

Report of the  
1st. Half

2018



**Report  
of the 1st half**

2018

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## Highlights

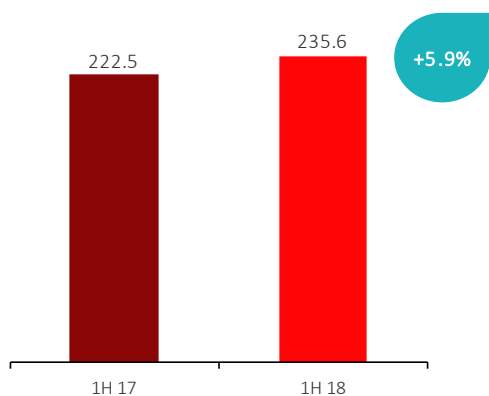


The results of the first half show a sustained and balanced growth of the business, within a framework in which the integration of Banco Popular is going ahead normally and at the expected pace.

We shall continue to grow based on our strength and on the innovation of our products and services, while ensuring the progressive digital transformation of the Bank in order to give adequate response to the digital needs of our customers”.

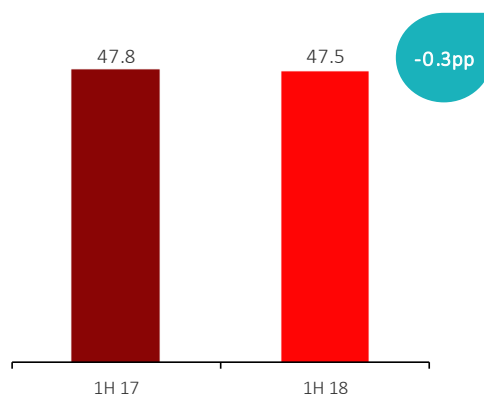
### CONSOLIDATED NET INCOME

%



### EFFICIENCY RATIO

%



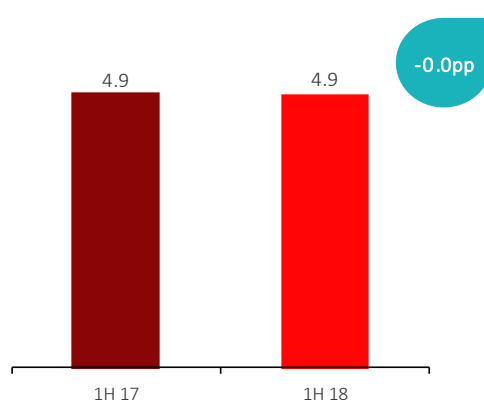
### CET 1 RATIO

%



### NON-PERFORMING EXPOSURE RATIO

%



## Table of Indicators

<b>BALANCE SHEET AND RESULTS</b> (million euro)	<b>1H 18*</b>	<b>1H 17*</b>	<b>Var.</b>
Net Assets	52,545	43,645	+20.4%
Loans and advances to customers (net)	40,069	31,650	+26.6%
Customers' Resources	40,498	33,120	+22.3%
Total shareholders' equity	3,288	3,318	-0.9%
Net Interest Income	445.0	339.4	+31.1%
Fees and Other Income	160.1	147.2	+8.7%
Net Income from Banking Activities	639.2	541.2	+18.1%
Net Operating Income	335.7	282.5	+18.8%
Income before taxes and non-controlling interests	340.4	286.0	+19.0%
Consolidated net income attributable to the shareholders' of BST	235.6	222.5	+5.9%

<b>RATIOS</b>	<b>1H 18*</b>	<b>1H 17*</b>	<b>Var.</b>
Return on equity (ROE)	12.9%	13.6%	-0.8 p.p.
Return on assets (ROA)	0.9%	1.0%	-0.1 p.p.
Efficiency ratio	47.5%	47.8%	-0.3 p.p.
CET 1 ratio** (fully implemented)	12.6%	16.1%	-3.5 p.p.
Tier 1** ratio	12.6%	16.1%	-3.5 p.p.
Capital** ratio	12.8%	16.2%	-3.4 p.p.
Non-Performing Exposure Ratio	4.9%	4.9%	+0.0 p.p.
Non-Performing Exposure coverage ratio	54.6%	61.2%	-6.6 p.p.
Cost of credit	(0.0%)	0.09%	-0.09 p.p.
Loans-to-deposits ratio	116.8%	111.6%	+5.2 p.p.

