1	5.7	5.2
Inflation (average)	1.4	1.0	0.3
Unemployment	8.9	7.0	6.5
Fiscal Balance (% GDP)	-3.0	-0.4	0.2
Public Debt (% GDP)	126.1	122.0	117.7
Current Account Balance (% GDP)	2.2	1.4	0.9

Source: INE, Banco de Portugal, Ministério das Finanças

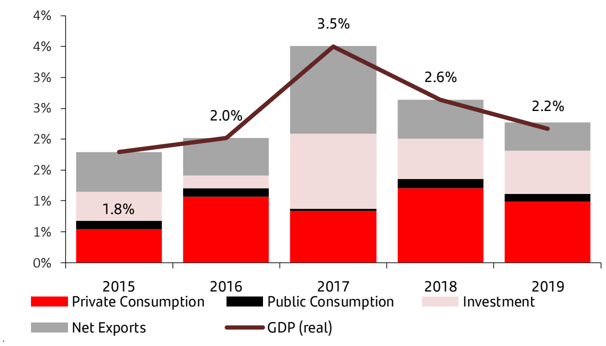
GDP, in Portugal, grew by 2.2% in 2019, still above the long-term trend (estimated at 1.6%), but with a slight deceleration compared to the 2.6% recorded in 2018. This evolution reflects a slowdown of private consumption and exports, while investment accelerated.

Private consumption, despite a slowdown compared to 2018, remained dynamic, with a growth of 2.3%, higher than that of disposable income, largely supported by the reduction of unemployment to 6.5%. By consumption components, the highest growth occurred at the level of discretionary spending on non-food goods and services, consistent with a strengthening of the confidence of the economic agents. Spending on durable goods slowed, in that car purchases had been brought forward in 2018.

At the level of **investment**, there was an acceleration, particularly felt in the first half of the year, associated with the recovery of capital spending on construction. Indeed, 2019 marks a change in the composition of investment, with a greater recovery of construction, whereas in previous years the largest contribution to capital expenditure came from the machinery and equipment and transport material segments. Strong demand for housing, following several years in which construction activity was very limited, is already reflected in an increase in building permits, as well as of homes completed.

Also, the approaching end of the Portugal 2020 Programme is being reflected on an acceleration of investment, for completion of the financed projects.

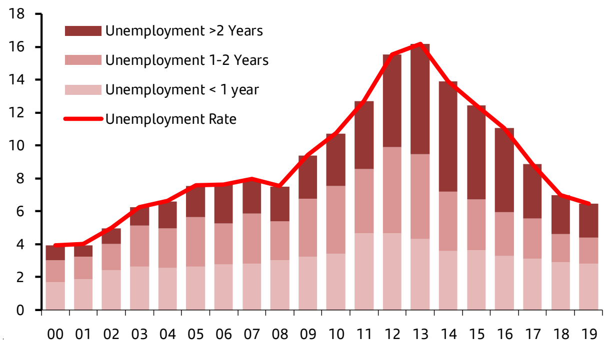
Contributions to GDP Growth (YoY)



Source: INE

The labour market continued to perform positively, with the creation of 25,000 jobs in 2019 and the decline of the unemployment rate to 6.5%, closely aligned with the natural unemployment rate. As the GDP growth rate converges to the long-term trend, the pace of job creation also moderates.

Unemployment Rate



Source: INE

The good times of the labour market, with job creation and moderate wage increases, combined with the appreciation of the real-estate market, might be an explanatory factor for the low household savings level. The saving rate in 2019 amounted to 6.2%, in line with the lowest levels seen since 2016.

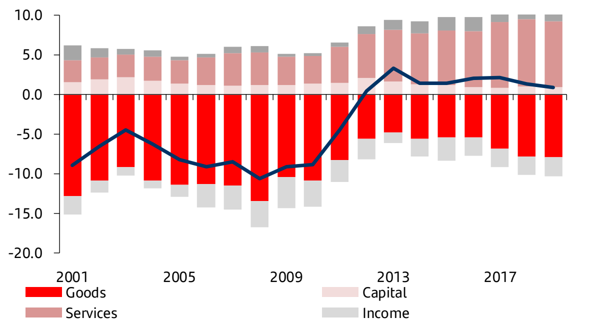
In 2019, investment by households (including house purchases) increased by about 10%, extending the strong dynamism seen since 2017. In 2019, new mortgage-loan production amounted to €10.6 billion (an increase of 8% compared to 2018).

Exports slowed, though maintaining a sustained growth rate, prolonging the trend of recent years. Portuguese exports were also influenced by the trade "wars", due to the interconnection in the global value chains, European in particular, but also by the ongoing transformation in the automotive sector. Exports of services also performed well, but with a visible slowdown in the number of tourists, which was offset by the growth of average revenue.

Imports, in turn, slowed more moderately than exports in 2019, partly due to the increase of investment, in that the greatest growth occurred in terms of capital goods and transport equipment. However, the dynamism of private consumption, associated with tourism, is reflected in a growth of imports of consumer goods, which had not occurred since the crisis period.

Despite the worsening of the trade deficit, the current and capital account maintained a surplus, benefiting from the positive balance of services, at 8.2% of the GDP. However, the overall surplus is smaller than that of the recent past, standing at 0.9% of the GDP.

Current and Capital Account (% GDP)



Source: Banco de Portugal, INE

The economy continued the process of correction of the major macroeconomic imbalances. In this sense, the overall debt continued to be decline, across the board, between the private and public sectors, but in particular in the former. The indebtedness of the private sector decreased to 190% of the GDP, which amounts to a reduction 73pp compared to the highs of 2012. The reduction was more pronounced for companies (down 46pp, to 124%) than for individuals (down 27pp to 66% of the GDP). However, it is still high, thus constituting a potential focus of risk.

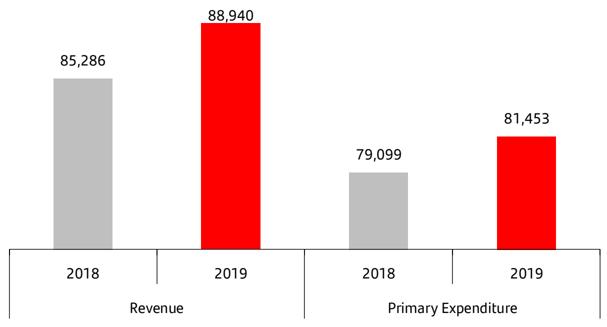
Public debt also followed a downward trend, standing at 118% at the end of 2019, compared to 122% at the end of 2018.

In 2019, budgetary policy continued its path towards budgetary balance, generating a surplus of 0.2% of the GDP, for the first time since the early 1970s.

The information, from a cash standpoint, shows that the better performance was the result of a revenue growth at around 4.3% (evolution identical as regards tax revenues), greater than the growth of the actual expense (+2.3%).

Current Revenue and Primary Expenditure

(€ mn)

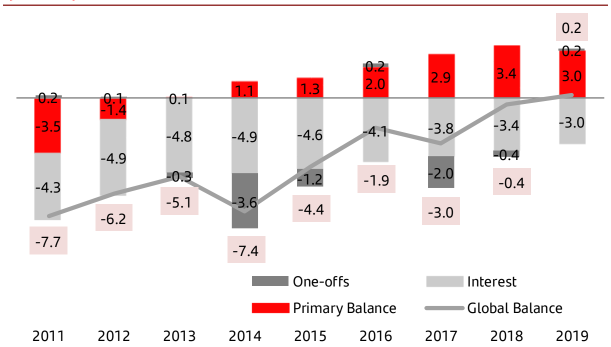


Source: Ministério das Finanças

The consistency of the budgetary policy, with reduction of the budget deficit and generation of a primary surplus, which allows a reduction of the public debt ratio, continues to support the better evaluation of the risk by the rating agencies. In 2019, the Republic's credit risk notation was raised to BBB in March, by S&P, with positive outlook, and to BBB (high) by DBRS, with stable outlook, in October. The 10-year yield at the at the end of January 2020 stood around 0.3%, a differential of about 70p.b. against Germany, fully in line with Spain's spread against Germany.

Fiscal Balance

(% GDP)



Source: Ministério das Finanças

The Treasury continued its deadlines and cost of debt management strategy, taking advantage of the lower interest rates on the global markets to finance the longer maturities, and also to implement debt-swap programmes, replacing those with shorter maturities with longer maturity debt. In 2019 the Treasury brought forward payment of €2 billion to the EFSF.

From the standpoint of placing savings products for the retail market, in 2019 the Treasury focused only on Treasury certificates, but with an increase of the stock of just €631 million (throughout the year, the maturities of certificates issued in 2015 were significant, revealing a greater gross placement of almost €4 billion).

This tapping of household savings had no visible impact on the volume of deposits of individuals with the national financial system, which, in 2019, increased by nearly €6 billion.

Within the framework of the correction of the imbalances, in 2019 the Portuguese banking sector continued the process of cleaning its balance sheet and reduction of non-productive exposures (NPE).

In 2019 the stock of NPEs was reduced by about €8.7 billion, leading to a reduction of the NPE ratio to 6.1%, but still above the European average.

As in previous years, the process of managing non-productive exposures was one of the main determinants of the evolution of the credit aggregates, which fell for yet another year. Over the year as whole, the stock of loans to companies fell by 4% (with a reduction of about 43% in loans overdue more than 90 days), while the mortgage-loan portfolio decreased by around 1%. This dynamic occurred at the same time as a further increase of the volumes of new loan production: new loans to companies increased 3.8% compared to 2018, to €32.8 billion and new mortgage loans rose 8.1% to €10.6 billion (but still short of the volumes recorded between 2003 and 2008).

Note: Text written with the information available up to March 31, 2020.

Major risks and uncertainties for 2020

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

A first wave of effects on the Portuguese economy, similarly to other economies, stems from disruptions to the supply chains, with the temporary closure of activity in China and possible disruptions of goods.

A second channel has to do with the imposition of containment measures, such as remote work, temporary closures of activities, border closure the and, more recently, limitations travel by the population, of which, in Portugal, an example is the decree of a state of emergency since March 19.

The third transmission channel results from the transverse nature of the contagion and of the measures at European and global level, which will amplify the adverse effects on the activity.

It can therefore be expected that economic activity is set to be strongly negatively affected, and may induce a recession in the world economy and, consequently, in Portugal. Its overall size, however, cannot be fully quantified, given the early stage of imposition of containment measures and the uncertainty as to its duration.

Still, the context in which Banco Santander in Portugal will operate during the year will be very different from what had been expected before the outbreak of COVID-19, in a particular adversity framework.

On the one hand, business volumes may be lower than expected, with a postponement of investment decisions by the economic agents, including the purchase of homes. Also, the evolution of resources, deposits in particular, may be affected by the need for liquidity felt by the economic agents.

On the other hand, interest rates may fall even further as a result of the monetary policy decisions taken by the central banks, including the European Central Bank.

In March, the ECB took a number of measures to mitigate the adverse effects of the pandemic, including long-term liquidity-providing operations until June, alteration of the conditions of the TLTRO III, including the 0.25% interest rate cut, and a strengthening of the financial assets purchase programme (in the additional amount of €870 billion, including the Pandemic Emergency Purchase Programme – PEPP, in the amount of €750 billion).

The central banks as a whole also adopted stimulus measures, including lowering the key interest rates to near zero, as was the case of the US Federal Reserve and of the Bank of England. Additionally, new acquisition of financial assets programmes were implemented, including corporate debt and ETFs.

National governments also adopted stimulus measures, although with different characteristics and dimensions. In the US, the CARES Act, economic aid programme, amounts to US$ 2 trillion, including direct assistance to families, in cash. In most European countries, the support announced includes guarantees on lines supporting the liquidity of companies and employment support programmes, with funding of temporary lay-off in order to reduce the overheads of companies during the pandemic period. Portugal had a similar plan, with guaranteed credit lines of €3 billion (which may be enlarged) and support for the temporary lay-off covering 70% of the resultant costs.

There are risks, in terms of additional impacts, arising from the shock waves of the pandemic. A widespread deterioration of loan quality may generate additional shock waves in the financial markets in the event of downward revisions of debt risk notations, primarily of companies (particularly in the US) but also of sovereign debt. These may delay the recovery of activity globally and, consequently, in Portugal.

BUSINESS AREAS

Individuals and Businesses

In 2019 the Bank lent continuity to the strategy of improvement of the business model through the development and implementation of new digital solutions and process simplification. A new branch concept was adopted, called the Work Café, which consists of a space "open" to society and to the market, which enhances the relationship of the customers both with the Bank and among themselves. In 2019, two spaces were inaugurated, one in Lisbon and one in Coimbra and, in January 2020, a third was opened in Espinho.

With regard to the customer base, in 2019 there was an increase of 17,400 new loyal customers, with a major contribution by university-segment customers. With regard to the number of digital customers, users of the Santander App and/or NetBanco, the increase of 38,000 led to a total of more than 775,000 customers, or 45% of the loyal customer base in 2019.

Also, to be highlighted is the ongoing positive evolution of the Mundo 123 customers (customers having an account, a card and insurance protection), now standing at 272,400 customers, an increase of 29,000 over the year. Mundo 123 is a multi-product solution directed at individual customers that, in addition to the advantages of the 123 account, can provide an additional set of benefits, via cash-back, in the Mundo 123 card account.

A strategy underpinned by the soundness of the Bank and the trust of the customers, responding to need of development and support in the achievement of their projects that has resulted in an increase in loan production, with a positive impact of €276 million on the loan portfolio.

In 2019, there was a growth of the rate of mortgage loan production over the year, amounting to about €2 billion, equivalent to a 20% market share in the period from January to December. Personal-loan production, in turn, amounted to €529 million, with emphasis on the "CrediSimples" online solution, which accounted for 21% of production.

With regard to resources, the evolution was very positive, with a sustained increase, especially associated with the diversification in favour of off-balance sheet resources (mostly in investment funds), compared to the amount observed at the end of 2018. As a result, this strategy of diversification of resources, emphasis is given to the growth of the number of customers with retirement savings products, up by 33,300. In turn, in terms of autonomous protection insurance, there was an increase of 43,400 policies, an increase of 8% over the same period last year.

The Business segment continues to be of significant strategic importance for the Bank, which resulted in a set of actions aimed at providing customers with a high value-added offer, in which digitization and customer experience are of particular relevance. An example of this was the launch, in March, of the new "CrediSIMPLES Business" digital offering, a solution that allows customers to contract loans online via NetBanco Empresas, through which around 3,500 operations were realized, also contributing to the annual growth of production by 27% to €2.65 billion. In October, Mundo 123 was extended to the Business segment, with a modular solution for cash management of the customers in this segment, in which customers can combine the Conta 123 Negócios with credit card, current account and/or POS in keeping with their needs. The segment's turnover grew by 7.6% compared to 2018.

Companies and Institutionals

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

The Santander Empresas Non-Financial Solutions are a differentiating offering that is outstanding in the marketplace, at the disposal of companies and entrepreneurs, allowing the ongoing training of their staff and employees, support to internationalisation and strengthening presence in the digital area. They also promote among young people their employability through an internship scholarship programme.

Under the internship scholarship programme 209 internships were awarded over the year under review, in a business environment, making this programme a true platform for access to the employment market for the final-year university students, more than 35% of the youths involved in the programme having maintained their connection with the company with which they carried out their internship, reflecting their suitability to meet the needs of the companies.

In relation to classroom training, the offer was extended and also directed to the Agribusiness, Tourism and Social Economy business segments. Thus, by the end of 2019, in addition to the Business Management programme, 9 sectoral-management programmes were organised, three linked to the social economy sector (Lisbon and Porto), three to the Agro sector (Lisbon, the Azores and Mirandela) and three to the Tourism sector (Madeira, Algarve and Porto), involving more than 330 companies and institutions, contributing to strengthening their competitiveness by improving the skills of their staff and employees.

The continuity of the offer of online training, in in partnership with two certified entities of not in the market, allows free access to more than 15 courses in five different areas. The Bank provided a total of 101 licences through these platforms throughout 2019.

Consolidating the Bank's policy of proximity with companies, organizations, local associations and universities through the exchange of experiences, opinions and knowledge sharing with all participants, Santander Companies BOX events were held, one in Leiria and the other, for the first time, in Madeira.

The positioning and focus the Bank's support for companies is also to be seen in the number of transactions and amounts falling within the scope of the Mutual Guarantee Societies, to support investment projects or financing cash, in the most varied economic sectors, conferring leadership on Santander during several months in 2019.

Through the IFRRU 2020 line, in which Santander manages the market's biggest line, support has been maintained for the development of several urban rehabilitation projects promoted by companies and individuals.

Support for customer internationalization warrants a reference, and to this end it has with specific tools to support international business, such as Santander Trade portal and the International Desk. During 2019, Santander Totta was the international business partner of more than 7,000 companies on a monthly basis, an increase of 18% compared to 2018. The Bank achieved a market share of 18% in import trade, maintaining the sustained and permanent growth seen over the past 5 years.

The Bank continues to support the cash management of companies through factoring and confirming products for both the largest Portuguese companies and also for small and medium-sized enterprises, accompanying customers with solutions tailored to their business and to support the opening of new markets in a context of increasingly demanding requests by companies, providing via the NetBanco Companies platform a generalist offering covering the entire range of sub-products existing in the market.

In the Institutional Customers segment, Santander in Portugal maintained its commitment to the customers of this segment, both with regard to public entities, with a strong presence in the Azores and Madeira Regions and with the Municipalities, as well to private entities, with a special focus Religious Institutions and on the Social Economy, designing tailored solutions for these institutions in order to meet their needs. As a result, the segment performed well, especially in attracting Resources, with an increase of 13.1% compared to 2018.

Investment funds and insurance marketed

The year under review was marked by the general appreciation of the financial markets, Santander Asset Management (SAM) having sought to manage its mutual funds (FIM) actively, with the goal of maximising the return for their participants. SAM closed the year with a market share of 17.9%, an increase of 0.8pp YoY. Real-estate investment funds totalled about €421 million at the end of 2019.

In the financial insurance area, the focus was maintained on active management of open financial insurance, which recorded a net change of more than €160 million.

During 2019, the Protection Insurance area continued its strategic priority of providing customers, in the various channels, diverse and comprehensive solutions that contribute to their personal, family and corporate safety. Noteworthy is the launch of new products within the scope of health protection for individual customers (Safe Care Health, Live Longer Health), designed taking into consideration the growing concerns of the population in this area. Online contracting of protection insurance continued its growth tendency, accounting for about one third of the year's subscriptions.

"Safer every day" was the signature of the advertising campaign on television, in the press and on the digital channels, characterized by a message associated with customers' need for protection and that of their families, 365 days a year. Within the scope of this concept, throughout the year preferential conditions were granted on the acquisition of new protection insurance, directed at customers who already have at least one of these solutions.

Corporate and Investment Banking

In an adverse situation of continuation of negative interest rates and high pressure on spreads, the Corporate and Investment Banking area strengthened its commitment to customers, exploring new investment opportunities. The new digital foreign-exchange contracting platform (via NetBanco Empresas) reveals the Bank's focus on innovation and digital transformation.

The loan portfolio decreased by 6.8% compared to the homologous period, largely due to management of the balance sheet for a very small number of customers, further compounded the scheduled repayments of structured transactions. Revenues, in the same period, increased 3.5%, and the negative impact on net interest income was offset by the increase in revenues on non-recurring operations, with emphasis on the strengthening of financial advisory operations and on fixed-interest loans.

In the Global Debt Financing area, the year under review was marked by the conclusion of the first private issuance of debt in Portugal under the Project Finance regime, Santander having structured and placed a €270 million issue for Indaqua Feira. Several major financing operations were also concluded during the first half, involving a broad range of industries such as chemicals, transport, logistics and energy, with emphasis on the participation in financing the Finerge group in an amount in excess of €950 million, now considered the largest ever Portfolio Finance in the onshore renewables sector in Portugal. In the Asset Finance area, too, Santander structured and financed the acquisition of an Airbus A330 Neo aircraft for TAP, contributing to the company's objectives of reduction of carbon emissions.

Attention is also drawn to various loans and refinancing in the real-estate sector, notably shopping malls and property development for residences and tourism apartments.

In the bond markets, emphasis is given to the Bank's participation, as bookrunner, in the only issue of the year, for EDP, with a hybrid bond with a maturity of 60 years and an amount of €1 billion, and to the participation in the placement of the first rated bond issue for Saudaçor, with the guarantee of the Azores Autonomous Region.

In the Corporate Finance area there was intense activity related with mergers and acquisitions, with emphasis on the successful conclusion of operations in the energy, shopping centres and media sectors. The operations portfolio was strengthened, and several other advisory processes are underway involving transactions to be concluded in the coming months.

In Treasury, the activity of the Corporate and Commercial Banking area increased substantially, underpinned by sustained growth in interest-rate risk hedging and by enlargement of the offer of foreign-exchange operations contracting alternatives.

In the matter of interest-rate risk management there was strong growth in fixed-rate operations, by volume of loans and by number of transactions. The negative interest-rate levels in the euro area favoured the adoption, by customers, of risk-reduction strategies to hedge potential future increases of financial charges, the Bank having presented alternatives for informed decision-making as to the best strategy in the interest-rate risk management policy.

In the foreign exchange area, 2019 showed a strong commitment to the improvement of the digital channels available for customers, the offer of which contributed to the significant growth seen in the currency area, in terms of number of transactions, trading volume and the number of active customers. Noteworthy is the release in January of a new foreign-exchange transactions contracting platform, which at the yearend already accounted for over 20% of the total number of foreign exchange spot transactions contracted in the Companies segment.

Foreign Customers and Residents Abroad

The main function of the Foreigners and 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 6 countries (South Africa, Germany, 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.

Acknowledging the growing interest of foreigners in living and/or investing in Portugal, Banco Santander in Portugal has paid special attention to this cluster, giving rise to the capillarity of the Santander Group as a Global Bank, streamlining processes and creating conditions to meet the specific needs of these customers, as well as the development of financial product and service solutions allowing the Bank to support foreign customers who invest in Portugal.

In 2019, the Foreigners and Residents Abroad area strongly intensified its work to raise customer awareness of the importance of accession to the Bank's digital channels (NetBanco and Mobile), thereby gaining access, simply and quickly, to the offer created specifically to meet their needs.

Maintaining its strategy of closeness and strong connection with the Portuguese communities and with the official entities in the various countries where it has representative offices, Banco Santander in Portugal has strengthened its position in this segment and is recognised by its customers as a safe and reliable bank, a fact that it is reflected in the 4% increase of remittances received from abroad (which, at the end of 2019, amounted to €1.16 billion), as well as in their retention, thus contributing to the €43.7 million increase in resources, when compared to the same period last year.

Digital Transformation

During 2019, Banco Santander continued its digital transformation plan, the aim being to be closer to its customers and to simplify processes. This strategy allowed us to maintain the trend of growth in the number of digital customers, with an increase, during the period, of more than 41,000 users of the App and/or NetBanco.

At the end of 2019, the number of digital customers exceeded 775,000, or 45% of active customers. Considering this basis, 36% are exclusive users of the App, 39% exclusive users of NetBanco and 25% use both channels.

This growth was reflected in increased sales via the digital channels, which in December 2019, accounted for about 1 in 3 sales of eligible products (35% penetration).

Individuals Channels

During the year 2019, functions were developed associated with the "CrediSimples" grant of personal loans. Currently, through the App or NetBanco a Santander customer can: (1) simulate in a simpler manner; (2) immediately contract the loan (if eligible); and (3) take out the respective insurance associated during the process.

To ensure that the activity via the digital channels meets all rules of the Payment Services Directive - PSD2, new rules to apply to the processing of transfers and payments were implemented. These new developments aim to increase customer safety in the use of electronic banking.

Additionally, new benefits were introduced to the Mundo 1|2|3 offering and monthly packages of instant transfers were created.

In the NetBanco Particulares area, new functions were implemented features within the scope of Open Banking. Customers can now add accounts from other banks to consult balances and movements or even make transfers from those accounts, and is also possible to request and receive a new PIN of the Santander cards by SMS or to issue proof of the IBAN of their accounts.

With regard to the App Particulares the Santander Wallet was launched, which has the MBWay functions to make P2P transfers through the telephone contact and to make payments via QR Code and NFC (contactless), the latter option still exclusive for mobile phones with the Android operating system.

Also implemented was the App access solution for minors. The planned functions allow youths aged between 12 and 18 to consult balances and movements and "ask their parents for money" directly via the App.

In order to collect user feedback, "Rate App" function was made available. This function allows customers to evaluate and submit recommendations regarding the App. Based on the information gathered, the Bank will be in a better position to improve the user experience of its digital platforms, as well as to prioritize development efforts.

Companies Channels

The year under review was marked by the launch of the functions required to ensure compliance with the rules of the Payment Services Directive - PSD2, including migration of the Matrix for SMS within the scope of the authentication of operations.

NetBanco Empresas launched the "CrediSimples Business", through which instant credit is granted up to €50,000 to companies that meet certain conditions. During 2019, more than 3,500 loans were formalized in this way, involving a total amount of €62.5 million.

Additionally, the direct debit to the debtor function came to be available 24 hours a day, and the parameterisation, payments and collections functions have been improved. It is now possible to create pending operations with no need for authentication.

Also, at NetBanco Empresas, new functions have been included leveraged on the Open Banking ecosystem, allowing customers to add other bank accounts to consult balances and movements or even to make transfers from those accounts.

In the App Empresas the possibility was introduced of signature of applications for import documentary credits (IDC), differentiating the service provided to the customers. Additionally, other functions were also launched, such as consultation, use and repayment of escrow accounts and scheduling of immediate transfers, and contracting immediate-transfer packages. In 2019, it also came to be possible to alter the email and the telephone number on the App, fundamental data for the authentication process in the Companies channels.

Regarding process simplification, the onboarding process in the Companies channels was revised, making it faster, increasing the autonomy of the branches and freeing the Contract Centre for higher value-added tasks. Through the "NetBanco Empresas Manager", the possibility was added of creating contracts, with a total of 5,300 new contracts subscribing to NetBanco Empresas in 2019, representing 97% of all new contracts.

Digital Marketing

In order to address the need to improve the information and its customers' experience of interaction with the digital services, the Bank has established a competence centre dedicated to Digital Marketing.

In this connection, activities were implemented fundamental to the materialization of the Bank's digital transformation plan, notably those related with analytics and dashboards and campaigns to attract and acquire users.

With regard to digital campaigns, we highlight those of personal loans, with the launch of several campaigns during the year, such as the pastime with Vila Gale vouchers, cross-selling with Mundo 1|2|3 (doubling reimbursements) and sales during thematic periods (Internet Shopping Day, Black Friday and Christmas).

Also to be noted is the innovative initiative that took place at Christmastime. A pastime was introduced in which Santander offered gifts to its digital customers every day. From December 1 to 24, the "24 days of Christmas" pastime was available via the Santander App and NetBanco, and rewarded the fastest answer obtained in a memory game. Within the scope of this pastime there were nearly 200 thousand participants and more than 45 prizes were delivered.

Contact Centre

The Contact Centre is the main point of support for digital activity, providing clarification of doubts about and use of the App and of NetBanco.

In November 2019, and for the second consecutive year, it was considered the "Best Contact Centre of up to 150 workstations", in the Global Contact Centre (annual conference organized by the IFE).

During 2019, there were more than 150,000 contacts with customers and about 2.7 million contacts were received, of which 77% with the use of human attendance, 11% with automatic attendance (IVR) and the remaining 12% via digital contact (email, chat and the Bank's social networks).

Also implemented were several initiatives focused on improving customer experience at the level of processes, training of assistants and replacement of the entire supporting technology, with emphasis on the following initiatives: support for the Open House digital platform, sale of insurance, implementation of PSD2 Directive, creation of a personal loan team and the systematic of contact with confirming suppliers.

These initiatives allowed average NPS (Net Promoter Score) of over 80% to be obtained for most services, which represents a high level of satisfaction with the attendance provided.

BUSINESS SUPPORT AREAS

Quality / Customer experience

During 2019, the Banco Santander **Customer Centre** was inaugurated in Lisbon, a pioneering and unique initiative in Portugal consisting of the creation and availability of a "laboratory" that, using the most modern sound and image-capture and viewing technologies, allows tests to be performed and experiences with customers and other players with regard to concepts, products and services being thought up or in production. This organic unit was provided with all the necessary specialized resources, including customer research technicians, and it its fully up and running and is an indispensable tool for the purpose of "knowing your customer".

Indeed, the Customer Centre is the materialization of the concept that "customer perception is the reality" *in order* to engage them in the process of creation of the products, services and channels that the Bank provides, thus constituting an excellent tool in this co-creation.

In Santander's vision, as or more important than the results that are obtained is how those results are obtained. The Bank give pride of place to the ethics of the action and it is therefore very demanding as to the quality of service and the exceptionalness of the customer experience it wants to provide.

On the other hand, the Bank supports and develops a culture where the performance and results are measured through rigorous and certified, fair and transparent methodologies, so that everyone knows at every moment the assessment customers and other stakeholders make of the Bank and of the performance of each one of us.

In this context of subjection to the verdict of the public evaluation, the Customer Experience area, aligned with the NPS (Net Promoter Score) evaluation methodology, with a rating scale of 0 to 10, launched a vocational training and cultural development programme under the "Being 10, Having 10" signature, the intention being to always place the customer first, as the nuclear centre of the activity and business. The programme's success will result in the trust and loyalty of the customers, thus fulfilling our vision to be the best commercial bank and our mission to contribute to the development of people and businesses.

With regard to the positioning compared to the competition, as measured by the annual satisfaction poll of the individual customers segment, Santander is the most stable bank in terms of the classification of the attributes that make up the study. The Bank is in the TOP 3 in terms of overall classification, which falls within the corporate objective, showing, over the years, a trend of stability.

In 2019, the classification model of the business units was maintained (the Stars System, inspired by the hotel system, assigning to the business units 2 to 5 stars), but with greater requirements. Over 60% of branches and more than 80% of the Company Divisions obtained a rating of *Excellence*, in line with the Bank's goals.

Also within the scope of the "Star System" and through the special programme of monitoring those branches classified as 2-star, we were able to recoup 62% of the branches having that negative rating.

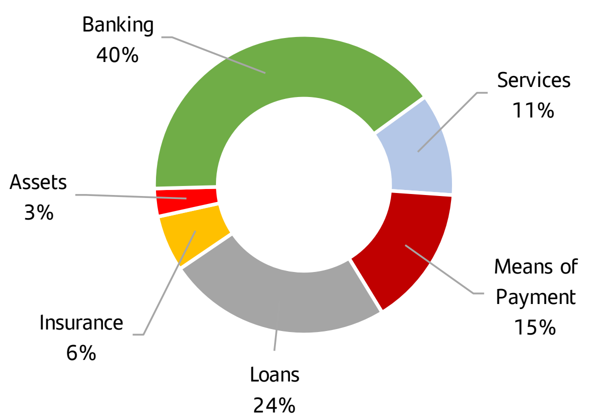
Fundamental to the involvement of all areas and cornerstone of the Quality Management System is the certification process in accordance with the IS0 9001-2015 reference standard which, since 2001, maintains a monitoring system with a focus on ongoing improvement. In 2019, the Bank was audited and was in compliance with this standard, which reflects the best quality management practices.

With regard to the overall volume of complaints, 2019 showed a certain stability compared to the figures recorded in the previous two years.

The Bank's site has strengthened the focus on customer service, with a special space that discloses the Bank's various contact channels to make it easier for customers to submit their suggestions and grievances that are always taken into account in a perspective of customer experience, knowledge, training and prevention of dissatisfaction.

The matters subject to a greater number of complaints remain the same as in previous years and are common to the entire banking system, particularly current accounts to (closure and commissions), loans, cards, with a prevalence of criticism of the pricing changes that occurred throughout the year.

TYPOLOGY OF COMPLAINTS



Technology and Operations

Bearing in mind that Banco Santander is one of the leading organizations in the banking sector in Portugal and operates in a context of increasing complexity and integration of systems, the **cybersecurity** area strengthened its team by hiring more staff and created specialized areas of work.

To this end, considering the recent threats and tendency of fraud on the Internet and the convergence with cybercrime, a fraud management and prevention area was created.

Technologically secure applications and systems were developed, with incorporation of best practices and tools for the development of a secure code.

In an increasingly global economy, interdependencies in which the organization is a participant constantly challenge the definition of cybersecurity. This reality introduces new challenges that promote integration and collaborative work. In this sense, Cybersecurity area was an active member of the national CSIRT (Computer Security Incident Response Team) network, having hosted the last meeting of this organization at the Bank's premises. Banco Santander once again took part in *Cyber Perseus*, a national exercise involving a broad range of events leading to an escalation to a crisis in cyberspace and tested the management and response to cyber-attacks by the entire organization.

As regards cybersecurity conferences, the area took part in several landmark events at the national level, with emphasis on the *C-Days* and the *BSides Lisbon*, for they made a major contribution to the progress and development of a cybersecurity culture in Portugal.

Continuity was also lent to the mission of promoting a culture of cybersecurity among all the Bank's employees, focusing on training and conducting various awareness activities throughout the year.

The **Operations** areas were reorganized under a single leadership, with the aim of establishing an organizational model focused on efficient use of resources, but equally on evolving in the context of the transformation and modernization of their activities. This transformation plan, complete and transversal to all units of the Operations area, was set in motion in its various aspects, drawing on the experience of other units of the Santander Group.

The Bank centred its activity on the customer experience in an E2E view of each operation rather than each micro-task, raising the overall quality of service. The implementation of a culture of perfection in implementing, supporting and facilitating the activity of the commercial teams in the development of the business and changing the sourcing to improve operational efficiency, led to the need to move towards an operational model more agile and efficient, functionally segmented, personalized "outward" but industrialized "inside", supported by a front-back-front applicational request management system enabling the management of the operative and acceleration of the automation.

The ongoing implementation of advanced Business Process Management (BPM) technologies will unify the tasks arising from multiple input channels in operations in a single platform, which will provide an overview of the tasks in real time, and ensure faster and more effective management of the capacity and distribution of tasks, and control of the KPI's and SLA's of the entire operation, contributing to the overall improvement of quality of service. A second expansion phase to the commercial front, with optimization on input based on standardized forms and review of processes will allow a higher level of efficiency, speed and delivery of quality as a result of the increased capacity to robotize standardized tasks and the possibility of integration with other applications for process automation.

This operations unit, which includes the customers and transactionality, credit, operative centre, banking services, production and investments support and planning and control areas, will lead to process and cost optimization and efficiency, ready to support the Bank's growth in all channels and business segments. With ability to adapt to alterations of strategy and to scalability of the commercial activity.

The **Technology** area, in alignment with the business and digital transformation areas, implemented various initiatives designed to make available to the Bank and the customers, new processes/ features and products or make existing processes more efficient and robust, using the latest technological resources, Within the company, emphasis is given to the implementation of the solution for the mortgage loan process that provides a new form of contracting, using the new technologies, the evolution of the use and maturity of the data lake in processing information. Externally, the emphasis is on the implementation of major improvements to the solutions provided via the Internet and mobile channels with the introduction of new features and graphics modernization to simplify and improve the experience of our digital customers and the launch of a transfers App supported by blockchain technology. Within the context of the digital channels, initiatives associated with Open Banking were also implemented and PSD2 directive was complied with. With regard to development methodologies and process during 2019, the adoption of the Agile/ Scrum methodologies was further strengthened, with extension to more teams and with increased maturity in the teams already using these approaches. Additionally, the Technology area has implemented initiatives to ensure compliance with the requirements of a legal or regulatory nature, as well as implementation of the recommendations arising from internal and external audits and of projects of a corporate nature sponsored by the parent company.

End-user equipment was subject to technological renovation and the communications network equipment was renewed.

The year under review was a decisive year for the Bank in the adoption of Cloud, over half of its services having been migrated to this new technology.

People Management

Introduction

The pursuit of Santander's digital transformation policy must necessarily have been reflected in the way in which the Bank manages its employees, that is, how their skills and talents can be transformed and aligned with the needs that will arise immediately and in the coming years.

As leverage of the promotion of this digital transformation a new brand was created: #OEfeitoSantander. This brand replaces the previous one – Somos Santander – and is intended to tell a single story, in all geographies, demonstrating, internally and externally, how small gestures can generate great effects.

In order to improve the Bank's overall performance, the leadership was identified as a strategic axis of action, in that this factor has impacts at the level of employee engagement. Leadership commitments were therefore created to be used by the Bank's senior staff, with a focus on the following areas of action: (1) being open and inclusive; (2) inspiring and implementing the transformation; (3) leading by example; and (4) supporting the progress of the team.

To be the best company to work for is also one of Santander's key corporate objectives in the various geographies where it is present and, for this reason, it has been consolidating the work done in previous years, notably improving processes that simplify the employee's experience. There are more than 60 measures available to employees. Their constant follow-up and monitoring, besides allowing their degree of accession to be assessed, also permits detection of their level of acceptance.

StarmeUp

One of the aims of the activity 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. One of them is of recognition, a corporate digital platform that allows each employee to distinguish colleagues of all geographies where Santander is present.

StarmeUp is **Simple**, employees can assign stars on their mobile phone or on the website; it is **Personal** 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: "Actively collaborate", "Bring Passion," "Embrace Change," "Keep promises," "Show Respect", "Support People", "Talk Straight" and "Truly Listen.".

2019 Santander Week

Every year in June, the Santander Group, in all countries where it operates, carries out what is known as "Santander Week", aimed at employees, within the scope of which numerous activities and events take place. The intention is to strengthen the relationship between the teams, hierarchies, employees and customers.

In short, there were masterclasses, workshops, award of 105 watches at a commemorative ceremony for employees who have completed 30 years of seniority at the Bank and an exhibition of paintings of an employee was organised.

BeHealthy Programme

Santander has a corporate programme that aims to promote and create healthy lifestyles for its employees based on four development pillars:

- *Know Your Numbers*: Provision of means to get to know health indicators, score improvement targets and prevent health risks;
- *Eat*: Raise awareness of the benefits of eating healthily and combating excess weight;
- *Be Balanced*: Help manage balance at work, promoting ways to improve output, in particular through Mindfulness;
- *Move*: Promote physical exercise and fitness at work. Monitor progress and inspire a healthy lifestyle.

In Portugal, in 2019, the concept of health and wellness was allied to the topic of sustainability and so, every day of the week, a topic was assigned that combined activities of both areas:

- Positive energy day (advice on reducing electricity consumption);
- Paperless day (suggestions for reducing paper consumption);
- Plastic-free day (recycle and contribute to a planet with less waste);
- Emissions-free day (environmental impact);
- *BeHealthy* day (encouraged the use of Flex Friday).

Additionally, and in order to encourage employee participation in the common goal of achieving a plastic-free bank, personalized glass bottles (engraved with the name of each employee) were distributed to all employees to replace the bottled water in disposable plastic.

Also in this connection, and once again, Santander signed up for the WWF initiative (World Wide Fund for Nature) "Earth Hour", celebrated on March 30, turning off the lights at the Santander Centre in Lisbon during two hours.

Junior Achievement

The aim of JA – Junior Achievement, is to inspire future generations, promoting entrepreneurship amongst the young, through volunteers whose action take place at schools.

The collaboration of Santander with JA Portugal started in 2006 and since then it has already impacted on more than 11,500 students, involving a total of more than 8,100 volunteer hours. "One is not born an entrepreneur, it is learned!" is the motto that has motivated the participation of the Santander volunteers.

Excellence Awards

It is the Bank's recognition of the children of employees who complete secondary schooling with an average of 16 or more marks. This measure also arose to reward what is considered to be a reflection of the merit of the parents who encourage meritocracy and transmit to their children the importance of doing well.

The prizes awarded in 2019 have been adjusted to something that the Bank considers very relevant to the stage of life at which these young talents are, leading to the grant of a gift card of an amount equivalent to three years, two years and one year of university fees, involving a total investment of more than €77 thousand euros by the Bank. These prizes were awarded on October 23 at the Auditorium of the Santander Centre, in Lisbon, at a ceremony attended by the Chairman of the Bank's Executive Committee, by the person responsible for the People Management Area and by the winners and their families.

Development

The total number of employees included in training courses - face-to-face and e-learning, totalling 381 training courses was 6,300, and 87% was in the form of e-learning. In 2019, a total of 239,161 training hours were provided, corresponding to 38 hours per employee. Investment in training in 2019 amounted to €2.15 million euros.

Additionally, and to support digital transformation and promote the development of each employee, the following initiatives were also promoted.

Creation of the Training Academy

A new training space was inaugurated, comprising nine rooms specially conceived for the various types of learning, with rooms for coaching or mentoring, for more technical or behavioural training, which are easily adaptable to accommodate large or small training courses.

Culture and Digital School

The Culture and Digital School aims to be a space for sharing and knowledge to support employees in the process of cultural and digital transformation. It uses a participatory and collaborative approach in the search for new ideas and solutions.

To date, 19 master classes have been held, involving a total of 3,500 attendees. "Going Digital", "Fintech Revolution", "Creativity Tools", "Innovation and Entrepreneurism" were some of the topics addressed in partnership with the Universidade Nova de Lisboa SBE. The balance is very positive, attested through good levels of participation.