<b>RATING</b>	<b>1H 18*</b>	<b>1H 17*</b>
FitchRatings		
short term	F2	F2
long term	BBB+	BBB
Moody's		
short term	NP	NP
long term	Ba1	Ba1
Standard & Poor's		
short term	A-3	B
long term	BBB-	BB+
DBRS		
short term	R-1L	R-1L
long term	A	BBBH

<b>Other Data</b>	<b>1H 18*</b>	<b>1H 17*</b>	<b>Var.</b>
Employees	6,695	5,957	+738
Employees in Portugal	6,662	5,919	+743
Branches	672	600	+72
Total Branches and Corporate Centers in Portugal	662	585	+77

Unaudited financial statements prepared in accordance with IFRS9 (1H18) and IAS 39 (1H17)

\* With results net of payout

## Relevant Facts in the 1st half of 2018

### Santander with a more modern image and closer to the customers

The Santander brand has evolved into a more modern, more digital brand that better relates with younger generations, while maintaining its distinctive traits: name, the red colour and “the flame”.

This evolution allows the transformation of the Bank to be monitored and be more visible and to transmit the values of Santander



### Santander promotes digital solutions for Businesses

Santander released the “Connect Your Business” solution, for companies to more easily create an app and to broaden their business to the digital world.

This solution is an opportunity to support companies in the creation of a new digital communication channel, providing solutions, ideas and tools with which they can retain customer loyalty and increase their sales.



### Santander strengthens leadership in SME credit lines

Santander has strengthened leadership in funding Small and Medium sized Portuguese Enterprises and, through the PME Investe, Crescimento, Capitalizar and Capitalizar Mais lines, and, by the end of May 2018, granted about €4.2 billion euros in contracted operations.



23% Market share

### IV Meeting of Universia Deans

In Salamanca, 600 deans of 26 countries, representing 10 million of students of universities around the world met during two days, at a debate on the “University, Society and the Future”, which deepened the challenges faced by University.



30 Portuguese institutions were present, representing 75% of the Higher Education in Portugal

### Mundo 1|2|3 solutions return €22.3 million to customers

The multiproduct Mundo 1|2|3 financial solution, addressed to the Bank's individuals customers, which provides a wide range of benefits, in particular via cash-back on the Mundo 1 | 2 | 3 account-card, has already returned about €22.3 million to customers<sup>1</sup>.



390,000 Mundo 1|2|3 customers

### Santander elected “Best Bank to Work For”



Banco Santander was named “Best Bank to Work For in Portugal”, for the second consecutive time and, at the same time, it is one of the group of “Best Large Companies to Work for in the Country,” by the Great Place to Work Institute Portugal.

90% of employees feel proud to work at the Bank



## Awards and Distinctions



### **"Best Bank in Portugal"** – Global Finance

Santander was elected as "Best Bank in Portugal", in the 25th edition of the "World's Best Banks 2018" that distinguishes those banking institutions that in 2017 best responded to the needs of their customers and obtained the best results.



### **Great 5-Star Bank"** – U-Scout

For the second consecutive time the Bank was granted this award in the "Large Banks" category, having obtained the sector's highest overall satisfaction rating, based on customer satisfaction, recommendation intentions, brand trust and innovation.



### **"Best Retail Bank in Portugal"** – Global Finance

The publication points out that after the acquisition of Banco Popular in 2017, Santander became Portugal's largest private bank by assets and loans. It also highlights the extensive branch network and the digital channels, which facilitate access to the Bank's financial services.



### **"Banking Brand with Best Reputation"** – OnStrategy

Ranking

For the second straight year, Santander came first in the 2018 ON STRATEGY Global RepScore Pulse reputation study for the banking sector.



### **"Best Private Banking Services Overall"** – Euromoney

The Bank also came first in all customer-service categories. This is the seventh consecutive time that Santander Totta receives this award.



### **"Best Private Bank"** – Global Finance

In the three editions to date, Santander Totta's Private Banking has always ranked first. This award distinguishes the best business models of the world's private banking.