Parental Coaching

As from October 2019, to help employees in the balance between personal and professional life, the Bank has provided parental coaching sessions for those whom who have become mother or father, recently returned to the workplace or still on parental leave.

The sessions are an opportunity to create and implement a change management plan, with a close, personalized monitoring by experts in parental coaching.

The sessions can be attended remotely by WhatsApp, Facetime, Skype, phone, or in person in Lisbon and Porto at the Santander premises. They last an hour and are scheduled in keeping with the availability of both parties.

Unique Christmas Tree in 2019

In 2019, the Christmas tree of the Santander Centre brought together the Christmas season and the concept of sustainability and good environmental practices. And for that reason the Christmas decorations consisted of 2,400 trees, including cork oaks, cedars, oaks, chestnut, pine which, in January 2020, were planted by a group of volunteers in the Buçaco woods. This initiative, falling within the scope of the Santander environmental sustainability policy, also aims to raise awareness of good environmental practices.

Indicators

% employees (female)	45%
% employees (male)	55%
% directors and managers (female) / total	34%
% employees with higher education	56%
Average age (years)	45.8

ECONOMIC AND FINANCIAL INFORMATION

Consolidated business

At the end of December 2019, Santander Totta, SGPS, returned a consolidated net income of €527.3 million, a growth of 5.5% compared to the sum of €500.0 million last time.

The return on equity (ROE) stood at 12.7% and the efficiency ratio was 45.0%, with an improvement of 4,7pp compared to December 2018, resulting from the 6.8% increase of net income from banking activities and the 3.4% decrease of operating costs.

Loans and advances to customers (gross) amounted to €40.3 billion, a decrease of 1.2% compared with the same period last year, influenced by the sale of non-productive portfolios. Loans to individuals grew by 0.7% and loans to corporates fell by 3.0%.

The Non-Performing Exposure amounted to 3.3%, down 0.9pp, compared to the 4.2% reported the previous year, with a coverage by provisions of 53.1%.

Customers' resources amounted to €42.4 billion, up 6.1% compared to 2018, with a 5.2% increase of deposits and a 10.6% increase of off-balance sheet resources.

The fully-loaded Common Equity Tier 1 ratio stood at 15.0%, above the minimum required by the European Central Bank under the SREP - Supervisory Review and Evaluation Process, an increase of 1.0pp compared to the end of 2018.

The reserve of assets available to immediately obtain liquidity totalled €11.6 billion at the end of 2019.

The funding obtained from the Eurosystem remained stable at €3.1 billion, based on medium-term instruments contracted within the context of European monetary policy measures (TLTRO). Net exposure to the European Central Bank (borrowings net of investments with this institution) stood at €0.3 billion. Short-term funding achieved through repos amounted to €1.7 billion.

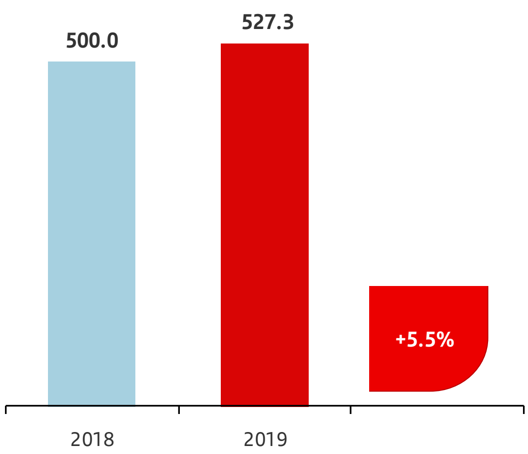
Funding through covered bonds fell, after maturity, by €0.75 billion euros in the first half of 2019, and it was not necessary to renew it.

The LCR (Liquidity Coverage Ratio), calculated in accordance with the EBA, rules, stood at 134%, meeting the regulatory requirement.

Santander in Portugal has the sector's best financial ratings. In March 2019, Standard & Poor's raised the Bank's rating to BBB in long-term debt. The Bank's current long-term debt risk ratings in comparison with those of the Portuguese Republic are as follows: Fitch – BBB+ (Portugal – BBB); Moody's – Baa3 (Portugal – Baa3); Standard & Poor's – BBB (Portugal – BBB); e DBRS – A (Portugal – BBB high).

CONSOLIDATED NET INCOME ATTRIBUTABLE TO THE SHAREHOLDERS OF ST, SGPS

million euro



CONSOLIDATED INCOME STATEMENTS (million euro)	**2019**	**2018** (1)	**Var.**
Net interest income	**855.7**	**866.3**	**-1.2%**
Income from equity instruments	1.8	1.7	+6.9%
Results from associates	10.8	14.6	-25.8%
Net fees	380.5	366.4	+3.9%
Other operating results	(21.2)	(3.3)	>200%
Insurance activity	21.7	19.8	+9.6%
Commercial revenue	**1,249.3**	**1,265.4**	**-1.3%**
Gain/losses on financial assets	95.2	(5.9)	-
Net income from banking activities	**1,344.5**	**1,259.5**	**+6.8%**
Operating costs	(604.4)	(625.9)	-3.4%
Staff Costs	(346.0)	(358.9)	-3.6%
General Administrative Costs	(208.8)	(225.2)	-7.3%
Depreciation in the year	(49.6)	(41.8)	+18.6%
Net operating Income	**740.0**	**633.5**	**+16.8%**
Impairment, net provisions and other results *	(0.3)	40.3	-
Income before taxes and non-controlling interests	**739.8**	**673.8**	**+9.8%**
Taxes *	(212.3)	(193.9)	+9.5%
Income after taxes and before non-controlling interests	**527.5**	**479.9**	**+9.9%**
Non-controlling interests	(0.2)	0.0	-
Non recurrent results	0.0	20.1	-100.0%
Consolidated net income attributable to the shareholders of ST, SGPS	**527.3**	**500.0**	**+5.5%**

* Excludes non-recurrent results

(1) Proforma 2018 result with reallocations of some accounting concepts between different income account items, for greater comparability with the 2019 accounts

(1) Impact, by concept, of the reclassifications in 2018	
Net fees	-6.0
Other operating results	10.9
Staff Costs	-1.7
General administative costs	-3.2
Impairment, net provisions and other results	-22.7
Taxes	22.7

In 2019, net interest income stood at €855.7 million, down 1.2% compared to the €866.3 million at the end of 2018, reflecting the decrease of the loan-portfolio interest (volume and interest rate effect), partially offset by the reduction of interest paid on deposits and other resources in a competitive context of negative market interest rates moderate demand for loans.

The results from associates amounted to €10.8 million, a decrease of 25.8% when compared with the €14.6 million obtained last time, reflecting the increased contribution of the insurance business and the decrease of the other companies.

Net fees amounted to €380.5 million, 3.9% higher that the €366.4 million seen in 2018. This evolution was due to the increase of fees related to the management and maintenance associated with accounts, payment services and insurance, reflecting the commercial dynamic and the suiting of the pricing to the value of service provided.

Other operating results amounted to -€21.2 million, which included the 2019 and 2018 regulatory costs of €32.6 million (€20.3 million of the contribution to the Single Resolution Fund and €12.3 million to the National Resolution Fund).

Insurance business amounted to €21.7 million, up 9.6% compared to the €19.8 million the previous year, reflecting the evolution of the result of the financial insurance.

The commercial revenue totalled €1,249.3 million, 1.3% less than the €1,265.4 recorded a year earlier.

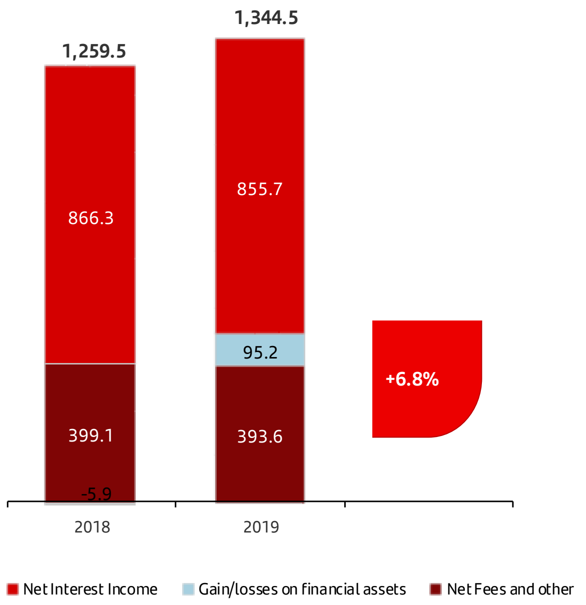
Gain/losses on financial assets amounted to €95.2 million, compared with -€5.9 million observed in 2018. The favourable evolution resulted from the management of the public and private debt portfolios and the revaluation of the portfolio at fair value.

Net income from banking activities amounted to €1.344.5 million, an increase of 6.8% over the amount at the end of December 2018, with the favourable contribution of the results on financial assets and net fees, which more than offset the decrease of net interest income.

At the end of 2019, 64% of the net income from banking activities was originated net interest income, 28% by net fees and 8% by other results.

NET INCOME FROM BANKING ACTIVITIES

million euro



Operating costs amounted to €604.4 million, down 3.4%, compared to in the same period last year, the result of the impact of the improvements involving optimization of the distribution network and of the organizational structure, with the consequent reduction in the number of employees and attendance points, in parallel with the investment focused on technological innovation and business transformation.

Staff costs amounted to €346.0 million, down 3.6% year-on-year, and there was a reduction of 250 employees last year.

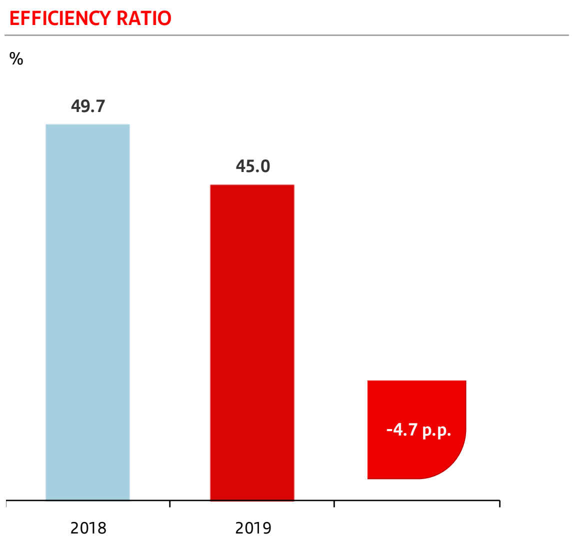
General administrative costs amounted to €208.8 million, a year-on-year decrease of 7.3%, with 30 attendance points closed last year.

Depreciation in the year amounted to €49.6 million, up 18.6% compared to the end of 2018, influenced by the adoption of IFRS16, with effect as from January 1, 2019, which led an increase of costs of about €6 million, a variation contrary to that of general administrative costs.

In the operating costs structure, it can be seen that staff costs account for 57% of the total, followed by general administrative costs at 35% and depreciation in the year at 8%.

OPERATING COSTS (million euro)	2019	2018	Var.
Staff costs	(346.0)	(358.9)	-3.6%
General Administrative Costs	(208.8)	(225.2)	-7.3%
Depreciation in the year	(49.6)	(41.8)	+18.6%
Operating costs	**(604.4)**	**(625.9)**	**-3.4%**
Efficiency ratio	**45.0%**	**49.7%**	**-4.7 p.p.**

In December 2019, there was an improvement in operating efficiency compared to the end of December 2018, seen in the efficiency ratio, which decreased 4,7pp, down from 49.7% to 45.0%, the of the good 6.8% growth in net income from banking activities and of the 3.4% reduction of operating costs.



The net operating result of €740.0 million rose by 16.8% year-on-year.

Impairment, net provisions and other results entailed a cost of €0.3 million. The special levy on the banking sector in the amount of €28.3 million, was offset by the low default rate, recoveries of past-due loans and gains on the sale of non-performing loans, and the results of non-current assets held for sale in the amount of €28.7 million.

Income before taxes and non-controlling interests amounted to €739.8 million, an increase of 9.8% compared to €673.8 million in 2018.

Taxes totalled €212.3 million, an annual increase of 9.5% compared to the €193.9 million recorded a year earlier.

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

At the end of 2019, Santander Totta, SGPS, returned a consolidated net income attributable to the shareholders of ST, SGPS of €527.3 million, a growth of 5.5% compared to the sum of €500.0 million last time, generating a return on equity of 12.7%.

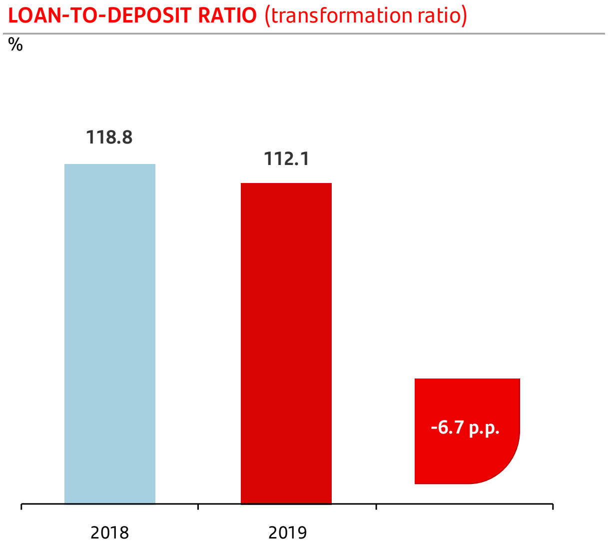
Balance Sheet and Business

At the end of 2019, business volume amounted to €82.7 billion, up 2.4% compared to the 2018 amount of €8.7 million, resulting from the 6.1% increase of customers' resources, which offset the 1.2% decrease of loans and advances to customers (gross).

BUSINESS VOLUME (million euro)	2019	2018	Var.
Business Volume	**82,691**	**80,733**	**+2.4%**
Loans and advances to customers (gross)[1]	40,271	40,754	-1.2%
Customers' Resources	42,420	39,980	+6.1%

[1] Includes other balances receivable at amortised cost

The loan-to-deposit ratio stood at 112.1% in December 2019, 6.7 percentage points less than the 118.8% observed at the end of 2018, the result of the growth of deposits, in a context of low interest rates, and of the decrease of loans.



At the end of December 2019, the portfolio of loans and advances to customers (gross) stood at €40.e billion, down 1.2% compared to the same period last year, influenced by the management of non-productive exposures through the sale and write-off of loans from the loan portfolio. Excluding the effect of these transactions, the portfolio of loans and advances to customers would have been nearly stable compared to the figure recorded in December 2018.

LOANS (million euro)	**2019**	**2018**	**Var.**
Loans and advances to customers (gross)[1]	**40,271**	**40,754**	**-1.2%**
of which			
Loans to individuals	21,788	21,640	+0.7%
of which			
Mortgage	19,654	19,543	+0.6%
Consumer	1,707	1,635	+4.4%
Loans to corporates	17,654	18,197	-3.0%

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

[1] Includes other balances receivable at amortised cost

Loans to individuals stood at €21.8 billion, aYoY increase of 0.7%, across its major components.

Mortgage loans rose 0.6% to €19.7 billion, with a market share of new loans of about 20%, in a favourable context of the Portuguese real estate market, and with the provision of a new platform that led to the reduction in the average time required to take out a loan.

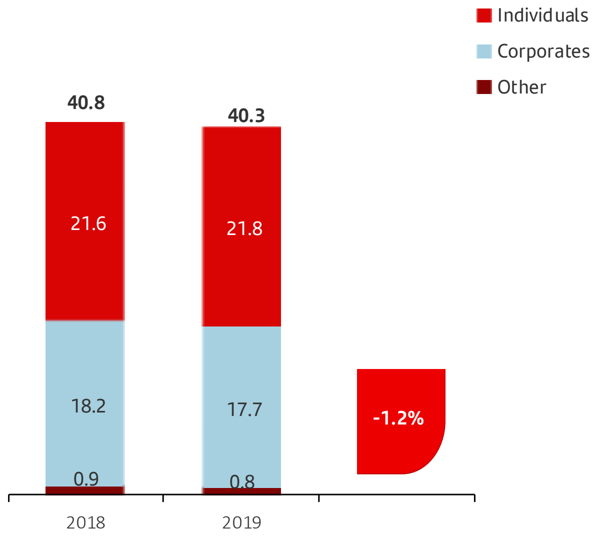
Consumer credit increased 4.4% to €1.7 billion, mainly for personal loans granted via the digital channels.

Loans to corporates stood at €17.7 billion, equivalent to a YoY decline of 3.0%, influenced by the sale of non-productive loan portfolios and by moderate demand by the economic agents. Emphasis is given to the dynamism of the Bank's commercial activity, seen in the market share of new credit loans to companies of around 20% reflecting the support granted to the Portuguese business community.

In the structure of loans and advances to customers, the individuals and companies portfolios accounted for 54% and 44% of total loans and advances respectively.

LOANS AND ADVANCES TO CUSTOMERS (GROSS)

billion euro



At the end of 2019, the Non-Performing Exposure (NPE), calculated in keeping with the EBA definition, stood at 3.3%, a decrease of 0.9pp over the same period last year. The cover of the Non-Performing Exposure by impairments stood at 53.1% (up 2.1pp compared to the 51.0% recorded in December 2018). The cost of credit, measured by the net impairment of recovery of loans previously written off from assets as a percentage of the average balance of the loan portfolio, stood at -0.02%, reflecting the improvement of loan impairment, with few entries into default, recovery of loans previously written off from assets and sale of portfolios, and the reduction of loans and advances to customers.

The improvement of the loan quality indicators highlights the Bank's strict policy for the grant and control of credit and the strategy of reduction of non-productive assets, as well as the economic environment, marked by low interest rates and the favourable evolution of the labour market.

CREDIT RISK RATIOS	2019	2018	Var.
Non-Performing Exposure Ratio	3.3%	4.2%	-0.9 p.p.
Non Performing Exposure Coverage Ratio	53.1%	51.0%	+2.1 p.p.
Cost of credit	(0.02%)	0.01%	-0.02 p.p.

At the end of December 2019, customers' resources totalled €42.4 billion, up 6.1% compared to the same period last year, demonstrating customer loyalty, supported by the performance of deposits (annual growth of 5.2%) and of off-balance sheet resources (10.6% more than at the end of December 2018).

RESOURCES (million euro)	2019	2018	Var.
Customers' resources	**42,420**	**39,980**	**+6.1%**
On-balance sheet resources	35,119	33,381	+5.2%
Deposits	35,119	33,381	+5.2%
Off-balance sheet resources	7,301	6,598	+10.6%
Investment funds	3,066	2,595	+18.2%
Insurance and other resources	4,235	4,003	+5.8%

Deposits in the amount of €35.1 billion, were up 5.2%, making a contribution of 83% of total customers' resources, the main source of financing the balance sheet, and reflecting the activity of commercial network and the financial soundness of the Bank, which reinforces the trust of customers, in a context of interest rates at historic lows.

Off-balance sheet resources stood at €7.3 billion, up 10.6% over the figure determined in December 2018. Investment funds marketed by the Bank, in the amount of €3.1 billion increased by a significant 18.2% over the previous year, due to the diversification of customer investments, within a framework of appreciation of the financial markets. Insurance and other resources of €4.2 billion were up 5.8% year-on-year, influenced by the insurance activity.

Solvency Ratios

At the end of 2019, the Common Equity Tier 1 (CET 1) ratio calculated in accordance with the CRR/CDR IV rules, stood at 15.0% (fully loaded), an increase of 1.0pp compared to last year, reflecting the capacity for organic generation of capital, as well as the management of risk-weighted assets.

The Bank maintains fairly high capital levels, which is a very comfortable margin over the minimum requirements of the European Central Bank under the SREP (Supervisory Review and Evaluation Process).

CAPITAL (million euro)	2019	2018	Var.
Common Equity Tier I	**2,804**	**2,805**	**-0.1%**
Tier I Capital	3,404	3,405	-0.0%
Total Capital	3,477	3,427	+1.4%
Risk Weighted Assets (RWA)	**18,648**	**20,052**	**-7.0%**
CET I ratio	15.0%	14.0%	+1.0 p.p.
Tier I ratio	18.3%	17.0%	+1.3 p.p.
Total Capital Ratio	18.6%	17.1%	+1.5 p.p.

RELEVANT FACTS AFTER THE CLOSE OF THE PERIOD

On January 30 2020, the World Health Organization declared the SARS-CoV-2 virus epidemic that causes COVID-19 disease, a public health emergency at international level. On March 11, 2020, the World Health Organization ranked the said virus as a pandemic, urging states "to implement urgent and aggressive action" to combat it, stating that "all countries should achieve a balance between protecting health, minimizing economic and social disruption and protection of human rights".

After its appearance in December 2019 in the city of Wuhan, Hubei Province, in China, and its fast spread to Asian countries, the epidemic quickly spread to the United States and Europe, and there are fears that it will quickly spread to the African continent as well. As the pandemic comes to be increasingly global, the authorities, at national or global level, do not predict the time that the pandemic could continue or its impact at economic and social level, since existing estimates are subject to a multitude of variables not controlled by the authorities, starting with the effectiveness of the exceptional measures enacted in the meantime.

In this context, given the exceptional situation faced and the proliferation of cases of COVID-19 infection in Portugal, the Portuguese authorities have established temporary and exceptional measures relating to the epidemiological situation.

The measures taken to contain the spread of the virus and of the disease aim to restrict to a minimum contact between people and between them and goods or physical structures, imposing, in particular, restrictions to circulation on the public highway, performance of professional duties from home and rules applicable to the working or suspension of certain types of facilities, establishments and activities, regulating those that, for their essential nature, must remain in operation, which include banking, financial and insurance services.

THE OUTLOOK FOR 2020

As stated above, the global pandemic associated with Covid-19 is a fact of particular import in 2020. Santander in Portugal is monitoring the evolution of the outbreak of Covid-19, using the information that comes to be available to assess the potential impact on its business.

In this connection, it should be noted that Santander in Portugal has operational-risk management instruments, including a Business Continuity Plan (BCP). This plan was activated to ensure the best safety conditions for all employees, customers and suppliers charged with ensuring the continuity of the financial services and the maintenance of banking operations with the possible normality and fluidity, a set of risk-mitigation measures having been implemented in order to ensure the normal working of the business.

As set out in the chapter on the risks and uncertainties for 2020, it can be expected that the economic activity is set to be strongly negatively affected, and may induce a recession in the world economy and, consequently, in Portugal.

In the current context, in light of the existing uncertainty, both as to duration and as to the scale of the Covid-19, it is not possible to quantify the potential impacts on the business which will essentially derive from external factors affecting the demand for banking products and services, the assessment of which is difficult with the information currently available, as there is still no data to assess the depth of the impacts, nor even their duration.

In this adverse scenario, Santander in Portugal maintains its strategic lines previously defined, in particular, support for households and businesses, in a year that many difficulties for all economic agents are to be expected.

In the short term, the Bank's first priority is to support people, particularly employees, customers and suppliers, in order to mitigate the effects of the pandemic. In this connection, Santander in Portugal not only implemented the moratoriums on mortgage and corporate loans, in line with the decisions taken by the Portuguese government, but also adopted an additional set of extraordinary and temporary measures, with emphasis:

(1) For individual customers, the ability to sign up for a solution of capital repayment grace period during 6 months for loans that are in good standing and are not covered by the moratorium approved by the Portuguese state (such as mortgage loans for other purposes or personal loans). These renegotiations will be free from commissions related to alteration of the characteristics of the loan;

(2) For corporate customers, the Bank immediately implemented the moratorium approved by the Portuguese state, with the renegotiation of the loans, which are in good standing, offering also a grace period of the principal, without any alteration of the spread of the operations and without charging any contract-modifications commission. To satisfy additional short-term cash requirements, the Bank maintains unchanged all the contracted credit limits, both of a revocable and of an irrevocable nature, with no change of the spread conditions or other associated commissions. Also within the scope of the support lines that the state launched to help businesses, particularly those most affected by the pandemic, the Bank adopted the procedures necessary for the prompt provision of loans.

(3) To simplify the use of digital channels and reduce their cost of use, Santander has suspended the collection of the monthly POS charge and exempts the application of a minimum value of the transactions that are made. To support "contactless" transactions Santander has also suspended the collection of all MBWay service commissions on the POS.

Despite this very difficult background, the Bank maintains its defined objectives, pursuing its transformation strategy, based essentially on i) process digitalisation and optimisation, in particular through greater innovation in the digital channels and strengthening of multi-channel distribution model in order to provide a more complete service accessible to our customers, ii) increasing market shares and customer loyalty by strengthening, among other things, our position with the SMEs, iii) maintaining a low cost of credit and iv) maintaining a solid capital position in line with the new regulatory requirements.

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

RISK MANAGEMENT

Introduction

For Santander Totta, SGPS, 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 *RiskPro* 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 structure of Santander, decisively influencing the way in which all processes carried out, taking into account not only the surroundings but also the attitudes, behaviours, values and principles that each of us demonstrates with regard to the different types of risks we face.

The *RiskPro* programme was implemented to involve all employees in the management of risks, and the *RiskPro* culture encompasses a set of behaviour and conduct that each has to embrace every day for proactive management of the sundry risks.

Main vectors of the business in 2019

- Maintenance of the segmentation principle the treatment of credit risks, differentiating the approach to risks in the light of the characteristics of the customers and of the products, and of the rigour of the admission criteria and, consequently, of the quality of the risks accepted in each of the segments, with a view to the preservation of good quality of the loan portfolios.
- At the level of portfolio risks the policy was maintained of proximity with the customers, in order to anticipate their needs, reviews of their credit lines and forestalling possible problems in their repayment ability. This action and the loan quality of the customers, allowed the non-performing loans (NPL) ratios to be kept under control and at acceptable levels.
- Fostering the business support levels in attracting new good-risk transactions and customers, and implementation of improvements in the processes with a view to responding to customer requests more effectively and quickly.
- In portfolio and customer monitoring, maintenance of the permanent focus on surveillance of lower-rating segments and on sectors that are, or are expected to be, affected by the macro-economic context, with a view to mitigating the NPL ratios.
- Holding customer monitoring and review meetings, the Bank's usual practice for the early detection of loan-portfolio alerts.
- Continuation of the review, development and application of improvement measures in the management of the new-loan admission process, always with a view to improving the quality of the service provided to customers.
- In standardized (or not portfolioed), updating and maintenance of automatic decision models, in particular the scoring comportment systems used in the Individuals and Businesses segments.
- In the matter of standardised risks, maintenance of the focus 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. To this end, the defined admission strategies were maintained in the Bank's decision-making systems, as was recourse to behavioural systems for the identification of preventative and roll-over measures to be offered to its customers.
- Conducting marketing campaigns for the Businesses segment in order to maintain the commercial engagement and customer cross selling and, at the same time, enhancing the attraction of new customers.
- Strong focus on loan-recovery activity, with increased agility of intervention, where NPL ratios are still important but less significant. Underscored is the activity of mass management of recovery activity and permanent monitoring of special and judicial/extra-judicial cases.
- Maintenance of the policy of strengthening negotiations with a view to reduction of the number of payments in kind, so that, when they do occur, the focus will be on obtaining payments in kind rather than judicial action.
- The process also took place of modernisation of the recoveries area with regard to 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.
- Greater surveillance 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, a permanent focus on knowledge and monitoring of the loan portfolio, with a view to strict control of its risk, seeking to provide adequate and timely management information in order to allow measures to be taken with a view to proper management of the Bank's risks;

Credit Risk

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

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

Portfolioed customers are those that, fundamentally due to the risk assumed, are assigned a risk analyst. This group includes wholesale banking companies, financial institutions and part of the retail banking companies. The 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.

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

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

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

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

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

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

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

In small and medium enterprises, the balance-sheet information serves not only to assign the rating, but also to obtain explanatory factors of the probability of default. In retail portfolios, the PD is calculated by observing the entries into default, correlating them with the scoring assigned to the transactions. Excepted are portfolios in which, as a result of lesser in-house default experience, such as financial institutions, country risk or CIB, the calculation of these parameters is performed 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 the time of the default.

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, etc.).

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

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

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

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

Recoveries

Recoveries management at Santander 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 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.

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

Counterparty risk

Counterparty risk, latent in contracts entered into in financial markets – organised or over-the counter (OTC) markets – consists 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 2019 actual exposure of the transactions on interest-rate indexes (Euribor) decreased sharply, reflecting the evolution of medium- and long-term market rates. With regard to exposure to Financial Groups, structural interest-rate risk hedging transactions were maintained, having the LCH

Clearnet as clearing house. Securitisation transactions from the former BANIF were included. The amount of the exposure of the derivatives with the Financial Groups fell significantly due to the increase of the Initial and Variation Margin from LCH.

Derivatives - Credit Risk Equivalent - 31/12/2019 (thousand Euro)

	<1 year	1-5 years	5-10 years	>10 years	Total
Interest rate derivatives	75,539	665,449	20,869	178,494	940,352
Exchange rate derivatives	20,038	2,361	785	3,147	26,332
Equity derivatives	3	0	0	0	3
Total	**95,581**	**667,810**	**21,655**	**181,642**	**966,688**

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 reappraisal of assets and liabilities. The measurement and control of the balance-sheet risk are carried out by a body independent of management.

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.

The LCR (Liquidity Coverage Ratio), calculated in accordance with the EBA, rules, stood at 134% as at 31/12/2019.

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

Santander in Portugal's policy is to maximise the available liquidity cushion to cope with adverse liquidity events. In 2019 the liquidity reserve increased by around €2.6 billion. Besides the active measures to generate eligible assets, the reduction of the commercial gap and consequent reduction of liquidity needs allowed a liquidity reserve totalling €11.6 billion to be achieved, available to cope with any unexpected events impacting on the Bank's liquidity situation.

During 2019, 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 112.1%, compared to 118.8% at the end of 2018.

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 zero at the end of 2019 (about €0.3 billion).

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 in Portugal closed 2019 with about €0.7 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 €2.75 billion of covered bonds.

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 Bank Santander in Portugal 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

The methodology applied in 2019 for trading 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

In parallel, 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 us to identify the impact of 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 Santander in Portugal 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, etc.

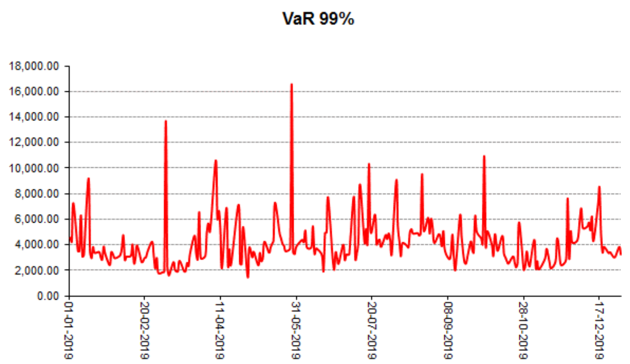
Limits

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 during the year

The evolution of the risk related to trading activity in financial markets during 2019, quantified through VaR, is as follows:



VaR remained low, ranging between €2k and €17k.

Operational Risk

Banco Santander 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".

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

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

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

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

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

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

The first line of defence consists of the business and support areas. The first line is therefore responsible for the operational risk generated in its areas, the main function of which is the identification, assessment, monitoring, mitigation and reporting of thus 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 levels set for the purpose.

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

The third line of defence comprises the Internal Audit. This area assumes control functions and periodically assesses whether the policies, methods and procedures are properly implemented.

The various stages of the management and control model allow:

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

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

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

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

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

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

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

- Operational Risk Self-assessment, whose main objective is to identify and assess operational risks in relation to existing controls, and identify possible mitigation measures.
- Indicators, which are statistics or parameters that provide useful information about risk exposure. The indicators and the respective limits are reviewed and adjusted periodically.

- Recommendations of the internal and external audit and regulators that provide relevant information on the risk, allowing identification of possible weaknesses and improvement measures.

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

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

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

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

Compliance and Reputational Risk

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

In turn, 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 under the Compliance and Conduct Area, the first line in the hierarchy of the Bank, to which functional management of the Compliance and Reputation risks is assigned. The management of the reputation risk is increasingly important at Banco Santander in Portugal and also at the Santander Group, now planning internal training courses specifically dedicated to this type of risk.

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

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

- Corporate values that translate into concrete "behaviour" concrete, which govern the conduct of all employees;
- Compliance policy;
- Policies for the prevention of money laundering and terrorist financing;
- Codes of conduct (with three dimensions: general; the relationship with customers; relating to and for the stock market);
- Marketing and regular 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;
- Employee training policy, which includes mandatory regulatory, as well as additional, training;
- Corporate defence policies;
- Reputation risk policy (and model of management of this risk);
- Policy for the financing of sensitive sectors (regulates the financing for certain sectors considered sensitive because

of their possible social, political or cultural repercussions, establishing the guidelines to assess and decide on the involvement with these same sectors, in order to be able to identify and prevent the associated reputation risk);

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

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

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

PROPOSAL FOR THE APPROPRIATION OF NET INCOME

The Net Income for the Year, in individual terms, in respect of 2019, was €435,859,742.52 (four hundred thirty-five million, eight hundred fifty-nine thousand, seven hundred forty-two euros and fifty-two cents) and the Consolidated Net Income in 2019 was €527,258,235 (five hundred twenty-seven million, two hundred fifty-eight thousand, two hundred and thirty-five euros).

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

- Legal Reserve: €43,585,974.25 (forty-three million, five hundred eighty-five thousand, nine hundred seventy-four euros and twenty-five cents);
- Retained Earnings: €392,273,768.27 (three hundred ninety-two million, two hundred seventy-three thousand, seven hundred sixty-eight euros and twenty-seven cents).

Taking into account the recommendation of the European Central Bank (ECB/2020/19) of March 27, 2020, the Board of Directors proposes not to distribute dividends.

Lisbon, April 21, 2020

THE BOARD OF DIRECTORS

ADDITIONAL INFORMATION

Money laundering prevention

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

The Bank complies with the duties established by law and has an organic structure dedicated solely to the prevention and control of money laundering and terrorist financing, which is part of the Compliance and Conduct Area. 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.

The Bank drafted the Money Laundering Prevention and Terrorist Financing Report in accordance with Bank of Portugal Notice No. 5/2019 on the activity in these matters in 2019, having sent it to the Bank of Portugal after approval by the Board of Directors, with the prior opinion of the Supervisory Board.

Shareholder Structure

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

Treasury shares movement

In keeping with the resolution passed by the Annual General Meeting held on May 20, 2019, Santander Totta, SGPS, 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, 2018, Santander Totta, SGPS, held 105,942,258 treasury shares corresponding to 0.054% of its share capital. During 2019, it purchased 7,653,198 treasury shares, closing the year with 113,595,456 treasury shares, representing 0.058% of its share capital.

TRANSACTION WITH OWN SHARES - 2019

	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31/12/2018	105,942,258	0.02	2,283,853	0.054%
Purchases	7,653,198	0.02	163,305	0.0039%
Disposals	-	-	-	-
31/12/2019	**113,595,456**	**0.02**	**2,447,158**	**0.058%**

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/2018	Transactions in 2019	Number of shares at 31/Dec/2019
António José Sacadura Vieira Monteiro*	Banco Santander, SA	**359,280**	22/02/2019 - shares deposit (corporate allocation): 58,276 shares - 4.01€/share 25/03/2019 - shares deposit (corporate allocation): 13,237 shares - 4.29€/share	**430,793**
José Carlos Brito Sítima**	Banco Santander, SA	**71,971**	22/02/2019 - shares deposit (corporate allocation): 44,150 shares - 4.01€/share 25/03/2019 - shares deposit (corporate allocation): 9,172 shares - 4,29€/share	**125,293**
Pedro Aires Coruche Castro e Almeida	Banco Santander, SA	**108,650**	22/02/2019 - shares deposit (corporate allocation): 43,914 shares - 4.01€/share 25/03/2019 - shares deposit (corporate allocation): 9,655 shares - 4.29€/share 13/05/2019 - sale: 50,000 shares - 4.10€/share 19/06/2019 - sale: 50,000 shares - 4.04€/share	**62,219**
Manuel António Amaral Franco Preto	Banco Santander, SA	**107,942**	22/02/2019 - shares deposit (corporate allocation): 36,065 shares - 4.01€/share 25/03/2019 - shares deposit (corporate allocation): 7,126 shares - 4,29€/share	**151,133**
	Totta Ireland	**1**	04/12/2019 - transference outside the international stock market	**0**
José Duarte Assunção Dias		**0**	-	**0**
Fernando Jorge Marques Vieira		**0**	-	**0**
Ricardo Manuel Duarte Vidal de Castro		**0**	-	**0**
José Luís Areal Alves da Cunha		**0**	-	**0**

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

** Process of authorization and registration with the European Central Bank to formalize the functions as Chairman of the Board of Directors

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

Other Positions of Note

	Within the consolidation perimeter	Outside the consolidation perimeter
António José Sacadura Vieira Monteiro*	**Banco Santander Totta, SA** Chairman of the Board of Directors	Universia (Non-Executive Chairman); Vieira Monteiro Lda (Manager); Câmara Comércio Luso Espanhola (Deputy Chairman); Fundação Alfredo de Sousa (Board of Trusttees); Instituto Superior Técnico (Advisory Council); Nova (General Board)
José Carlos Brito Sítima**	**Banco Santander Totta, SA** Deputy-Chairman of the Board of Directors	Universia (Chairman General Meeting)
Pedro Aires Coruche Castro e Almeida	**Banco Santander Totta, SA** Deputy-Chairman of the Board of Directors; Chairman of the ExCo (CEO)	ACEGE (Strategy Council); Centro Paroquial São Francisco de Paula (NE Director); ISEG (Advisory Council)
Manuel António Amaral Franco Preto	**Banco Santander Totta, SA** Member of the Board of Directors; Deputy-Chairman of the ExCo **Taxagest** (Chairman)	-
José Duarte Assunção Dias	**Santander Totta Seguros** (Alternate member of Audit Board) **Gamma** (Chairman of Audit Board) **Aegon Santander Portugal Vida** (Chairman of Audit Board) **Aegon Santander Portugal Não Vida** (Chairman of Audit Board) **Popular Seguros** (Alternate member of Audit Board)	Alves da Cunha, A.Dias & Associados SROC (Partner)
Fernando Jorge Marques Vieira	**Gamma** (Member of Audit Board)	MAZARS & ASSOCIADOS - Sociedade de Revisores Oficiais de Contas, S.A. (Partner)
Ricardo Manuel Duarte Vidal de Castro	**Gamma** (Member of Audit Board)	Clube do Autor (Executive Board Member) CFO&F SA (CFO) Rimaduvica Lda (Manager)

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

** Process of authorization and registration with the European Central Bank to formalize the functions as Chairman of the Board of Directors

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".

Insurance activity

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

Commercial revenue

Sum of "net interest income", "income from equity instruments", "results from associates", "net fees" and "insurance activity".

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", "Disposal of other assets" and "Other", as presented in the income statement.

Net income from banking activities

Commercial revenue plus Gain/losses on financial assets.

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, net provisions and other results (excluding non-recurrent results)

Sum of "provisions net reversals", "impairment on financial assets", "impairment on non-financial assets", "Results of non-current assets held for sale", and "other" as presented in the income statement.

Income before taxes and non-controlling interests (less non-recurrent results)

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

Income after taxes and before non-controlling interests (less 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 ST, SGPS 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 ST, SGPS shareholders / Net income

Income after taxes and before non-controlling interests, less "non-controlling interests" plus other non-recurrent results (in 2018).

Efficiency ratio

Ratio between operating costs and net income from banking activities.

Loans / Deposits ratio (transformation ratio)

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

Commercial gap

Difference between "Credit granted and other receivable balances at amortised cost" and "resources from customers and other debts".

Business volume

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

Loans and advances to customers (gross)

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

Loans and advances to customers (net)

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

Loans to individuals (mortgage and consumer) and 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" (of the income statement) and the average of "Credit granted and other balances receivable at amortized cost" (of the balance sheet).

Non-performing exposure ratio

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

Deposits

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

Off-balance sheet resources

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

Customers' Resources

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

Liquidity Coverage Ratio (LCR)

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

Return on Equity (RoE)

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

Return on Assets (RoA)

Ratio between net income and net assets.

Table of non-financial indicators

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

CORPORATE GOVERNANCE REPORT

I- Introduction

1. This report is prepared in accordance with the Companies Code (CSC).
2. On December 13, 2018, the Company's General Meeting approved the election of the Governing Bodies, including the members of the board of the General Meeting, the Board of Directors, the Supervisory Board and the Statutory Auditor for the 2019/2021 three-year period.
3. On March 4, 2019 the competent supervisory authorities issued its no objection to the elected Directors starting their duties.
4. On March 18, 2019 the Board of Directors appointed and Executive Committee pursuant to Article 407 of the Companies Code and Article 10 of the Bylaws.

II – Shareholder Structure

1. Santander Totta SGPS's purpose is the management of holdings in other companies as an indirect form of exercising economic activities, and its registered office is in Portugal
2. The company's share capital is 99.848% held by Santusa Holding, SL, a company incorporated under Spanish law.
3. 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.
4. The content of the preceding paragraph notwithstanding, under the terms of the bylaws, one vote is allocated to each one hundred shares.