### **"Best Trade Finance Provider"** – Global Finance

For the third straight year Santander Totta was elected the "Best Trade Finance Bank" in Portugal, under the World's Best Trade Finance Providers. This award reflects the important role the Bank plays in supporting the international business of Portuguese companies.



### **"Best Portuguese Banking Contact Centre"** –

Portuguese Contact Centres Association

Santander was distinguished for having the best contact centre operation of the banking sector.



### **"Best Bank to Work for in Portugal"** – Great Place to Work Institute Portugal

For the second consecutive time Banco Santander was considered the Best Bank to work for in Portugal and, at the same time is in the group of the best large companies to work for in the country.



**"Deal of The Year-Peripheral"**, within the scope of the Banco Santander Totta covered bonds issues in the amount of €1 billion placed in September 2017 – Covered Bond Report.



**"Market member - Most Active Trading House in Derivatives Market"** – Euronext Lisbon Awards



## Governing bodies of Banco Santander Totta, SA

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### Board of the General Meeting

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

### Board of Directors

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

### Audit Committee

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

### Auditors

PricewaterhouseCoopers & Associados, S.R.O.C., Lda.

### Executive Committee

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

### Company Secretary

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

\*Tendered resignation on July 31, 2018

## Executive Committee

### João Baptista Leite

Technology, Operations,  
Data Integration, IT Security  
and Technological Risk

### Luís Bento dos Santos

Communications, Corporate  
Marketing, Quality and  
Public Policy

### Pedro Castro e Almeida

Companies Network,  
International Business,  
Construction Promotion,  
Global and Corporate  
Banking, Asset Management  
and Insurance as  
Marketing/Brokerage  
Bank

### José Leite Maia

Individuals and Business  
Networks, Private Banking,  
Control and Dynamization of  
P&N Network, Real-estate  
Promoters and Brokers,  
International (emigrants)  
and Institutional Banking

### Manuel Preto

Finance, Tax, Business  
Intelligence (Products,  
Marketing and CRM),  
Organisation, Costs and  
Procurement, Properties  
and General Services



### Inês Oom de Sousa

Payment Means, Multichannel, Segments,  
Universities, Sustainability and Cross Segment

### António Vieira Monteiro

Chairman of the Executive Committee  
Risks, Risk Control, Accounting and Management  
Control

### José Carlos Sítima

General Secretariat, Legal Counselling,  
Compliance, Money Laundering Prevention,  
Inspection, Recoveries and Divestment, Human  
Resources and Internal Control Follow-up



### International

In the first half of 2018, the global economy maintained a dynamic pace of growth, with the widespread recovery trend of recent years, which should culminate in the best stage of post-crisis growth.

This same scenario is assumed by the International Monetary Fund, which, in the July update of the “World Economic Outlook”, maintains the 3.9% projection for this year’s economic growth (and also for 2019).

#### World Economic Growth

	2016	2017	2018E
<b>World</b>	<b>3.2</b>	<b>3.7</b>	<b>3.9</b>
<b>Advanced Economies</b>	<b>1.7</b>	<b>2.4</b>	<b>2.4</b>
USA	1.5	2.3	2.9
Euro Area	1.8	2.3	2.2
United Kingdom	1.8	1.7	1.4
Japan	1.0	1.7	1.0
<b>Developing Countries</b>	<b>4.4</b>	<b>4.7</b>	<b>4.9</b>
Africa	1.5	2.8	3.4
Asia	6.5	6.5	6.5
China	6.7	6.9	6.6
Central and Eastern Europe	3.2	5.9	4.3
Middle East	5.0	2.2	3.5
Latin America	-0.6	1.3	1.6
Brazil	-3.5	1.0	1.8

Source: IMF (July 2018)

However, the IMF underscored two important developments, which may condition the future evolution of the business. On the one hand, the fact that the recovery is less balanced between regions, as seen in the slowdown in the euro zone, United Kingdom and Japan, counter-cyclically with the USA. On the other hand, the increase of trade tensions, which, if they extend over time, may adversely affect confidence and growth.