   For shareholders to be entitled to take part in the General Meeting they must the registration or deposit of their shares with financial intermediaries by the third business day next before the date on which it is to be held.
5. The Company is not aware of any shareholders' agreement concluded between shareholders.

III. Governing Bodies

1. The Company is organically structured in the manner provided for in article 278.1(a) of the CC.

   The governing bodies are: the General Meeting, the Board of Directors and the Supervisory Board, and there is an autonomous statutory auditor of the Supervisory Board, in compliance with the provisions of Article 413.1(b) of the Companies Code.

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

   The Board of Directors meets at once a quarter and whenever convened by its Chairman or by two directors.

   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.
2. 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 the body responsible for the day-to-day management of the business and for the representation of the Company. It meets whenever convened by its Chairman or by two others of its members, continuously monitoring the evolution of the business, particularly through the analysis of projects in progress or to be developed, as well as of the results achieved.

During 2019 the composition of the governing bodies of the Bank was as follows:

BOARD OF THE GENERAL MEETING

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

BOARD OF DIRECTORS

Chairman:	António José Sacadura Vieira Monteiro*
Deputy-Chairman:	José Carlos Brito Sítima[1]
	Pedro Aires Coruche Castro e Almeida
Member:	Manuel António Amaral Franco Preto

SUPERVISORY BOARD

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

STATUTORY AUDITOR

PricewaterhouseCoopers & Associados, SROC, LDA.,

represented by Aurélio Adriano Rangel Amado

EXECUTIVE COMMITTEE

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

REMUNERATION COMMITTEE

Chairman:	Jaime Pérez Renovales
Member:	Roberto di Bernardini

COMPANY SECRETARY

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

* António José Sacadura Vieira Monteiro passed away on March 18, 2020

[1] In the process of authorization and registration with the European Central Bank for formalisation of the duties of Chairman of the Board of Directors

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

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

4. No authorization was in respect of deals between the company and its directors.

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

DECLARATION ON THE REMUNERATION POLICY OF THE MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES OF SANTANDER TOTTA, SGPS, SA.

(The "Declaration")

The following declaration on the remuneration policy of the members of the Management and Supervisory bodies of Santander Totta, SGPS, SA (the "Company"), in force in 2019, is proposed to the General Meeting of shareholders for the approval of the 2018 accounts.

1. Framework

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 its practices, that the remuneration policies promote and are consistent with sound and effective risk management and with maintenance of a sound capital base.

2. Remuneration of the Company's governing bodies

2.1. The Company's governing bodies are the General Meeting, the Board of Directors and the Supervisory Board:

a) **General Meeting**. Its members will receive no remuneration for the performance of duties at the Company.

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

c) **Board of Directors.** Members of the Board of Directors do not receive any remuneration, pensions or any other benefits for the performance of their duties, being paid only by other companies in a controlling or group relationship with the company, in particular by its main subsidiary, Banco Santander Totta.

The amounts paid to directors and members of the supervisory board, by other companies in a controlling or group relationship with the Company amounted to a total of €6.4 million in 2018.

3. Supplementary aspects

All subsidiaries of the company apply remuneration practices consistent with each other, namely the practices stemming from the remuneration policy in force at the Santander Group from time to time.

Lisbon, April 30, 2019

Declaration to which article 245(1)(c) of the Securities Code refers

Article 245(1)(c) of the Securities Code determines that each person in charge of the company issue a declaration the content of which is defined therein.

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

"I 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 Santander Totta, SGPS, SA, all relating to 2019, 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

Pedro Aires Coruche Castro e Almeida

Deputy-Chairman

José Carlos Brito Sítima

Deputy-Chairman[1]

Manuel António Amaral Franco Preto

Member

[1] In the process of authorization and registration with the European Central Bank for formalisation of the duties of Chairman of the Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED BALANCE SHEET AS AT DECEMBER, 31, 2019 & 2018

(Amounts expressed thousands Euros)

ASSETS	Notes	31-12-2019 Amounts before impairment and depreciation	31-12-2019 Impairment and depreciation	31-12-2019 Net assets	31-12-2018 Net assets
Cash and deposits at central banks	5	3.153.556	-	3.153.556	1.655.732
Balances due from other banks	6	346.841	-	346.841	850.898
Financial assets held for trading	7	1.073.429	-	1.073.429	1.204.674
Other financial assets mandatory at fair value through profit or loss	8	3.100.275	-	3.100.275	3.053.810
Other financial assets at fair value through other comprehensive income	9	6.587.579	89	6.587.490	5.996.365
Financial assets at amortised cost					
Loans and advances to credit institutions	10	727.515	29	727.486	675.031
Credit granted and other balances receivable at amortized cost	10	40.271.384	922.210	39.349.174	39.644.288
Hedging derivatives	11	56.245	-	56.245	73.464
Investment in associated companies	12	112.259	-	112.259	111.376
Investment properties	13	252.513	-	252.513	297.625
Other tangible assets	14	648.287	271.634	376.653	346.813
Intangible assets	14	102.756	69.527	33.229	30.617
Tax assets	15	604.868	-	604.868	683.733
Technical reserves	16	22.373	-	22.373	40.365
Other assets	17	330.757	88.418	242.339	332.759
Non-current assets held for sale	18	76.869	32.826	44.043	30.022
Total Assets		57.467.506	1.384.733	56.082.773	55.027.572

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31-12-2019	31-12-2018
Liabilities			
Financial liabilities held for trading	7	1.097.214	1.239.713
Other financial liabilities mandatory at fair value through profit or loss	19	3.432.017	3.175.960
Financial liabilities at amortised cost			
Resources from central banks	20	3.037.524	3.050.040
Resources from other credit institutions	20	3.195.996	3.539.911
Resources from customers and other debts	20	35.118.949	33.381.336
Debt securities	20	3.431.231	4.322.597
Other financial liabilities	20	232.892	200.336
Hedging derivatives	11	393.831	90.556
Provisions	21	234.328	297.992
Technical provisions	16	730.426	742.857
Tax liabilities	15	393.964	254.269
Equity representative instruments	22	64.620	69.560
Other liabilities	23	456.211	490.707
Total liabilities		51.819.203	50.855.834
Shareholders' equity			
Share capital	24	1.972.962	1.972.962
Other equity instruments	24	600.000	600.000
Accumulated comprehensive income reserves	24	(216.407)	(232.010)
Other reseves and retained earnings	24	1.380.616	1.431.229
(Own shares)	24	(2.447)	(2.284)
Net income attributable to the shareholders of ST SGPS	25	527.258	499.964
Prepaid dividends	24	-	(100.000)
Shareholders' equity attributable to the shareholders of ST SGPS		4.261.982	4.169.861
Non-controlling interests	26	1.588	1.877
Total shareholders' equity		4.263.570	4.171.738
Total liabilities and shareholders' equity		56.082.773	55.027.572

The accompanying notes form an integral of the consolidated balance sheet for the year ended at December 31, 2019

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEAR ENDED AT DECEMBER 31, 2019 AND 2018

(Amounts expressed in thousand Euros)

	Notes	2019	2018
Interest income	28	1.209.110	1.227.567
Interest charge	29	(353.396)	(361.289)
Net interest income		855.714	866.278
Income from equity instruments	30	1.789	1.674
Results from associates	31	10.805	14.568
Income from services and commissions	32	489.003	452.893
Charges with services and commissions	33	(108.499)	(80.495)
Gains/Losses on financial assets			
Financial assets and liabilities at fair value through profit or loss	34	16.517	(29.877)
Other Financial assets at fair value through other comprehensive income	34	59.173	26.774
Exchange revaluation	34	11.253	9.524
Disposal of other assets	34	718	(12.344)
Other	34	7.539	-
Gross margin of life insurance in which the risk is borne by the policy holder	35	26.818	10.777
Gross margin in insurance activity	35	(5.131)	9.003
Other operating results	36	(21.212)	(14.190)
Net income from banking activities		1.344.487	1.254.585
Staff costs	37	(345.988)	(357.209)
General administrative costs	38	(208.818)	(222.012)
Depreciation in the year	14	(49.639)	(41.846)
Provisions, net of reversals	21	(995)	(250.652)
Impairment on financial assets	21	6.963	(2.800)
Impairment on non-financial assets	21	(6.696)	(31.118)
Results from non-current assets held for sale	39	28.736	21.107
Other results	1.3 l)	(28.259)	-
Income before taxes and non-controlling interests		739.791	370.055
Taxes	15	(212.315)	129.897
Income after taxes and before non-controlling interests		527.476	499.952
Non-controlling interests		(218)	12
Consolidated net income attributable to the shareholders of ST, SGPS		527.258	499.964
Number of ordinary shares outstanding	25	197.189.972.153	197.194.357.634
Earnings per share (in Euros)	25	0,0027	0,0025

The accompanying notes form an integral part of consolidated statement of income
for the year ended at December 31, 2019

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Amounts expressed in thousands of Euros - tEuros)

	2019		2018	
	Attributable to the shareholders' of ST SGPS	**Attributible to non-controlling interests**	**Attributable to the shareholders' of ST SGPS**	**Attributible to non-controlling interests**
Consolidated net income for the year	527.258	218	499.964	(12)
Items that will not be reclassified subsequently to the income statement:				
. Actuarial and financial deviations in pensions:				
. Gross amount	(149.850)	(59)	(27.794)	(7)
. Tax effect	22.589	10	6.948	2
. Revaluation reserves of associated companies valued by the equity method:				
. Fair value	905	-	(986)	-
. Tax effect	(490)	-	575	-
. Changes in fair value of equity instruments				
. Gross amount	520	-	(482)	-
. Tax effect	-	-	(39)	-
Items that may be reclassified subsequently to the income statement:				
. Revaluation reserves of associated companies valued by the equity method of changes in fair value of financial assets at fair value through comprehensive income:				
. Fair value	371	-	536	-
. Tax effect	(95)	-	(143)	-
. Changes in fair value of financial assets at fair value through comprehensive income:				
. Fair value	309.416	120	79.396	26
. Tax effect	(93.099)	(37)	(22.799)	(7)
. Changes in fair value of cash flows hedging derivatives:				
. Fair value	(84.917)	(37)	45.817	20
. Tax effect	26.325	11	(14.203)	(6)
. Changes in shadow reserve:				
. Fair value	(19.113)	-	3.323	-
. Tax effect	3.041	-	(741)	-
	15.603	8	69.408	28
Consolidated comprehensive income for the year	542.861	226	569.372	16

The accompanying notes form an integral of the consolidated income statements and other comprehensive income for the year ended at December 31, 2019.

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIODS ENDED DECEMBER 31, 2019 AND 2018

(Amounts expressed in thousands of Euros)

	Share Capital	Own Shares	Other Equity Instruments	Accrued income reserves: Fair Value	Accrued income reserves: Deferred Taxes	Accrued income reserves: Sub-total	Other reserves and Retained Earnings	Prepaid Dividends	Net Income for the year	Non-controlling interests	Total
Balances as at December 31, 2017	**1.972.962**	**(2.166)**	**600.000**	**(384.047)**	**79.482**	**(304.565)**	**1.477.498**	**(150.000)**	**436.337**	**2.166**	**4.032.232**
Appropriation of net income for the year 2017:											
. Distribution of dividends	-	-	-	-	-	-	125	150.000	(392.015)	(275)	(242.165)
. Transfer to reserves	-	-	-	-	-	-	44.322	-	(44.322)	-	-
Income Distribution - "Additional Tier 1 Instruments"	-	-	-	-	-	-	(61.200)	-	-	-	(61.200)
Distribution of prepaid dividends	-	-	-	-	-	-	-	(100.000)	-	-	(100.000)
Impact from the application of IFRS9	-	-	-	-	-	-	(26.196)	-	-	-	(26.196)
Long-term incentives - shares	-	-	-	-	-	-	343	-	-	-	343
Purchase of own shares by Santander Totta, SGPS	-	(118)	-	-	-	-	-	-	-	-	(118)
Other	-	-	-	-	3.147	3.147	(3.663)	-	-	(30)	(546)
Comprehensive consolidated income for the year 2018	-	-	-	99.810	(30.402)	69.408	-	-	499.964	16	569.388
Balances as at December 31, 2018	**1.972.962**	**(2.284)**	**600.000**	**(284.237)**	**52.227**	**(232.010)**	**1.431.229**	**(100.000)**	**499.964**	**1.877**	**4.171.738**
Appropriation of net income for the year 2018:											
. Distribution of dividends	-	-	-	-	-	-	215	100.000	(495.000)	(188)	(394.973)
. Transfer to reserves	-	-	-	-	-	-	4.964	-	(4.964)	-	-
Income Distribution - Additional Tier 1 Instruments	-	-	-	-	-	-	(61.200)	-	-	-	(61.200)
Disposal of equity instruments in the fair value portfolio through other comprehensive incom	-	-	-	-	-	-	5.797	-	-	-	5.797
Long-term incentives - shares	-	-	-	-	-	-	(332)	-	-	-	(332)
Purchase of own shares by Santander Totta, SGPS	-	(163)	-	-	-	-	-	-	-	-	(163)
Other	-	-	-	-	-	-	(57)	-	-	(327)	(384)
Comprehensive consolidated income for the year 2019	-	-	-	57.332	(41.729)	15.603	-	-	527.258	226	543.087
Balances as at December 31, 2019	**1.972.962**	**(2.447)**	**600.000**	**(226.905)**	**10.498**	**(216.407)**	**1.380.616**	**-**	**527.258**	**1.588**	**4.263.570**

The accompanying notes form an integral of the consolidated income statements and other comprehensive income for the year ended at December 31, 2019.

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Amounts expressed in thousands of Euros - tEuros)

	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and commissions received	1.583.976	1.578.703
Payment of interest and commissions	(440.091)	(399.081)
Payments to staff and suppliers	(612.250)	(650.342)
Contributions to the pension funds	(176.573)	(46.534)
Foreign exchange and other operating results	11.728	93.805
Recovery of uncollectable loans	8.507	9.176
Receivables/(Payments) of insurance premiums	41.594	89.505
Cash flows before changes is operational assets and liabilities	416.891	675.232
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions	(97.234)	148.512
Financial assets held for trading	141.095	305.297
Loans and advances to customers at amortised cost	508.747	342.846
Assets and liabilities at fair value through profit or loss	276.596	638.877
Non-current assets held for sale	13.302	65.633
Investment properties	45.113	56.332
Other assets	78.525	261.263
	966.144	1.818.760
Increase / (decrease) in operating liabilities:		
Resources from financial institutions	(344.242)	(842.000)
Resources from customers and other debts	1.727.021	2.020.988
Financial liabilities held for trading	(142.499)	(873.437)
Other liabilities	7.649	(230.156)
	1.247.929	75.395
Net cash flow from operating activities before income tax	2.630.964	2.569.387
Income tax paid	(40.125)	(92.228)
Net cash flow from operating activities	2.590.839	2.477.159
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Dividends received	1.789	1.674
Acquisiton of financial assets at fair value through other comprehensive income	(1.060.903)	(1.299.965)
Disposal of financial assets at fair value through other comprehensive income	827.552	688.612
Other financial assets mandatorily at fair value through profit or loss	(46.465)	(490.570)
Income from financial assets at fair value through other comprehensive income	128.141	119.864
Purchase of tangible and intangible assets	(99.595)	(66.285)
Sale of tangible assets	(6.588)	13.036
Acquisition of Eurovida	-	(88.000)
Net cash flow from investment activities	(256.069)	(1.121.634)
CASH FLOW FROM FINANCING ACTIVITIES:		
Dividends paid	(395.000)	(341.890)
Issuance / (redemption) of cash bonds and other	(884.577)	(231.987)
Remuneration paid on cash bonds and other	(43.966)	(34.697)
Income Distribution - "Aditional Tier 1 Instruments"	(61.200)	(61.200)
Remuneration paid on subordinated liabilities	(570)	(570)
Net cash flow from financing activities	(1.385.313)	(670.344)
Net increase / (Decrease) in cash and cash equivalents	949.457	685.181
Cash and cash equivalents at the beginning of the year	2.506.630	1.697.710
Acquisition of Eurovida's activity	-	123.739
Cash and cash equivalents at the end of the year	3.456.087	2.506.630

'he accompanying notes form an integral of the Consolidated statements of the cash flows for the year ended at December 31, 2019

INTRODUCTION

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

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

Following the decision of the Single Resolution Board with regard to the application of a resolution measure to Banco Popular Español, SA, taken on June 7, 2017, through the instrument for the sale of the whole of the business, with the transfer of the whole of the shares representing the share capital of Banco Popular Español, SA, to Banco Santander, SA, the latter came to hold indirectly the whole of the share capital and voting rights of Banco Popular Portugal, SA (BAPOP). In 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 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 into the Bank. Consequently, the merger was registered on December 27, 2017.

Santander Totta is included in the consolidation of Banco Santander, SA (parent company). The main balances and transactions maintained with companies of the Santander Group during 2019 and 2018 are detailed in Note 42.

The Group has a nationwide network of 497 branches (527 branches as at December 31, 2018)). The Bank's branch in London was closed on December 31, 2018. It also has several branches and representation offices abroad and holdings in subsidiaries and associated companies.

The consolidated financial statements and the Management report for the year ended December 31, 2019, were approved at the Board of Directors meeting on April 21 2020. These financial statements are also subject to approval by the Shareholders' General Meeting, but the Board of Directors considers that they will be approved with no significant changes.

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of presentation of the accounts

Santander Totta's consolidated financial statements have been prepared on a going concern basis, based on the books and accounting records maintained in accordance with the principles enshrined in the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Union, in accordance with Regulation (EC) nº 1606/2002 of the European Parliament and of the Council of July 19, transposed into Portuguese law by Decree-Law 35/2005, of February 17 and by Bank of Portugal Notice nº 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 Group in preparing its consolidated financial statements as at December 31, 2019, are consistent with those used in preparing the consolidated financial statements with reference to December 31, 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.

Within the scope of the application of the IFRS as approved by the European Union, the Group adopted the following standards, amendments and interpretations with reference to January 1, 2019:

- **IFRS 16 (new)** – Leases This new standard replaces IAS 17 – 'Leases', with an 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.

- **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 expense 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 expense, 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 –Financial instruments. Long-term investments in associates and joint ventures are subject to the estimated loss impairment model, before being added for the purpose of impairment testing of the overall investment in an associate or in joint ventures, as and where there are indicators of impairment.

- **Improvements to the 2015 – 2017 standards** This cycle of improvements affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11.

- **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.

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

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

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

- **Conceptual structure**, Changes in the reference to other IFRS. As a result of the publication of new conceptual 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.

- **IFRS 3** (Amendment), Definition of business. This amendment is still subject to endorsement by the European Union. 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 expenses 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.

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

- **IFRS 17** (new), Insurance contracts. This standard is still subject to endorsement by the European Union. This new standard replaces IFRS 4 and applies to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary-participation features. IFRS 17 is based on the current measurement of technical liabilities on each reporting date. Current measurement may be based on a complete (building block approach) or simplified (premium allocation approach) model. Recognition of the technical margin differs depending on whether it is positive or negative. IFRS 17 is applied retrospectively.

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

1.2. <u>Consolidation principles and registration of associate companies</u>

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 26).

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

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

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.

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

1.3. Summary of the main accounting policies

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

a) Accrual accounting

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

b) Foreign currency transactions

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

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

c) Financial instruments

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

- The business model under which financial assets are managed;

- The type of financial instrument, that is (i) derivative financial instruments, (ii) equity instruments or (iii) financial debt instruments; and

- The contractual cash flow characteristics of the financial debt instruments (which represent just payments of principal and interest).

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

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

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

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

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

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

Sale of credits

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

Securitised credit not derecognised

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

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

Credits sold and not derecognised are 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 Group (ongoing involvement).

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

Derecognition

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

Guarantees provided and irrevocable commitments

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

Performance guarantees are initially recognised at fair value, which is normally evidenced by the amount of the 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 transaction costs, and they are subsequently measured at fair value. Gains and losses related to subsequent variation in the fair value are reflected in specific equity heading named Accumulated comprehensive income reserve until their sale, when they are reclassified to profit or loss for the period, with the exception of equity instruments that remain in share capital.

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

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

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

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

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

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

Repo Operations

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

Secondary market transactions

The Group repurchases bonds issued on the secondary market. Purchases and sales of own bonds are proportionately included in the respective headings of issued debt (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 Group decided to continue applying the hedge accounting defined within the scope of IAS 39.

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

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

- Existence of formal documentation of the hedge relationship and of the Bank's risk-management strategy, 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 Group contracted financial derivatives to hedge the future interest flows of part of its mortgage loan portfolio remunerated at a floating rate. It also contracted financial derivatives instruments to hedge future flows from the sale of part of its portfolio at fair value through other comprehensive income.

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

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

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

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

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

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

Loan impairment

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

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

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

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

- or expected loss for credit risk to maturity, that is, the total estimated loss resulting from all possible default events throughout the life of the financial instrument (referred to as Stage 2 and Stage 3).A provision for expected loss per credit risk to maturity is required for a financial instrument if the credit risk of that financial instrument has increased significantly since the initial recognition or if the financial instrument is impaired.

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

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

Impaired financial assets

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

Purchased or originated credit-impaired (POCI) financial assets

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

Significant increase of the credit risk

The Group monitors all financial assets in order to assess whether there has been a significant increase of the credit risk since their initial recognition. If there has been a significant increase of the credit risk, the Bank estimates the loan-loss provision to maturity (LTPD (life time probability of default)) and not over 12 months.

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

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

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

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

Credit risk parameters

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

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

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

PD is an estimate of the probability of default over a given time horizon. The models that have been 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 expenses, the time to execute the guarantees, level of collateralisation, etc. The LGD models for unsecured assets consider recovery time, recovery rates and recovery expenses. The calculation is based on cash flows discounted at the original effective interest rate of the loan. The estimate is based on current conditions, adjusted to take into account the estimates of future conditions that will affect the LGD.

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

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

Collective analysis

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

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

Individual analysis

The individual analysis process is applied to customers with Stage 3 exposure (assets impaired and in default) 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 cash-flow scenarios.

Incorporation of forward-looking information

The Group's economic studies office models economic-forecast scenarios for the Group's various planning exercises, in particular, budget, strategic planning and ICAAP. In this connection, different macro-economic scenarios are generated, including two pessimistic scenarios, one base scenario and two optimistic scenarios.
For the purpose of impairment losses, a pessimistic scenario is used, the base scenario and an optimistic scenario. The Group applies probabilities to the forecast scenarios identified. The base scenario is the most likely outcome and consists of information used by the Group for strategic planning and budgeting. The estimates are updated at least once a year and are subject to annual monitoring exercises.

d) **IFRS 16** - Leases

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

Method for measuring the right of use and lease liability

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

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

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

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

Use of practical expedients provided for in the standard

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

Definition of the main assumptions on the date of transition and contracts concluded later

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

e) Other tangible assets

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

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

	Years of useful life
Premises	50
Equipment	4 to 10

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

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

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

f) Intangible assets

The Group records under this heading expenses incurred with development of projects relating to information technologies implemented and at the implementation stage, as well as those relating to software purchased, in every case where their expected impact has to be reflected in years subsequent to that in which they are incurred. 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 the first half of 2019 the Group recognised €3,697k of internally-generated intangible assets (€2,509k in 2018).

g) Investment properties

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

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

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

h) Available-for-sale non-current assets

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

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

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

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

i) Provisions

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

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

j) Employee post-employment benefits

Banco Santander Totta SA

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

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

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

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

In October 2010 an agreement was concluded between the Ministry of Labour and Social Solidarity, the Portuguese Banks Association and the Financial Sector Federation (FEBASE), for the inclusion of banking sector employees in the General Social Security Regime. As a result of that agreement, Decree-Law 1-A/2011, of January 3, 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 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.

The Bank'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, the Bank took over the pension liabilities of a number of Banif workers.

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

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

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

<u>Santander Totta Seguros (“Company”)</u>

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

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

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

<u>Application of IAS 19</u>

On January 1, 2005, the Group 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 Group 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 Group came to carry the following components under Staff costs of the income statement:

- Cost of current services;
- Net interest with the pension plan;
- Expenses incurred with early retirement, corresponding to the increase of liabilities on retirement; and
- Gains and losses resulting from the alteration of the conditions of the plan.

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

Remeasurement gains and losses, namely: (i) actuarial gains and losses resulting from differences between actuarial assumptions used and the amounts actually incurred (gains and losses of experience) as well as changes of actuarial assumptions and (ii) gains and losses arising from the difference between the theoretical returns on the Fund's assets and the amounts obtained are 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.

k) Corporation tax

The Company and Group companies located in Portugal are subject to the tax system established in the Corporation Tax Code (IRC). Current taxes are calculated based on the Group’s taxable income and that of the Group companies, determined in accordance with the tax rules approved or substantively approved on the financial reporting sate.

Following the enactment of Law 2/2014, of January 16 (IRC Reform) and of the wording provided by the 2019 State Budget Act (Law 71/2018 of December 31), the taxation of corporate earnings for 2019 and 2018 came to be the following:

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

- 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	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%.

Tax losses generated as from 2014, inclusive, may be used in the twelve subsequent taxation periods, which is reduced to five taxation periods or reporting deadline for tax losses generated as from 2017. 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 (NCA) issued by the Bank of Portugal 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 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 under the NCA. Regulatory Decree No. 13/2018 of December 28 extended the 2016 tax regime to 2018.

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

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

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

The Santander Totta Group decided to apply as from 2017 the Special Taxation of Groups of Companies Regime (RETGS). Under this regime, the taxable profit/loss of the Group corresponds to the sum of the taxable profit/loss that had been 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, Banco, Santander Totta Seguros, TottaUrbe and Gamma - controlled companies. The gain obtained by application of the RETGS is allocated to the entities in question in the taxable income of each company.

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

The Group does not recognise deferred tax assets or liabilities for the deductible or taxable temporary differences associated with investments in subsidiaries and associates, as it is not likely that the difference will revert in the foreseeable future.
Deferred tax assets are recognised when they are expected to be recoverable and up to the amount that the existence is probable of future taxable profits that will accommodate the deductible temporary differences.

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

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

l) Banking sector contribution

With the publication of Law 55/2010, 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 165-A/2016, of June 14, to article 5 of Order-in-Council 121/2011 of March 30.

This contribution is carried under "Other results" of the income statement. As at December 31, 2018, this contribution was recognized in the tax line.

m) Technical provisions

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

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

- Provision for unearned premiums and deferred acquisition expenses

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

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

- Mathematical provision for life business

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

- Provision for rate commitments

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

- Provisions for claims

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

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

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

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

- Provision for profit-sharing to be attributed

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

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

- Provision for allocated profit sharing

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

- Technical provisions for reinsurance ceded

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

- Provision for risks in progress

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

n) Adjustments of receipts pending collection

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

o) Recognition of income and expenses – insurance

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

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

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

p) Treasury shares

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

q) Cash & cash equivalents

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

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

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

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

Employee post-employment benefits

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

The assumptions adopted correspond to the best estimate of the 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.

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

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

Fair value

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. Determination of the impairment through collective analysis is performed on the basis of parameters for comparable types of operations, such as instrument type, customer type, credit-risk degree as measured by the ratings or scoring system, type of collateral, date of initial recognition, relationship between loan and collateral value (LTV).

Available-for-sale non-current assets

Properties, equipment and other goods received as payment in kind or acquired in payment of past-due credit operations are carried at the amount agreed by negotiation or judicial means, after deduction of the lesser of the costs the Group expects to incur with their sale, or their quick-sale value, if lower. Real estate is subject to periodic valuations performed by independent valuers. Whenever the amount arising from these valuations (net of selling expenses) is lower than the amount at which the properties are carried, impairment losses are recorded.

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. For the purpose of analysis of the recoverability of deferred tax assets (tax losses), the Group projects taxable profits on the basis of assumptions. Thus, the recoverability of deferred tax assets depends on the implementation of the strategy of the Group's Board of Directors.

Determination of the outcome of legal proceedings in progress

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

Determination of liabilities for insurance contracts

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

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

However, the Company considers that the liabilities determined on the basis of the established methodologies adequately reflect the best estimate, as at December 31, 2019, of the liabilities to which it is bound.

Reinsurance ceded

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

3. DISCLOSURES BY SEGMENTS

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

Corporate Investment Banking:

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

Retail Banking:

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

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

Business Banking:

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

Insurance Management:

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

Corporate Activities:

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

The breakdown of the income statement by operating segment as at December 31, 2019 & 2018, is as follows:

	2019					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Net interest income (narrow sense)	78,535	517,472	94,740	338	164,629	855,714
Income from equity instruments	-	-	-	-	1,789	1,789
Net interest income	**78,535**	**517,472**	**94,740**	**338**	**166,418**	**857,503**
Results from associates	-	-	-	8,259	2,546	10,805
Net commissions	48,673	334,871	25,010	(4,357)	(23,693)	380,504
Other operating results	-	2,292	-	1,014	(24,518)	(21,212)
Insurance activity	-	-	-	21,687	-	21,687
Commercial revenue	**127,208**	**854,635**	**119,750**	**26,941**	**120,754**	**1,249,288**
Gains/Losses on financial assets	21,926	6,545	1,842	23,503	41,384	95,200
Net income from banking activities	**149,133**	**861,180**	**121,591**	**50,445**	**162,138**	**1,344,487**
Operating costs	(25,933)	(464,169)	(48,794)	(12,746)	(3,164)	(554,806)
Depreciation in the year	(2,727)	(45,065)	(1,331)	(515)	-	(49,639)
Net operating income	**120,474**	**351,946**	**71,467**	**37,183**	**158,974**	**740,043**
Impairment and provisions. net of reversals	5,688	19,277	(10,596)	(76)	(15,022)	(729)
Results from non-current assets held for sale	-	-	-	30	28,706	28,736
Other results	-	-	-	-	(28,259)	(28,259)
Income before taxes	**126,162**	**371,223**	**60,871**	**37,137**	**144,399**	**739,791**
Taxes	(39,110)	(115,079)	(18,870)	(5,197)	(34,058)	(212,315)
Non-controlling interests	-	-	-	-	(218)	(218)
Net income for the period	**87,052**	**256,144**	**42,001**	**31,940**	**110,123**	**527,258**

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

	2018					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Net interest income (narrow sense)	87,991	513,924	117,642	2,009	144,712	866,278
Income from equity instruments	-	-	-	179	1,495	1,674
Net interest income	**87,991**	**513,924**	**117,642**	**2,188**	**146,206**	**867,952**
Results from associates	-			7,344	7,224	14,568
Net commissions	47,007	313,883	28,498	(3,809)	(13,182)	372,398
Other operating results	-	3,420	-	764	(18,374)	(14,190)
Insurance activity	-	-	-	19,780	-	19,780
Commercial revenue	**134,998**	**831,227**	**146,141**	**26,267**	**121,875**	**1,260,508**
Gains/Losses on financial assets	13,732	4,433	1,631	16,786	(42,504)	(5,923)
Net income from banking activities	**148,730**	**835,660**	**147,771**	**43,053**	**79,371**	**1,254,585**
Operating costs	(24,147)	(498,580)	(38,368)	(14,794)	(3,332)	(579,221)
Depreciation in the year	(2,786)	(37,554)	(837)	(670)	-	(41,846)
Net operating income	**121,797**	**299,527**	**108,567**	**27,589**	**76,039**	**633,518**
Impairment and provisions. net of reversals	6,208	(22,483)	1,987	367	(270,649)	(284,570)
Results from non-current assets held for sale	-	-	-	-	21,107	21,107
Income before taxes	**128,005**	**277,044**	**110,553**	**27,956**	**(173,503)**	**370,055**
Taxes	(39,681)	(82,776)	(34,272)	(2,453)	289,079	129,897
Non-controlling interests	-	-	-	-	12	12
Net income for the period	**88,323**	**194,268**	**76,282**	**25,503**	**115,588**	**499,964**

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

As at December 31, 2019 & 2018, the breakdown of the assets and liabilities under management of each business segment, in accordance with information used by the Group's Management for decision-making, is as follows:

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

	31-12-2018					
	Corporate Investment Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
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	3,643,962	6,121,874	8,781,432	-	-	18,547,268
Total allocated assets	**3,643,962**	**27,218,894**	**8,781,432**	**-**	**-**	**39,644,288**
Non-allocated assets						15,383,284
Total Assets						**55,027,572**
Liabilities						
Resources from customers and other debts	1,852,262	26,217,509	5,311,565	-	-	33,381,336
Debt securities	-	-	-	-	4,322,597	4,322,597
	1,852,262	**26,217,509**	**5,311,565**	**-**	**4,322,597**	**37,703,933**
Non-allocated liabilities						13,151,901
Total Liabilities						**50,855,834**
Guarantees and sureties (Note 27)	**303,378**	**541,721**	**722,322**	**-**	**-**	**1,567,422**

As at December 31, 2019 & 2018, the Bank did not have relevant business in any geography other than that of the domestic business.

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

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

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE YEAR

As at December 31, 2019 & 2018, 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)		Shareholder's Equity		Net income for the year	
Company	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018	31-12-2019	31-12-2018
SANTANDER TOTTA. SGPS.S.A.	Headquarters	Headquarters	100.00	100.00	3,960,314	3,900,018	3,867,119	3,866,379	435,860	629,671
BANCO SANTANDER TOTTA. S.A.	99.96	99.96	99.96	99.96	55,639,804	55,173,578	3,497,526	3,404,774	499,715	475,535
TOTTA (IRELAND). PLC (2)	-	-	99.96	99.96	579,674	491,050	458,974	460,759	1,457	2,790
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES. S.A. (1)	-	-	99.96	99.96	148,280	239,145	131,505	25,662	6,083	(4,092)
TAXAGEST.SGPS.SA	1.00	1.00	99.96	99.96	55,751	55,740	55,747	55,739	8	(3)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	-	-	78.71	79.67	312,552	356,122	303,994	344,366	5,750	8,685
GAMMA. Sociedade Financeira de Titularização de Créditos. S.A.	-	-	99.96	99.96	7,166	7,130	6,747	6,807	228	62
HIPOTOTTA NO. 4 PLC	-	-	-	-	622,446	700,965	(4,697)	(3,481)	(958)	1,011
HIPOTOTTA NO. 5 PLC	-	-	-	-	616,581	679,746	(11,309)	(7,007)	(4,005)	(2,678)
HIPOTOTTA NO. 4 FTC	-	-	-	-	561,424	632,736	560,487	633,160	(740)	(2,196)
HIPOTOTTA NO. 5 FTC	-	-	-	-	550,361	612,496	549,042	610,576	(1,171)	(2,451)
ATLANTES MORTGAGE NO 1 PLC	-	-	-	-	-	80,717	-	40	-	-
ATLANTES MORTGAGE NO 1 FTC	-	-	-	-	-	62,624	-	60,737	-	127
Operações de Securitização geridas pela GAMMA. STC	-	-	-	-	3,157,980	3,591,682	-	-		-
BENIM - SOCIEDADE IMOBILIÁRIA. S.A.	-	-	-	25.79	-	n.d.	-	n.d.	-	n.d.
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO. S.A.	-	-	21.85	21.85	374,480	347,331	96,688	107,282	16,194	20,234
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO		-	25.75	25.76	106,281	105,824	100,597	100,304	292	2,010
BANIF INTERNACIONAL BANK. LTD	-	-	-	99.96	-	596	-	96	-	36
PRIMESTAR SERVICING. S.A.	-	-	-	79.96	-	1,539	-	1,269	-	(169)
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA. S.A.	100.00	100.00	100.00	100.00	4,391,845	4,177,813	140,872	110,874	25,545	17,757
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS. S.A.	-	-	49.00	49.00	115,184	98,531	32,262	31,114	11,904	12,273
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS. S.A.	-	-	49.00	49.00	43,971	33,137	21,805	16,580	4,950	2,714
POPULAR SEGUROS - COMPANHIA DE SEGUROS. S.A.	-	-	100.00	100.00	16,232	20,455	10,611	9,364	1,247	217

The financial statements of some subsidiaries, associates and jointly-controlled entities are subject to approval by the respective governing bodies. However, the Group's Board of Directors is of the conviction that there will be no changes with significant impact on the Group’s equity and consolidated profit.
n.d. – not available

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

As at December 31, 2019 & 2018, the business, the location of the registered office and the consolidation method used for the companies included in the consolidation were as follows:

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

(1) As at December 31, 2019, the equity of this subsidiary included supplementary capital contributions amounting to €99,760k granted during the first half of 2019.

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

In January 2018 the Company acquired from Banco Popular Spain its holding in Eurovida. In October 2018 Santander Totta Seguros acquired from the Company and the Bank the holding in Eurovida and on the same date carried out the merger by incorporation.

During 2019, the Group sold the holding in Benim-Sociedade Imobiliária, SA, and wound up the following companies:

- Atlantes Mortgage No. 1 FCT
- Banif International Bank, Ltd
- Primestar Servicing, SA

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

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

As at December 31, 2019 & 2018, the composition of the balance sheets of the Aegon Santander Portugal Life and Non-life companies was as follows:

	31-12-2019			31-12-2018		
	Aegon Santander Portugal Vida - Companhia de Seguros de Vida. S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros. S.A.	Total	Aegon Santander Portugal Vida - Companhia de Seguros de Vida. S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros. S.A.	Total
Cash and deposits	4,703	3,768	8,471	2,313	4,385	6,698
Available-for-sale financial assets	67,298	33,678	100,976	64,272	21,226	85,498
Other tangible assets	50	-	50	45	-	45
Other intangible assets	11,711	5,732	17,443	7,158	4,361	11,519
Technical reserves for reinsurance ceded	28,465	257	28,722	14,822	649	15,471
Other debtors for insurance and other transactions	2,887	445	3,332	9,896	2,373	12,269
Assets - taxes and levies	-	-	-	-	88	88
Accruals and deferrals	52	91	143	12	55	67
Other assets	18	-	18	13	-	13
	115,184	43,971	159,155	98,531	33,137	131,668
Technical reserves	67,168	13,479	80,647	48,802	8,380	57,182
Other financial liabilities	6,045	-	6,045	8,000	-	8,000
Other creditors for insurance and other transactions	6,818	5,978	12,796	5,795	5,802	11,597
Liabilities - taxes and levies	1,121	1,667	2,788	3,092	1,412	4,504
Accruals and deferrals	1,770	1,042	2,812	1,728	963	2,691
Share Capital	7,500	7,500	15,000	7,500	7,500	15,000
Revaluation reserves	1,228	451	1,679	837	86	923
Deferred tax reserves	(319)	(112)	(431)	(218)	(21)	(239)
Other reserves	11,949	5,341	17,290	10,722	5,069	15,791
Retained earnings	-	3,675	3,675	-	1,232	1,232
Net income for the year	11,904	4,950	16,854	12,273	2,714	14,987
	115,184	43,971	159,155	98,531	33,137	131,668

As at December 31, 2019 & 2018, the Novimovest Fund balance sheet was as follows:

	31-12-2019	31-12-2018
Securities portfolio	-	3,379
Real estate portfolio	252,513	297,625
Accounts receivable	6,672	8,221
Cash and banks	53,312	46,844
Accruals and deferrals	55	54
	312,552	356,123
Capital Fund	303,994	344,366
Adjustments and provisions	3,802	4,917
Accounts payable	2,973	4,540
Accruals and deferrals	1,783	2,300
	312,552	356,123

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

As at December 31, 2019 & 2018, the consolidated net income includes a profit of €4,526k and €6,928k, respectively, attributable to the Novimovest Fund.

5. CASH AND DEPOSITS AT CENTRAL BANKS

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Cash	354,664	287,671
Demand deposits at Central Banks:		
European Central Bank	2,798,892	1,368,061
	3,153,556	1,655,732

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

On September 12, 2019, the ECB Council decided to introduce a two-tier system for the remuneration of excess reserves, exempting part of the surplus liquidity of the institutions, that is, the part of the reserves that exceeds the mandatory reserves, of the negative remuneration at the interest rate applicable to the permanent deposit facility. The ECB Council decided, inter alia, to exempt a multiple the mandatory reserves of the institutions and decided to fix at six initial multiplier 'm' of the mandatory reserves of the institutions that is used to calculate the portion exempt from the excess reserves of the institutions in relation to all eligible institutions, and at zero per cent the initial interest rate applicable to the on exempt excess reserves. The said multiplier 'm' and the interest rate applicable to the exempt free reserves can be adjusted over time of by the ECB Council (on December 31, 2018 the penalty rate on the excess was 0.4%).

6. BALANCES DUE FROM OTHER BANKS

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Balances due from domestic banks		
Demand deposits	21,530	195,767
Balances due from foreign banks		
Demand deposits	325,311	655,131
	346,841	850,898

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

7. FINANCIAL ASSETS HELD FOR TRADING

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Financial assets held for trading		
Derivatives with positive fair value	1,073,429	1,201,295
Securities - Participating units	-	3,379
	1,073,429	1,204,674
Financial liabilities held for trading		
Derivatives with negative fair value	1,097,214	1,239,713

As at December 31, 2019 & 2018, the following derivatives are recorded:

	31-12-2019			31-12-2018		
	Asset	Liabilities	Net (Note 11)	Asset	Liabilities	Net (Note 11)
Forwards	3,363	3,215	148	2,157	1,817	340
Swaps						
Cross Currency Swaps	-	-	-	692	688	4
Currency swaps	93	8,255	(8,162)	7	7,055	(7,048)
Interest rate swaps	995,330	1,026,187	(30,857)	1,115,664	1,143,613	(27,949)
Equity swaps	18,339	3,183	15,156	2,868	7,170	(4,302)
Options						
Foreign exchange options	540	540	-	1,877	1,846	31
Equity options	2,585	2,871	(286)	2,186	2,216	(30)
Caps & Floors	53,179	52,963	216	75,844	75,308	536
	1,073,429	1,097,214	(23,785)	1,201,295	1,239,713	(38,418)

As at December 31, 2019, the assets and liabilities headings relating to Derivative financial instruments are reduced by the amounts of approximately €7,120k and €7,141k of Credit Value Adjustments and Debit Value Adjustments, respectively (€15,550k and €22,716k as at December 31, 2018, respectively), in accordance with the method described in Note 43.

As at December 31, 2019 & 2018, almost all the trading derivative financial instruments were hedged back-to-back with Banco Santander, SA.

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

8. OTHER FINANCIAL ASSETS MANDATORY AT FAIR VALUE THROUGH PROFIT OR LOSS

The composition of this heading is as follows:

	31-12-2019	31-12-2018
Debt instruments		
Issued by residents		
Treasury Bonds	1,050,907	1,160,936
Subordianted debt	-	56,755
Unsubordinated debt	117,324	125,232
Issued by non-residents		
Foreign public issuers	415,160	296,928
Other non-resident issuers	727,801	674,332
Equity instruments		
Issued by residents	190,944	279,185
Issued by non-residents	598,139	460,442
	3,100,275	3,053,810

Interest and the results of the appreciation of these financial assets at fair value were reflected in the income statement under Results of financial transactions - financial assets and liabilities at fair value through profit or loss (Note 34).

As at December 31, 2019 & 2018, the breakdown of this heading is as follows:

	31-12-2019					31-12-2018				
	"Unit link" Products		Other products			"Unit link" Products		Other products		
Description	Capital	Interest receivable	Capital	Interest receivable	Fair Value	Capital	Interest receivable	Capital	Interest receivable	Fair Value
Debt instruments										
Issued by residents										
Treasury Bonds	1,038,082	12,825	-	-	1,050,907	1,142,510	18,426	-	-	1,160,936
Subordianted debt	-	-	-	-	-	-	-	56,745	10	56,755
Unsubordinated debt	115,227	2,097	-	-	117,324	123,032	2,200	-	-	125,232
Issued by non-residents										
Foreign public issuers	412,165	2,995	-	-	415,160	294,558	2,370	-	-	296,928
Unsubordinated debt	715,887	11,914	-	-	727,801	660,955	13,377	-	-	674,332
Equity instruments										
Issued by residents	45,654	-	145,290	-	190,944	102,629	-	176,556	-	279,185
Issued by non-residents	597,458		681	-	598,139	458,547	-	1,895	-	460,442
	2,924,473	29,831	145,971	-	3,100,275	2,782,231	36,373	235,196	10	3,053,810

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

9. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The breakdown of this heading is as follows:

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

	31-12-2018								
				Fair Value Reserve					
	Acquisition cost	Interest receivable	Hedging op. adjustments	Positive reserve	Negative reserve	Total	IFRS 9	Impairment (Note 21)	Book value
Debt Instruments									
Issued by residents									
Treasury bonds	4,535,206	83,915	4,493	395,533	(100)	395,433	(3,198)	-	5,015,849
Other residents									
Unsubordinated debt	70,937	1,564	-	225	(72)	153	-	(3)	72,651
Issued by non-residents									
Foreign public issuers	742,006	5,383	-	23,917	(1,914)	22,003	-	-	769,392
Other non-residents	57,296	476	-	506	(244)	262	-	-	58,034
	5,405,445	91,338	4,493	420,181	(2,330)	417,851	(3,198)	(3)	5,915,926
Equity instruments									
Issued by residents									
Measured at fair value	78,163	-	-	581	-	581	-	-	78,744
Issued by non-residents									
Measured at fair value	1,695	-	-	-	-	-	-	-	1,695
	79,858	-	-	581	-	581	-	-	80,439
	5,485,303	91,338	4,493	420,762	(2,330)	418,432	(3,198)	(3)	5,996,365

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

Treasury Bonds headings had the following characteristics:

	31-12-2019				31-12-2018			
Description	Acquisition cost	Interest receivable	Gain/loss	Book value	Acquisition cost	Interest receivable	Gain/loss	Book value
Treasury bonds - Portugal								
Maturing in 1 year	4,447	114	36	4,597	3,179	82	18	3,279
Maturing between one and three years	30,627	218	899	31,744	18,718	267	542	19,527
Maturing between three and five years	65,772	1,118	4,241	71,131	72,834	503	3,301	76,638
Maturing between five and ten years	4,716,956	75,326	698,125	5,490,407	4,203,814	76,035	382,795	4,662,644
Maturing over ten years	72,364	2,110	12,964	87,438	236,661	7,028	10,072	253,761
	4,890,166	78,886	716,265	5,685,317	4,535,206	83,915	396,728	5,015,849
Treasury bonds - Spain								
Maturing in 1 year	14,163	295	245	14,703	17,252	239	332	17,823
Maturing between one and three years	62,165	1,431	1,156	64,752	37,049	769	1,277	39,095
Maturing between three and five years	63,799	644	3,057	67,500	71,781	1,464	1,317	74,562
Maturing between five and ten years	420,483	2,231	33,709	456,423	451,780	2,267	8,838	462,885
Maturing over ten years	11,717	131	881	12,729	10,024	210	245	10,479
	572,327	4,732	39,048	616,107	587,886	4,949	12,009	604,844
Treasury bonds - Other								
Maturing in 1 year	5,860	7	167	6,034	33,289	1	1,247	34,537
Maturing between one and three years	28,822	183	447	29,452	17,506	49	263	17,818
Maturing between three and five years	46,647	204	3,384	50,235	45,904	251	1,355	47,510
Maturing between five and ten years	24,928	70	3,971	28,969	44,912	121	1,845	46,878
Maturing over ten years	12,865	10	7,725	20,600	12,509	12	5,284	17,805
	119,122	474	15,694	135,290	154,120	434	9,994	164,548
	5,581,615	84,092	771,007	6,436,714	5,277,212	89,298	418,731	5,785,241

As at December 31, 2019 & 2018, the Group's portfolio contained Portuguese Treasury Bonds in the amounts of €445,207k and €311,387k respectively, used as collateral in funding operations (Note 20)

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

As at December 31, 2019 & 2018, Debt instruments – Issued by other residents included, among others, the following securities:

	31-12-2019					31-12-2018				
Description	Acquisition cost	Interest receivable	Gain/loss	Impairment	Book value	Acquisition cost	Interest receivable	Gain/loss	Impairment	Book value
Unsubordinated debt										
CGD 3% 2014/2019	-	-	-	-	-	50,000	1,442	29	(3)	51,468
Altri / Celbi Floating Int 06-03-2024	701	5	(1)	-	705	701	5	(8)	-	698
BCP 0.75 31-05-2022	2,094	9	45	-	2,148	2,091	9	32	-	2,132
Celulose Beira Industria Floating Int 22-02-2024	450	3	-	-	453	450	4	-	-	454
Celulose Beira Industria Floating Int 14-07-2027	696	7	(5)	-	698	695	7	(9)	-	693
Brisa Concessao Rodov Sa 1.875 30-04-2025	199	3	13	-	215	199	3	5	-	207
Cp Comboios De Portugal 4.17 16-10-2019	-	-	-	-	-	258	2	-	-	260
Caixa Geral De Depositos 1 27-01-2022	3,624	33	60		3,717	3,636	33	44	-	3,713
Refer-Rede Ferroviaria 4.25 13-12-2021	1,267	3	25	-	1,295	1,301	2	22	-	1,325
Galp Energia Sgps Sa 1 15-02-2023	995	9	18		1,022	994	9	(35)	-	968
Galp Gas Natural Distrib 1.375 19-09-2023	1,997	8	73	-	2,078	1,996	8	(11)	-	1,993
Hovione Farmaciencia Sa Floating Int 02-10-2023	606	4	(3)	-	607	609	4	(8)	-	605
Jose De Mello Saude Floating Int 09-06-2019	-	-	-	-	-	251	1	-	-	252
Jose De Mello Saude Floating Int 17-05-2021	287	1	5	-	293	286	1	1	-	288
Jose De Mello Saude 4 28-09-2023	700	7	17		724	700	7	8	-	715
Parpublica 3.75 05-07-2021	710	13	30		753	716	13	42	-	771
Saudacor Sa Floating Int 20-12-2019	-	-	-	-	-	907	1	-	-	908
Saudacor Sa Floating Int 20-06-2022	794	1	15	-	810	800	1	13	-	814
Sprhi Sa Tx Var 29-09-2021	730	7	11	-	748	735	7	14	-	756
Parpublica 3.567 22-09-2020	372	4	7	-	383	376	4	15	-	395
OB.HEFESTO STC SA SERIE-1 CL-R	2,327	-	-	(89)	2,238	3,100	-	-	-	3,100
Other	-	-	-	-	-	136	1	(1)	-	136
	18,549	117	310	(89)	18,887	70,937	1,564	153	(3)	72,651

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

As at December 31, 2019 & 2018, Debt instruments – Issued by other non-residents included, among others, the following securities:

	31-12-2019				31-12-2018			
Description	Acquisition cost	Interest receivable	Gain/loss	Book value	Acquisition cost	Interest receivable	Gain/loss	Book value
Santander Consumer Finance 0.875 % 24-01-2022	7,516	61	120	7,697	7,524	61	(5)	7,580
Adif Alta Velocidad 1.875 22-09-2022	5,245	26	127	5,398	5,297	26	74	5,397
Edp Finance Bv 1.125 12-02-2024	3,015	30	136	3,181	3,006	30	(1)	3,035
Santan Consumer Finance 1 26-05-2021	2,115	13	19	2,147	2,125	13	3	2,141
Banco Bilbao Vizcaya Arg 0.75 11-09-2022	1,995	5	38	2,038	1,994	5	(26)	1,973
Ren Finance Bv 1.75 01-06-2023	1,905	19	99	2,023	1,905	19	57	1,981
Criteria Caixa Sa 1.5 410-05-2023	1,899	18	65	1,982	1,899	18	(41)	1,876
Critéria Caixa Sa 1.625 21-04-2022	1,811	20	54	1,885	1,815	20	(8)	1,827
Nykredit 0..75 14-07-2021	1,505	5	14	1,524	1,508	5	-	1,513
Banco Bilbao Vizcaya Arg 0.625 17-01-2022	1,499	9	22	1,530	1,499	9	5	1,513
Banco Bilbao Vizcaya Arg 1 20-01-2021	1,413	13	5	1,431	1,424	13	(3)	1,434
Edp Finance Bv 4.875 14-09-2020	1,292	18	2	1,312	1,351	18	(1)	1,368
Banco De Sabadell 0.875 05-03-2023	1,196	9	18	1,223	1,195	9	(54)	1,150
Adif Alta Velocidad 3.5 27-05-2024	1,084	21	62	1,167	1,102	21	36	1,159
Cassa Depositi Prestiti 2.75 31-05-2021	1,080	17	19	1,116	1,095	17	4	1,116
Adif Alta Velocidad 0.8 05-07-2023	1,093	4	37	1,134	1,091	4	19	1,114
Volkswagen Leasing Gmbh 2.375 06-09-2022	1,044	8	14	1,066	1,059	8	(23)	1,044
State Grid Europe Develo 1.5 26-01-2022	999	14	26	1,039	999	14	24	1,037
Aurizon Network Pty Ltd 2 18-09-2024	996	6	83	1,085	995	6	29	1,030
Bharti Airtel International 3.375 20-05-2021	951	20	33	1,004	952	20	3	975
Dexia Credit Local 0.625 03-02-2024	898	5	29	932	898	5	17	920
Achmea Hypotheekbank Nv 2.75 18-02-2021	864	20	13	897	876	20	18	914
Caixabank Sa 1.125 17-05-2024	799	6	28	833	799	6	(16)	789
Spp Distribucia As 2.625 23-06-2021	708	10	20	738	714	10	21	745
Santander Consumer Bank 0.75 17-10-2022	700	1	11	712	700	1	(8)	693
Dvb Bank Se 1.25 22-04-2020	700	6	3	709	699	6	7	712
Cassa Depositi Prestiti 0 75 21-11-2022	699	1	9	709	699	1	(26)	674
Cellnex Telecom 3.125 27-07-2022	631	8	12	651	643	8	(7)	644
Edp Finance Bv 1.875 29-09-2023	636	3	30	669	638	3	10	651
Ep Energy As 5.875 01-11-2019	-	-	-	-	612	6	14	632
Mylan Nv 1.25 23-11-2020	603	1	3	607	605	1	(1)	605
Cores 1.5 27-11-2022	599	1	30	630	599	1	28	628
Intesa Sanpaolo Spa 0.5 02-02-2020	600	1	1	602	597	1	(3)	595
Ren Finance Bv 2.5 12-02-2025	521	11	28	560	525	11	3	539
SANTAN 4% 7/4/20	502	15	3	520	512	15	14	541
Pko Fin Ab (Pko Bank Pl) 2.324 23-01-2019	-	-	-	-	500	11	-	511
British Sky Broadcasting 1.875 24-11-2023	500	1	34	535	500	1	22	523
Edp Finance Bv 2 22-04-2025	490	7	40	537	490	7	8	505
Hutchison Whampoa Fin 1.375 31-10-2021	500	1	11	512	499	1	12	512
Sinopec Grp Oversea 2015 1 28-04-2022	499	3	10	512	498	3	8	509
Sparebanken Vest 0.5 29-11-2022	499	-	7	506	499	-	(3)	496
Lloyds Bank 1% 19-11-21	499	1	11	511	498	1	8	507
Bat Intl Finance Plc 1 23-05-2022	499	3	12	514	498	3	-	501
Other	3,358	20	99	3,477	3,363	18	44	3,425
	55,957	461	1,437	57,855	57,296	476	262	58,034

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

As at December 31, 2019 and 2018 Capital instruments included the following securities:

	31-12-2019			31-12-2018		
Description	Acquisition cost	Gain/loss in reserves	Book value	Acquisition cost	Gain/loss in reserves	Book value
SIBS - SGPS. S.A.	68,313	-	68,313	68,313	-	68,313
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A.	-	-	-	3,218	-	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE S.A. - PS	-	-	-	3,218	-	3,218
VISA INC series C	1,432	-	1,432	1,431	-	1,431
NORGARANTE - SOC. GARANTIA MUTUA S.A.	460	-	460	1,296		1,296
PORTUGAL CAPITAL VENTURES - SOC. DE CAP. DE RISCO. SA	850	-	850	850	-	850
LISGARANTE - SOC. GARANTIA MUTUA S.A.	298	-	298	517	-	517
GARVAL - SOC.DE GARANTIA MUTUA S	249	68	317	287	27	314
AGROGARANTE-SOCIEDADE DE GARANTIAS MUTUAS	1,058	159	1,217	106	50	156
FUNFRAP-FUNDICAO PORTUGUESA. S.A	274	471	745	274	491	765
Other	382	20	402	348	13	361
	73,316	718	74,034	79,858	581	80,439

As at December 31, 2019 & 2018, the negative revaluation reserves resulting from the valuation at fair value, had the following devaluation percentages compared to the respective acquisition costs:

	31-12-2019				31-12-2018			
	Acquisition cost	Interest receivable	Negative reserve	Book value	Acquisition cost	Interest receivable	Negative reserve	Book value
Debt instruments								
Between 0% and 25%	3,526	26	(79)	3,473	130,609	703	(2,330)	128,982
	3,526	26	(79)	3,473	130,609	703	(2,330)	128,982

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

10. FINANCIAL ASSETS AT AMORTISED COST

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

	31-12-2019	31-12-2018
Loans and advances to other domestic banks		
Deposits	1	102,218
Loans	55	87,851
	56	190,069
Loans and advances to other foreign banks		
Very short-term loans and advances		66,292
Deposits	17,609	270,562
Other instruments	709,836	148,180
Interest receivable	14	12
	727,459	485,046
	727,515	675,115
Impairment losses (Note 21)	(29)	(84)
	727,486	675,031

As at December 31, 2019 & 2018, “Investments at credit institutions abroad – Other investments” includes margin accounts of €507,569k and €147,927k, respectively.

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

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

	31-12-2019	31-12-2018
Unsecuritized loans		
Domestic loans		
To corporate clients		
Discount and other credit securities	195,390	208,795
Loans	9,027,202	9,326,549
Current account loans	1,027,892	1,126,534
Overdrafts	120,786	138,330
Factoring	1,486,356	1,506,932
Finance leasing	1,121,687	1,158,855
Other credits	45,646	43,384
To individuals		
Mortgage loans	15,179,957	14,514,864
Consumer credit and other loans	2,218,434	2,148,876
Foreign loans		
To corporate clients		
Loans	528,190	394,738
Current account loans	5,172	10,002
Overdrafts	348	646
Factoring	54,677	65,353
Finance leasing	2,708	3,708
Other loans	6,595	7,254
To individuals		
Mortgage loans	495,514	437,347
Consumer credit and other loans	73,110	64,694
	31,589,664	31,156,861
Securitized loans		
Non-subordinated debt securities	3,765,429	4,081,130
Non-derecognized securitized assets - individuals - mortagage loans	3,865,680	4,419,095
Overdue loans and interest	504,040	623,128
	39,724,813	40,280,214
Interest receivable		
Unsecuritized loans	70,379	75,366
Securitized loans	15,452	16,463
Non-derecognized securitized assets	2,239	3,138
Assets value adjustments from hedging	219,139	47,162
Deferred expenses	94,968	86,999
Cheques for collection	60,591	75,423
Debtors	227,220	297,961
Commissions associated with amortized cost (net)	(143,417)	(128,952)
	546,571	473,560
	40,271,384	40,753,774
Impairment of loans and advances to customers (Note 21)	(922,210)	(1,109,486)
	39,349,174	39,644,288

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

In the periods ended December 31, 2019 & 2018, portfolios of loans granted to individuals and companies were sold, with a carrying amount of €167,241k and €723,987k, respectively. As a result of these transactions net gains were recorded in 2019 and 2018 in the amounts of €4,028k and (€12,480k, respectively (Notes 21 and 34).

As at December 31, 2019 & 2018, "Domestic loans – To individuals - Residential" included loans assigned to the autonomous property of the mortgage loans issued by the Bank in the amounts of €9,345,054k and €8,937,341k, respectively (Note 20).

Movements under impairments of loans & advances to customers during 2019 and 2018 are presented in note 21.

As at December 31, 2019 & 2018, the breakdown of overdue loans and interest by period of default was as follows:

	31-12-2019	31-12-2018
Up to three months	23,106	23,767
Between three and six months	24,530	28,287
Between six months and one year	88,965	61,971
Between one year and three years	207,774	312,347
More than three years	159,665	196,756
	504,040	623,128

As at December 31, 2019 & 2018, the breakdown by stage of the portfolio of loans and other receivable balances at amortised cost is as follows:

	31-12-2019			31-12-2018		
	Gross value	Impairment losses	Coverage	Gross value	Impairment losses	Coverage
Stage 1	36,626,405	(65,257)	0.18%	36,756,174	(79,592)	0.22%
Stage 2	2,022,651	(72,855)	3.60%	1,962,197	(96,651)	4.93%
Stage 3	1,622,328	(784,098)	48.33%	2,035,403	(933,243)	45.85%
	40,271,384	(922,210)		40,753,774	(1,109,486)	

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

The evolution that occurred in the exposure and in the impairment for credit extended and other receivables at amortized cost in 2019 and 2018 exercise was as follows:

	Credit granted and other balances receivable				Impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance as at 01-01-2018	34,987,342	3,681,036	2,718,666	41,387,044	81,123	118,658	1,541,084	1,740,865
Transfers								
Stage 1 to 2	(689,996)	689,996	-	-	(2,177)	27,522	-	25,345
Stage 1 to 3	(142,356)	-	142,356	-	(12,998)	-	35,735	22,737
Stage 2 to 3	-	(247,128)	247,128	-	-	(19,469)	50,274	30,805
Stage 2 to 1	1,738,320	(1,738,320)	-	-	(1,183)	(21,511)	-	(22,694)
Stage 3 to 2	-	96,114	(96,114)	-	-	6,133	(27,160)	(21,027)
Stage 3 to 1	44,853	-	(44,853)	-	674	-	(12,449)	(11,775)
Write offs and sales	-	-	(938,155)	(938,155)	-	-	(773,473)	(773,473)
Origination net of amortization	818,011	(519,501)	6,375	304,885	14,153	(14,682)	119,232	118,703
Balance as at 31-12-2018	36,756,174	1,962,197	2,035,403	40,753,774	79,592	96,651	933,243	1,109,486
Transfers								
Stage 1 to 2	(925,665)	925,665	-	-	(4,544)	27,068	-	22,524
Stage 1 to 3	(81,163)	-	81,163	-	(13,261)	-	43,723	30,462
Stage 2 to 3	-	(107,057)	107,057	-	-	(7,736)	30,262	22,526
Stage 2 to 1	772,355	(772,355)	-	-	3,291	(37,561)	-	(34,270)
Stage 3 to 2	-	100,926	(100,926)	-	-	6,467	(33,142)	(26,675)
Stage 3 to 1	87,493	-	(87,493)	-	471	-	(9,420)	(8,949)
Write offs and sales	-	-	(233,531)	(233,531)	-	-	(173,210)	(173,210)
Origination net of amortization	17,211	(86,725)	(179,345)	(248,859)	(292)	(12,034)	(7,358)	(19,684)
Balance as at 31-12-2019	36,626,405	2,022,651	1,622,328	40,271,384	65,257	72,855	784,098	922,210

11. HEDGING DERIVATIVES

The breakdown of this heading is as follows:

	31-12-2019			31-12-2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	2,187	(294,068)	(291,881)	10,079	(67,509)	(57,430)
Equity swaps	135	(765)	(630)	20	(1,714)	(1,694)
Cash-flows hedge						
Interest rate swaps	52,794	-	52,794	63,365	(332)	63,033
Forward sales	1,129	(98,998)	(97,869)	-	(21,001)	(21,001)
	56,245	(393,831)	(337,586)	73,464	(90,556)	(17,092)

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

As at December 31, 2019 & 2018, the breakdown of derivative financial instruments was as follows:

	31-12-2019								
		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	More than 3 years	Total	EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	148	158,523	128,320	44,165	17,004	-	348,012	171,477	176,535
Sold		158,485	128,275	44,144	16,987	-	347,891	173,562	174,329
Currency swaps									
Purchased	(8,162)	1,768,634	431	-	-	-	1,769,065	277,004	1,492,061
Sold		1,776,141	441	-	-	-	1,776,582	1,499,960	276,622
Interest rate swaps	(30,857)	87	40,654	1,628,509	3,217,543	20,698,451	25,585,244	25,549,263	35,981
Equity swaps	15,156	-	-	-	46,271	319,602	365,873	365,873	-
Currency options									
Purchased	-	24,936	19,630	27,850	-	-	72,416	72,416	-
Sold		24,936	19,630	27,850	-	-	72,416	72,416	-
Equity options									
Purchased	(286)	49,919	97,007	-	-	-	146,926	146,926	-
Sold		49,919	97,007	-	-	-	146,926	146,926	-
Caps & Floors	216	40,031	7,151	72,589	756,271	197,373	1,073,415	1,073,415	-
	(23,785)	4,051,611	538,546	1,845,107	4,054,076	21,215,426	31,704,766	29,549,238	2,155,528
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
Financial assets at fair value through other comprehensive income	(49,904)	-	-	-	-	2,080,000	2,080,000	2,080,000	-
Liabilities and loans	(241,977)	4,004	13,086	98,158	691,752	3,648,372	4,455,372	4,044,224	411,148
Equity swaps	(630)	10,781	7,945	17,381	34,112	8,227	78,446	8,227	70,219
Cash flow hedge							-		
Interest rate swaps									
Cash flow	52,794	-	4,000,000	2,000,000	3,000,000	-	9,000,000	9,000,000	-
Forwards sale	(97,869)	1,061,803	222,519	1,182,316	326,558	-	2,793,196	2,793,196	-
	(337,586)	1,076,588	4,243,550	3,297,855	4,052,422	5,736,599	18,407,014	17,925,647	481,367

	31-12-2018								
		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	More than 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	(27,949)	41,837	1,881,966	263,484	2,562,893	21,339,402	26,089,582	26,052,761	36,821
Cross currency swaps									
Purchased	4	7,631	-	-	-	-	7,631	7,631	-
Sold		7,631	-	-	-	-	7,631	7,631	-
Equity swaps	(4,302)	138,295	-	-	-	378,934	517,229	517,229	-
Currency options									
Purchased	31	52,276	50,603	101,607	5,240	-	209,726	-	209,726
Sold		52,276	50,603	101,607	5,240	-	209,726	-	209,726
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	773,410	440,105	265,011	889,194	2,625,320	2,625,320	-
	(38,418)	2,549,266	3,091,974	1,110,228	3,197,263	22,607,802	32,556,533	31,008,050	1,548,483
2. Hedging derivatives									
Fair value hedge									
Interest rate swaps									
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 flow	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

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

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

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

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

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

In accordance with the standard, parts of operations, commonly known as "embedded derivatives" are also separated and carried as derivatives, in a manner such as to 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

The composition of this heading is as follows:

	31-12-2019		31-12-2018	
	Effective Participation (%)	Book Value	Effective Participation (%)	Book Value
Domestic				
AEGON Santander Portugal Não Vida	49.00	18,828	49.00	16,268
AEGON Santander Portugal Vida	49.00	34,190	49.00	33,627
Benim - Sociedade Imobiliária. S.A.	-	-	25.81	1,918
Fundo de Investimento Imobiliário Lusimovest	25.75	25,923	25.76	25,847
Unicre - Instituição Financeira de Crédito. S.A.	21.85	33,318	21.85	35,634
		112,259		113,294
Impairment of investments in associates (Note 21)				
Benim - Sociedade Imobiliária. S.A.		-		(1,918)
		-		(1,918)
		112,259		111,376

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 holding for its portfolio and in sold it in October 2019 to a company external to the group.

As at December 31, 2019 & 2018, 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 PROPERTIES

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Real estate properties held by Novimovest Real Estate Fund	252,513	297,625

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.

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

As at December 31, 2019 & 2018, the properties held by the Novimovest Real Estate Fund had the following characteristics:

	31-12-2019	31-12-2018
Land		
Urbanized	13,972	14,643
Non-urbanized	1,128	1,141
Finished constructions		
Rented	190,611	222,946
Not rented	29,060	41,070
Construction projects	17,742	17,825
	252,513	297,625

On the other hand, during 2019 and 2018, the properties held by the Novimovest Real Estate Fund generated, among others, the following annual income and charges:

	31-12-2019	31-12-2018
Rents (Note 36)	13,437	15,252
Taxes	(137)	-
Condominium expenses	(1,108)	(1,166)
Maintenance and repair expenses	(1,077)	(12)
Insurances	(156)	(197)
	10,959	13,877

Movement under Investment properties in 2019 and 2018 was as follows:

	2019				
	Balances at 31-12-2018	Increases	Fair value valuation	Sales	Balances at 31-12-2019
Properties held by Novimovest Real Estate Fund	297,625	2,929	(2,916)	(45,125)	252,513

	2018				
	Balances at 31-12-2017	Increases	Fair value valuation	Sales	Balances at 31-12-2018
Properties held by Novimovest Real Estate Fund	353,957	2,399	(2,290)	(56,441)	297,625

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 36).

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 18.

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

As at December 31, 2019 & 2018, 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	
	31-12-2019	31-12-2018
Investment properties	252,513	297,625

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, 2019 & 2018, of their main characteristics, of the valuation techniques adopted and of the more relevant inputs used in the determination of their fair value:

Property description	Use	Amount in 31-12-2019	Amount in 31-12-2018	Valuation tecnique	Relevant inputs
Hotel Delfim - Alvor					
Hotel in Portimão	Leased Out	-	34,447	Income method	Lease value per m2 Capitalization rate
Stª Cruz do Bispo - Lots 1. 2 and 3					
Terrenos in Matosinhos	Urbanized	34,586	41,694	Comparative market method / Residual value method	Taxa de capitalização Land value and cost of construction and marketing per m2
Galerias Saldanha Residence					
Centro Comercial in Lisboa	Leased Out	26,975	26,365	Income method / Comparative market method	Lease value per m2 Capitalization rate
Armazém em Perafita					
Armazém in Matosinhos	Leased Out	15,820	15,896	Income method / Comparative market method	Lease value per m2 Capitalization rate
Av. Antero de Quental. 9					
Offices and store in Ponta Delgada	Leased Out	11,431	11,699	Income method / Comparative market method	Lease value per m2 Capitalization rate
Estrada da Outurela. 119. Carnaxide					
Offices in Oeiras	Leased Out	11,636	11,878	Income method / Comparative market method Income method / Cost method	Lease value per m2 Capitalization rate
Golf course in Loulé	Leased Out	12,067	12,128	Income method / Cost method	Lease value per m2 Capitalization rate
Alfena - Valongo Terrenos					
Terrenos em Valongo	Non-urbanized	10,500	10,576	Comparative market method / Cost method / Residual value method	Land value and cost of construction and marketing per m2
		123,015	**164,683**		

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 the periods ended December 31, 2019 & 2018, can be presented as follows.

	31-12-2019															
								Transfers								
								From/to other assets		Between tangible/intangible assets						
	31-12-2018					Write-offs and sales						Depreciation	31-12-2019			
	Gross amount	Accumulated depreciation	Impairment (Note 21)	IFRS 16	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Gross amount	Accumulated depreciation	Impairment (Note 21)	Net amount
Tangible assets																
Real estate properties																
Real estate properties for own use	432,145	141,814	6,147	-	11,430	21,454	10,508	(8,583)	(3,079)	176	-	9,171	413,714	137,398	6,147	270,169
Leasehold expenditure	28,310	21,144	-	-	532	308	252	(140)	(135)	(181)	1	1,578	28,213	22,336	-	5,877
Other real estate	166	78	-	-	-	-	-	-	-	-	-	1	166	79	-	87
	460,621	163,036	6,147	-	11,962	21,762	10,760	(8,723)	(3,214)	(5)	1	10,750	442,093	159,813	6,147	276,133
Equipment																
Furniture and fixtures	11,251	4,435	-	-	1,826	582	582	-	-	(42)	(43)	1,255	12,453	5,065	-	7,388
Machinery and tools	1,911	979	-	-	754	313	311	-	-	6,279	6,279	378	8,631	7,325	-	1,306
Computer hardware	70,034	60,869	-	-	11,243	1,395	1,391	-	-	(6,062)	(6,062)	4,068	73,820	57,484	-	16,336
Indoor facilities	34,755	11,959	-	-	7,382	397	275	(113)	(49)	4	(1)	4,325	41,631	15,959	-	25,672
Vehicles	18,296	7,188	-	-	2,134	2,107	1,327	-	-	(49)	(19)	2,076	18,274	7,918	-	10,356
Security equipment	6,095	4,969	-	-	464	949	948	-	-	(183)	(181)	504	5,427	4,344	-	1,083
Other equipment	2,460	1,113	-	-	141	106	85	-	-	(22)	(22)	313	2,473	1,319	-	1,154
Unfinished tangible assets	9	-	-	-	-	-	-	-	-	-	-	-	9	-	-	9
	144,811	91,512	-	-	23,944	5,849	4,919	(113)	(49)	(75)	(49)	12,919	162,718	99,414	-	63,304
Other tangible assets																
Work of art	2,063	-	-	-	48	-	-	-	-	-	-	-	2,111	-	-	2,111
Other	51	38	-	-	-	-	-	-	-	26	26	6	77	70	-	7
	2,114	38	-	-	48	-	-	-	-	26	26	6	2,188	70	-	2,118
Own use rights IFRS 16																
Properties (Note 20)	-	-	-	37,997	5,182	1,891	-	-	-	-	-	6,190	41,288	6,190	-	35,098
	607,546	254,586	6,147	37,997	41,136	29,502	15,679	(8,836)	(3,263)	(54)	(22)	29,865	648,287	265,487	6,147	376,653
Intangible assets																
Software purchased	72,820	45,839	-	-	18,013	-	-	-	-	4,263	22	19,281	95,096	65,142	-	29,954
Unfiniched intangible assets	492	-	-	-	4,341	-	-	-	-	(4,209)	-	-	624	-	-	624
Business tranfers	4,385	3,892	-	-	-	-	-	-	-	-	-	493	4,385	4,385	-	-
Consolidation differences	2,651	-	-	-	-	-	-	-	-	-	-	-	2,651	-	-	2,651
	80,348	49,731	-	-	22,354	-	-	-	-	54	22	19,774	102,756	69,527	-	33,229

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

	31-12-2018																			
										Transfers										
										From/to other assets		Between tangible/intangible assets								
	31-12-2017			Eurovida Merger			Write-offs and sales							Depreciation		31-12-2018				
	Gross amount	Accumulated depreciation	Impairment (Note 21)	Gross amount	Accumulated depreciation	Acquisitions	Gross amount	Accumulated depreciation	Imparidade	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Impairment reversals (Note 21)	Gross amount	Accumulated depreciation	Impairment (Note 21)	Net amount
Tangible assets																			
Real estate properties																			
Real estate properties for own use	471,696	168,907	6,281	-	-	34,449	43,704	26,374	(134)	(26,270)	(8,353)	(4,026)	(1,076)	8,710	-	432,145	141,814	6,147	284,184
Leasehold expenditure	161,641	154,846	-	-	-	8	136,158	136,158	-	(1,201)	(879)	4,020	1,076	2,259	-	28,310	21,144	-	7,166
Other real estate	307	11	20	-	-	-	-	(9)	(20)	(141)	-	-	-	58	-	166	78	-	88
	633,644	323,764	6,301	-	-	34,457	179,862	162,523	(154)	(27,612)	(9,232)	(6)	-	11,027	-	460,621	163,036	6,147	291,438
Equipment																			
Furniture and fixtures	28,684	23,189	-	141	141	2,389	19,963	19,961	-	-	-	-	(39)	1,105	-	11,251	4,435	-	6,816
Machinery and tools	6,973	5,921	-	15	15	233	5,555	5,555	-	-	-	245	319	279	-	1,911	979	-	932
Computer hardware	107,865	97,161	-	282	279	2,618	40,731	40,731	-	-	-	-	(16)	4,176	-	70,034	60,869	-	9,165
Indoor facilities	36,830	19,794	-	26	21	8,808	10,867	10,850	-	(35)	(17)	(7)	(36)	3,047	-	34,755	11,959	-	22,796
Vehicles	19,973	8,897	-	-	-	3,672	5,349	3,841	-	-	-	-	-	2,132	-	18,296	7,188	-	11,108
Security equipment	19,511	18,185	-	-	-	241	13,657	13,657	-	-	-	-	-	441	-	6,095	4,969	-	1,126
Other equipment	7,821	6,626	-	-	-	444	5,529	5,528	-	-	-	(276)	(258)	273	-	2,460	1,113	-	1,347
Unfinished tangible assets	9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9	-	-	9
	227,666	179,773	-	464	456	18,405	101,651	100,123	-	(35)	(17)	(38)	(30)	11,453	-	144,811	91,512	-	53,299
Other tangible assets																			
Leased equipment	281	281	-	-	-	-	281	281	-	-	-	-	-	-	-	-	-	-	-
Work of art	2,048	-	-	3	-	12	-	-	-	-	-	-	-	-	-	2,063	-	-	2,063
Other	3,463	3,463	-	-	-	-	3,455	3,455	-	-	-	43	30	-	-	51	38	-	13
	5,792	3,744	-	3	-	12	3,736	3,736	-	-	-	43	30	-	-	2,114	38	-	2,076
	867,102	507,281	6,301	467	456	52,874	285,249	266,382	(154)	(27,647)	(9,249)	(1)	-	22,480	-	607,546	254,586	6,147	346,813
Intangible assets																			
Software purchased	446,378	413,221	-	2,280	2,185	10,836	388,947	388,861		-	-	2,273	-	19,294	-	72,820	45,839	-	26,981
Unfiniched intangible assets	213	-	-	-	-	2,578	26	-		-	-	(2,273)	-	-	-	492	-	-	492
Business tranfers	3,345	3,345	-	-	-	-	-	-		-	-	1,040	475	72	-	4,385	3,892	-	493
Other	1,040	475	-	-	-	-	-	-		-	-	(1,040)	(475)	-		-	-	-	-
Consolidation differences	2,651	-	-	-	-	-	-	-		-	-	-	-	-	-	2,651	-	-	2,651
	453,627	417,041	-	2,280	2,185	13,414	388,973	388,861	-	-	-	-	-	19,366	-	80,348	49,731	-	30,617

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

15. ASSETS AND LIABILITIES FOR CURRENT TAXES AND DEFERRED TAXES

The breakdown of these headings is as follows:

	31-12-2019	31-12-2018
Current tax assets	37,711	34,909
Deferred tax assets	567,157	648,824
	604,868	683,733
Current tax liabilities	93,864	10,310
Deferred tax liabilities	300,100	243,959
	393,964	254,269
Deferred taxes	267,057	404,865

As at December 31, 2019 & 2018, the breakdown of taxes in the income statement is as follows:

	31-12-2019	31-12-2018
Current taxes	(137,804)	(10,227)
Deferred taxes	(74,511)	140,124
	(212,315)	129,897

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

Movement under deferred tax assets and liabilities during the periods ended December 31, 2019 & 2018, can be presented as follows.

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

	Balance as at 31-12-2017	IFRS9	01-01-2018	Other comprehensive income	Results	Other	Balance as at 31-12-2018
Provisions/Impairment temporarily not accepted for tax purposes:							
Deferred tax assets	290,093	19,593	309,686	-	(79,908)	859	230,637
Deferred tax liabilities	(5,398)	-	(5,398)	-	-	1	(5,397)
Revaluation of tangible assets:							
Deferred tax assets	2,288	-	2,288	-	-	-	2,288
Deferred tax liabilities	(3,191)	-	(3,191)	-	210	-	(2,981)
Tax losses carried forward	1,448	-	1,448	-	217,688	-	219,136
Pensions:			-				
Actuarial deviations	71,963	-	71,963	-	(16,852)	-	55,111
Early retirement pensions	27,824	-	27,824	-	9,640	-	37,464
Long service bonuses	516	-	516	-	(516)	-	-
Transfer of pension liabilities to the Social Security	4,713	-	4,713	-	(512)	-	4,201
Insurance activity:							
Fair value of insurance liabilities - Shadow reserve	4,951	-	4,951	(741)	-	-	4,210
Fair value of insurance liabilities - Other	(138)	-	(138)	-	17	-	(121)
Other financial assets at fair value through other comprehensive income	(94,491)	(22,159)	(116,650)	(23,156)	21	607	(139,178)
Cash flow hedging derivatives	4,309	-	4,309	(14,209)	-	-	(9,900)
Other financial assets at fair value through profit or loss	-	8,671	8,671	-	12,569	-	21,240
Securitization operations	(22,254)	-	(22,254)	-	(2,737)	(1)	(24,992)
Incorporation and digital restructuring costs	13,538	-	13,538	-	4,201	(2)	17,737
Other	(893)	-	(893)	-	(3,697)	-	(4,590)
	295,278	6,105	301,383	(38,106)	140,124	1,464	404,865

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 21).

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

The Santander Totta Group decided to apply as from 2017 the Special Taxation of Groups of Companies Regime (RETGS). This new regime is reflected in the algebraic sum of the tax results determined in the separate periodic returns of each company. The companies covered by this scheme are: Santander Totta, SGPS - the controlling company, and Taxagest, Banco, Santander Totta Seguros, TottaUrbe and Gamma - controlled companies.