The IMF has revised down the growth estimates for the euro zone, incorporating the slowdown in the first half of the year, in which the quarterly growth rate converged to levels around the potential (approximately 1.6% per annum, compared to more than 3% in the same period last year). The momentum of the first quarter was prolonged, which had been penalized by adverse weather conditions that affected investment.

The European context may have been influenced by the political scenario in Italy, and by the uncertainty associated with the climate of “trade tensions” and possibility of increased protectionism around the world.

The election of a coalition Government between the 5 Stars Movement and the Northern League, and the prospects of a more expansionary fiscal policy led to a rise in long-term interest rates in Italy, with a more limited contagion spreading to the peripheral countries, such as Portugal or Spain. At the end of the first half, the contagion effects had dissipated, with a widening of the differential between the Italian yield compared to that of the other countries.

The ECB began a process of “normalisation” of monetary policy. On the one hand, it announced the end of quantitative easing in December, and as from September the monthly volume of assets to be acquired is reduced to €15 billion. On the other hand, it signalled that the reference interest rates will remain at the minimum levels until “through the summer of 2019”. Investors have adjusted accordingly, with the 3-month Euribor interest-rate futures incorporating this vision.

In the USA, the economy accelerated in the second quarter, to the strongest sustained growth rate since 2014, underpinned by private consumption, as well as by net exports. The unemployment rate stood at the lowest level in nearly five decades, under 4%, which also supports private consumption together with the fiscal stimulus programme, and was accompanied by wage acceleration.

The progressive convergence of inflation to the reference enabled rate the Federal Reserve to increase the main reference interest rate twice, to the 1.75%-2.0% interval, providing indications at the June meeting, that by the end of the year it could have been increased two more times, conditions permitting.

In the United Kingdom, activity also slowed, in a framework of greater uncertainty as the date of exit from the European Union approaches (March 29, 2019), with no prospects of an agreement as yet. The divisions in the Government as to the future relationship (that is, between a hard or a soft Brexit) culminated in the resignation of several members of the government.

China maintains solid, though slowing, growth rates, reflecting the combined impact of a higher level of regulation of the financial sector on the one hand, and the slowdown of foreign demand on the other. During this period trade relations with the USA were under pressure, with the announced mutual imposition of tariffs on international trade.

## Portuguese Economy

The Portuguese economy maintained sustained growth rates in the first half, though slower than those observed in the first half of 2017. GDP will have grown about 2.3% in year-on-year terms, during this period, and may converge to the potential during the coming quarters.

### Macroeconomic Data

	2016	2017	2018E
<b>GDP</b>	<b>1.6</b>	<b>2.7</b>	<b>2.1</b>
Private Consumption	2.1	2.2	1.7
Public Consumption	0.6	0.1	1.7
Investment	0.8	8.4	4.1
Exports	4.4	7.9	4.4
Imports	4.2	7.9	4.2
Inflation (average)	0.6	1.4	1.5
Unemployment	11.1	8.9	7.7
Fiscal Balance (% GDP)	-2.0	-0.9	-1.0
Public Debt (% GDP)	129.9	125.7	125.7
Current Account Balance (% GDP)	1.6	1.4	1.6

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

Economic growth continued to be based on the performance of exports and investment, which have thus strengthened their relative weight in GDP.

Private consumption, however, continued to recover timidly, despite the reduction of unemployment and the consumption of durable goods reacting in keeping with expectations of alterations to vehicle taxation in 2018. Public consumption also remained timid, reflecting the control of public expenditure across the board.

Investment spending continued to grow, with emphasis on the growing increase of the contribution of investment in construction, after an initial wave of higher capital expenditure on equipment and transport.

In terms of foreign-demand dynamics, we would highlight the evolution and sustained increase of exports, which account for about 48% of the GDP and are the second largest growth lever, following private consumption (with a contribution around 64% of the GDP). The greater volume of exports has allowed positive trade balances, with exports of services being led by increasing tourism, while exports are driven by the growth of exports of equipment and cars.

Employment market dynamics continue to be governed by a sustained reduction of the unemployment rate, which in the

first quarter of 2018 stood at 7.9% of the active population, and by May 2018 had already fallen to 7.0%. The creation of new jobs continues to be driven by the private sector, associated with an increasing number of permanent contracts.

The recovery and transformation of the Portuguese economy over recent years were essential to the start of a correction of the structural imbalances, which had limited potential growth and increased vulnerabilities in the light of exogenous shocks.

In this field emphasis is given to the still high public and private debt, which, in the first quarter of 2018, amounted to approximately 126.4% and 206.4% of the GDP respectively, though characterised by a strategy of sustained reduction since 2013 (when they stood at 129% and 253% of the GDP respectively). However, the effort to reduce debt levels should be noted, particularly that associated with companies, which fell from a ratio of 171% to a ratio of 138% of the GDP in 2012 and 2017 respectively. Additionally, reduction of the high level of non-performing loans is a priority of the financial system, especially in terms of the corporate segment.

The continuation and even strengthening of the primary surplus of the General Government balance, since 2014, have contributed to keeping public debt on a sustainable path, additionally supported by nominal economic growth rates that have surpassed the most conservative expectations. In the first quarter, the public-debt ratio closed at nearly 126% and the public-administration budget deficit stood at around 0.7% of the GDP. In June, due to the redemption of a Treasury bond, the public debt fell further.

The pursuit of a fiscal consolidation strategy has contributed to increasing the levels of immunity of the Portuguese economy to exogenous shocks, both economic and non-economic, as occurred in the post-election period in Italy, when Portuguese sovereign interest rates rose slightly, but less so than Italian sovereign rates. At the end of July, the 10-year interest rate for the Portuguese public debt stands around 1.7%, lower than the 10-year rate of the Italian public debt by about 110 bp. Compared to the 10-year German interest rate the spread of the Portuguese public debt remains around 150 bp.

The reduction of the perception of sovereign risk also continues to be materialised by the ratings of the various rating agencies as investment grade, with Standard and Poor's rating at "BBB-" (September 2017), Fitch at "BBB" (December 2017) and DBRS at "BBB" (April 2018). Only Moody's maintains the rating at non-investment grade.

Prepared with information available on August 11, 2018

## Major risks and uncertainties for the second half of 2018

By definition, banking business involves risk management. In addition to the risks that are intrinsically linked to it, such as operational or credit, there is an additional set of risk factors that may influence the development of the business in the second half of 2018, such as the domestic and foreign economic surroundings, or the regulatory and supervisory framework.

Despite the strenght still seen in the first half, the economy is still subject to various risk factors that can affect the rate of growth. On the one hand, there are major geopolitical risks, with several conflicts in different parts of the world, current and latent, that contribute to a sense of risk aversion by the economic agents.

On the other, there are still risks of greater protectionism by some countries and/or economic blocs. The possibility of reversal of some important trade agreements or unilateral imposition of tariffs or other barriers to free trade may adversely influence the growth dynamics, as recently noted by the IMF, in the July 2018 update of the “World Economic Report”.

The proximity, in the case of the United Kingdom, of the deadline for the conclusion of an agreement on “Brexit”, with the effective date of departure from the European Union scheduled for 11 pm of March 29, 2019, is a risk factor, due to the possibility of disruption of trade flows in the absence of agreement. In other countries, political unity continues to be a latent risk. In yet other countries, the respective governments have policies and budgetary guidelines that call into question the commitments assumed within the framework of governance of the euro area, which has already resulted in a movement of investor risk-aversion.

In Portugal, despite the ongoing correction of macroeconomic imbalances, there are several risk factors. The external environment is crucial for economic growth, due to the impact it may have on exports, of goods in particular, but also services.

On the other hand, a possible increase in risk aversion around the world could influence investment dynamics, with repercussions both on employment and on possible demand for loans.

Despite major developments in recent years, in which the budget deficit was reduced from about 10% of GDP in 2009-2010 to 0.9% in 2017, the budget constraint will continue. Strict compliance with the fiscal targets remains essential to reduce the public debt to GDP ratio and thus support the confidence of international investors and allow an improvement of the perception of risk regarding the Republic.

With regard to the financial sector, the risks and uncertainties are associated, on the one hand, with a scenario of low interest rates, which continues to affect the profitability of the sector. Conversely, were the European Central Bank to start a faster rise of the reference interest rates, this could affect customer ability to serve their debt.