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

16. TECHNICAL RESERVES

The breakdown of these headings is as follows:

	31-12-2019			31-12-2018		
	Calculated amount	Diferred acquisition costs	Balance amount	Calculated amount	Diferred acquisition costs	Balance amount
Mathematical reserve for direct insurance:						
Santander Totta Seguros (life)						
- PPR/E Garanteed	390,557	-	390,557	388,925	-	388,925
- PPR/E Maxinveste	9,578	-	9,578	11,147	-	11,147
- Temporary individual	128	(1)	127	12,227	(14)	12,213
- Social Security System	9,423	-	9,423	8,708	-	8,708
- Genesis Plan	1,889	-	1,889	2,089	-	2,089
- Outher Products	40,315	-	40,315	39,228	-	39,228
- Super Investiment + Other Financ.	192,734	-	192,734	202,263	-	202,263
	644,624	(1)	644,623	664,587	(14)	664,573
Unearned premiums reserve for direct insurance:						
- Temporary Individual/Group	3,017	-	3,017	3,244	-	3,244
Reserve for rate commitment	6,580	-	6,580	6,580	-	6,580
Claims reserve for direct insurance - life	25,468	-	25,468	36,440	-	36,440
Claims reserve for direct insurance - non-life	3,024	-	3,024	739	-	739
	28,492	-	28,492	37,179	-	37,179
Reserve for profit sharing						
attributable for direct insurance:						
- Temporary Individual/Group	677	-	677	2,609	-	2,609
- Social Security System	96	-	96	96	-	96
- PPR/E Maxinveste	26	-	26	-	-	-
- Genesis Plan	38	-	38	37	-	37
- Super Investiment + Other Financ.	996	-	996	282	-	282
- PPR/E Garanteed	183	-	183	107	-	107
	2,016	-	2,016	3,131	-	3,131
Reserve for profit sharing						
attributable for direct insurance:						
- PPR/E Garanteed	25,383	-	25,383	13,065	-	13,065
- PPR/E Maxinveste	2,056	-	2,056	2,008	-	2,008
- Genesis Plan	375	-	375	289	-	289
- Other Products	16,544	-	16,544	10,104	-	10,104
	44,358	-	44,358	25,466	-	25,466
Total reserves for profit sharing	46,374	-	46,374	28,597	-	28,597
Unearned premiums reserve for direct insurance:	1,340	-	1,340	3,042	(358)	2,684
Total technical reserves for direct insurance	730,427	(1)	730,426	743,229	(372)	742,857
Mathematical reserve for reinsurance ceded	(13)	-	(13)	(11,034)	-	(11,034)
Reserves for profit sharing in ceded insurance	(72)	-	(72)	(1,979)	-	(1,979)
Unearned premiums reserve for reinsurance ceded	(2,987)	-	(2,987)	(3,949)	-	(3,949)
Unearned premiums reserve for reinsurance ceded - non-life	(253)	-	(253)	-	-	-
Claims reserve for reinsurance ceded	(19,048)	-	(19,048)	(23,403)	-	(23,403)
Total technical reserves for reinsurance ceded	(22,373)	-	(22,373)	(40,365)	-	(40,365)

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

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

17. OTHERS ASSETS

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Debtors and other applications		
Debtors for direct insurance and reinsurance	5,129	5,672
Promises of lieu and auctions and other		
assets received as lieu of payment	255,543	356,659
Gold. other precious metals. coins and medals	3,145	3,145
Other available funds	-	447
Other income receivables	13,465	18,010
Deferred costs	1,359	2,864
Other	52,116	55,445
	330,757	442,242
Impairment losses (Note 21):		
Debtors and other applications	(226)	(149)
Promises of lieu and auctions and other		
assets received as lieu	(88,192)	(109,334)
	(88,418)	(109,483)
	242,339	332,759

As at December 31, 2019 & 2018, Other includes loan/borrowing operations pending settlement as detailed below:

	31-12-2019		31-12-2018	
	Other assets	Other liabilities (Note 23)	Other assets	Other liabilities (Note 23)
Values in transit and other transactions to be settled	34,280	(25,858)	29,309	(58,888)
Balances to be settled in ATM's	2,504	6	2,720	-
Tranfers within SEPA	130	(126,562)	-	(117,895)
Other	15,202	(43,720)	23,416	(26,919)
	52,116	(196,134)	55,445	(203,702)

(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 2019 and 2018 was as follows:

	December 31. 2018					Transfer to non-current assets held for sale		Tangible asset transfers	Impairment (Nota 21)			December 31. 2019		
	Gross amount	Impairment	Net amount	Increases	Sales	Capital	Impairment	Capital (Nota 14)	Allocation	Reversal	Utilization	Gross amount	Impairment	Net amount
Assets received in lieu of payment														
Real estate properties	109,320	(52,155)	57,165	-	-	(45,294)	-	-	-	*24,014*	-	64,026	(28,141)	*35,885*
Promises	11,435	(43)	11,392	40	-	(9,499)	-	-	(45)	2	-	1,976	(86)	*1,890*
Auctions	49,820	(5,952)	43,868	13,279	-	(19,379)	-	-	(76)	825	-	43,720	(5,203)	*38,517*
Other	12,720	(27,560)	(14,840)	3,542	(5,107)	(4,947)	-	-	(623)	1,272	-	6,208	(26,911)	*(20,703)*
Own real estate properties for sale	44,773	(23,624)	21,149	192	(8,131)	-	-	5,573	(7,326)	678	2,805	42,407	(27,467)	*14,940*
Other real estate properties for sale	128,591	-	128,591	-	(31,385)	-	-	-	(470)	86	-	97,206	(384)	96,822
	356,659	(109,334)	247,325	17,053	(44,623)	(79,119)	-	5,573	(8,540)	26,877	2,805	255,543	(88,192)	167,351

	December 31. 2017					Transfers		Impairment			December 31. 2018		
	Gross amount	Impairment	Net amount	Increases	Sales	Capital	Impairment	Allocation	Reversal	Utilization	Gross amount	Impairment	Net amount
Assets received as lieu of payment													
Properties	261,866	(116,109)	145,757	*9,348*	*(141,194)*	*(20,700)*	*5,441*	*(3,194)*	*5,565*	*56,142*	109,320	(52,155)	*57,165*
Promises	12,315	(37)	12,278	987	(1,867)	-	-	(6)	-	-	11,435	(43)	*11,392*
Auctions	57,170	(4,135)	53,035	39,113	(48,153)	1,690	-	(1,847)	30	-	49,820	(5,952)	*43,868*
Other	22,374	(7,878)	14,496	8,805	(15,229)	(3,230)	(4,711)	(23,831)	8,562	298	12,720	(27,560)	*(14,840)*
												-	-
Own properties for sale	44,061	(29,282)	14,779	4,495	(18,920)	15,137	-	(6,647)	291	12,014	44,773	(23,624)	*21,149*
Other properties for sale	100	-	100	241,344	(112,994)	141	-	-	-	-	128,591	-	*128,591*
	397,886	(157,441)	240,445	304,092	(338,357)	(6,962)	730	(35,525)	14,448	68,454	356,659	(109,334)	247,325

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

18. NON-CURRENT ASSETS HELD FOR SALE

The composition of this heading is as follows:

	31-12-2019	31-12-2018
Real estate properties received in lieu of payment	74,822	46,277
Equipment	2,047	1,913
	76,869	48,190
Impairment (Note 21)	(32,826)	(18,168)
	44,043	30,022

Movement under Non-current assets held for sale as at during the periods ended December 31, 2019 & 2018 was as follows:

	31-12-2018					Impairment (Note 21)			31-12-2019		
	Gross amount	Accumulated impairment (Note 21)	Increases	Sales	Transfers of other assets	Allocation	Reversal	Utilization	Gross amount	Accumulated impairment (Note 21)	Net amount
Real estate properties:											
Received in lieu of payment	46,277	(16,599)	994	(51,568)	79,119	(38,433)	13,724	10,085	74,822	(31,223)	43,599
Equipment	1,913	(1,569)	1,269	(1,135)	-	(953)	706	213	2,047	(1,603)	444
	48,190	(18,168)	2,263	(52,703)	79,119	(39,386)	14,430	10,298	76,869	(32,826)	44,043

	31-12-2017				Transfers	Impairment (Note 21)			31-12-2018		
	Gross amount	Accummulated impairment (Note 21)	Increases	Sales	Gross amount	Allocation	Reversal	Utilization	Gross amount	Accummulated impairment (Note 21)	Net amount
Rel estate properties:											
Received in lieu of payment	128,551	(41,575)	22,075	(126,690)	22,341	(18,654)	9,862	33,768	46,277	(16,599)	29,678
Equipment	1,574	(1,281)	486	(147)	-	(425)	85	52	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

These assets are carried at the amount agreed by negotiation or judicial means, after deduction of the lesser of the expenses the Group expects to incur with their sale, or their quick-sale value, if lower. On the other hand, assets recovered following the termination of finance lease contracts are carried in assets for the amount of principal outstanding on the date of termination of the contract.

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

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

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

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).

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

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

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

	31-12-2019	31-12-2018
Liabilities for life insurrance where the risk rests with the policyholder	3,432,017	3,175,960

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

20. FINANCIAL LIABILITIES AT AMORTISED COST

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

	31-12-2019	31-12-2018
Resources from the European Central Bank		
Deposits	3,033,002	3,045,472
Deposits from other Central Banks		
Deposits	4,522	4,568
	3,037,524	3,050,040

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

	31-12-2019	31-12-2018
Resources from domestic credit institutions		
Deposits	162,909	192,207
Other resources	1,833	792
Interests payable	16	6
Deferred income revenues	50	44
	164,808	193,049
Resources from foreign credit institutions		
Sale operations with repurchase agreement	1,654,668	1,957,342
Consigned resources	900,000	900,000
Deposits	316,070	376,488
Other resources	7,738	35,995
Very short-term resources	152,216	76,856
Interests payable	496	181
	3,031,188	3,346,862
	3,195,996	3,539,911

As at December 31, 2019 & 2018, Amounts owed to credit institutions abroad – Repo operations, is broken down by type of asset underlying the repo operations:

	31-12-2019			
Type of underlying asset	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	445,207	(1,342)	(6)	443,859
Unsubordinated debt	797,112	(137)	(44)	796,931
Bond issued by non-residents	413,878	-	-	413,878
	1,656,197	(1,479)	(50)	1,654,668

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

	31-12-2018			
Type of underlying asset	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	311,387	(46)	(28)	311,313
Unsubordinated debt	1,263,379	(62)	(16)	1,263,301
Bond issued by non-residents	382,728	-	-	382,728
	1,957,494	(108)	(44)	1,957,342

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

	31-12-2019	31-12-2018
Term deposits	16,624,260	16,363,723
Demand deposits	17,424,124	15,136,872
Structured deposits	217,162	951,499
Savings deposits	800,057	875,550
Other	19,629	16,981
	35,085,232	33,344,625
Interests payable	11,490	15,243
Financial insurance products without profit sharing	22,650	22,636
Value adjustment from hedging operations	(423)	(1,168)
	33,717	36,711
	35,118,949	33,381,336

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

The debt securities sub-heading comprises the following:

	31-12-2019	31-12-2018
Debt securities in circulation		
Covered bonds		
Issued	8,050,000	7,700,000
Repurchased	(5,300,000)	(4,200,000)
Interest payable and other costs	(14,846)	(11,222)
Bonds issued in securitization operations		
Issued	4,269,014	4,898,563
Repurchased	(3,525,535)	(4,010,288)
Interest payable and other accruals	(55,137)	(62,904)
	3,423,496	4,314,149
EMTN Programme and others - Issued		
Issued	-	711
Interest payable	-	2
	-	713
Subordinated liabilities		
Perpetual Subordinated Bonds 2000		
Issued	296,139	296,139
Repurchased	(288,540)	(288,540)
Interest payable	136	136
	7,735	7,735
	3,431,231	4,322,597

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

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

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

Between May 2008 and December 2019, BST undertook twenty-four covered-bond issues under the €12.5 billion Covered Bonds Programme. As at December 31, 2019 & 2018, covered bonds had autonomous assets and liabilities comprising:

	31-12-2019	31-12-2018
Loans and advances to customers (Note 10)	9,345,054	8,937,841
Interests on loans	7,038	7,220
Commissions	(52,346)	(46,134)
Deferred expenses	2,605	2,518
Derivatives	(178,272)	(65,587)
	9,124,079	8,835,858

Movement under covered bonds and cash and other debt issued by the Group during 2019 and 2018 was as follows:

	Bonds in circulation		EMTN Program and other
	Issued	Repurchased	Issued
Balance as at December 31, 2017	7,701,072	(4,200,000)	25,744
. Issues repurchased	(1,072)	-	(25,033)
Balance as at December 31, 2018	7,700,000	(4,200,000)	711
. Issues made	1,100,000	(1,100,000)	-
. Issues repurchased	(750,000)	-	(711)
Balance as at December 31, 2019	8,050,000	(5,300,000)	-

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

Movement during 2019 and 2018 under bonds issued within the scope of securitisation operations was as follows:

	Bonds	
	Issued	Repurchased
Balance as at December 31, 2017	3,249,292	(2,155,135)
Issued	2,266,000	-
Reimbursement	(616,729)	584,189
Repurchased		
. Hipototta 13	-	(2,266,000)
. Hipototta 4 e 5	-	(172,842)
. Azor mortgages class B	-	(500)
	1,649,271	(1,855,153)
Balance as at December 31, 2018	4,898,563	(4,010,288)
Reimbursement	(629,549)	484,753
Balance as at December 31, 2019	4,269,014	(3,525,535)

The debt Other financial liabilities sub-heading comprises the following:

	31-12-2019	31-12-2018
Cheques and orders payable	63,307	56,413
Creditors and other resources		
Creditors through operations with futures	5,416	3,140
Adminsitrative public sector	33,556	32,519
Creditors through factoring contracts	44,257	50,442
Creditors for supplying goods	5,416	8,442
Other creditors	45,584	49,380
Future income commitments (IFRS 16)	35,356	-
	232,892	200,336

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

Commitments with future rents corresponds to the adoption of IFRS 16 and their movement during the 2019 was as follows:

	Subject to rent	Right to use (Note 14)
Balance as at January 1, 2019	**37,997**	**37,997**
Amortization 2019	(6,603)	(6,190)
Outs	(1,220)	(1,891)
Ins	3,238	3,238
Rent extentions and modification	1,944	1,944
Balance as at December, 2019	**35,356**	**35,098**

21. MOVEMENT IN PROVISIONS AND IN IMPAIRMENT

Movement under Provisions and under impairment during 2019 and 2018 was as follows:

	2019					
	Balance at 31-12-2018	Increase	Reversals	Utilization	Other	Balance at 31-12-2019
Provisions for tax contingencies	17,465	-	-	-	(208)	17,257
Provision for pensions and other charges	129,571	519	-	(51,974)	-	78,116
Impairment and provisions for guarantees and other commitments given (Note 27)	53,160	89	-	-	-	53,249
Other provisions	97,796	21,459	(21,072)	(3,385)	(9,092)	85,706
	297,992	22,067	(21,072)	(55,359)	(9,300)	234,328

	2018							
	Balance at 31-12-2017	IFRS 9	EUROVIDA merger	Increase	Reversals	Utilization	Other	Balance at 31-12-2018
Provisions for tax contingencies	17,525	-	167	711	(248)	(690)	-	17,465
Provision for pensions and other charges	39,931	-	-	148,819	-	(60,863)	1,684	129,571
Impairment and provisions for guarantees and other sureties given	24,022	35,062	-	6,688	(12,612)	-	-	53,160
Other provisions	96,795	-	1,500	200,469	(93,175)	(26,109)	(81,684)	97,796
	178,273	35,062	1,667	356,687	(106,035)	(87,662)	(80,000)	297,992

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

	2019						
	Balance at 31-12-2018	Increase	Reversals of impairment losses	Utilization and other	Balance at 31-12-2019	Recovery of past due loans	Gain/loss from loan sales
Impairment losses on loans and advances to credit institutions (Note 10)	84	14	(69)	-	29		
Impairment losses on financial assets at amortized cost (Note 10)	1,109,486	244,810	(244,103)	(187,983)	922,210	(3,673)	(4,028)
Impairment losses on other financial assets					-		
at fair value through other comprehensive income (Note 9)	3	86	-	-	89	-	-
Impairment of investments in associates (Note 12)	1,918	-	-	(1,918)	-	-	-
	1,111,491	244,910	(244,172)	(189,901)	922,328	(3,673)	(4,028)
Impairment losses in non-financial assets							
Non-current assets held for sale (Note 18)	18,168	39,386	(14,430)	(10,298)	32,826	-	-
Intangible assets (Note 14)	6,147	-	-	-	6,147	-	-
Other assets (Note 17)	109,483	8,617	(26,877)	(2,805)	88,418	-	-
	133,798	48,003	(41,307)	(13,103)	127,391	-	-
	1,245,289	292,913	(285,479)	(203,004)	1,049,719	(3,673)	(4,028)

	2018							
	Balance at 31-12-2017	IFRS 9	EUROVIDA merger	Increase	Reversals of impairment losses	Utilization and other	Balance at 31-12-2018	Recovery of past due loans
Impairment losses on financial assets at amortized cost (Note 10)	1,740,865	28,142	-	967,019	(955,020)	(671,436)	1,109,570	(9,176)
Impairment losses in other financial assets								
at fair value through other comprehensive income (Note 9)	64,094	-	-	3,709	(3,797)	(64,003)	3	-
Impairment of investments in associates (Note 12)	5,532	-	-	1,918	(1,853)	(3,679)	1,918	-
	1,810,491	28,142	-	972,646	(960,670)	(739,118)	1,111,491	(9,176)
Impairment losses in non-financial assets								
Non-current assets held for sale (Note 18)	42,856	-	-	19,079	(9,947)	(33,820)	18,168	-
Intangible assets (Note 14)	6,301	-	-	4,689	(4,044)	(799)	6,147	-
Other assets (Note 17)	200,730	-	792	35,525	(14,184)	(113,380)	109,483	-
	249,887	-	792	59,293	(28,175)	(147,999)	133,798	-
	2,060,378	28,142	792	1,031,939	(988,845)	(887,117)	1,245,289	(9,176)

As at December 31, 2019 & 2018, the breakdown of Provisions for pensions and other charges was as follows:

	31-12-2019	31-12-2018
Restructuring plan	62,278	103,166
Retirement bonus BAPOP	1,684	1,684
Supplementary pension plan of the Board of Directors (Note 42)	14,154	24,721
	78,116	129,571

22. EQUITY INSTRUMENTS

As at December 31, 2019 & 2018, this item represented the units of the Novimovest Fund not held by the Group.

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

23. OTHER LIABILITIES

The breakdown of this heading is as follows:

	31-12-2019	31-12-2018
Staff costs		
Vacation and vacation subsidies	39,549	39,758
Other variable remuneration	29,795	29,692
Other Staff costs	1,170	1,208
Other	151,492	182,370
Liabilities with pensions and other benefits (Note 39)		
Bank liabilities	1,131,980	972,776
Fair value of the Bank's Pension Fund	(1,160,573)	(979,892)
Liabilities-London branch	51,848	44,509
Fair value of London branch Pension Fund	(44,654)	(38,891)
Liabilities former Banif	161,803	133,084
Fair value of former Banif Pension Fund	(101,126)	(100,641)
Liabilities from former-Popular	181,503	163,111
Fair value of former-Popular Pension Fund	(185,459)	(163,475)
Other deferred income	2,749	3,396
Liability operations to be settled (Note 17)	196,134	203,702
	456,211	490,707

24. EQUITY

As at December 31, 2019 & 2018, the share capital of Santander Totta, SGPS, SA, was represented by 197,296,207,958 shares, each of a par value of 1 cent, fully subscribed and paid up by the following shareholders:

	31-12-2019		
	Number of shares	Participation (%)	Amount
Santander Group	196,996,017,344	99.85%	1,969,960
Other	186,595,158	0.09%	1,866
Own shares	113,595,456	0.06%	1,136
	197,296,207,958	100.00%	1,972,962

	31-12-2018		
	Número de ações	% de participação	Montante
Santander Group	196,996,017,344	99.85%	1,969,960
Other	194,248,356	0.10%	1,943
Own shares	105,942,258	0.05%	1,059
	197,296,207,958	100.00%	1,972,962

During 2018 and 2019, the Company acquired 5,760,940 and 7,653,198 Treasury shares for the amounts of €118k and €163k, respectively.

During 2018 the Company distributed dividends in the amount of €241,890k (amount net of the dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.00173 per share. Additionally, in December 2018 the Company distributed an interim dividend in the amount of €100 million.

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

<u>Other capital instruments</u>

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

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

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

Reserves for accumulated comprehensive income

As at December, 2019 & 20188, the breakdown of reserves for accumulated comprehensive income was as follows:

	31-12-2019	31-12-2018
Revaluation reserves		
Reserves resulting from the fair value valuation:		
From other financial assets at fair value through other comprehensive income	719,676	409,740
From available-for-sale financial assets of companies under equity method	4,396	2,119
From cash-flow hedging instruments	(52,995)	31,922
Reserves resulting from the valuation of the portfolio at fair value through other comprehensive income	7,502	8,002
From valuation of insurance liabilities (shadow reserve)	(7,502)	(8,002)
From valuation of insurance liabilities (shadow reserve)	(36,857)	(17,744)
Actuarial gains and losses		
Pension Fund of BST	(798,853)	(685,863)
Pension Fund of the Lond branch of BST	(13,447)	(12,109)
Pension fund of Former Banif	(36,753)	(8,515)
Pension fund of BAPOP	(8,037)	(753)
Actuarial gains and losses of companies under the equity method	(4,035)	(3,034)
	(226,905)	(284,237)
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
From other financial assets at fair value through other comprehensive income	(217,196)	(124,097)
From available-for-sale financial assets of companies under equity method	(1,123)	(542)
From cash-flow hedging instruments	16,429	(9,896)
From valuation of insurance liabilities (shadow reserve)	7,251	4,210
Tax impact of actuarial gains and losses	204,199	181,610
Tax impact from the change in accounting policies of companies under the equity method	938	942
	10,498	52,227
	(216,407)	(232,010)

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

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

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

As at December 31, 2019 & 2018, the breakdown of Other reserves and retained earnings was as follows:

	31-12-2019	31-12-2018
Legal reserve	320,054	257,087
Merger reserve	640,575	640,575
Consolidated reserve		
Companies consolidated under the full method	539,666	669,161
Companies consolidated under the equity method	17,939	9,817
Retained earnings	(137,618)	(145,411)
	1,380,616	1,431,229

Legal reserve

In accordance with the provisions of Decree-Law 298/92, of December 31, amended by Decree-Law 201/2002, of September 26, the Company sets aside a legal reserve until it equals the share to capital or sum of the free reserves formed and retained earnings, if greater. To this end, a fraction of not less than 10% of the net income for the period of the separate business is annually transferred to this reserve, until the said amount is achieved. This reserve may be used only to cover accumulated loses or to increase the share capital.

Merger reserve

In accordance with legislation in force, the merger reserve is considered equivalent to the legal reserve, and may only be used to cover accumulated losses or increase the share capital.

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

25. CONSOLIDATED PROFIT FOR THE PERIOD

In 2019 and 2018, the determination of the consolidated profit can be summarised as follows:

	2019		2018	
	Net income for the period	Contribution to the consolidated net income	Net income for the period	Contribution to the consolidated net income
Net income of ST SGPS (individual basis)	435,860	435,860	629,671	629,671
Net income of other Group companies:				
Banco Santander Totta, S.A.	499,715	499,500	475,535	475,325
Totta (Ireland), Plc.	10,086	10,081	9,902	9,898
Unicre, Instituição Financeira de Crédito, S.A.	16,194	3,539	20,234	4,421
Santander Totta Seguros, S.A.	25,545	25,545	17,757	17,757
Totta Urbe, Empresa de Administração e Construções, S.A.	6,083	6,080	(4,092)	(4,090)
Aegon Santander Portugal Vida - Companhia de Seguros, S.A.	11,904	5,833	12,273	6,014
Novimovest - Fundo de Investimento Imobiliário Aberto	5,750	4,526	8,685	6,928
Aegon Santander Portugal Não Vida - Comapnhia de Seguros, S.A.	4,950	2,426	2,714	1,330
Taxagest, S.A.	8	8	(3)	(3)
Banif International Bank, LTD	-	-	36	36
Lusimovest Fundo de Investimento Imobiliário	292	75	2,010	518
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	228	228	63	63
Primestar servicing	-	-	(169)	(135)
Popular Seguros	1,247	1,247	217	217
		559,088		518,279
Elimination of dividends:				
Banco Santander Totta, S.A.		(422,688)		(618,324)
Totta (Ireland), PLC		(12,485)		-
Unicre - Instituição Financeira de Crédito, S.A.		(5,201)		(3,452)
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.		(5,412)		(2,889)
		(445,786)		(624,665)
Adjustments related with securitization operations		(14,684)		(15,166)
Annulment of provisions for securities and intragroup shareholdings		-		(4,185)
Other		(7,220)		(3,970)
		(21,904)		(23,321)
		527,258		499,964

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

	31-12-2019	31-12-2018
Consolidated net income attributable to the shareholders of ST, SGPS	527,258	499,964
Weighted average number of ordinary shares issued	197,296,207,958	197,296,207,958
Weighted average number of own shares	106,235,805	101,850,324
Weighted average number of ordinary shares outstanding	197,189,972,153	197,194,357,634
Basic earnings per share attributable to the shareholders of ST, SGPS (In Euro)	0.0027	0.0025

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

Basic earnings per share are the same as diluted earnings per share since there are no contingently issuable common shares, including options, warrants or equivalent financial instruments as of the reporting date.

26. NON-CONTROLLING INTERESTS

In 2019 and 2018 the value of non-controlling interests in the balance sheet and income statement corresponds to the proportion of the holdings of third-parties in the Bank's share capital.

27. OFF-BALANCE-SHEET ACCOUNTS

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

	31-12-2019	31-12-2018
Guarantees given and other contingent liabilities		
Fianncial guarantees and sureties	563,159	565,049
Commitments for credit granted		
Revocable	5,089,308	5,229,923
Irrevocable	1,000,630	1,035,032
	6,089,938	6,264,955
Other commitments granted		
Non-financial guarantees and sureties	1,013,044	1,002,373
Documentary credits	374,410	388,488
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	6,817	7,954
Other commitments granted	215	216
	1,463,455	1,468,000
	8,116,552	8,298,004
Assets pledged as collateral		
Bank of Portugal	165,818	166,024
Deposit Guarantee Fund	85,447	88,059
Investor Indemnity System	9,114	8,903
Assets pledged as guarantees in monetary policy operations	11,621,096	10,227,930
	11,881,475	10,490,916
Liabilities for services rendered		
Deposit and custodial services	31,429,713	27,348,561
Amounts received for collection	161,128	172,451
Other values	76,780	33,685
	31,667,621	27,554,697

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.

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

Guarantees and contingent commitments have the following exposure per stage:

	31-12-2019							
	Exposure				Impairment (Note 21)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commitments for credit granted	5,314,923	768,621	6,394	6,089,938	3,041	1,403	9	4,453
Financial guarantees	394,581	127,140	41,438	563,159	482	329	21,562	22,373
Other commitments granted	1,186,119	114,059	163,277	1,463,455	1,262	183	24,978	26,423
	6,895,623	1,009,820	211,109	8,116,552	4,785	1,915	46,549	53,249

	31-12-2018							
	Exposure				Impairment (Note 21)			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Commitments for credit granted	5,509,325	736,637	18,993	6,264,955	4,418	689	39	5,146
Financial guarantees	509,205	12,186	43,658	565,049	1,021	561	22,525	24,107
Other commitments granted	1,258,277	29,062	180,661	1,468,000	590	213	23,104	23,907
	7,276,807	777,885	243,312	8,298,004	6,029	1,463	45,668	53,160

Deposit Guarantee Fund

Pursuant to Decree-Law 298/92 of December 31, the Deposit Guarantee Fund was created in November 1994 in order to secure the deposits made at credit institutions, in accordance with the limits established in the General Credit Institutions Regime. The initial contribution to the Fund, established by Ministry of Finance Order-in-Council, was made through the delivery of cash and deposit securities, and has been amortised over 60 months as from January 1995. Except for what is referred to in the following paragraph, the regular annual contributions to the Fund are recognised as an expense for the period to which they relate.

Until 2011, as permitted by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Deposit Guarantee Fund, having also entered into an irrevocable commitment to the Deposit Guarantee Fund to pay up the 10 % of the annual contribution, if and when so requested. The total unpaid amounts accumulated as at December 31, 2019 & 2018, 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 2019 and 2018, the Bank paid 100% of the annual contribution in the amounts of €50k and €44k, respectively (Note 36).

Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as expense. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at December 31, 2019 & 2018, these liabilities amounted to €6,817k and €7,954k, respectively.

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

28. INTEREST INCOME

The breakdown of this heading is as follows:

	2019	2018
Interest on cash and deposits		
In credit institutions	709	820
Interests on applications		
In domestic credit institutions	4,289	2,853
In foreign credit institutions	5,174	3,334
Interest on loans and advances to customers		
Domestic loans	581,358	621,080
Foreign loans	18,751	15,913
Other loans and receivables (commercial paper)	66,711	78,999
Securitized assets not derecognized	38,656	40,894
Income from comissions received associated to amortized cost	53,880	61,623
Interest on overdue loans and advances	6,399	8,075
Interest and similar income on other financial assets		
Other financial assets at fair value through other comprehensive income	121,527	114,908
Other financial assets at fair value through profit and loss	549	1,380
Hedging Derivatives	293,584	245,244
Ohter	17,523	32,444
	1,209,110	1,227,567

29. INTEREST CHARGE

The breakdown of this heading is as follows:

	2019	2018
Interest on resources from the central banks	-	64
Resources from other credit institutions		
Domestic	213	289
Foreign	5,770	3,851
Customer deposits		
Deposits		
Residents	41,274	52,268
Non-residents	5,672	5,357
Interests on debt securities		
Bonds	37,176	45,993
Other liabilities on debt securities	5	89
Interest on subordinated liabilities	570	570
Interest on hedging derivatives	242,647	239,220
Other	20,069	13,588
	353,396	361,289

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

30. INCOME FROM EQUITY INSTRUMENTS

This item refers to dividends and income received and is broken down as follows:

	2019	2018
SIBS – Sociedade Interbancária de Serviços, S.A.	1,634	1,159
Unicampos-Fundo Especial de Invest. Imobiliário Fechado	-	109
Other	155	406
	1,789	1,674

31. RESULTS FROM ASSOCIATES

The composition of this heading is as follows:

	2019	2018
AEGON Santander Portugal Não Vida	2,426	1,330
AEGON Santander Portugal Vida	5,833	6,014
Lusimovest - Fundo de Investimento Imobiliário	75	518
Unicre - Instituição Financeira de Crédito	2,471	6,605
Other	-	101
	10,805	14,568

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

32. INCOME FROM SERVICES & COMMISSIONS

The composition of this heading is as follows:

	2019	2018
On guarantees given		
Guarantees and sureties	14,920	16,244
Documentary credits	3,156	3,360
On commitments to third parties		
Revocable commitments	669	837
Irrevocable credit lines	298	377
For banking services provided		
Card transactions	92,592	89,486
Demand deposits	83,598	65,720
Credit operations	65,294	51,540
Annuities	29,694	27,256
Real estate and mutual fund management	27,879	26,983
Asset management and collection	11,954	12,470
Cheques	9,082	9,303
Deposit and custody services	5,354	5,031
Other banking services rendered	4,594	12,009
On operations carried out on behalf of third parties		
On securities	14,451	16,260
Other	195	614
Other commission received		
Insurance	101,661	98,443
Other	23,612	16,960
	489,003	452,893

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

33. CHARGES WITH SERVICES & COMMISSIONS

The composition of this heading is as follows:

	2019	2018
On guarantees received		
Guarantees and sureties	5,032	3,101
On banking services rendered by third parties		
Customer transactions	71,285	49,108
Credit operations	7,402	15,030
Asset management and collection	4,595	4,321
Other banking services rendered	2,606	2,045
On operations carried out by third parties		
Securities	2,348	2,819
Other operations carried out by third parties	6,181	2,107
Other commissions paid	9,050	1,964
	108,499	80,495

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

34. GAINS/LOSSES ON FINANCIAL ASSETS

The composition of the financial assets and liabilities at fair value through profit or loss and results of other financial assets that must be carried at fair value through profit or loss sub-headings is as follows:

	2019	2018
Financial assets held for trading		
Equity instruments	9,851	228
Derivative instruments		
Swaps		
Currency swaps	73	(512)
Interest rate swaps	(1,089)	(2,714)
Equity swaps	1,121	(1,505)
Options		
Currency swaps	58	98
Equity swaps	6,359	4,807
Other	(7,548)	(3,162)
	8,825	(2,760)
Other financial assets and liabilities mandatory at fair value through income		
Debt instruments	6,246	6,553
Equity instruments	1,446	(33,657)
	7,692	(27,104)
Hedging derivatives		
Swaps		
Interest rate swaps	(218,729)	(38,407)
Equity swaps	1,015	525
Autocallable options	-	135
Value adjustments of hedge assets and liabilities	217,714	37,734
	-	(13)
	16,517	(29,877)

The results of other financial assets at fair value through other comprehensive income sub-heading is broken down as follows:

	2019			2018		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
National public issuers	59,306	-	59,306	25,529	(119)	25,410
Foreign public issuers	-	-	-	775	-	775
Other	255	(388)	(133)	593	(4)	589
	59,561	(388)	59,173	26,897	(123)	26,774

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

The currency revaluation sub-heading comprises the following:

	2019	2018
Gains on the revaluation of the foreign exchange position	279,668	206,177
Losses on the revaluation of the foreign exchange position	(268,415)	(196,653)
	11,253	9,524

The breakdown of the results of the sale of other assets is as follows:

	2019	2018
Gains on the sale of loans and advances to customers (Note 10)	-	43,511
Gains from other tangible assets	-	2,268
Gains from the sale of investments in subsidiaries and associates	-	106
Other gains from non-financial operations	1,114	1,175
	1,114	47,060
Losses from the sale of loans and advances to customers (Note 10)	-	(55,991)
Losses from other tangible assets	-	(2,167)
Losses from sale in subsidiaries and associates	-	-
Other losses from financial operations	(396)	(1,246)
	(396)	(59,404)
	718	(12,344)

During 2019, the Group performed a series of reclassifications between items of the income statement.

In 2019 the breakdown of the results sub-heading is as follows:

	2019
Gains from insurance liabilities	7,655
Other gains from life insurence operatrions	34
	7,689
Other losses from financial operations	(150)
	(150)
	7,539

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

35. GROSS MARGIN OF THE INSURANCE ACTIVITY

The composition of the gross margin of insurance is as follows:

	2019	2018
Commissions and profit sharing on reinsurance ceded	28,062	30,023
Gross written premiums net of reinsurance	17,261	64,172
Costs with claims net of reinsurance	(65,749)	(48,508)
Change in technical reserves net of reinsurance	5,649	(46,110)
Interest and charges associated with insurance liabilities	(47)	-
Interests and net income of assets allocated to technical reserves	11,411	11,327
Net gains of assets allocated to technical reserves	838	978
Charges for services and commissions associated with technical reserves	(2,556)	(2,879)
	(5,131)	9,003
Gross margin on life insurance where the investment risk rests with the policyholder	26,818	10,777

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

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

In 2019 and 2018, the breakdown of Gross premiums written net of reinsurance was as follows:

	2019	2018
Retirement Savings Plan/Education	22,231	66,525
Temporary Individual/Group	60,023	67,708
Deferred capital insurances	4,793	6,108
Traditional products	169	196
Non-life	5,483	7,997
Other products	2,429	2,980
	95,128	151,514
Balance from reinsurance (non-life)	(1,745)	-
Balance from reinsurance (life)	(76,122)	(87,342)
	17,261	64,172

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

In 2019 and 2018, the breakdown of Cost of claims net of reinsurance was as follows:

	2019		
	Amounts paid	Change in the claims reserve	Total
- Temporary Individual/Group	22,070	(563)	21,507
- PPR/E Garantido	25,339	(394)	24,945
- PPR/E Maxinveste	2,503	(274)	2,229
- Genesis Plan	492	(121)	371
- Other products	28,932	4,841	33,773
- Non-life	4,408	(758)	3,650
	83,744	2,731	86,475
Reinsurance ceded	(21,239)	513	(20,726)
	62,505	3,244	65,749

	2018		
	Amounts paid	Change in the claims reserve	Total
- Temporary Individual/Group	19,973	(2,764)	17,209
- PPR/E Garantido	20,805	320	21,125
- PPR/E Maxinveste	1,555	350	1,905
- Genesis Plan	582	105	687
- Other products	18,700	116	18,816
- Non-life	4,061	740	4,801
	65,676	(1,133)	64,543
Reinsurance ceded	(16,919)	884	(16,035)
	48,757	(249)	48,508

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

In 2018 and 2019, movement under Change of technical provisions net of reinsurance was as follows:

Change in unearned premiums reserve

Balance as at December 31, 2017	37
Inclusion of Eurovida and Popular Seguros in the consolidating perimeter	2,514
Change in the unearned premiums reserve, net of reinsurance	(696)
Deferred acquisition costs	124
Balance at December 31, 2018 (Note 16)	1,979
Change in the provision for unearned premiums, net of reinsurance	50
Deferred acquisition costs	(156)
Sale of business unit to AEGON	(756)
Balance as at December 31, 2019 (Note 16)	1,117

Change in the mathematical reserve and rate commitment

Balance as at December 31, 2017	359,631
Mathematical reserve, net of reinsurance, former Eurovida	254,269
Change in the mathematical reserve, net of reinsurance in 2018	44,992
Transfer to reserve for profit sharing attributed	1,195
Deferred acquisition costs	32
Balanceas at December 31, 2018 (Note 16)	660,119
Mathematical reserve, net of reinsurance in 2019	(7,595)
Sale of business unit to AEGON	(1,009)
Deferred acquisition costs	13
Other	(997)
Balance at December 31, 2019 (Note 16)	651,191

Change in the reserve for profit sharing attributed

Balance as at December 31, 2017	341
Provision for direct insurance profit sharing in Eurovida's merger	2,796
Provision for reinsurance ceeded profit sharing in Eurovida's merger	(1,979)
Profit sharing paid out in 2018	(321)
Transfer to the mathematical reserve	(2,527)
Profit sharing attributed in 20178	2,562
Attributable transfer	280
Balance as at December 31, 2018 (Note 16)	1,152
Profit sharing paid out in 2018	(546)
Transfer to the mathematical reserve	(660)
Profit sharing attributed in 2019	2,039
Attributable transfer	221
Sale of business unit to AEGON	(262)
Balance as at December 31, 2019 (Note 16)	1,944

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

Change in the reserve for profit sharing attributable

Balance as at December 31, 2017	21,067
Reserve for Eurovida's profit sharing	8,002
Attributable reserve transfer	(280)
Change in shareholders' equity in 2018	(3,323)
Balance as at December 31, 2018 (Note 16 and 24)	25,466
Attributable reserve transfer	(221)
Change in shareholders' equity in 2019	19,113
Balance as at December 31, 2018 (Note 16 and 24)	44,358

36. OTHER OPERATING RESULTS

The breakdown of this heading is as follows:

	2019	2018
Other operating income		
Rental of TPA	-	19,654
Rents earned	14,018	16,031
Income from services rendered	2,292	2,792
Reimbursement of expenses	-	2,710
Other	5,976	13,347
	22,286	54,534
Other operating expenses		
Contributions to the Resolution Fund		
National Resolution Fund	(12,261)	(7,554)
Single Resolution Fund	(20,336)	(14,666)
Subscriptions and donations	-	(7,445)
Charges related to transactions made by customers	-	(6,239)
Expenses with TPA	-	(14,430)
Unrealized losses on investment properties	(2,915)	(1,188)
Other taxation		
Indirect taxes	-	(3,202)
Direct taxes	-	(2,793)
Contributions to the Deposit Guarantee Fund (Note 27)	(50)	(44)
Other charges and operating expenses	(7,936)	(11,163)
	(43,498)	(68,724)
	(21,212)	(14,190)

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

The concepts missing in the year 2019 were reclassified to other items of the income statement.

During 2019 and 2018, Rents earned includes the amounts of €13,437k and €15,252k, respectively, in respect of the rents received by the Novimovest Real Estate Fund (Note 13).

Decree-Law 24/2013 of February 19, established the regime governing bank contributions to the new Resolution Fund, created for the purpose of prevention, mitigation and containment of the systemic risk. According to Bank of Portugal Notice nº 1/2013 and Instructions No. 6/2013 and 7/2013, payment is laid down of an initial contribution and periodic contributions to the Resolution Fund. The Bank's periodic contribution in 2019 and 2018 amounted to €12,261k and €7,554k, respectively.

Within the scope of the single Resolution mechanism these 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 2018 and 2019 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 €23,924k and €17,253k, respectively.

37. STAFF COSTS

The composition of this heading is as follows:

	2019	2018
Wages and salaries		
Management and supervisory boards (Note 42)	5,953	9,549
Staff	227,043	233,480
Stock plan	-	332
Other variable remuneration	34,128	35,632
	267,124	278,993
Mandatory social charges		
Charges on remuneration	61,238	63,384
Pensions and other benefits (Note 40)	6,742	6,375
Other mandatory social charges	1,101	1,301
	69,081	71,060
Other Staff costs		
Transfers of Staff	1,356	1,388
Supplementary pension plan (Note 40)	559	307
Other	7,868	5,461
	9,783	7,156
	345,988	357,209

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

38. GENERAL ADMINISTRATIVE COSTS

The composition of this heading is as follows:

	2019	2018
External supplies:		
Water, electricity and fuel	9,536	10,607
Consumable materials	2,248	2,122
Other	368	382
External services:		
Specialized services	69,832	86,429
Maintenance of software and hardware	58,795	47,532
Communications	12,898	15,006
Maintenance and repairs	5,408	7,510
Advertising and publishing	13,516	13,458
Rents and hires	-	15,358
Other lease operations (short-term leasing and low-amount)	6,218	-
Travel, lodging and entertainment expenses	5,344	6,244
Transportation	5,132	4,660
Staff training	-	1,659
Insurance	1,366	1,831
Other	6,308	9,214
Contributions and donations	7,191	-
Other taxes	4,658	-
	208,818	222,012

During 2019, the Group performed a series of reclassifications between items of the income statement.