In the second half of 2018, the financial system, besides the profitability issues, will focus on the need to begin to comply with the minimum own-funds requirement and with the eligible liabilities (MREL - Minimum Requirement on Eligible Liabilities), as defined in the Bank Recovery and Resolution Directive (BRRD).

Also from the regulatory viewpoint, besides the progressive entry into force of the regulatory capital calculation rules (the phase-in of the rules known as Basel III), discussions are ongoing about changes to the calculation of risk-weighted assets (RWA).

At European level, and within the scope of the banking regulation, alterations to the CRD IV and the CRR are ongoing, as is adaptation to PSD2, the directive that will open up the provision of payment services to other entities, financial or not.

### Consolidated Business

#### Introduction

The income statement and the balance sheet for the first half of 2018 incorporate the impact of the inclusion of former Banco Popular Portugal, following the acquisition and merger operation carried out at the end of 2017.

At the end of June 2018, Banco Santander in Portugal returned net income in the amount of €235.6 million, a year-on-year growth of 5.9%. Net income from banking activities rose 18.1% and operating costs increased by 17.3%, leading to an improvement of 0.3 percentage points of the cost-to-income ratio.

Loans and advances to customers amounted to €41.5 billion, an increase of 25.8% over last time, with a 13.3% increase of loans to individuals and 44.5% in loans to corporates. The inclusion of the former Banco Popular Portugal portfolio contributed to the better balance of the loan structure, by increasing the relative weight of the companies segment.

The non-performing exposure ratio stood at 4.9%, with a non-performing exposure coverage ratio of 54.6%.

Customer resources amounted to €40.5 billion, an increase of 22.3%, with a 20.9% increase of deposits and a 30.6% increase of off-balance sheet resources.

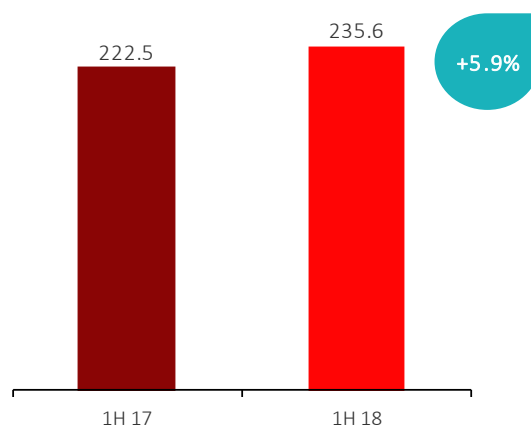
The transformation ratio, measured by the weight of net loans as a proportion of deposits, stood at 116.8% in June 2018 (111.6% at the end of June of 2017).

The CET 1 ratio (fully implemented) amounted to 12.6% (3.5 percentage points less than in June 2017).

The LCR (Liquidity Coverage Ratio), calculated in accordance with the CRD IV rules, stood at 186.9%, thus meeting the regulatory requirements on the fully-implemented basis in force in 2018, confirming a comfortable liquidity position.

The long-term debt risk notations of Santander in Portugal, in comparison with those of the Portuguese Republic are as follows: Fitch – BBB+ (Portugal – BBB); Moody's – Ba1 (Portugal – Ba1); S&P – BBB- (Portugal – BBB-); e DBRS – A (Portugal – BBB).