Firm of Chartered Accountants

The fees billed or to be billed by the audit firm and respective firms of the same network in 2019 and 2018, excluding value added tax, were as follows:

	2019			2018		
	Company	Group	Total	Company	Group	Total
Audit and statutory audit (a)	86	1,503	1,589	122	1,496	1,618
Other services and reliability guarantee (a)	22	925	947	22	831	853
Tax consulting services (b)	-	-	-	-	-	-
Other services (b)	-	120	120	-	163	163
	108	2,548	2,656	144	2,490	2,634

(a) Corresponds to the amounts contracted for the year, irrespective of their billing date.
(b) Corresponds to the amounts billed during the year.

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

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 2019) 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 information on 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 by Bank of Portugal Instruction 3/2015;
(vii) Review of the internal control system for the prevention of money laundering and terrorist financing, as required by Bank of Portugal Notice 2/2018.
(viii) Agreed procedures on the information of the loans included in a synthetic securitisation operation;
(ix) Procedures for validation of the annual report of financial flows for the purpose of IFRRU 2020 certification;
(x) Reliability assurance services required by law on the prudential reporting of Santander Totta Seguros.

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 information presented in the 2019 sustainability report;
(iii) Access to the Inforfisco database containing information on tax law, doctrines and court decisions.

39. RESULTS OF NON-CURRENT ASSETS HELD FOR SALE

The breakdown of this heading is as follows:

	2019			2018		
	Gain	Loss	Net	Gain	Loss	Net
Assets received in lieu of payment	5,381	(932)	4,449	31,357	(10,250)	21,107
Other non-financial assets	54,727	(30,440)	24,287	-	-	-
	60,108	(31,372)	28,736	31,357	(10,250)	21,107

40. EMPLOYEE POST-EMPLOYMENT BENEFITS

For the determination of liabilities for past services of the Bank in respect of employees in service and those already retired, actuarial studies were conducted by (Mercer (Portugal), Limitada. The current value of the past-service liabilities, as well as the related costs of current services, were calculated based on the Projected Unit Credit method.

The Bank's liabilities for retirement pensions, health care and death benefits as at December 31, 2019, and in the four preceding periods, as well as the respective coverage, are detailed as follows:

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

	2019	2018	2017	2016	2015
Estimate of responsibilities for past services:					
- Pensions					
.Current employees	314,702	264,141	289,518	314,119	303,523
.Pensioners	46,489	38,877	34,059	31,526	26,928
.Retired Staff and early retired Staff	584,284	509,295	475,916	424,970	399,942
	945,475	812,313	799,493	770,615	730,393
- Healthcare systems (SAMS)	171,834	148,351	147,942	147,207	151,544
- Death subsidy	6,349	5,076	5,132	6,372	5,759
- Retirement bonus	8,322	7,036	6,802	8,082	-
	1,131,980	972,776	959,369	932,276	887,696
Liabilities coverage:					
- Net assets of the Fund	1,160,573	979,892	996,786	932,465	914,204
Excess funding/ (non funded)	28,593	7,116	37,417	189	26,508
Actuarial and financial deviations generated in the period/year					
- Change in assumptions	150,685	2,958	-	30,579	-
- Experience adjustments:					
.Other actuarial (gains) / losses	12,609	(4,872)	(4,319)	23,815	(9,857)
.Financial (gains) / losses	(50,241)	29,753	(32,933)	2,050	(17,675)
	(37,632)	24,881	(37,252)	25,865	(27,532)
	113,053	27,839	(37,252)	56,444	(27,532)

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.

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

The main assumptions used by the Bank to determine its liabilities for retirement pensions as at December 31, 2019 & 2018, were as follows:

	2019	2018
Mortality Table		
Female	TV 88/90 (-1)	TV 88/90 (-1)
Male	TV 88/90	TV 88/90
Rate of return on pension fund assets	1.10%	2.10%
Technical actuarial rate (discount rate)	1.10%	2.10%
Wage growth rate	0.75%	0.75%
Pension growth rate	0.50%	0.50%
Inflation rate	0.75%	0.75%

Decree-Law 167-E/2013, of December 31, changed the normal age of access to retirement under the general Social Security regime to 66 years (in 2019 the normal retirement age is 66 years and 5 months), though the sustainability factor was no longer applicable to beneficiaries who retire at that age.

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

Movement under liabilities for past services during the years ended December 31, 2019 and 2018, can be detailed as follows with regard to the Bank pension plan:

	31-12-2019	31-12-2018
Liabilities at beginning of year	972,776	959,369
Cost of current services	3,712	4,075
Interest cost	19,609	18,418
(Actuarial Gains / Losses)	163,294	(1,914)
Early retirements	23,891	39,021
Amounts paid	(53,794)	(48,637)
Employee Contributions	2,492	2,444
Liabilities at end of period	1,131,980	972,776

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

The expense for the year relating to pensions includes the cost of current service and the interest expense, deducted from the expected return of the assets of the Pension Fund. In the years ended December 31, 2019 & 2018, the breakdown of pension expenses is as follows (Note 37):

	31-12-2019	31-12-2018
Cost of current services	3,712	4,075
Cost of interests	19,609	18,418
Assets return using discount rate	(19,609)	(18,418)
Defined benefit plan	3,712	4,075
Defined contribution plan	1,487	722
London branch plan	608	1255
Former-BAPOP plan	891	323
	6,698	6,375

The Bank's employees taken on after January 1, 2009, came to be enrolled in Social Security, and are covered by a supplementary defined-contribution pension plan, and by the rights acquired under clause 93 of the CBA (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 Bank transfers his or her contribution.

Movement under actuarial deviations during 2019 & 2018 was as follows:

Balance as at December 31, 2017	658,333
Actuarial gains on pensions	(2,389)
Financial losses on pensions generated	24,699
Actuarial losses on health care, death benefit and retirement premium	475
Financial loss on healthcare, death benefit and retirement premium	5,054
Balance as at December 31, 2018	686,172
Actuarial gains on pensions	136,208
Financial losses on pensions generated	(41,588)
Actuarial losses on health care, death benefit and retirement premium	27,086
Financial loss on healthcare, death benefit and retirement premium	(8,653)
Balance as at December 31, 2019	799,225

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

Actuarial deviations with pensions in 2019 and 2018 are detailed as follows:

	31-12-2019	31-12-2018
Change in actuarial assumptions	124,679	2,619
Change in the salary table		
with impact on pensions and wages	10,322	(1,708)
Changes in population	1,139	(630)
Mortality deviations		
. By leaving	(6,834)	(5,757)
. By permanence	3,025	1,789
For survivor's pensions and orphanhood	6,607	4,949
Changeover from early retirees to retirees	(2,730)	(3,651)
	136,208	(2,389)

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 2019 and 2018 can be detailed as follows:

	31-12-2019	31-12-2018
Changes in assumptions	26,006	339
Salary and level changes	119	88
Others	961	48
	27,086	475

In 2019 Bank expects make a contribution of €7,234k to its defined-benefit plan.

The average duration of pension liabilities of the employees of the Bank, of BAPOP and of Banif is 15 years, including those in active service and pensioners.

Santander Pensões - Sociedade Gestora de Fundos de Pensões, SA, is the entity that manages the BST Pension Fund. As at December 31, 2019 & 2018, the number of participants of the Fund was as follows:

	31-12-2019	31-12-2018
Current employees[(1)]	4,444	4,582
Pensioners	1,242	1,175
Retired Staff and early retired Staff	5,731	5,689
	11,417	11,446

(1) Of whom 389 and 340 employees belong to the defined-contribution plan as at December 31, 2019 & 2018, respectively.

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

The main demographic changes during 2019 & 2018 were as follows:

	Assets			
	Defined contribution plan	Defined benefit plan	Retired Staff and early retired Staff	Pensioners
Total number as 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	73	1	19	90
Total number as at December 31, 2018	340	4,242	5,689	1,175
Leavers:				
. Current employees	(18)	(45)	-	(2)
. Due to mortality	(1)	(2)	(128)	(33)
Transfers	-	(142)	142	-
Joiners (net)	68	2	28	102
Total number as at december 31, 2019	389	4,055	5,731	1,242

Movement occurred in the Bank's Pension Fund during 2019 and 2018 was as follows.

Book value as at December 31, 2017	996,786
Bank contribution (monetary)	40,634
Employee contribution	2,444
Net income of the fund:	
Income from assets using discount rate	18,418
Income of the fund above the discount rate	(29,753)
Amount paid	(48,637)
Book value as at December 31, 2018	979,892
Bank contributions (monetary)	162,133
Employee contribution	2,492
Net income of the fund:	
Income from assets using discount rate	19,609
Income of the fund above the discount rate	50,241
Amount paid	(53,794)
Book value as at december 31, 2019	1,160,573

The rates of return of the Pension Fund in 2019 and 2018 amounted to 7.25%percent and (0.98%), respectively.

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

The investments and allocation policy of the Bank's Pension Fund determines that the asset portfolio be constituted in compliance with security, profitability and liquidity criteria, through a diverse set of investments, namely shares, bonds, other debt securities, holdings in collective-investment institutions, bank deposits, other monetary assets and land and buildings included in the land registry.

On the other hand, that policy is guided by risk-diversification and profitability criteria and the Fund's Management Company may opt for a more or less conservative policy by increasing or decreasing the exposure to equities or bonds, according to its expectations as to the evolution of the markets and in accordance with the defined investment limits.

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

Asset Class	Intervals foreseen
Bonds	40% a 95%
Real estate	0% a 25%
Equities	0% a 20%
Liquidity	0% a 15%
Alternatives	0% a 10%
Commodities	0% a 5%

As at December 31, 2019 & 2018, the composition of the Bank's Pension Fund was as follows:

	31-12-2019	31-12-2018
Debt instruments:		
. Rating A	69,147	26,262
. Rating BBB	522,599	407,452
. Rating BB	3,999	14,055
. Without rating to the issuance and issuer	62,640	53,931
Real estate funds	123,925	154,781
Mutual funds	245,157	175,316
Deposits	67,828	68,387
Real estate		
. Commercial spaces	19,238	21,313
. Land	1,142	844
Equity instruments:		
. Portuguese shares – listed	187	161
. Foreign shares – listed	36,955	34,030
Derivative financial instruments		
. Options listed	(149)	2,288
Others	7,905	21,072
	1,160,573	979,892

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

As at December 31, 2019 & 2018, 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 43), was as follows:

	31-12-2019				31-12-2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	595,745	-	62,640	658,385	447,769	-	53,931	501,700
Investment Funds	217,131	-	151,951	369,082	164,181	-	165,916	330,097
Equity instruments	37,142	-	-	37,142	34,191	-	-	34,191
Derivative financial instruments	(149)	-	-	(149)	2,288	-	-	2,288
Real estate	-	-	20,380	20,380	-	-	22,157	22,157
	849,869	-	234,971	1,084,840	648,429	-	242,004	890,433

As at December 31, 2019 & 2018, the Pension Fund's portfolio included the following assets related with companies of the Santander Group in Portugal:

	31-12-2019	31-12-2018
Rented properties	13,192	14,841
Securities (including units in funds managed)	184,964	151,881
	198,156	166,722

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 2019 and 2018 the premium paid by the Bank amounted to €559k and €307k respectively (Note 37).

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, 2019 & 2018, 87 and 88 employees, respectively, were covered by this plan.

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

Defined benefit pension plan – London Branch

As at December 31, 2019 & 2018, the main assumptions used in the calculation of retirement pension liabilities related with the pension plan covering the employees of Bank's London Branch were as follows:

	31-12-2019	31-12-2018
Mortality table	AMC00/AFC00	AMC00/AFC00
Technical actuarial rate (discount rate)	1.9%	2.7%
Wage growth rate	2.2%	2.5%
Pension growth rate	1.8%	2.0%
Inflation rate	2.2%	2.5%

As at December 31, 2019 & 2018, the liabilities for the defined-benefit pension plan of the London Branch and their coverage were as follows:

	31-12-2019	31-12-2018
Estimated liabilities for past-services	51,848	44,509
Coverage – Pension Fund asset value	44,654	38,891
Amount not funded – London Branch	(7,194)	(5,618)

With regard to the pension plan of the London Branch, the breakdown of the movement under liabilities for past services in 2019 and 2018 is as follows:

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
Cost of current services	432
Interest cost	1,252
Actuarial gains	7,384
Amounts paid	(1,729)
Liabilities as at December 31, 2019	51,848

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

Movement in the Pension Fund of the London Branch in 2019 and 2018 was as follows:

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)
Book value as at December 31, 2018	38,891
Net income of the Fund:	
Return on assets calculated with the discount rate	1,076
Income of the Fund below the discount rate	6,046
Contribution of the Branch	370
Amounts paid	(1,729)
Book value as at December 31, 2019	44,654

The breakdown of the expense of the defined-benefit plan of the London Branch in 2019 and 2018 is as follows:

	31-12-2019	31-12-2018
Cost of current services	432	163
Interest cost	1,252	1,120
Return on assets calculated using a rate equal to the discount rate	(1,076)	(960)
	608	323

Movement under actuarial deviations of the London Branch in 2019 and 2018 was as follows:

Balance as at December 31, 2017	13,406
Actuarial gains with pensions	(3,327)
Financial losses with pensions	2,030
Balance as at December 31, 2018	12,109
Actuarial gains with pensions	7,384
Financial losses with pensions	(6,046)
Balance as at December 31, 2019	13,447

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

As at December 31, 2019 & 2018, the portfolio of the Pension Fund of the London Branch included the following assets:

	31-12-2019	31-12-2018
Debt instruments	25,159	20,908
Equity instruments	19,773	17,798
Deposits	(278)	185
Fund value	44,654	38,891

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.

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

On December 31, 2019 & 2018, 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):

	2019		2018	
	(Reduction)/ Addition		(Reduction)/ Addition	
	%	Value	%	Value
Change of discount rate				
. Increase of 0.5%	(7.1%)	(79,766)	(6.7%)	(65,035)
. Reduction of 0.5%	8.0%	90,041	7.5%	72,998
Change in the wage growth rate				
. Increase of 0.5%	5.1%	57,069	5.0%	48,876
. Reduction of 0.5%	(4.2%)	(47,275)	(4.1%)	(40,070)
Change in the pension growth rate				
. Increase of 0.5%	8.8%	98,060	9.4%	91,311
. Reduction of 0.5%	(7.9%)	(88,701)	(8.5%)	(82,610)
Change in the mortality table				
. More two years	(6.9%)	(77,679)	(6.3%)	(61,300)
. Less two years	7.1%	79,015	6.3%	61,408

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 - 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, 2019 & 2018, the population covered is as follows:

	31-12-2019			31-12-2018		
	Sub-population of former-Banif	Sub-population of former-BBCA	Total	Sub-population of former-Banif	Sub-population of former-BBCA	Total
Current employees	716	160	876	727	174	901
Retired Staff and pensioners	105	171	276	96	161	257
Early retired Staff	14	167	181	10	171	181
Formes participants with vested rights	-	47	47	-	69	69
Retired of the defined contribution plan	181	-	181	175	-	175
Total number	1,016	545	1,561	1,008	575	1,583

Defined contribution pension plans - employees covered

	31-12-2019	31-12-2018
Plan II	462	470
Plan III	254	257
Total number	716	727

The breakdown of the estimated liabilities for past services as at December 31, 2019 & 2018, using the Bank's assumptions, is as follows for the defined-benefit pension plan (considering both the Banif and the former BBCA sub-populations):

	31-12-2019				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	22,837	8,436	133	1,086	32,492
Retired Staff and pensioners	84,462	6,918	229	-	91,609
Early retired Staff	26,977	4,271	246	-	31,494
Former participants with vested rigths	3,714	2,494	-	-	6,208
Total liabilities for past services	137,990	22,119	608	1,086	161,803
Book value of the pension fund					101,126
Insufficient fund					(60,677)

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

	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)

As at December 31, 2019 & 2018, the breakdown of the portfolio of the Banif Pension Fund associated with the defined-benefit pension plan by asset type is as follows:

	31-12-2019		31-12-2018	
Type of Asset	Total	Relative weight	Total	Relative weight
Debt Instruments	47,884	46.14%	64,385	62.49%
Mutual fund	4,381	4.22%	7,908	7.68%
Real estate fund	1,160	1.12%	1,946	1.89%
Real estate properties	13,722	13.22%	13,744	13.34%
Equity instruments	31,733	30.58%	6,665	6.47%
Deposits	83	0.08%	6,111	5.93%
Other	4,811	4.64%	2,266	2.20%
	103,774		103,025	
Assets to be transfered	(2,648)		(2,384)	
	101,126		100,641	

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. 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.

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

As at December 31, 2019 & 2018, the population covered is as follows:

	31-12-2019	31-12-2018
Current employees	862	929
Retired Staff and pensioners	139	138
Early retired Staff	33	23
Former employees (management)	2	2
Total	1,036	1,092

The breakdown of the estimated liabilities for past services as at December 31, 2019 & 2018, using the Bank assumptions, is as follows:

	31-12-2019			31-12-2018		
	Pensions	SAMS and Death subsidy	Total	Pensions	SAMS and Death subsidy	Total
Current employees	63,195	9,189	72,384	49,183	6,804	55,987
Retired Staff and pensioners	52,204	2,824	55,028	57,755	2,529	60,284
Early retired Staff	18,609	1,109	19,718	12,352	663	13,015
Former employees (management)	3,257	52	3,309	2,718	43	2,761
Former employees	31,064	-	31,064	31,064	-	31,064
Total liabilities for past services	168,329	13,174	181,503	153,072	10,039	163,111
Book value of the pension fund			185,459			163,475
Over financing			3,956			364

Movement under liabilities for past services during the year ended December 31, 2019 can be detailed as follows:

Liabilities at the beginning of the year	163,111
Cost of current services	891
Interest costs	3,382
Actuarial (Gains)/losses	14,454
Early retirements	2,673
Amounts paid	(3,665)
Employee contributions	657
Liabilities at the end of the year	181,503

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

Movement under actuarial deviations during 2019 was as follows:

Balances as at December 31, 2018	753
Actuarial losses on pensions	14,454
Financial gains from pensions	(7,170)
Balances as at December 31, 2019	8,037

Movement in the Pension Fund in 2019 was as follows:

Book value as at December 31, 2018	163,475
Bank contribution (monetary)	14,440
Employee contribution	657
Net income of the fund:	
. Income from assets using discount rate	3,382
. Income of the fund above the discount rate	7,170
Amount paid	(3,665)
Book value as at December 31, 2019	185,459

As at December 31, 2019 & 2018, the breakdown of the portfolio of the BAPOP Pension Fund by asset type is as follows:

	31-12-2019		31-12-2018	
Asset	Total	Relative weight	Total	Relative weight
Debt Instruments	109,931	59.28%	83,324	50.97%
Mutual fund	62,478	33.69%	54,277	33.20%
Real estate fund	1,246	0.67%	3,242	1.98%
Real estate properties	157	0.08%	-	0.00%
Options	36	0.02%	-	0.00%
Deposits	9,592	5.17%	22,611	13.83%
Other	2,019	1.09%	21	0.01%
	185,459		163,475	

41. SECURITISATION OPERATIONS

Description of the operations

Between July 2003 and January 2018, the Bank securitised part of its mortgage-loan portfolio through thirteen operations, the initial amount of which was €25,450,000k. In the older transactions the loans were sold for their par (book) value to loan securitisation funds denominated Fundos Hipototta FTC. A substantial part of the securitisations was repurchased by the Bank under the said agreements, while the Hipototta No. 4 and Hipototta No. 5 were maintained. In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma – Sociedade de Titularização de Créditos (Gamma STC), which financed the transaction through the issue of

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

Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating and, consequently, remuneration. All these bonds were acquired by the Bank.

The Hipototta Funds (No. 4 and No. 5) are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, SA. (Navegator). BST continues manage the loan contracts, delivering to Hipototta Funds (nº 4 and nº 5) all amounts received thereunder. The Santander Group has no direct or indirect holding in Navegator.

As a form of funding, Hipototta Funds (No. 4 and No. 5) issued securitisation units of an amount identical to the loan portfolios acquired, which were fully subscribed by Fundos Hipototta (No. 4 and No. 5) PLC, having its registered office in Ireland.

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

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

As at December 31, 2019, bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC

	Amount		Rating			Remuneration	
Issued Debt	Initial	Current	Fitch	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A	2,616,040	489,899	A	September, 2048	December, 2014	Euribor 3 months + 0.12%	Euribor 3 months + 0.24%
Class B	44,240	17,823	A	September, 2048	December, 2014	Euribor 3 months + 0.19%	Euribor 3 months + 0.40%
Class C	139,720	56,288	BB-	September, 2048	December, 2014	Euribor 3 months + 0.29%	Euribor 3 months + 0.58%
	2,800,000	564,010					
Class D	14,000	7,000	NR	September, 2048	December, 2014	Residual income of the securitized portfolio	
	2,814,000	571,010					

Hipototta nº 5 PLC

	Amount		Rating				Remuneration	
Issued Debt	Initial	Current	S&P	Moody´s	Redemption date	Early redemption date	Up to early redemption date	After early redemption date
Class A1	200,000	-			February, 2060	February, 2014	Euribor 3 months + 0.05%	Euribor 3 meses + 0.10%
Class A2	1,693,000	445,505	A	Aa3	February, 2060	February, 2014	Euribor 3 months + 0.13%	Euribor 3 meses + 0.26%
Class B	26,000	26,000	A	Aa3	February, 2060	February, 2014	Euribor 3 months + 0.17%	Euribor 3 meses + 0.34%
Class C	24,000	24,000	A	A1	February, 2060	February, 2014	Euribor 3 months + 0.24%	Euribor 3 meses + 0.48%
Class D	26,000	26,000	A	Baa2	February, 2060	February, 2014	Euribor 3 months + 0.50%	Euribor 3 meses + 1.00%
Class E	31,000	31,000	BBB	Ba2	February, 2060	February, 2014	Euribor 3 months + 1.75%	Euribor 3 meses + 3.50%
	2,000,000	552,505						
Class F	10,000	6,000	CCC-	Ca	February, 2060	February, 2014	Residual income of the securitized portfolio	
	2,010,000	558,505						

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.

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

Additionally, up to 5 days before the interest-payment dates in each quarter, the Hipototta are entitled to make partial repayments of bonds issued of classes A, B and C, as well as of classes D and E in the case of Hipototta No. 5 PLC, in order to adjust the amount of the liabilities to that of the assets (loan portfolio).

The Hipototta No. 4 class D bonds and the Hipototta 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.

On the date on which the securitisations were contracted, subordinated loans were concluded between the Bank and Hipototta, which correspond to credit facilities/lines in case of a need for liquidity on the part of Hipototta. Swap Agreements were also concluded between the Santander Group and securitisation vehicles, and between the Bank and the Santander Group intended to hedge the interest-rate risk.

Banif securitisation operations

In the wake of the resolution measure applied to Banif, the Bank acquired a number of securitisation operations issued by the said entity, and the corresponding securitised loans and bonds issued were transferred.

Azor Mortgage No. 1

Operation carried out in November 2004, in which mortgage loans originated at the former BBCA (Banco Banif e Comercial dos Açores, SA) were ceded. The ceded loans were acquired by Sagres – Sociedade de Titularização de Créditos (Sagres STC), which issued the Azor Notes bonds, fully subscribed by Azor Mortgages PLC, having its registered office Ireland. To finance itself, Azor Mortgage PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. In December 2006, the Azor Notes and respective rights to receive the credits and payment obligations to Azor Mortgages PLC were transferred from Sagres to Gamma STC.

Azor Mortgage nº 1

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Moody´s	Redemption date	Up to early redemption date
Class A	253,000	-	AA	A1	September, 2047	Euribor 3 months + 0.3%
Class B	19,000	16,159	AA	Aa3	September, 2047	Euribor 3 months + 0.76%
Class C	9,000	9,000	A	Aa3	September, 2047	Euribor 3 months + 1.75%
	281,000	25,159				
Class D	10,000	10,000	NR	NR	September, 2047	Residual income of the securitized portfolio
	291,000	35,159				

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

Azor Mortgage No. 2

Operation carried out in March 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 2, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 2

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	349,100	111,440	AA	AA	September, 2060	Euribor 3 months + 0.33%
Class B	18,400	13,069	AA(sf)	A+	September, 2060	Euribor 3 months + 0.95%
Class C	7,500	5,327	BBB	BBB+	September, 2060	Euribor 3 months + 1.65%
	375,000	129,836				
Class D	16,125	11,336	NR	NR	September, 2060	Residual income of the securitized portfolio
	391,125	141,172				

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

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	253,500	84,636	AA (sf)	A (sf)	December, 2065	Euribor 3 months + 0.3%
Class B	46,500	43,080	NR	NR	December, 2065	Euribor 3 months + 0.8%
	300,000	127,716				
Class C	6,750	6,750	NR	NR	December, 2065	Residual income of the securitized portfolio
	306,750	134,466				

Azor Mortgage No. 3

Operation carried out in October 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 3, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 3

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	558,600	191,303	AA	AA (sf)	August, 2061	Euribor 3 months + 0.2%
Class B	41,400	27,435	NR	NR	August, 2061	Euribor 3 months + 0.5%
	600,000	218,738				
Class C	57,668	48,445	NR	NR	August, 2061	Residual income of the securitized portfolio
	657,668	267,183				

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

Azor Mortgage No. 4

Operation carried out in February 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage No. 4, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 4

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	514,250	215,953	AA(sf)	AA	December, 2064	Euribor 3 months + 0.15%
Class B	35,750	23,782	NR	NR	December, 2064	Euribor 3 months + 0.3%
	550,000	239,735				
Class C	74,250	65,559	NR	NR	December, 2064	Residual income of the securitized portfolio
	624,250	305,294				

Azor 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

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	455,000	174,676	AA	AA	November, 2068	Euribor 3 months + 0.15%
Class B	45,000	32,250	NR	NR	November, 2068	Euribor 3 months + 0.3%
	500,000	206,926				
Class C	66,250	55,708	NR	NR	November, 2068	Residual income of the securitized portfolio
	566,250	262,634				

Azor 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

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	357,300	139,426	AA	AA	August, 2066	Euribor 3 months + 0.15%
Class B	39,700	25,909	NR	NR	August, 2066	Euribor 3 months + 0.3%
	397,000	165,335				
Class C	63,550	53,821	NR	NR	August, 2066	Residual income of the securitized portfolio
	460,550	219,156				

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. All these bonds were acquired by the Bank.

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

Hipototta 13

	Amount		Rating			Remuneration
Issued Debt	Initial	Current	S&P	Fitch	Redemption date	Up to early redemption date
Class A	1,716,000	1,236,871	NR	A+(sf)	October, 2072	Euribor 3 months + 0.6%
Class B	484,000	484,000	NR	NR	October, 2072	Euribor 3 months + 1%
	2,200,000	1,720,871				
Class C	66,000	53,565	NR	NR	October, 2072	Residual income of the securitized portfolio
	2,266,000	1,774,436				
VFN	0.001	0.001	NR	NR	October, 2072	No remuneration

During 2019 the Atlantes Mortgage No. 1 operation was wound up.

42. RELATED ENTITIES

The Company's related entities with which it maintained balances or transactions in 2019 were as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
Entities under direct or indirect control by the Group	
Banco Santander Totta	Portugal
Banif International Bank, Ltd (Bahamas)	Bahamas
Gamma - Sociedade de Titularização Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Primestar Servicing, S.A.	Portugal
Taxagest,SGPS, S.A.	Portugal
Totta (Ireland), PLC	Ireland
Santander Totta Seguros - Compª de Seguros De Vida, S.A.	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Benim - Sociedade Imobiliária, SA	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Special Purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Operações de Securitização geridas pela Gamma STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities that directly or indirectly under coomon control with the Group	
Abbey National Treasury Services plc	United Kingdom
All Funda Bank, SA	Spain
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Bank Zachodni WBK SA	Poland
Consulteam - Consultores de gestão, Lda	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Open Bank Santander Consumer S.A.	Spain
Popular Gestao de Ativos	Portugal
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
Santander Consumer Services, S.A.	Portugal
Refundos, SGFIM	Portugal
Retama Real Estate, S.L.	Spain
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Bank,National Association	USA
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Generales Seguros y Reaseguros, S.A.	Spain
Santander Gestao de Ativos SFIM, SA	Portugal
Santander Global Thechnology, S.L., Soci	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Santander UK plc	United Kingdom
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

The Company's related entities with which it maintained balances or transactions in 2018 were as follows:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
Entities under direct or indirect control by the Group	
Banco Santander Totta	Portugal
Banif International Bank, Ltd (Bahamas)	Bahamas
Gamma - Sociedade de Titularização Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
Primestar Servicing, S.A.	Portugal
Taxagest,SGPS, S.A.	Portugal
Totta (Ireland), PLC	Ireland
Santander Totta Seguros - Compª de Seguros De Vida, S.A.	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Entities significantly influenced by the Group	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Benim - Sociedade Imobiliária, SA	Portugal
Lusimovest - Fundo de Inv. Imobiliario	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Special Purpose Entities that are directly or indirectly controlled by the Group	
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Operações de Securitização geridas pela Gamma STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities that directly or indirectly under common control with the Group	
Abbey National Treasury Services plc	United Kingdom
All Funda Bank, SA	Spain
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
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, SA SGECR	Spain
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Santander Global Operations	Spain
Gesban Servicios Administrativos Globais	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
Santander Consumer Services, S.A.	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 BackofficesGlobalesEspec. S.A.	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Generales Seguros y Reaseguros, S.A.	Spain
Santander Global Facilities	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Issuances, 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
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, 2019 & 2018, the balances and transactions maintained during these years with related parties were as follows:

	2019		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
Assets:			
Balances due from banks	54,959	-	1,115
Financial assets held for trading	250,471	-	-
Other financial assets mandatorily at fair value through profit or loss	503	-	6,443
Other financial assets at fair value through other comprehensive income	520	-	10,689
Loans and advances to credit institutions	578,742	54	1
Credit granted and other balances receivable at amortized cost	5,418	55,661	98,868
Hedging derivatives	2,322	-	-
Investments in associated companies and subsidiaries excluded from consolidation	-	112,259	-
Other assets	8	5,162	2,276
Liabilities:			
Financial liabilities held for trading	(1,064,339)	-	-
Resources from other credit institutions	(717,174)	-	(4,422)
Resources from customers and other debts	-	(27,451)	(18,926)
Debt securities	(46,576)	-	-
Hedging derivatives	(55,620)	-	-
Other liabilities	(7,343)	-	(11,089)
Profit and Loss:			
Interest income	(262,762)	(390)	(225)
Interest charge	280,379	-	13
Income from services and commissions	(358)	(54,446)	(21,766)
Charges with services and commissions	3,570	-	6,067
Assets and liabilities at fair value through profit or loss	73,469	-	
Exchange revaluation	2,649	-	(15)
Gross margin of life insurance in which the risk is borne by the policy holder	4	-	(382)
Gross margin in insurance activity			(76)
General administrative costs	7,157	-	34,354
Impaiment from investments in associated companies			
Result from associates and joint ventures	(21)	(10,805)	-
Other operating results	-	(116)	(123)
Off balance sheet items:			
Guarantees provided and other contingent liabilities	48,037	22	188,591
Guarantees received	1	-	162
Commitments to third parties	114,170	518	26,148
Currency operations and derivatives	26,522,471	-	-
Liabilities for services rendered	2,022,426	99,693	2,171,370

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

	2018		
	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	91,713	-	6,633
Financial assets held for trading	162,071	-	8
Other financial assets mandatorily at fair value through profit or loss	98	-	6,938
Other financial assets at fair value through other comprehensive income	541	-	10,547
Loans and advances to credit institutions	310,846	50,072	108,146
Credit granted and other balances receivable at amortized cost	-	17	59,126
Hedging derivatives	9,970	-	-
Investments in associated companies	-	111,376	-
Other assets	3,482	4,171	4,757
Liabilities:			
Financial liabilities held for trading	(1,197,394)	-	-
Resources of other credit institutions	(290,308)	-	(21,771)
Resources of customers and other debts	-	(11,448)	(44,900)
Debt securities	(63,824)	-	-
Hedging derivatives	(21,242)	-	(5,795)
Other liabilities	(7,061)	(9,804)	(3,779)
Profit and Loss:			
Interest income	(213,471)	(1,319)	(3,196)
Interest charge	222,404	-	3,416
Income from services and commissions	(408)	(43,064)	(21,206)
Charges with services and commissions	747	-	4,435
Assets and liabilities at fair value through profit or loss	103,600	-	17,247
Exchange revaluation	(1,176)	-	-
Gross margin of life insurance in which the risk is borne by the policy holder	5		(65)
Gross margin in insurance activity	-	-	(82)
General administrative costs	7,061	-	36,494
Impaiment from investments in associated companies	-	65	-
Result from associates and joint ventures	-	(14,467)	-
Other operating results	-	-	7,170
Off balance sheet items:			
Guarantees provided and other contingent liabilities	31,197	22	78,845
Guarantees received	1	-	162
Commitments to third parties	110,000	29,504	27,893
Currency operations and derivatives	26,406,931	-	82,312
Responsibilities for services rendered	2,004,165	85,689	1,827,723

Transactions with related parties arise from normal business and are carried out under market conditions.

GOVERNING BODIES

Board of Directors

As at December 31, 2019 & 2018, advances or loans granted to members of the governing bodies, considered key management personnel of the Bank, amounted to €735k and €533k respectively. As at December 31, 2019 & 2018, the fixed and variable remuneration totalled €5,953k and €9,549k respectively (Note 37).

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, 2019 & 2018, liabilities with this plan amounted to €14,154k and €24,721k, respectively, and were covered by a provision of the same amount carried under Provisions for pensions and other charges (Note 21). The total number of beneficiaries of the Regulation was four in 2019 and six in 2018, and during 2019 two beneficiaries exercised the option for remission and one beneficiary exercised the right to payment of the supplementary pension.

With regard to termination of employment benefits, as provided for in the Companies Code, whenever, by decision of BST, the term of office of a member of the governing ends early, it shall compensate the member of the governing body with the future remuneration to which he or she is entitled up until the end of his or her term of office.

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

43. DISCLOSURES WITHIN THE SCOPE OF APPLICATION OF THE IFRS 7 and IFRS 13 STANDARDS

BALANCE SHEET

Categories of financial instruments

As at December 31, 2019 & 2018, the carrying amount of financial instruments was as follows:

	31-12-2019			
	Measured at fair value	Measured at amortized cost	Impairment	Net Value
Assets				
Cash and deposits at central banks	-	3,153,556	-	3,153,556
Balances due from other banks	-	346,841	-	346,841
Financial assets held for trading	1,073,429	-	-	1,073,429
Other financial assets mandatory at fair value through profit or loss	3,100,275	-	-	3,100,275
Other financial assets at fair value through other comprehensive income	6,587,579	-	(89)	6,587,490
Loans and advances to credit institutions	-	727,515	(29)	727,486
Credit granted and other balances receivable at amortized cost	4,654,112	35,617,272	(922,210)	39,349,174
Hedging derivatives	56,245	-	-	56,245
	15,471,640	39,845,184	(922,328)	54,394,496
Liabilities				
Financial liabilities held for trading	1,097,214	-	-	1,097,214
Other financial liabilities at fair value through profit or loss	3,432,017	-	-	3,432,017
Resources from central banks	-	3,037,524	-	3,037,524
Resources from other credit institutions	-	3,195,996	-	3,195,996
Resources from customers and other debts	76,285	35,042,664	-	35,118,949
Debt securities	-	3,431,231	-	3,431,231
Other liabilities	-	232,892	-	232,892
Hedging derivatives	393,831	-	-	393,831
Technical reserves	-	723,045	-	723,045
	4,999,347	45,663,352	-	50,662,699

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

	31-12-2018			
	Measured at fair value	Measured at amortized cost	Impairment	Net Value
Assets				
Cash and deposits at central banks	-	1,655,732	-	1,655,732
Balances due from other banks	-	850,898	-	850,898
Financial assets held for trading	1,204,674	-	-	1,204,674
Other financial assets mandatory at fair value through profit or loss	3,053,810	-	-	3,053,810
Other financial assets at fair value through other comprehensive income	5,996,368	-	(3)	5,996,365
Loans and advances to credit institutions	-	675,115	(84)	675,031
Credit granted and other balances receivable at amortized cost	3,328,662	37,425,112	(1,109,486)	39,644,288
Hedging derivatives	73,464	-	-	73,464
	13,656,978	40,606,857	(1,109,573)	53,154,262
Liabilities				
Financial liabilities held for trading	1,239,713	-	-	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960	-	-	3,175,960
Resources of central banks	-	3,050,040	-	3,050,040
Resources from other credit institutions	-	3,539,911	-	3,539,911
Resources of customers and other debts	256,108	33,125,228	-	33,381,336
Debt securities	-	4,322,597	-	4,322,597
Other liabilities	-	200,336	-	200,336
Hedging derivatives	90,556	-	-	90,556
Technical reserves	-	726,045	-	726,045
	4,762,337	44,964,157	-	49,726,494

The items credit extended and other receivables at amortised cost customer funds and liabilities represented by securities include financial assets and liabilities to which hedge accounting was applied and were considered to be measured at fair value, though they were only subject to value correction in relation to the risk hedged. On December 31, 2018 these balances were presented in the balance sheet as a separate item.

The amount shown in this Note as Technical provisions corresponds to the technical provisions associated with life insurance products with profit-sharing.

As at December 31, 2019 & 2018, Other financial liabilities at fair value through profit or loss corresponds to the valuation of the life insurance products marketed by the Group in which the risk lies with the policyholder (Note 19).

Life insurance in which the risk lies with the policyholder corresponds to collective-investment funds, comprising securities or baskets of securities subscribed through the acquisition of units. The securities that make up the collective-investment funds are carried under Other financial assets at fair value through profit or loss, the valuation of which as at December 31, 2019 & 2018 amounts to €2,954,304k and €2,818,604k, respectively (Note 8).

The Group's liabilities towards the holders of units upon maturity of the products are covered by the income of the securities in the portfolio allocated to the said products.

As at December 31, 2019 & 2018, Customer funds and other borrowings includes €22,650k and €22,636k, respectively, in respect of the financial products without profit-sharing (Note 20).

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

INCOME STATEMENT

In the periods ended December 31, 2019 & 2018, the breakdown of net gains and losses on financial instruments was as follows:

	2019					
	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	1,151,017	(1,142,192)	8,825	-	-	-
Other financial assets mandatory at fair value through profit or loss	564,580	(345,455)	219,125	-	-	-
Other financial assets at fair value through other comprehensive income	239,829	(1,316)	238,513	309,936	-	309,936
Cash and deposits at central banks and credit institutions	10,172	-	10,172	-	-	-
Credit granted and other balances receivable at amortized cost	1,271,104	(270,557)	1,000,547	-	-	-
Hedging derivatives	294,599	(461,376)	(166,777)	-	(84,917)	(84,917)
Other financial liabilities at fair value through profit or loss	561,999	(747,485)	(185,486)	-	-	-
Resources of central banks and from credit institutions	-	(5,983)	(5,983)	-	-	-
Resources of customers and other debts	112,984	(48,353)	64,631	-	-	-
Debt securities	-	(45,596)	(45,596)	-	-	-
Tecnical reserves	42,639	(56,451)	(13,812)	-	-	-
	4,248,923	(3,124,764)	1,124,159	309,936	(84,917)	225,019
Guarantees given	18,076	(5,032)	13,044			
Credit lines	967	-	967			

	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	1,060,571	(1,063,330)	(2,759)	-	-	-
Other financial assets mandatory at fair value through profit or loss	246,596	(307,003)	(60,407)	-	-	-
Other financial assets at fair value through other comprehensive income	164,702	(6,379)	158,323	78,914	-	78,914
Cash and deposits at central banks and credit institutions	7,007	-	7,007	-	-	-
Credit granted and other balances receivable at amortized cost	1,910,345	(1,023,479)	886,866	-	-	-
Hedging derivatives	246,991	(278,716)	(31,725)	45,817	-	45,817
Other financial liabilities at fair value through profit or loss	824,109	(778,744)	45,365	-	-	-
Resources of central banks and from credit institutions	-	(4,204)	(4,204)	-	-	-
Resources of customers and other debts	98,079	(58,360)	39,719	-	-	-
Debt securities	1,293	(54,931)	(53,638)	-	-	-
Tecnical reserves	90,965	(89,985)	980	-	-	-
	4,650,658	(3,665,131)	985,527	124,731	-	124,731
Guarantees given	19,604	(3,101)	16,503			
Credit lines	1,214	-	1,214			

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, 2019 & 2018, corresponded to net gains in the amounts of €11,253k and 9,524k, respectively (Note 34).