**CONSOLIDATED NET INCOME  
ATTRIBUTABLE TO THE SHAREHOLDERS OF BST**  
million euro





## Results

CONSOLIDATED INCOME STATEMENTS (million euro)	1H 18	1H 17	Var.
<b>Net interest income</b>	<b>445.0</b>	<b>339.4</b>	<b>+31.1%</b>
Income from equity instruments	1.2	2.9	-56.9%
Net fees	186.7	164.3	+13.7%
Other operating results	(26.7)	(17.1)	+56.1%
<b>Commercial revenue</b>	<b>606.3</b>	<b>489.5</b>	<b>+23.9%</b>
Gains/losses on financial transactions	32.8	51.7	-36.6%
<b>Net income from banking activities</b>	<b>639.2</b>	<b>541.2</b>	<b>+18.1%</b>
Operating costs	(303.5)	(258.7)	+17.3%
Staff Costs	(176.4)	(156.7)	+12.6%
General Administrative Costs	(106.4)	(83.4)	+27.6%
Depreciation in the year	(20.7)	(18.7)	+10.5%
<b>Net operating Income</b>	<b>335.7</b>	<b>282.5</b>	<b>+18.8%</b>
Impairments, net provisions and other results	4.7	3.5	+34.8%
<b>Income before taxes and non-controlling interests</b>	<b>340.4</b>	<b>286.0</b>	<b>+19.0%</b>
Taxes	(125.0)	(63.5)	+96.9%
<b>Income after taxes and before non-controlling interests</b>	<b>215.4</b>	<b>222.5</b>	<b>-3.2%</b>
Non-controlling interests	0.2	0.0	>200,0%
Non-recurrent results*	20.1	-	-
<b>Consolidated net income attributable to the shareholders of BST</b>	<b>235.6</b>	<b>222.5</b>	<b>+5.9%</b>

\*Incorporates several concepts distributed by the various lines of the Consolidated P&L accounts

Net interest income amounted to €445.0 million, a y-o-y increase of 31.1%, the result of the growth of the loan portfolio and the fall in the average cost of funding, in a context of negative reference interest rates.

Net fees totalled €186.7 million, an increase of 13.7% compared to the figure determined at the end of the same period of 2017. This reflected the rise of account commissions, payment means and funds marketed by the Bank.

Other operating results in the amount of €-26.7 million included €22.2 million of the Bank's mandatory contribution to the Resolution Fund.

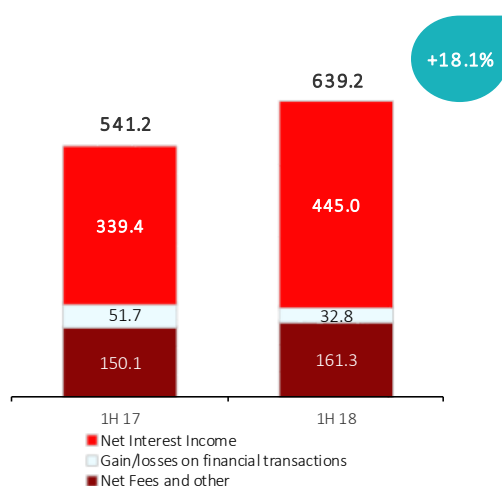
The commercial revenue amounted to €606.3 million, an increase of 23.9% compared to the amount determined in the same period of 2017.

The result of financial transactions stood at €32.8 million, down by a y-o-y 36.6%, which benefited from a greater amount of capital gains obtained on the sale of the sovereign debt securities portfolio and of the gains on risk-hedging instruments.

Net income from banking activities amounted to €639.2 million, up 18.1% compared with the first half of 2017, reflecting the performance of most components of the commercial revenue, which absorbed the entire reduction seen in the result of financial transactions.

## NET INCOME FROM BANKING ACTIVITIES

million euro



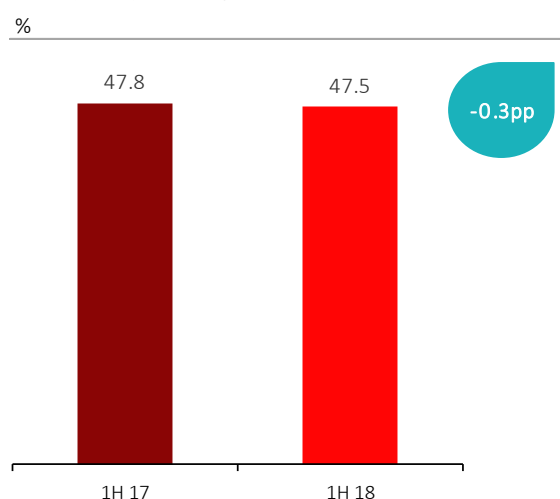
Operating costs totalled €303.5 million, an increase of 17.3% compared to the amount determined at the end of June 2017. This increase was across all the cost aggregates, reflecting the impact of the inclusion of former Banco Popular Portugal, which contributed to the net increase, last year, of 738 employees and 72 attendance counters.