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

In the periods ended on December 31, 2019 & 2018, the breakdown of 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:

	2019			2018		
	Income	Expense	Net	Income	Expense	Net
Assets						
Balances due from other banks	709	-	709	820	-	820
Other financial assets at fair value through other comprehensive income	121,890	-	121,890	115,350	-	115,350
Loans and advances to credit institutions	9,463	-	9,463	6,187	-	6,187
Credit granted and other balances receivable at amortized cost	765,755	(14)	765,741	826,584	(21)	826,563
	897,817	(14)	897,803	948,941	(21)	948,920
Liablities						
Resources from central banks	12,470	(6,249)	6,221	-	(64)	(64)
Resources from other credit institutions	-	(5,983)	(5,983)	-	(4,140)	(4,140)
Resources from customers and other debts	-	(47,490)	(47,490)	-	(57,686)	(57,686)
Debt securities	-	(45,444)	(45,444)	-	(54,931)	(54,931)
	12,470	(105,166)	(92,696)	-	(116,821)	(116,821)
Guarantees given	18,076	(5,032)	13,044	19,604	(3,101)	16,503
Credit Lines	67	-	67	1,214	-	1,214

In the periods ended December 31, 2019 & 2018, the breakdown of commission income and expenses, 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:

	2019			2018		
	Income	Expense	Net	Income	Expense	Net
Assets						
Credit granted and other balances receivable al amortized cost	65,623	(13,583)	52,040	60,095	(17,137)	42,958
Liabilities						
Resources of customers and other debts	110,092	(102)	109,990	92,920	(99)	92,821

During 2019 and 2018 the Group recognised financial income in respect of Interest income on non-performing loans, or in situations of impairment, in the amounts of €6,399k and €8,075k, respectively (Note 28).

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

OTHER DISCLOSURES

Hedge accounting

As at December 31, 2019 & 2018, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	31-12-2019					
	Hedged item				Hedging instrument	
	Nominal amount	Value net of impairment	Fair value adjustments	Book value	Nominal amount	Fair Value
Fair value hedge:						
Credit granted and other balances receivable at amortized cost	4,423,905	4,433,058	219,139	4,652,197	4,423,419	(243,098)
Other financial assets at fair value through other comprehensive income	2,080,000	2,129,252	48,352	2,177,604	2,080,000	(49,904)
Resources from customers and other debts	(76,248)	(76,708)	423	(76,285)	110,399	491
Cash flow hedge:						
Other financial assets at fair value through other comprehensive income	2,466,500	2,466,500	-	2,466,500	2,793,195	(97,869)
Credit granted and other balances receivable at amortized cost	9,000,000	9,000,000	-	9,000,000	9,000,000	52,794
	17,894,157	17,952,102	267,914	18,220,016	18,407,013	(337,586)

	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	3,283,000	(55,942)
Other financial assets at fair value through other comprehensive income	80,000	89,046	4,493	93,539	80,000	(5,795)
Resources from customers and other debts	(256,611)	(257,276)	1,168	(256,108)	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
Debt securities	351,422	351,422	-	351,422	351,421	(332)
	14,298,917	14,312,843	52,823	14,365,666	14,862,001	(17,090)

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:

	31-12-2019					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swap	5,957	13,049	17,604	16,184	-	52,794

	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 swap	4,802	9,926	21,026	27,279	-	63,033

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

The gains and losses recognised in the income statements for the periods ended December 31, 2019 & 2018, with fair-value hedge transactions, were as follows:

	31-12-2019			31-12-2018		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Credit granted and other balances receivable at amortized cost	171,977	(171,977)	-	28,754	(28,754)	-
Other financial assets at fair value through other comprehensive income	43,859	(43,859)	-	4,493	(4,493)	-
Resources from customers and other debts	2,030	(2,030)	-	4,487	(4,500)	(13)
Debt securities	(152)	152	-	-	-	-
	217,714	(217,714)	-	37,734	(37,747)	(13)

Fair value of financial instruments

As at December 31, 2019 & 2018the detail of the financial instruments was as follows:

	31-12-2019		
	Measured at fair value	Not measured at fait value	Total
Assets			
Cash and deposits at central banks	-	3,153,556	3,153,556
Balances due from other banks	-	346,841	346,841
Financial assets held for trading	1,073,429	-	1,073,429
Other financial assets mandatory at fair value through profit or loss	3,100,275	-	3,100,275
Other financial assets at fair value through other comprehensive income	6,587,490	-	6,587,490
Loans and advances to credit institutions	-	727,486	727,486
Credit granted and other balances receivable at amortized cost	4,652,197	34,696,977	39,349,174
Hedging derivatives	56,245	-	56,245
	15,469,636	38,924,860	54,394,496
Liabilities			
Financial liabilities held for trading	1,097,214	-	1,097,214
Other financial liabilities at fair value through profit or loss	3,432,017	-	3,432,017
Resources from central banks	-	3,037,524	3,037,524
Resources from other credit institutions	-	3,195,996	3,195,996
Resources from customers and other debts	76,285	35,042,664	35,118,949
Debt securities	-	3,431,231	3,431,231
Other liabilities	-	232,892	232,892
Hedging derivatives	393,831	-	393,831
Technical reserves	-	723,045	723,045
	4,999,347	45,663,352	50,662,699

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

	31-12-2018		
	Measured at fair value	Not measured at fait value	Total
Assets			
Cash and deposits at central banks	-	1,655,732	1,655,732
Balances due from other banks	-	850,898	850,898
Financial assets held for trading	1,204,674	-	1,204,674
Other financial assets mandatorily at fair value through profit or loss	3,053,810	-	3,053,810
Other financial assets at fair value through other comprehensive income	5,996,365	-	5,996,365
Loans and advances to credit institutions	-	675,031	675,031
Credit granted and other balances receivable at amortized cost	3,326,813	36,317,475	39,644,288
Hedging derivatives	73,464	-	73,464
	13,655,126	39,499,136	53,154,262
Liabilities			
Financial liabilities held for trading	1,239,713	-	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960		3,175,960
Resources from central banks	-	3,050,040	3,050,040
Resources from other credit institutions	-	3,539,911	3,539,911
Resources from customers and other debts	256,108	33,125,228	33,381,336
Debt securities	-	4,322,597	4,322,597
Other liabilities	-	200,336	200,336
Hedging derivatives	90,556	-	90,556
Technical reserves	-	726,045	726,045
	4,762,337	44,964,157	49,726,494

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.

As at December 31, 2019 & 2018, 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:

	31-12-2019					
	Acquisition cost	Accrual	Valuation	Value adjustments for hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	-	-	1,073,429	-	-	1,073,429
Other financial assets mandatory at fair value through profit or loss	3,070,444	29,831	-	-	-	3,100,275
Other financial assets at fair value through other comprehensive income	5,729,437	84,670	725,120	48,352	(89)	6,587,490
Credit granted and other balances receivable at amortized cost	4,423,905	11,068	-	219,139	(1,915)	4,652,197
Hedging derivatives	-	-	56,245	-	-	56,245
	13,223,786	125,569	1,854,794	267,491	(2,004)	15,469,636
Liabilities						
Financial liabilities held for trading	-	-	1,097,214	-	-	1,097,214
Other financial liabilities at fair value through profit or loss	3,432,017	-	-	-	-	3,432,017
Resources from customers and other debts	76,248	460	-	(423)	-	76,285
Hedging derivatives	-	-	393,831	-	-	393,831
	3,508,265	460	1,491,045	(423)	-	4,999,347

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

	31-12-2018					
	Acquisition cost	Accrual	Valuation	Value adjustments for hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	2,500	-	1,202,174		-	1,204,674
Other financial assets mandatory at fair value through profit or loss	3,020,996	36,383	(3,569)		-	3,053,810
Other financial assets at fair value through other comprehensive income	5,485,303	91,338	415,234	4,493	(3)	5,996,365
Credit granted and other balances receivable at amortized cost	3,274,106	7,394	-	47,162	(1,849)	3,326,813
Hedging derivatives	-	-	73,464		-	73,464
	11,782,905	135,115	1,687,303	51,655	(1,852)	13,655,126
Liabilities						
Financial liabilities held for trading	-	-	1,239,713	-	-	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960	-	-	-	-	3,175,960
Resources of customers and other debts	256,611	665	-	(1,168)	-	256,108
Hedging derivatives	-	-	90,556	-	-	90,556
	3,432,571	665	1,330,269	(1,168)	-	4,762,337

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.

As at December 31, 2019 & 2018, the carrying amount of financial instruments measured at fair value or subject to value adjustments for hedging operations, had the following detail by measurement methodology:

	31-12-2019			
	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	-	1,073,429	-	1,073,429
Other financial assets mandatory at fair value through profit or loss	2,954,837	-	145,438	3,100,275
Other financial assets at fair value through other comprehensive income	4,352,962	2,228,001	6,527	6,587,490
Credit granted and other balances receivable at amortized cost	-	4,652,197	-	4,652,197
Hedging derivatives	-	56,245	-	56,245
	7,307,799	8,009,872	151,965	15,469,636
Liabilities				
Financial liabilities held for trading	-	1,097,214	-	1,097,214
Other financial liabilities at fair value through profit or loss	-	3,432,017	-	3,432,017
Resources from customers and other debts	-	76,285	-	76,285
Hedging derivatives	-	393,831	-	393,831
	-	4,999,347	-	4,999,347

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

	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	-	1,201,295	3,379	1,204,674
Other financial assets mandatorily at fair value through profit or loss	2,828,988	56,755	168,067	3,053,810
Other financial assets at fair value through other comprehensive income	3,848,880	2,136,791	10,694	5,996,365
Credit granted and other balances receivable at amortized cost	-	3,326,813	-	3,326,813
Hedging derivatives	-	73,464	-	73,464
	6,677,868	6,795,118	182,140	13,655,126
Liabilities				
Financial liabilities held for trading	-	1,239,713	-	1,239,713
Other financial liabilities at fair value through profit or loss	-	3,175,960	-	3,175,960
Resources from customers and other debts	-	256,108	-	256,108
Hedging derivatives	-	90,556	-	90,556
	-	4,762,337	-	4,762,337

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 instrument	Main valuation techniques
Forwards	Present value model
Interest rate swaps	Present value model
Currency swaps	Present value model
Equity swaps	Present value model
Exchange rate options	Black-Scholes model, Monte Carlo model
Contracts on prices (options)	Black-Scholes model, Heston model
Interest rate swaps	Black-Scholes model, Heath-Jarrow-Morton model
Options - other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

The Bank calculates the Credit Value Adjustment (CVA) and the Debit Value Adjustment (DVA) for derivative financial instruments 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.

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

In 2018 and 2019, the movement under financial instruments classified as Level 3 was as follows:

	Financial assets held for trading		Other financial assets mandatory at fair value through profit or loss	Other financial assets at fair value through comprehensive income	Available-for-sale financial assets	Total
	Securities	Derivatives				
December 31, 2017	3,740	-	1,598	-	78,418	83,756
First implementation of IFRS9	(530)	-	77,614	1,334	(78,418)	-
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	-	(67,121)	(4,914)	-	(71,866)
December 31, 2018	3,379	-	168,067	10,694	-	182,140
Acquisitions	-	-	127	4,309	-	4,436
Sales	(3,379)	-	-	(10,852)	-	(14,231)
Reimbursement	-	-	(18,134)	(772)		(18,905)
Reclassifications	-	-		3,100	-	3,100
Changes in fair value	-	-	(4,622)	137	-	(4,485)
Impairment	-	-	-	(89)	-	(89)
December 31, 2019	-	-	145,438	6,527	-	151,965

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

	31-12-2019		31-12-2018	
	EUR	USD	EUR	USD
Overnight	-0.34%	2.09%	-0.25%	2.75%
1 month	-0.34%	2.09%	-0.25%	2.76%
3 months	-0.33%	1.91%	-0.24%	2.76%
6 months	-0.33%	1.82%	-0.24%	2.74%
9 months	-0.32%	1.78%	-0.23%	2.73%
1 year	-0.32%	1.75%	-0.23%	2.73%
3 years	-0.24%	1.67%	-0.07%	2.60%
5 years	-0.11%	1.71%	0.20%	2.61%
7 years	0.02%	1.78%	0.47%	2.66%
10 years	0.21%	1.88%	0.81%	2.75%

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

As at December 31, 2019 & 2018, the carrying amount and fair value of the financial instruments measured at amortised cost or historical cost was as follows:

	31-12-2019		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	3,153,556	3,168,988	15,432
Balances due from other banks	346,841	346,841	-
Loans and advances to credit institutions	727,486	726,874	(612)
Credit granted and other balances receivable at amortized cost	34,696,977	35,233,149	536,172
	38,924,860	39,475,852	550,992
Liabilities			
Resources from central banks	3,037,524	3,035,739	(1,785)
Resources from other credit institutions	3,195,996	3,199,609	3,613
Resources from customers and other debts	35,042,664	35,050,667	8,003
Debt securities	3,431,231	3,560,277	129,046
Other liabilities	232,892	232,892	-
Technical reserves	723,045	723,045	-
	45,663,352	45,802,229	138,877

	31-12-2018		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	1,655,732	1,640,368	(15,364)
Balances due from other banks	850,898	850,898	-
Loans and advances to credit institutions	675,031	675,571	540
Credit granted and other balances receivable at amortized cost	36,317,475	36,331,859	14,384
	39,499,136	39,498,696	(440)
Liabilities			
Resources from central banks	3,050,040	3,038,968	(11,072)
Resources from other credit institutions	3,539,911	3,544,557	4,646
Resources from customers and other debts	33,125,228	33,128,761	3,533
Debt securities	4,322,597	4,355,399	32,802
Other liabilities	200,336	200,336	-
Technical reserves	726,045	726,045	-
	44,964,157	44,994,066	29,909

To determine the fair value of financial instruments carried at amortised cost, the valuation methods used consisted of valuation techniques involving, in particular, updating future cash flows.

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

As at December 31, 2019 & 2018, details of the valuation methods used to determine the carrying amount of financial instruments recorded at amortised cost were as follows:

	31-12-2019			
	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	-	3,168,988	-	3,168,988
Balances due from other banks	-	346,841	-	346,841
Loans and advances to credit institutions	-	726,874	-	726,874
Credit granted and other balances receivable at amortized cost	-	1,608,467	33,624,682	35,233,149
	-	5,851,170	33,624,682	39,475,852
Liabilities				
Resources from central banks	-	3,035,739	-	3,035,739
Resources from other credit institutions	-	2,299,609	900,000	3,199,609
Resources from customers and other debts	-	-	35,050,667	35,050,667
Debt securities	-	2,809,198	751,079	3,560,277
Other liabilities	-	232,892		232,892
Technical reserves	-	-	723,045	723,045
	-	8,377,438	37,424,791	45,802,229

	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	-	1,640,368	-	1,640,368
Balances due from other banks	-	850,898	-	850,898
Loans and advances to credit institutions	-	675,571	-	675,571
Credit granted and other balances receivable at amortized cost	-	478,345	35,853,514	36,331,859
	-	3,645,182	35,853,514	39,498,696
Liabilities				
Resources from central banks	-	3,038,968	-	3,038,968
Resources from other credit institutions	-	3,544,557	-	3,544,557
Resources from customers and other debts	-	-	33,128,761	33,128,761
Debt securities	-	4,355,399	-	4,355,399
Other liabilities	-	-	200,336	200,336
Technical reserves	-	-	726,045	726,045
	-	10,938,924	34,055,142	44,994,066

The main assumptions used in the determination of fair value by type of financial instrument, were as follows:

- The future cash flows of the investments and resources of credit institutions were discounted using interest-rate curves for the money market;

- For the purposes of the discount of future flows of the customer loan portfolio, the fair value of loans granted was determined taking into account the average spread of the production of the last quarter of the year;

- For customer current accounts it was considered that the fair value was equal to the carrying amount. For term deposits, the average rates of deposits contracted during the last quarter of the year were used, taking into account the various types;

- In the case of debt securities, the discount of the future cash flows took into account the market conditions required for similar issues at the yearend;

- In the case of subordinated liabilities, for the discount of the future cash flows market interest rates applicable in similar issues were considered.

In accordance with IFRS 4, Santander Totta Seguros conducted adequacy tests on the liabilities of insurance contracts with and without profit-sharing, in which it assumes the investment risk and in which the coverage is greater than one year, in order to assess the adequacy of technical provisions set aside.

RISK MANAGEMENT

CREDIT RISK

Banking business and others

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.

Insurance Business

Credit risk arises primarily in debt securities where the issuer's risk is represented in the credit spread.

In general, limits are defined in light of the rating of the issue/ issuer of existing liabilities in euros and of the terms for all the portfolios managed by Santander Asset Management, with due regard for Regulatory Standards 11/2010 and 3/2011 issued by the Insurance and Pension Funds Supervisory Authority. It should be noted that for guaranteed- or indicative-rate insurance contracts with regard to non-sovereign debt, the acquisition tends to be authorised of securities (Senior, Lower Tier 2 and Corporate) that have minimum ratings of BBB-, with a stable outlook by the Fitch Ratings (or by S&P or by Moody's if the former is not available).

On the other hand, an upper limit for a particular issuer is set. This limit is set in the light of the degree of knowledge and other conditioning factors relating to the issuer and the market, as well as the investment policy of the portfolios assigned to the products.

The limits may be revised whenever there are events that justify it (for example: alteration of the rating). If there are no events throughout the year justifying a change of limits, they are reviewed only annually.

Final approval of the overall limits and/or those in respect of new issuers is undertaken by the Corporate Risk Committee and complies with diversification and prudential dispersion criteria, a process that is monitored periodically.

In the control of the credit risk, it is important that all assets have a rating and that, in the absence thereof, one can assign a rating level that falls within the approved standards.

The rating consists of classifying an issue of bonds or other debt securities in a risk-notation rating scale, which is intended to reflect a value judgement on the capacity for timely repayment of principal and payment of the interest.

The rating awarded by an agency expresses just its opinion that the higher the rating, the less likelihood of default, though providing no guarantee of any kind. For no rating notation must the likelihood of default be understood as zero, the rating being a measure of the *ex-ante* risk that serves to qualify the creditworthiness of an issuer in relative terms.

The rating used is in respect of the issue, and, whenever an issue has no rating, the following criteria are used:

- For bonds and other debt securities, the default rating is that of the senior debt.
- In the case of vehicles or credit-linked notes, the rating will be taken into account of the collateral or of the issuers referenced via CDS (credit default swap) for the type of debt in question. The rating

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

obtained shall take into account the structure of the asset (pro rata distribution, the lowest reference rating in the case of first-to-default, the rating of the collateral should it be lower than that of the assets referenced via CDS).

- In the case of deposits, it is considered that the implicit rating is that of the senior debt of the entities who take them.
- Should it not be possible to assign a rating the issue is considered unrated.

Additionally, the Senior Credit Default Spreads, for 5-year terms, of the various issuers are periodically monitored in order to track the evolution of the credit risk of the counterparties.

With respect to reinsurers, Santander Totta Seguros fundamentally works with eleven: Abbey Life, AXA Partners (ex-Genworth), General Cologne Re, Munich Re, RGA Re, Axa Re, Swiss Re, Partners, Mafre, SCOR and Hannover Re.

The ratings of the largest reinsurers can be found in the following table:

Ratings of the Reinsurer Groups

Abbey Life Insurance Company Limited	A+
General Cologne Re	AA +
AXA Partners (ex-Genworth)	AA-
Munich Reinsurance Co.	AA-
RGA Insurance Company	AA-
AXA France Vie / Axa France IARD	AA-
Swiss Re	AA-
Partner Re	A+
Mafre	A
SCOR	A+
Hannover Re Correduria de Reaseguros	A+

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.

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

Department	Weighting
. Demand/Market;	20%
. Partners/Management:	15%
. Access to credit;	10%
. Profitability;	15%
. Flow generation;	25%
. Solvency.	15%

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

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 Group’s internal rating system can be described as follows:

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

As at December 31, 2019 & 2018, the maximum exposure to the credit risk and the respective carrying amount of the financial instruments was as follows:

	31-12-2019		31-12-2018	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	3,153,556	3,153,556	1,655,732	1,655,732
Balances due from other banks	346,841	346,841	850,898	850,898
Financial assets held for trading	1,073,429	1,073,429	1,204,674	1,204,674
Other financial assets mandatory at fair value through profit or loss	3,100,275	3,100,275	3,053,810	3,053,810
Other financial assets at fair value through other comprehensive income	6,587,490	6,587,490	5,996,365	5,996,365
Loans and advances to credit institutions	727,486	727,486	675,031	675,031
Credit granted and other balances receivable at amortized cost	39,349,174	45,439,112	39,644,288	45,909,243
Hedging derivatives	56,245	56,245	73,464	73,464
Investment in associated companies	112,259	112,259	111,376	111,376
	54,506,755	60,596,693	53,265,638	59,530,593
Guarantees provided	1,950,613	1,950,613	1,955,910	1,955,910

The maximum exposure in “Loans granted and other balances receivable at amortised cost as at December 31, 2019, included €1,000,630k and €5,089,308k relating to irrevocable credit lines and revocable credit lines, (€1,035,032k and €5,229,923k as at December 31, 2018, respectively).

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

In this sense, as at December 31, 2019 & 2018, the breakdown of performing and non-performing exposures was as follows:

	31-12-2019			31-12-2018		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	38,649,056	(138,112)	0.4%	38,718,371	(176,243)	0.5%
Non-performing exposures						
Loans represented by securities	-	-	-	619	(494)	79.8%
Households	477,921	(195,016)	40.8%	601,095	(233,314)	38.8%
Corporates	1,144,407	(589,082)	51.5%	1,433,689	(699,435)	48.8%
	1,622,328	(784,098)		2,035,403	(933,243)	
	40,271,384	(922,210)		40,753,774	(1,109,486)	

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

As at December 31, 2019 & 2018, the degree of cover of the non-performing exposures by real guarantees was as follows:

	31-12-2019			31-12-2018		
	Book value	Collateral	Coverage	Book value	Collateral	Coverage
Non-performing exposures						
Loans represented by securities	-	-	-	619	-	-
Households	477,921	243,917	51.0%	601,095	(319,151)	53.1%
Corporates	1,144,407	363,235	31.7%	1,433,689	(381,567)	26.6%
	1,622,328	607,152		2,035,403	(700,718)	

Deferred exposures

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

As at December 31, 2019 & 2018, the breakdown of deferred exposures was as follows:

	31-12-2019			31-12-2018		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	568,508	(25,098)	4.4%	866,312	(39,221)	4.5%
Non-performing exposures						
Households	304,344	(123,671)	40.6%	378,604	(139,785)	36.9%
Corporates	830,634	(439,479)	52.9%	1,048,822	(517,521)	49.3%
	1,134,978	(563,150)		1,427,426	(657,306)	
	1,703,486	(588,248)		2,293,738	(696,527)	

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.

In accordance with the requirements set out in Bank of Portugal Instruction No. 28/2014, of January 15, 2015, the Bank now provides information on the encumbered assets.

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

As at December 31, 2019 & 2018, the breakdown of encumbered and unencumbered assets is as follows:

	2019			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of the unencumbered assets	Fair value of unencumbered assets
Assets				
Balances due at central banks				
other credit institutions	-	-	3,500,397	-
Equity instruments	-	-	863,117	219,032
Debt securities	2,313,060	2,313,060	10,277,017	7,248,617
Loans and advances to customers in				
credit institutions	9,916,619	-	26,394,612	-
Ohter assets	-	-	2,817,951	-
	12,229,679	2,313,060	43,853,094	7,467,649

	2018			
	Carrying amount of the encumbered assets	Fair value of encumbered assets	Carrying amount of the unencumbered assets	Fair value of unencumbered assets
Assets				
Balances due at central banks				
other credit institutions	-	-	2,506,630	-
Equity instruments	-	-	823,445	823,445
Debt securities	2,076,282	2,076,282	10,234,957	10,241,519
Loans and advances to customers in				
credit institutions	11,553,395	-	24,684,794	-
Ohter assets	-	-	3,148,069	-
	13,629,677	2,076,282	41,397,895	11,064,964

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

As at December 31, 2019 & 2018, liabilities associated with encumbered assets and with collateral received are as follows:

	2019	
	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	5,630,717	7,240,455
Other	603,000	693,445
	6,233,717	7,933,900

	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

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

As at December 31, 2019 & 2018, 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:

	31-12-2019	31-12-2018
Cash and deposits at central banks		
Rating S&P		
AAA+ /AAA /AAA-	2,798,891	1,368,061
Not subject	354,665	287,671
	3,153,556	1,655,732
Balances due from other banks		
Rating S&P		
AAA+ /AAA /AAA-	-	180,861
AA+ /AA /AA-	89,754	173,921
A+ /A /A-	159,092	384,205
BBB+ / BBB / BBB-	49,642	88,300
BB+ / BB / BB-	3,613	-
No external rating	44,740	17,716
Not subject	-	5,895
	346,841	850,898
Other assets mandatory at fair value through profit or loss		
Rating S&P		
AAA+ / AAA / AAA-	3,418	4,181
AA+ / AA / AA-	9,359	7,383
A+ / A / A-	160,436	79,401
BBB+ / BBB / BBB-	1,950,937	1,952,887
BB+ / BB / BB-	119,331	120,432
B+ / B / B-	8,582	74,993
CCC+ / CCC / CCC-	17	12
No external rating	59,112	74,894
	2,311,192	2,314,183
Other assets at fair vlue through other comprehensive income		
Rating S&P		
A+ /A /A-	362,672	343,720
AA+ / AA / AA-	21,975	51,399
AAA+ / AAA / AAA-	5,779	5,355
BBB+ / BBB / BBB-	6,108,162	5,447,016
BB+ / BB / BB-	652	644
No external rating	14,305	67,795
	6,513,545	5,915,929
Loans and advances to credit institutions		
Rating S&P		
AA+ /AA /AA-	42,897	-
A+ /A /A-	652,523	516,036
BBB+ / BBB / BBB-	32,042	88,146
BB+ / BB / BB-	-	-
No external rating	53	70,933
	727,515	675,115
Loans to customers		
Internal Rating		
Low credit risk	27,233,727	25,261,445
Medium credit risk	9,926,930	11,344,107
High credit risk	2,202,813	2,667,778
No rating	907,914	1,480,444
	40,271,384	40,753,774
	53,324,033	52,165,631

For cases in which the Standard & Poor's rating was not available, the ratings issued by Moody's or Fitch were presented.

LIQUIDITY RISK

Banking business and others

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.

Insurance Business

Liquidity risk is the risk of the Company having difficulty in obtaining funds in order to meet its commitments. The liquidity risk can be reflected, for example, in the inability to meet the obligations associated with financial liabilities that are settled by delivery of cash or other financial assets.

The monitoring of the liquidity risk is carried out monthly, balance-sheet management limits being defined with respect to sensitivity to parallel interest-rate shifts for the entire portfolio of financial assets and technical liabilities.

Additionally, in order to mitigate the liquidity risk, ratios were established for the maximum concentration of non-liquid assets in accordance with the type of portfolio/ product, which are monitored on a monthly basis.

The main assumptions used in the determination of the forecast cash flows were as follows:

- The forecast cash flows of financial assets and technical liabilities associated with the interest rate curve are calculated considering the forward interest rate curve;

- The technical assets and financial liabilities associated with unit-linked products are considered payable on demand for the amount of the fair value of these assets and liabilities on each reporting date.

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

As at December 31, 2019 & 2018, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their maturities, was as follows:

	31-12-2019								
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Derivatives	Total
Assets									
Cash and deposits at central banks	354,664	-	-	-	2,798,891	-	-	-	3,153,555
Balances due from other banks	346,841	-	-	-	-	-	-	-	346,841
Financial assets held for trading	-	-	-	-	-	-	-	1,073,430	1,073,430
Other financial assets mandatory									-
at fair value through profit or loss	-	495	71,856	631,350	358,843	1,218,818	789,083	-	3,070,445
Other financial assets at fair value									-
through other comprehensive income	427,295	614,673	1,326,991	609,436	314,621	2,827,413	73,316	-	6,193,746
Loans and advances to credit institutions	-	(817)	(2,470)	704,012	(710)	21,065	-	-	721,080
Credit granted and other balances receivable at amortized cost	675,669	2,258,708	4,610,173	8,709,243	5,787,266	22,705,267	-	-	44,746,326
Hedging derivatives	-	-	-	-	-	-	-	56,246	56,246
Investments in associates	-	-	-	-	-	-	112,259	-	112,259
	1,804,469	2,873,059	6,006,550	10,654,042	9,258,911	26,772,563	974,658	1,129,676	59,473,928
Liabilities									
Financial liabilities held for trading	-	-	-	-	-	-	-	1,097,214	1,097,214
Other financial liabilities at fair value through profit or loss	3,432,016	-	-	-	-	-	-	-	3,432,016
Resources from central banks	4,522	-	2,406,429	618,686	-	-	-	-	3,029,637
Resources from other credit institutions	1,110,449	818,069	116,443	552,801	299,892	300,000	-	-	3,197,655
Resources from customers and other debts	17,660,585	6,779,619	6,874,096	2,491,663	1,431,812	15,318	-	-	35,253,092
Debt securities	-	28,516	863,582	268,033	1,291,187	1,204,827	-	-	3,656,145
Hedging derivatives	-	-	-	-	-	-	-	393,831	393,831
Technical provisions	96,675	403,423	16,281	30,361	23,969	107,410	-	-	678,119
	22,304,248	8,029,627	10,276,831	3,961,544	3,046,860	1,627,555	-	1,491,045	50,737,710

	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	Derivatives	Total
Assets									
Cash and deposits at central banks	287,671	-	-	-	1,368,061	-	-	-	1,655,732
Balances due from other banks	850,898	-	-	-	-	-	-	-	850,898
Financial assets held for trading	-	-	-	-	-	-	-	1,204,674	1,204,674
Other financial assets mandatory									-
at fair value through profit or loss	-	6,449	90,278	702,984	341,542	1,143,215	736,527	-	3,020,995
Other financial assets at fair value									-
through other comprehensive income	2	474,854	624,438	297,375	435,665	4,411,196	82,958	-	6,326,487
Loans and advances to credit institutions	92,955	4,663	114,770	440,916	28	21,199	-	-	674,531
Credit granted and other balances receivable at amortized cost	144,638	2,584,761	4,673,292	9,208,935	5,884,763	22,278,643	-	-	44,775,032
Hedging derivatives	-	-	-	-	-	-	-	73,464	73,464
Investments in associates	-	-	-	-	-	-	113,294	-	113,294
	1,376,164	3,070,727	5,502,777	10,650,210	8,030,058	27,854,254	932,779	1,278,138	58,695,107
Liabilities									
Financial liabilities held for trading		-	-	-	-	-	-	1,239,713	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960	-	-	-	-	-	-	-	3,175,960
Resources of central banks	4,517	-	-	3,025,116	-	-	-	-	3,029,633
Resources of other credit institutions	499,466	1,316,413	575,107	352,944	499,809	300,000	-	-	3,543,739
Resources of customers and other debts	15,450,485	6,223,706	8,001,085	3,324,819	495,195	13,765	-	-	33,509,055
Debt securities	-	9,343	818,005	854,633	130,107	2,783,618	-	-	4,595,706
Hedging derivatives	-	-	-	-	-	-	-	90,556	90,556
Technical provisions	105,905	441,936	17,835	33,260	26,257	117,664	-	-	742,857
	19,236,333	7,991,398	9,412,032	7,590,772	1,151,368	3,215,047	-	1,330,269	49,927,219

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.

- The assets and liabilities associated with unit-linked products of the business of the Group's insurer were considered payable on demand for the amount of the fair value of these assets and liabilities.

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, 2019 & 2018 the breakdown of financial instruments by exposure to the interest-rate risk was as follows:

	31-12-2019				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	2,798,892	354,664	-	3,153,556
Balances due from other banks	-	-	346,841	-	346,841
Financial assets held for trading	-	-	-	1,073,429	1,073,429
Other financial assets mandatory at fair value through profit or loss	2,177,817	133,375	789083	-	3,100,275
Other financial assets mandatory at fair value through other comprehensive income	5,640,140	15,981	931,369	-	6,587,490
Loans and advances to credit institutions	0	727,446	40	-	727,486
Credit granted and other balances receivable at amortized cost	8,319,686	30,901,087	128,401	-	39,349,174
Hedging derivatives	-	-	-	56,245	56,245
	16,137,643	34,576,781	2,550,398	1,129,674	54,394,496
Liabilities					
Financial liabilities held for trading	-	-	-	1,097,214	1,097,214
Other financial liabilities at fair value through profit or loss	3,432,017			-	3,432,017
Resources from central banks	3,079,382	-	(41,858)	-	3,037,524
Resources from other credit institutions	227,251	2,968,233	512	-	3,195,996
Resources from customers and other debts	17,479,083	17,628,799	11,067	-	35,118,949
Debt securities	2,757,600	743,478	(69,847)	-	3,431,231
Other liabilities	-	-	232,892	-	232,892
Hedging derivatives	-	-	-	393,831	393,831
Technical provisions	723,045	-	-	-	723,045
	27,698,378	21,340,510	132,766	1,491,045	50,662,699

	31-12-2018				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	1,368,061	287,671	-	1,655,732
Balances due from other banks	-	-	850,898	-	850,898
Financial assets held for trading	-	-	3,379	1,201,295	1,204,674
Other financial assets mandatory at fair value through profit or loss	2,123,526	190,657	739627	0	3,053,810
Other financial assets mandatory at fair value through other comprehensive income	5,386,529	18,913	590,923	-	5,996,365
Loans and advances to credit institutions	102,310	572,296	425	0	675,031
Credit granted and other balances receivable at amortized cost	8,332,714	31,324,372	(12,798)	-	39,644,288
Hedging derivatives	-	-	-	73,464	73,464
	15,945,079	33,474,299	2,460,125	1,274,759	53,154,262
Liabilities					
Financial liabilities held for trading	-	-	-	1,239,713	1,239,713
Other financial liabilities at fair value through profit or loss	3,175,960	-	-	-	3,175,960
Resources from central banks	3,079,377	-	(29,337)	-	3,050,040
Resources from other credit institutions	153,057	3,386,667	187	-	3,539,911
Resources from customers and other debts	18,146,276	15,220,985	14,075	-	33,381,336
Debt securities	3,500,000	888,986	(66,389)	-	4,322,597
Other liabilities	-	-	200,336	-	200,336
Hedging derivatives	-	-	-	90,556	90,556
Technical provisions	726,045	-	-	-	726,045
	28,780,715	19,496,638	118,872	1,330,269	49,726,494

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

As at December 31, 2019 & 2018, the breakdown of financial instruments by exposure to the interest-rate risk for banking business, per rate interval, is as follows:

	31-12-2019							
	Rate buckets					Not subject to		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	interest rate risk	Derivatives	Total
Assets								
Cash and deposits at central banks	2,798,892	-	-	-	-	354,664	-	3,153,556
Balances due from other banks	-	-	-	-	-	346,841	-	346,841
Financial assets held for trading	-	-	-	-	-	-	1,073,429	1,073,429
Other financial assets mandatory at fair value through profit or loss	-	-	-	-	-	145,971	-	145,971
Other financial assets at fair value through other comprehensive income	3,832	2,719,148	2,179,123	28,877	-	931,369	-	5,862,349
Loans and advances to credit institutions	727,476	-	-	-	-	40	-	727,516
Credit granted and other balances receivable at amortized cost	14,731,135	17,930,244	4,848,988	1,265,294	445,112	128,401	-	39,349,174
Hedging derivatives	-	-	-	-	-	-	56,245	56,245
	18,261,335	20,649,392	7,028,111	1,294,171	445,112	1,907,286	1,129,674	50,715,081
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	1,097,213	1,097,213
Resources from central banks	3,079,382	-	-	-	-	(41,858)	-	3,037,524
Resources from other credit institutions	3,019,234	176,250	-	-	-	512	-	3,195,996
Resources from customers and other debts	34,076,622	958,238	67,902	5,120	-	11,067	-	35,118,949
Debt securities	2,487,322	1,006,157	-	7,599	-	(69,847)	-	3,431,231
Other liabilities	-	-	-	-	-	232,892	-	232,892
Hedging derivatives	-	-	-	-	-	-	393,831	393,831
	42,662,560	2,140,645	67,902	12,719	-	132,766	1,491,044	46,507,636

	31-12-2018							
	Rate buckets					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	-	-	-	-	287,671	-	1,655,732
Balances due from other banks	-	-	-	-	-	850,898	-	850,898
Financial assets held for trading	-	-	-	-	-	3,379	1,201,295	1,204,674
Other financial assets mandatory at fair value through profit or loss					-	179,879	-	179,879
Other financial assets at fair value through other comprehensive income	1,507	2,152,618	2,466,634	32,669	-	590,923	-	5,244,351
Loans and advances to credit institutions	538,504	136,102	-	-	-	425	-	675,031
Credit granted and other balances receivable at amortized cost	13,063,712	19,105,978	5,616,926	1,368,973	501,497	(12,798)	-	39,644,288
Hedging derivatives	-	-	-	-	-	-	73,464	73,464
	14,971,784	21,394,698	8,083,560	1,401,642	501,497	1,900,377	1,274,759	49,528,317
Liabilities								
Financial liabilities held for trading	-	-	-	-	-	-	1,239,713	1,239,713
Resources of central banks	3,079,377	-	-	-	-	(29,337)	-	3,050,040
Resources of other credit institutions	3,436,563	103,161	-	-	-	187	-	3,539,911
Resources of customers and other debts	31,666,915	1,359,174	255,368	85,804	-	14,075	-	33,381,336
Debt securities	2,605,486	1,773,000	2,500	8,000	-	(66,389)	-	4,322,597
Other liabilities	-	-	-	-	-	200,336	-	200,336
Hedging derivatives	-	-	-	-	-	-	90,556	90,556
	40,788,341	3,235,335	257,868	93,804	-	118,872	1,330,269	45,824,489

Banking business and others

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

- 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.

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

As at December 31, 2019 & 2018, the sensitivity of the asset value of the Group's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	31-12-2019		31-12-2018	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash and deposits at central banks	(207)	91,492	577	54,845
Other financial assets at fair value through other comprehensive income	(190,829)	150,794	(321,428)	331,587
Loans and advances to credit institutions	(94)	2,207	(313)	702
Credit granted and other balances receivable at amortized cost	(948,191)	951,589	(742,445)	690,663
	(1,139,321)	1,196,082	(1,063,609)	1,077,797
Hedging derivatives	276,455	(363,068)	(9,444)	(159,348)
Liabilities				
Resources from central banks	(19,139)	8,281	(49,154)	15,495
Resources from other credit institutions	(4,861)	16,808	(9,095)	19,820
Resources from customers and other debts	(984,376)	712,489	(816,694)	650,259
Debt securities	(130,016)	106,182	(156,317)	143,262
	(1,138,392)	843,760	(1,031,260)	828,836

Financial Instruments – trading

The basic parameters for calculation of the VaR applicable in general are, besides the calculation method itself, as follows:

- Time horizon: The time period for which potential losses of a portfolio are calculated for the measurement of the (daily) VaR is 1 day.

- Confidence level: both the VaR (potential loss) and the VaE (potential gain) are determined with a confidence level of 99% (1% and 99% percentiles, respectively, of the losses and gains distribution). For purposes of contrast analysis, a VaR and a VaE will also be calculated at a confidence level of 95% (5% and 95% percentiles, respectively).

- Exponential decrease factor: Allows exponential weighting of the amount of the variations in market factors over time, giving less weight to observations more distant in time. The exponential decrease factor applied is determined periodically by Market Risk.

The VaR values used correspond to the highest of those calculated with the decrease factor in force and those calculated using uniform weighting;

- Calculation currency: In the process of calculating the VaR all positions are valued in euros, which guarantees that the risk-free currency is the local currency. However, VaR values are reported in US dollars (USD) in order to allow the aggregation of different units; and

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

- Market date time window: A 2-year time window is used, or at least 520 data obtained from the VaR calculation reference date going back in time.

The calculation of the VaR Percentile gives equal weighting to the set of 520 observations considered. The Weighted Percentile VaR gives a significantly higher weighting to the more recent observations in relation to the reference date of the analysis.

Historical simulation consists of using the historical variations as the distribution model of possible variations in the risk factors. For this reason, the chosen period is sufficiently long and significant for all interactions between the market factors, their volatilities and the correlations among them, to be duly mirrored in the historical period selected.

On the other hand, the complete revaluation of the portfolio requires a valuation of each of the instruments, using the respective mathematical expression to obtain the market value of each individual position. In using 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, 2019 & 2018, the VaR associated with the interest-rate risk corresponded to:

	31-12-2019	31-12-2018
VaR Percentil 99%	-	-
VaR Weighted Percentil 99%	-	-

Insurance Business

As at December 31, 2019 & 2018, the sensitivity of the equity value of the financial instruments linked to insurance products (except unit-inked products) to positive and negative variations of 100 basis points (bps) corresponds to:

	31-12-2019	31-12-2018
+100 bp's	13	14
-100 bp's	(16)	(14)

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

Exchange-rate Risk

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

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

As at December 31, 2019 & 2018, the detail of the financial instruments by currency was as follows:

	31-12-2019				31-12-2018			
	Euros	US Dollars	Other currencies	Total	Euros	US Dollars	Other currencies	Total
Assets								
Cash and deposits at central banks	3,141,858	4,191	7,507	3,153,556	1,648,954	2,785	3,993	1,655,732
Balances due from other banks	133,304	75,536	138,001	346,841	421,812	277,247	151,839	850,898
Financial assets held for trading	1,070,859	2,570	-	1,073,429	1,203,143	1,518	13	1,204,674
Other financial assets mandatory at fair value through profit or loss	3,085,842	14,293	140	3,100,275	2,941,480	112,214	116	3,053,810
Other financial assets at fair value through other comprehensive income	6,587,490	-	-	6,587,490	5,996,365	-	-	5,996,365
Loans and advances to credit institutions	727,474	-	12	727,486	608,706	17	66,308	675,031
Credit granted and other balances receivable at amortized cost	38,874,456	436,817	37,901	39,349,174	38,997,709	614,968	31,611	39,644,288
Hedging derivatives	55,170	1,075	-	56,245	67,718	5,746	-	73,464
	53,676,453	534,482	183,561	54,394,496	51,885,887	1,014,495	253,880	53,154,262
Liabilities								
Financial liabilities held for trading	1,094,644	2,570	-	1,097,214	1,238,192	1,520	1	1,239,713
Other financial liabilities at fair value through profit or loss	3,432,017	-	-	3,432,017	3,175,960	-	-	3,175,960
Resources from central banks	3,037,524	-	-	3,037,524	3,050,040	-	-	3,050,040
Resources from other credit institutions	3,008,714	186,486	796	3,195,996	3,411,073	128,496	342	3,539,911
Resources from customers and other debts	33,400,786	1,468,749	249,414	35,118,949	31,794,171	1,331,114	256,051	33,381,336
Debt securities	3,431,231	-	-	3,431,231	4,322,597	-	-	4,322,597
Other liabilities	232,892	-	-	232,892	200,336	-	-	200,336
Hedging derivatives	390,861	2,749	221	393,831	88,714	1,728	114	90,556
Technical provisions	723,045	-	-	723,045	726,045	-	-	726,045
	48,751,714	1,660,554	250,431	50,662,699	48,007,128	1,462,858	256,508	49,726,494

As at December 31, 2019 & 2018, the VaR associated with the exchange-rate risk in respect of the Group's banking business corresponded to:

	31-12-2019	31-12-2018
VaR Percentil 99%	(3)	(3)
VaR Weighted Percentil 99%	(2)	(3)

Financial assets and liabilities associated with the insurance business are mostly denominated in euros, the exchange rate risk being immaterial.

Asset price risk

As at December 31, 2019 & 2018, the Group had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

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

Offsetting financial assets and liabilities

As at December 31, 2019 & 2018, the value of derivative financial instruments traded over the counter, offset by related financial derivatives, by type of counterparty, is as follows:

	31-12-2019			
	Financial assets/ liabilities presented in the financial statements	Related amounts not offset in the financial statements		Net value
Counterpart		Financial instruments	Cash collateral delivered as guarantee	
Financial institutions	(292,042)	-	371,927	79,885
Group companies	(908,865)	-	301,500	(607,365)
	(1,200,907)	-	673,427	(527,480)

	31-12-2018			
	Financial assets/ liabilities presented in the financial statements	Related amounts not offset in the financial statements		Net value
Contraparte		Financial instruments	Cash collateral delivered as guarantee	
Financial institutions	(859)	-	28,250	27,391
Group companies	(1,312,470)	-	413,409	(899,061)
	(1,313,329)	-	441,659	(871,670)

As at December 31, 2019 & 2018, the value of the sale transactions with repo agreement, by type of counterparty, is as follows:

	31-12-2019			
	Financial assets/ liabilities presented in the financial statements	Related amounts not offset in the financial statements		Net value
Contraparte		Financial instruments	Cash collateral delivered as guarantee	
Financial institutions	(1,654,668)	1,656,197	32,461	33,990
	(1,654,668)	1,656,197	32,461	33,990

	31-12-2018			
	Financial assets/ liabilities presented in the financial statements	Related amounts not offset in the financial statements		Net value
Contraparte		Financial instruments	Cash collateral delivered as guarantee	
Financial institutions	(1,957,342)	1,957,494	25,700	25,852
	(1,957,342)	1,957,494	25,700	25,852

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

44. SHARE CAPITAL MANAGEMENT

The Group seeks high financial soundness embodied in maintaining a capital adequacy ratio – relationship between Eligible Own Funds and risk-weighted assets. The profit distribution policy is conditional on the maintenance of capital levels that allow the Group to sustain the performance of its operations within its risk policy.

The Group uses the mixed method for the credit risk, in particular the advanced method (IRB) for most credit segments and the standard method for manual operations, Banif portfolio and BAPOP portfolio. The Group uses the standard method to calculate the market risk. In June 2012, the Group began using the standard method for the determination of the operational risk requirements, having till then used the basic indicator method.

As from January 1, 2014, it began to report the capital ratios under the new BIS III regulatory framework, which, though it provides a phasing-in period, is more demanding for the core capital ratio (or Common Equity Tier 1, CET1), in particular through additional deductions and higher weighting in the calculation of the positions at risk.

On June 28, 2019, the Group put into operation the first synthetic securitisation transaction originated by the Bank. The operation has as an underlying portfolio of Corporates, SMEs, Municipalities and independent professionals in the amount of €2.4 trillion, in respect of which the Bank buys protection corresponding to a mezzanine tranche with an attachment point of 1% and detachment point of 8.5%. The mezzanine tranche, amounting to €181.3 million was totally glued to foreign institutional investors, in the format of a CLN with a premium of 8.7%.

The following table summarises the composition of the regulatory capital and prudential ratios of the Group as of December 31, 2019 and 2018 (both in BIS III - Phasing in):

Million Euro

	dec 19	dec 18
A - LEVEL 1 OWN FUNDS (TIER I)	3,441	3,447
Share Capital (includes addicional instruments elegible as Tier I)	2,571	2,571
Elegible Reserves and Retained earnings (excluding non-controlling interests)	1,162	1,191
Elegible Non-controlling interests	-	-
Deduction to level 1 own funds	(291)	(315)
B - LEVEL 2 OWN FUNDS (TIER II)	73	22
Subordinated liabilities (non-determined maturity)	12	12
Eligible minority interests	0	0
Other items / Deductions to complementary own funds	61	10
C - DEDUCTIONS TO TOTAL OWN FUNDS	0	0
D - TOTAL OWN FUNDS (A+B+C)	3,514	3,469
E - RISK WEIGHTED ASSETS	18,681	20,052
RATIOS		
TIER I (A/E)	18.4%	17.2%
CORE CAPITAL (CET1)	15.2%	14.2%
TIER II (B/E)	0.4%	0.1%
CAPITAL ADEQUACY RATIO (D/E)	18.8%	17.3%
LEVERAGE	6.3%	6.5%

Note: the figures in the above table are unaudited

45. 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 2019, the periodic contribution made by the Bank amounted to €12,261k, based on a contribution rate of 0.048%.

Resolution measure applied to Banco Espírito Santo, SA

Within the scope of its responsibility as supervision and resolution authority of the Portuguese financial sector, on August 3, 2014, the Bank of Portugal decided to apply to Banco Espírito Santo, SA ("BES") a resolution measure under article 145-G(5) of the RGICSF, which consisted of the transfer of most of its business to a transition bank called Novo Banco, SA ("Novo Banco") created especially for the purpose.

To pay up the Novo Banco share capital the Resolution Fund, as sole shareholder, provided €4,900 million, of which €365 million corresponded to own financial resources. A loan was also granted by a banking syndicate to the Resolution Fund in the amount of €635 million, with the participation of each credit institution weighted in the light of several factors, including the respective dimension. The remainder (€3,900 million) consisted of a repayable loan granted by the Portuguese State.

Following the implementation of the said resolution measure, on July 7, 2016, the Resolution Fund stated that it would review and assess the steps to be taken following the publication of the report on the results of the independent evaluation conducted to estimate the credit recovery level for each class of creditors in a hypothetical scenario of a process of normal insolvency of BES on August 3, 2014. Under applicable law, if it is found that creditors whose credits have not been transferred to Novo Banco entail a larger loss than would hypothetically be the case if BES had entered into liquidation at a moment immediately preceding that of the application of the resolution measure, those creditors would be entitled to receive the difference from the Resolution Fund.

On March 31, 2017, the Bank of Portugal reported that it had selected the Lone Star Fund for the purchase of Novo Banco, which was completed on October 17, 2017, by injection, by the new shareholder of €750 million, which will be followed a new inflow of share capital in the amount of €250 million, to be implemented over a period of up to three years. This operation put an end to Novo Banco's status as a transition bank, the Lone Star Fund having acquired 75% of the Novo Banco share capital and the Resolution Fund the remaining 25%, albeit without voting rights.

On February 26, 2018, the European Commission released the non-confidential version of the decision approving the State aid underlying the Novo Banco sale process, which includes a contingent capitalisation mechanism, under which the Resolution Fund may be called upon to inject capital in the event of occurrence of certain conditions relating to the performance of a restricted set of Novo Banco's assets and to the evolution of the bank's capital levels.

This mechanism is triggered each year on the basis of Novo Banco's annual accounts certified by the respective auditor, and there is a possibility of intra-annual determinations only in the event of default, by Novo Banco, of the prudential requirements. For the purpose of this mechanism, consideration is given to the asset valuation differences (positive or negative) compared to their carrying amounts, net of impairment, as at June 30, 2016 (around €7.9 billion according to information provided by Novo Banco). Thus, economic losses or gains are considered, resulting, for example, from the sale of assets or restructuring of loans, as are impairments, or their reversal, recorded at Novo Banco in accordance with the accounting rules, as well as the financing costs associated with maintaining the assets in the Novo Banco balance sheet.

Under that mechanism, by that date , the Resolution Fund made a payment of €1,914 million to Novo Banco in respect of the 2017 and 2018 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.

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.

Resolution Fund's liabilities and funding

Following the resolution measures applied to BES and Banif and the agreement for the sale of Novo Banco to Lone Star, the Resolution Fund contracted the loans referred to above and assumed liabilities and contingent liabilities arising from:

- the effects of the application of the principle that no creditor of the credit institution under resolution can assume a loss greater than what it would assume if the institution had gone into liquidation;
- negative effects arising from the resolution process resulting in liabilities or additional contingencies for the Novo Banco that have to be neutralised by the Resolution Fund;
- lawsuits against the Resolution Fund;
- guarantee given to bonds issued by Oitante. This guarantee is counter-guaranteed by the Portuguese State;
- contingent capitalisation mechanism associated with the process of sale of Novo Banco to Lone Star.

In order to preserve financial stability by promoting the conditions that lend predictability and stability to the contribution effort for the Resolution Fund, the Portuguese government reached an agreement with the European Commission to alter the conditions of the loans granted by the Portuguese State and by the participating banks to the Resolution Fund. To this end, an addendum to the Resolution Fund funding agreements was formalised, which introduced a number of amendments to the repayment plans, remuneration rates and other terms and conditions associated with these loans so that they are suited to the Resolution Fund's ability to fulfil its obligations in full on the basis of its regular revenues, that is, without a need for the banks participating in the Resolution Fund to be charged special contributions or any other type of extraordinary contribution.

According to the announcement of the Resolution Fund of March 31, 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, on the basis of a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund considered that full payment of its liabilities is assured, as well as the respective remuneration, with no need for recourse to special contributions or any other type of extraordinary contributions on the part of the banking sector.

Notwithstanding the possibility provided for in applicable legislation governing the collection of special contributions, given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate, in which the Bank is included, the public announcements made by the Resolution Fund and the Office of the Minister of Finance state that this possibility will not be used, these consolidated financial statements reflect the Board of Directors' expectation that no special contributions or any other type of extraordinary contributions will be required of the Company to finance the Resolution Fund.

Any significant changes regarding this matter may have relevant implications for the Company's consolidated financial statements.

46. COMPETITION AUTHORITY

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

Within the scope of these proceedings search and seizure measures were carried out at the premises of the Bank and other credit institutions on March 6, 2013, and indiscriminate documentation was seized to determine possible evidence of infringement of the aforesaid legal precept.

On June 3, 2015, the Bank, like other 14 credit institutions, was notified of the statement of objections issued by the AdC regarding the administrative-offence under appraisal (Case No. PRC 9/2012), accused of taking part in an exchange of certain commercially sensitive information between competitors.

On September 9, 2019, the Competition Authority issued the final decision, essentially maintaining the theory thesis presented in the 2015 statement of objections, namely the presumption of anti-competitive conduct based on the exchange of information between competitors on Mortgage Loans, Consumer Credit and Loans to Companies. The Bank was sentenced to a fine of €35 million, plus a fine of €650k applied to (former) Banco Popular.

The fine imposed, which could amount to a maximum equivalent to 10% of the annual turnover of the infringing company in the year next before the decision, came to be applied for an amount corresponding to about 2.02% of that indicator (considering not only the penalty imposed on Banco Santander Totta, but also on Banco Popular).

Nevertheless, on October 21, 2019, the Bank judicially challenged the final decision of the Competition Authority, the case now pending before the Competition, Regulation and Supervision Court.

In line with what has been its position throughout the process, the Bank strongly refutes all the arguments underlying the decision of the Competition Authority, and its judicial challenges through the Competition, Regulation and Supervision Court been supported, in particular, by the opinion of eminent professors of law, attesting to the absence of any unlawful conduct by the institution.

The Bank will now await the judgement and subsequent decision on the judicial challenge presented and will not waive the exercise of all the legal and judicial faculties ensuring the protection of its interests.

taking the foregoing into consideration, the Bank’s Board of Directors is convinced that probabilities of the Bank not being ordered to pay a fine are greater than being so ordered, and therefore no provision for this process has been recorded in the financial statements as at December 31, 2019.

47. SUBSEQUENT EVENTS

On the date of approval of these consolidated financial statements by the Company’s Board of Directors, there was no event subsequent to December 31, 2019, the reference date of these financial statements, which requires adjustments or modifications of the amounts of assets and liabilities under the terms of IAS 10 – Events after the Reporting Period.

COVID-19

On January 30 2020, the World Health Organization declared the epidemic of the SARS-CoV-2 virus that causes the COVID-19 disease, a public health emergency of international scope. On March 11, 2020, the World Health Organization ranked the said virus as a pandemic, requesting of the states "urgent and aggressive action" to combat it, stating that "all countries should achieve a balance between protecting health, minimizing economic and social disruption and protecting human rights”.

After its appearance in December 2019 in Wuhan City, Hubei Province, China, and its rapid spread to Asian countries, the epidemic quickly spread to the European and American continents, where there are the largest number of infections, and there are fears that it will begin to evolve very rapidly in the African content as well. As the pandemic is becoming increasingly global, the authorities, both at national and at global level, do not predict the time that the pandemic might continue nor their impact at economic and social level, since the existing estimates are subject to a multiplicity of variables not controlled by the authorities, starting with the effectiveness of the exceptional measures enacted in the meantime.

In this connection, given the exceptional situation faced and the proliferation of cases recorded of COVID-19 contagion in Portugal, the Portuguese authorities have established temporary and exceptional measures relating to the epidemiological situation, in particular the state of emergency declaration on March 18, 2020, by decree of the President of the Republic No. 14-A/2020 of March 18.

The measures taken to contain the spread of the virus and the spread of the disease seek to restrict to a minimum the contact between people and between them and exceptional goods or structures, imposing, in particular, restrictions on driving on the public highway, the exercise professional functions from the home and rules for the operation or suspension of certain plants, establishments and activities, regulating those which, for their essential nature, must remain in operation, including banking, financial and insurance services.

The Group's priority in the short term was the safety and integrity of people, including employees, customers and suppliers, in order to mitigate the effects of the pandemic. Regarding protection of employees their physical presence at bank branches was limited, favouring the use of digital channels but not compromising attendance levels and the use of telework in the case of central-services employees. In the case of protection of customers and suppliers, the Bank complied with the moratorium regime enshrined in Decree-Law 10-J/2020 of March 26 and adopted an additional set of extraordinary and temporary measures, with emphasis on:

- In the case of individual customers, the renegotiation of loans, which are in good standing, with immediate waiver of capital repayment during 6 months without charging any contract-alteration commission;
- In the case of small and medium enterprises, the renegotiation of loans, which are in good standing, also offering waiver of capital, with no change in the spread of operations without charging any contract-alteration commission. The Bank also maintains unchanged all credit limits contracted, both of a revocable and of an irrevocable nature without any change of the spread conditions or other associated commissions. Procedures necessary for the ready availability of the support lines launched by the State were also adopted;
- Collection of the POS monthly payments was suspended the application was waived of a minimum charge on transactions made via this channel to facilitate the use of digital channels and the cost of its use. The Bank also suspended the collection of all MBWay service commissions in the POS in contactless transactions;
- To help the treasury of its suppliers the Bank came to make prompt payment of invoices received.

In this adverse situation, during the last two weeks of March, the Group strengthened its liquidity reserve through additional mobilization of operations for the borrowing portfolios with Eurosystem and of the issuance of a covered bond withheld. These two measures added about €1.3 billion to the collateral pool available for use within the monetary policy of the European Central Bank which, at the end of March, had a total of €11,750 billion.

It can therefore be expected that economic activity is set to be strongly negatively affected, and may induce a recession at the level of the world economy and, consequently, in Portugal. Depending on the depth and extent over time of the disruptive impacts, the Group's business and profitability will be affected to a greater or lesser degree. Based on all the information available to date, including that relating to the situation of liquidity and capital, as well as on the value of the assets, it is considered that the principle of continuity of the operations underlying the preparation of the financial statements will continue to apply.

Reclassification of the business model

Following the developments in the matter of liquidity management by the supervisory authorities at the end of 2019 and beginning of 2020, the Group's management bodies have reviewed the funding strategy and resource allocation, its guideline being the strategic plan and priority of growth of the core business, discontinuing activities that, due to their nature and duration could call into question the stability of the funding model and limit the ability to execute the said business growth plan.

In this connection, in March 2020 the Bank took the decision to discontinue its activity of granting loans granted to the Portuguese State, of large amounts and long terms, leading to the alteration of the strategy for receiving the principal and interest contractually established to a strategy that also includes the sale of the these assets, with consequent changes in terms of classification and accounting recognition of the financial assets that fall within that activity, which will be recorded and disclosed in the Bank's financial statements for the next reporting period.

48. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on April 21, 2020.

49. 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.

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DEBT SECURITIES ISSUED AT DECEMBER 31, 2019 (NOTE 20)

(Amounts expressed in thousands of Euros – tEuros)

Securities issued	Currency	Amount of the issue: Total	Amount of the issue: Subscribed the Group	Amount of the issue: Consolidated by Balance Sheet	Accruals	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Covered bonds										
Hipotecária XIV	EUR	750,000	750,000	-	(452)	(452)	0.75%	4-mar-2015	4-mar-2022	Fixed rate
Hipotecária XV	EUR	750,000	-	750,000	826	750,826	0.88%	27-out-2015	27-out-2020	Fixed rate
Hipotecária XVI	EUR	200,000	200,000	-	(80)	(80)	0.84%	24-fev-2016	24-fev-2022	Fixed rate
Hipotecária XVII	EUR	750,000	750,000	-	(498)	(498)	0.90%	15-abr-2016	15-abr-2023	Fixed rate
Hipotecária XVIII	EUR	750,000	750,000	-	(605)	(605)	0.65%	26-jul-2016	26-jul-2023	Fixed rate
Hipotecárias XX	EUR	750,000	750,000	-	(1,213)	(1,213)	1.20%	7-dez-2017	7-dez-2027	Fixed rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	(1,617)	(1,617)	1.48%	10-abr-2017	10-abr-2027	Fixed rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	(1,591)	998,409	0.88%	25-abr-2017	25-abr-2024	Fixed rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(7,416)	992,584	1.25%	26-set-2017	26-set-2027	Fixed rate
Hipotecária XXIV	EUR	1,100,000	1,100,000	-	(2,200)	(2,200)	0.412%	5-jul-2019	5-jul-2029	Fixed rate
		8,050,000	**5,300,000**	**2,750,000**	**(14,846)**	**2,735,154**				
Bonds issued on securitization operations										
Hipototta 4 - Classe A - Notes	EUR	489,899	358,505	131,394	(434)	130,960	Variable	9-dez-2005	30-dez-2048	Euribor 3m+0.12% (until early reimbursement in December 2014); Euribor 3m+0.24% (after early reimbursement date)
Hipototta 4 - Classe B - Notes	EUR	17,823	17,823	-	-	-	Variable	9-dez-2005	30-dez-2048	Euribor 3m+0.19% (until early reimbursement in December 2014); Euribor 3m+0.40% (after early reimbursement date)
Hipototta 4 - Classe C - Notes	EUR	56,288	56,288	-	-	-	Variable	9-dez-2005	30-dez-2048	Euribor 3m+0.29% (until early reimbursement in December 2014); Euribor 3m+0.58% (after early reimbursement date)
Hipototta 4 - Classe D - Notes	EUR	7,000	7,000	-	-	-	Variable	9-dez-2005	30-dez-2048	Residual return generated by securitized portfolio
Hipototta 5 - Classe A2 - Notes	EUR	445,505	314,302	131,203	(202)	131,001	Variable	22-mar-2007	28-fev-2060	Euribor 3m+0.13% (until early reimbursement in February 2014); Euribor 3m+0.26% (after early reimbursement date)
Hipototta 5 - Classe B - Notes	EUR	26,000	26,000	-	-	-	Variable	22-mar-2007	28-fev-2060	Euribor 3m+0.17% (until early reimbursement in February 2014); Euribor 3m+0.34% (after early reimbursement date)
Hipototta 5 - Classe C - Notes	EUR	24,000	24,000	-	-	-	Variable	16-mar-2007	28-fev-2060	Euribor 3m+0.24% (until early reimbursement in February 2014); Euribor 3m+0.48% (after early reimbursement date)

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DEBT SECURITIES ISSUED AT DECEMBER 31, 2019 (NOTE 20)

(Amounts expressed in thousands of Euros – tEuros)

Securities issued	Currency	Amount of the issue Total	Subscribed the Group	Consolidated by Balance Sheet	Accruals	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Hipototta 5 - Classe D - Notes	EUR	26,000	26,000	-	-	-	Variable	22-mar-2007	28-fev-2060	Euribor 3m+0.50% (until early reimbursement in February 2014); Euribor 3m+1.00% (after early reimbursement date)
Hipototta 5 - Classe E - Notes	EUR	31,000	31,000	-	-	-	Variable	22-mar-2007	28-fev-2060	Euribor 3m+1.75% (until early reimbursement in February 2014); Euribor 3m+3.50% (after early reimbursement date)
Hipototta 5 - Classe F - Notes	EUR	6,000	6,000	-	-	-	Variable	22-mar-2007	28-fev-2060	Residual return generated by securitized portfolio
Azor Mortgage PLC classe A	EUR	-	-	-	-	-	Variable	25-nov-2004	20-set-2047	Euribor 3m + 0,30%
Azor Mortgage PLC classe B	EUR	16,159	851	15,308	239	15,547	Variable	25-nov-2004	20-set-2047	Euribor 3m + 0,76%
Azor Mortgage PLC classe C	EUR	9,000	2,500	6,500	300	6,800	Variable	25-nov-2004	20-set-2047	Euribor 3m + 1,75%
Azor Mortgage PLC classe D	EUR	10,000	10,000	-	-	-	Variable	25-nov-2004	20-set-2047	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 2 - A	EUR	111,440	-	111,440	(14,497)	96,943	Variable	5-mar-2008	18-set-2060	Euribor 3m + 0,33%
Atlantes Mortgage PLC serie 2 - B	EUR	13,069	13,069	-	-	-	Variable	5-mar-2008	18-set-2060	Euribor 3m + 0,95%
Atlantes Mortgage PLC serie 2 - C	EUR	5,327	5,327	-	-	-	Variable	5-mar-2008	18-set-2060	Euribor 3m + 1,65%
Atlantes Mortgage PLC serie 2 - D	EUR	11,336	11,336	-	-	-	Variable	5-mar-2008	18-set-2060	Residual return generated by securitized portfolio
Azor Mortgage PLC serie 2 - A	EUR	84,636	84,636	-	-	-	Variable	24-jul-2008	14-dez-2065	Euribor 3m + 0,30%
Azor Mortgage PLC serie 2 - B	EUR	43,080	43,080	-	-	-	Variable	24-jul-2008	14-dez-2065	Euribor 3m + 0,8%
Azor Mortgage PLC serie 2 - C	EUR	6,750	6,750	-	-	-	Variable	24-jul-2008	14-dez-2065	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 3 - A	EUR	191,303	59,622	131,681	(10,449)	121,232	Variable	30-out-2008	20-ago-2061	Euribor 3m + 0,20%
Atlantes Mortgage PLC serie 3 - B	EUR	27,435	27,435	-	-	-	Variable	30-out-2008	20-ago-2061	Euribor 3m + 0,50%
Atlantes Mortgage PLC serie 3 - C	EUR	48,445	48,445	-	-	-	Variable	30-out-2008	20-ago-2061	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 4 - A	EUR	215,953	-	215,953	(30,094)	185,859	Variable	16-fev-2009	30-dez-2064	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 4 - B	EUR	23,782	23,782	-	-	-	Variable	16-fev-2009	30-dez-2064	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 4 - C	EUR	65,559	65,559	-	-	-	Variable	16-fev-2009	30-dez-2064	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 5 - A	EUR	174,676	174,676	-	-	-	Variable	21-dez-2009	23-nov-2068	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 5 - B	EUR	32,250	32,250	-	-	-	Variable	21-dez-2009	23-nov-2068	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 5 - C	EUR	55,708	55,708	-	-	-	Variable	21-dez-2009	23-nov-2068	Residual return generated by securitized portfolio

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DEBT SECURITIES ISSUED AT DECEMBER 31, 2019 (NOTE 20)

(Amounts expressed in thousands of Euros – tEuros)

		Amount of the issue				Total				
Securities issued	Currency	Total	Subscribed the Group	Consolidated by Balance Sheet	Accruals	Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Atlantes Mortgage PLC serie 7 - A	EUR	139,426	139,426	-	-	-	Variable	19-nov-2010	23-ago-2066	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 7 - B	EUR	25,909	25,909	-	-	-	Variable	19-nov-2010	23-ago-2066	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 7 - C	EUR	53,821	53,821	-	-	-	Variable	19-nov-2010	23-ago-2066	Residual return generated by securitized portfolio
Hipototta nº13 Classe A	EUR	1,236,870	1,236,870	-	-	-	Variable	9-jan-2018	23-out-2072	Euribor 3m + 0,6%
Hipototta nº13 Classe B	EUR	484,000	484,000	-	-	-	Variable	9-jan-2018	23-out-2072	Euribor 3m + 1%
Hipototta nº13 Classe C	EUR	53,565	53,565	-	-	-	Variable	9-jan-2018	23-out-2072	Residual return generated by securitized portfolio
Hipototta nº13 Classe D	EUR	-	-	-	-	-	Variable	9-jan-2018	23-out-2072	
		4,269,014	**3,525,535**	**743,479**	**(55,137)**	**688,342**				
		12,319,014	**8,825,535**	**3,493,479**	**(69,983)**	**3,423,496**				

SANTANDER TOTTA - SGPS, S.A.

SUBORDINATED LIABILITIES AT DECEMBER 31, 2019 (NOTE 20)

(Amounts expressed in thousands of Euros – tEuros)

		Amount of the issue			Accrual			Total		
Securities issued	Currency	Total	Subscribed by the Group	Consolidated Balance Sheet	Total	Subscribed by the Group	Consolidated Balance Sheet	Consolidated Balance Sheet	Interest Rate	Maturity date
Obrigações Perpétuas Subordinadas 2000	EUR	270,447	270,447	-	104	104	-	-	1.40%	Perpetual
Obrigações Perpétuas Subordinadas BSP 2001	EUR	13,818	13,818	-	65	65	-	-	1.32%	Perpetual
Obrigações Perpétuas Subordinadas CPP 2001	EUR	4,275	4,275	-	20	20	-	-	1.32%	Perpetual
Obrigações Banco Santander Totta,SA 7,5% 06/10/2026	EUR	7,599	-	7,599	136	-	136	7,735	7.50%	Perpetual
		296,139	**288,540**	**7,599**	**325**	**189**	**136**	**7,735**		

REPORTS AND OPINIONS ON THE CONSOLIDATED BUSINESS

Statutory Audit 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 Santander Totta, SGPS, S.A. (the "Group"), which comprise the consolidated balance sheet as at 31 December 2019 (which shows total assets of Euros 56.082.773 thousand and total shareholders' equity of Euros 4.261.982 thousand including a net profit of Euros 527.258 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 Santander Totta, SGPS, S.A. as at 31 December 2019, 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.

Emphasis

We draw attention to the information disclosed in the Directors' report and note 47 of the annex containing the explanatory notes, regarding the possible impacts of the COVID-19 pandemic on the economy and, consequently, on the future activity of the Group.

Our opinion is not modified in respect of this matter.

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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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, 21 and 43 attached to the Group's consolidated financial statements</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 Group'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 2019, the gross amount of credit granted and other balances receivable at amortized cost amounted to Euros 40.271.384 thousand and the corresponding impairment losses recognized at that date amounted to Euros 922.210 thousand. Impairment losses on credit granted and other balances receivable at amortized cost are determined by Group's management on an individual basis, through a case-by-case analysis of a significant component of the total loan portfolio, and for the remaining portfolio impairment is determined through a collective analysis. For the most significant exposures classified in Stage 3, evaluated in terms of the total amount of responsibilities, the Group performs an individual impairment measurement analysis ("IIA"), 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 – going approach; or (ii) the evaluation attributed to the collateral received in the scope of the credit granted, whenever the recovery is anticipated by means of the assignment, execution and/or sale of the collateral, less the costs inherent to its recovery and sale – gone approach. For exposures not covered by the individual analysis, the Group developed collective analysis models to calculate expected impairment losses, in light of the IFRS 9 requirements, namely the classification of exposures by different stages according to the evolution of their credit risk since the date of its	The audit procedures developed included the identification, understanding and assessment of the policies and procedures established by the Group for the purpose of measuring impairment losses for loans granted and other balances receivable at amortized cost as well as its key controls with respect to refers to the approval, recording and monitoring of credit risk, and the timely identification, recording and correct measurement of impairment losses. On a sample basis, we analysed a group of clients within the Group'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 Group in the individual analysis of 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 Group in its methodology. For a sample of exposures classified in stage 3, representative of the credit population subject to individual analysis by the Group as at 31 December 2019, the procedures we have developed consisted of: (i) reviewing the available documentation on credit processes; (ii) verify the adequacy of the financial plans 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 Group; (iv) analyse the most recent evaluations of these collaterals; (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 Group's management regarding the economic and financial situation of the clients, as to the predictability

Key Audit Matter	Summary of the Audit Approach
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 and, 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 methodologies or assumptions used by the Group in the analysis and quantification of impairment losses of the credit granted to clients and other balances receivable, as well as different recovery strategies, condition the estimation of recovery flows and timing of their receipt may have a material impact on the determination of the amount of impairment losses recognized in each period.	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 Group, 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 Group'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 Group's definition of default and the criteria applied in the classification of staging, on a sample basis; (v) review 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 2019. 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 i), 2, 21, 45 and 46 attached to the Group's consolidated financial statements* As at 31 December 2019, the balance of the liability caption "Provisions" amounted to Euros 234.328 thousand and is intended to cover various liabilities, including post-employment benefits specific to certain Group directors, restructuring plans, tax risks, legal proceedings in progress and other specific risks	The audit procedures we have developed in this area included the identification and understanding of the key processes and controls established by the Group with respect to the approval, registration and monitoring of these matters, as well as the analysis of the methodologies, data and assumptions adopted by

Key Audit Matter	*Summary of the Audit Approach*
arising from the Group's activity, as well as situations associated with the acquisition of a significant part of the activity of Banif – Banco Internacional do Funchal, S.A. ("Banif") and the totality of Banco Popular Portugal, S.A.. Among the contingent liabilities disclosed in notes 45 and 46 attached to the Group's consolidated financial statements at 31 December 2019, the following stand out: • <u>Resolution Fund</u> The resolution measures applied in 2014 to Banco Espírito Santo, SA - a process that led to the creation of Novo Banco, S.A. ("Novo Banco") - and in 2015 to Banif - Banco Internacional do Funchal, S.A. ("Banif") created uncertainties related to the possible insufficiency of resources of the Resolution Fund to ensure the fulfilment of its responsibilities, in particular the short-term repayment of the financing it has contracted for this purpose. These uncertainties have become more relevant due to the liabilities and contingent liabilities assumed, namely those resulting from: (i) effects of the application of the principle that no creditor of the credit institution under resolution may incur greater loss than it would if it had entered into liquidation; (ii) legal proceedings against the Resolution Fund; (iii) negative effects arising from the resolution process resulting in additional responsibilities or contingencies for Novo Banco that must be neutralized by the Resolution Fund; and (iv) 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. • <u>Portuguese Competition Authority</u> In 2012 the Portuguese Competition Authority (Autoridade da Concorrência) launched an offense claim against several banks, including Banco Santander Totta, S.A., for alleged restrictive competition practices. On 9 September 2019, the Competition Authority notified the banks of its decision, which points to their condemnation, with a penalty of Euros 36 million being applied to the Group. The Group understands that it did not commit the imputed infraction, so it filed on 21	the management in the assessment and quantification of contingencies and in the eventual recognition of provisions. In this context, due to the relevance and complexity of the judgments required by the management, in the scope of our audit, we carried out, among others, the following procedures in relation to the Resolution Fund: (i) monitoring of major changes to the simplified model of cash flow projections of the Resolution Fund presented by the Group when renegotiating loans granted , based on the contractual conditions agreed between the banks and the Resolution Fund; (ii) appreciation of the relevant public communications on responsibilities and the contingent liabilities assumed by the Resolution Fund and / or the Portuguese State; (iii) analysis of the evolution of the Group's exposures with the Resolution Fund; and (iv) understanding of the views of the Group's management regarding the Resolution Fund's economic and financial situation, and the predictability of expected cash flows from its regular revenues. With regard to the process initiated by the Portuguese Competition Authority, our work included (i) analysing the Group's assessment of the nature and situation of said process, which underlies the non-constitution of provisions, and (ii) assessing the information obtained from the Group external lawyers who follow the process. We also analysed the information available on developments after 31 December 2019 on the most relevant litigations. Our audit procedures also included the review of the disclosures on provisions and contingent liabilities, included in the accompanying notes to the consolidated financial statements, taking into account applicable and current accounting standards.

Key Audit Matter	Summary of the Audit Approach
October 2019 an appeal against that decision to the Competition, Regulation and Supervision Court. The consolidated financial statements as of 31 December 2019 reflect the Group's management expectation that the Group, as an entity participating in the Resolution Fund, will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to the BES and Banif or any other liability or contingent liability assumed by the Resolution Fund. In addition, the Group's management is also convinced that the probabilities that the process initiated by the Portuguese Competition Authority will end without the Group having to pay a fine are higher than those of the opposite. Contingent liabilities may evolve differently than originally expected, so they are subject to continuous review to determine whether this eventuality of outflow of resources has become probable. In these circumstances, the assessment of these contingent liabilities implies that the Group's management employs complex estimates and judgments regarding the probability of materializing and quantifying the amounts of liabilities that may result from litigation and contingencies to which the Group is a party and, to that extent , this was a matter considered relevant for the purposes of our audit.	
Employees post-employment benefits *Measurement and disclosures related to employees' post-employment benefits presented in notes 1.3 j), 2 and 40 attached to the Group's consolidated financial statements* At 31 December 2019, the liabilities for past services of the Group in relation to its pensioners, employees and directors amounted to Euros 1.527.134 thousand, mainly covering retirement and survivors' pensions, disability, health care and death benefit , in particular those provided for in the *Acordo Coletivo de Trabalho* ("ACT") for the banking sector. These liabilities are estimated based on actuarial valuations performed by an actuary certified by the Insurance and Pension Funds Supervisory Authority ("ASF"). These assessments incorporate a set of financial and actuarial assumptions, such as the discount rate, inflation rate, mortality and disability tables, pension and wages growth rates, among others, defined by management and adjusted to the	The audit procedures developed included the identification and understanding of the key controls instituted by the Group to ensure that the information collected and provided to the independent actuary is correct and complete to calculate the plan's liabilities and funding needs, as well as the suitability of the process of the fair value of the assets of the fund. The audit work included meetings with the Group's management and the independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. Given the relevance of the judgments required of management, we proceeded to evaluate the reasonableness of the main

Key Audit Matter	*Summary of the Audit Approach*
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.	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 2019, 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 Group's consolidated financial statements, taking into account applicable and current accounting standards.
Fair value of financial instruments not quoted in an active market – level 3 of the fair value hierarchy *Measurement and disclosures related to the fair value of financial instruments not listed on an active market classified at level 3 of the fair value hierarchy and presented in notes 1.3 c), 2, 8, 9 and 43 attached to the Group's consolidated financial statements* Due to its relevance in the context of the Group's consolidated financial statements and the associated judgment, the fair value measurement of financial instruments not quoted in an active market classified at level 3 of the fair value was a relevant matter for the purposes of our audit. At 31 December 2019, the balance sheet balances of these financial instruments amount to Euros 151.965 thousand of assets, being composed by: (i) Other financial assets mandatory at fair value through profit and loss; and ii) Other financial assets at fair value through other comprehensive income. For these financial instruments classified at level 3 of the fair value hierarchy, and when observable market data are not available, the Group determines fair value using estimates, namely through the use of valuation models based on discount cash flows techniques, which usually involve a high degree of	The audit procedures we have developed included the identification and understanding of key controls established by the Group underlying fair value measurement methodologies. For a sample of instruments whose measurement consisted substantially of unobservable data, our procedures also included the assessment of whether the models developed by the Group and the data and assumptions used are reasonable in the circumstances, having compared the data subject to observation with market information collected from external and independent sources, whenever available. Our audit procedures also included the review of disclosures about financial instruments not listed on an active market, included in the accompanying notes to the Group's consolidated financial statements, taking into account applicable and current accounting standards.

Key Audit Matter	*Summary of the Audit Approach*
judgment by the management in defining the assumptions and inputs to be used. In this context, changes in the assumptions used in the measurement techniques used by the Group's management may give rise to material impacts in the determination of the fair value of the instruments recognized in the Group's consolidated financial statements.	
Risk of insufficiency of assets to cover assumed liabilities *Measurement and disclosures related to the risk of insufficient assets to cover the liabilities assumed in notes 1.3. m), 8, 16, 19 and 43 attached to the Group's consolidated financial statements* As at 31 December 2019 the mathematical provisions for life insurance presented in the balance sheet amounted to Euros 644.623 thousand, the provision for interest rate commitments amounts to Euros 6.580 thousand and the financial liabilities of the deposit component of insurance contracts and insurance contracts and operations considered for accounting purposes as investment contracts are recorded for the amount of Euros 3.432.017 thousand. The assessment of the adequacy of insurance liabilities, inherent to the constitution of mathematical provisions of the life insurance is essentially made based on the projection of the future cash flows associated with each contract. These cash flows include premiums, deaths, maturities, redemptions, cancellations and expenses. This evaluation involves judgment in relation to the selection of the assumptions underlying the calculation, such as discount rates, redemption rates and reinvestment rates. The existing risk arises from the possibility of non-satisfaction of the guarantees assumed by the Group for the commercialized contracts, due to the fact there is no direct correspondence between assets and liabilities at the level of interest rate and maturity of the same. To that extent, this was a material matter for the purposes of our audit.	The audit procedures we have developed included: • Identification, understanding and evaluation of the existing key controls for assessing the adequacy of insurance liabilities; • Verification of the effectiveness of controls associated with the recognition of mathematical provisions, provision for rate commitments and financial liabilities of the deposit component of insurance contracts and insurance contracts and transactions considered for accounting purposes as investment contracts; • Identification and evaluation of the assumptions used by the Group's management in assessing the adequacy of insurance responsibilities; • Conducting independent tests for the responsibilities arising from insurance contracts and investment contracts and comparing the respective results with those obtained by the Group. Our audit procedures also included the review of disclosures about mathematical provisions, the provision for rate commitments and the referred financial liabilities, contained in the notes attached to the Group's consolidated financial statements, taking into account the requirements of the 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 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.

Report on other legal and regulatory requirements

Directors' report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Directors' report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

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 Directors' report that it will prepare a separate report of the Directors' 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.

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 Santander Totta, SGPS, S.A. in the Shareholders' General Meeting of 31 May 2016 for the period from 2016 to 2018 having remained in functions until the current period. Our last appointment was in the Shareholders' General Meeting of 13 December 2018 for the period from 2019 to 2021.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of 29 April 2020.

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.

29 April 2020

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

[Original in Portuguese signed by]
Aurélio Adriano Rangel Amado, R.O.C.