Staff costs totalled €176.4 million (up 12.6% in y-o-y terms). General administrative costs amounted to €106.4 million (y-o-y increase of 27.6%). Depreciation in the year totalled €20.7 million (up 10.5%, compared to June 2017).

OPERATING COSTS (million euro)	1H 18	1H 17	Var.
Staff costs	(176.4)	(156.7)	+12.6%
General Administrative Costs	(106.4)	(83.4)	+27.6%
Depreciation in the year	(20.7)	(18.7)	+10.5%
<b>Operating costs</b>	<b>(303.5)</b>	<b>(258.7)</b>	<b>+17.3%</b>
<b>Efficiency ratio</b>	<b>47.5%</b>	<b>47.8%</b>	<b>-0.3 p.p.</b>

The efficiency ratio stood at 47.5% at the end of the first half of 2018, an improvement of 0.3 percentage points compared to last time, as a result of the evolution of net income from banking activities (up 18.1%) and operating costs (up 17.3%).

## EFFICIENCY RATIO



Net operating income stood at €335.7 million, an increase of 18.8%, compared to the first half of 2017, benefiting from the favourable evolution of revenues less the growth of operating costs.

The high quality of the loan portfolio allowed credit impairment net of reversals and recoveries to stand at €0.3 million, reflecting the improvement of the economy and the low default level due to conservative criteria governing granting credit. The cost of credit decreased from 0.09% at the end of June 2017 to zero at the end of June 2018.

Income before taxes and non-controlling interests amounted to €340.4 million, an increase of 19.0% compared to the amount determined for the same period of 2017.

Taxes amounted to €125.0 million, of which €22.7 million refer to the special levy on the banking sector.

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

At the end of June 2018, the net income of Banco Santander in Portugal amounted to €235.6 million, a growth of 5.9% over the same period last year.

## Balance Sheet and Business

At the end of the first half of 2018, business volume amounted to €82.0 billion euros, an annual increase of 24.1%. This performance was the result both of loans and

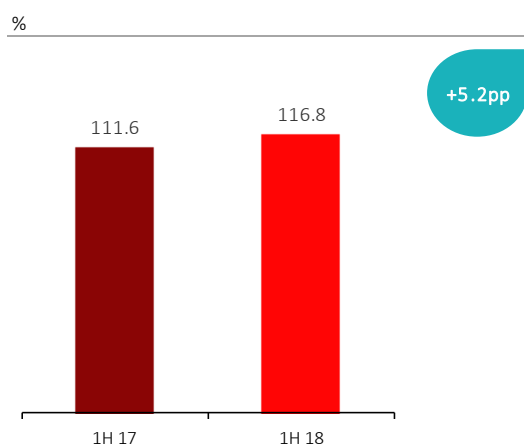
advances to customers and of customer resources, which grew by 25.8% and 22.3% respectively compared to last time.

<b>BUSINESS VOLUME</b> (million euro)	<b>1 H 18</b>	<b>1 H 17</b>	<b>Var.</b>
<b>Business Volume</b>	<b>82,041</b>	<b>66,132</b>	<b>+24.1%</b>
Loans and advances to customers (gross)	41,542	33,012	+25.8%
Customers' Resources	40,498	33,120	+22.3%

The transformation ratio, measured by the ratio between loans and deposits stood at 116.8% at the end of June 2018, 5.2 percentage points more than the 111.6% recorded in

June 2017, reflecting an increase of the portfolio of loans and advances to customers greater than that of customer deposits.

## LOAN-TO-DEPOSIT RATIO



At the end of the first half of 2018, the loans and advances to customer's portfolio amounted to €41.5 billion, up 25.8% compared to the same period of 2017.

This favourable performance resulted from the inclusion of the portfolio of former Banco Popular Portugal and from the

grant of new loans to corporates and individuals, which resulted in the increase of the market shares of new production, despite the reduction of non-productive exposures through sales and write offs of the loan portfolio.

LOANS (million euro)	1 H 18	1 H 17	Var.
<b>Loans and advances to customers (gross)</b>	<b>41,542</b>	<b>33,012</b>	<b>+25.8%</b>
<i>of which</i>			
Loans to individuals	21,540	19,006	+13.3%
<i>of which</i>			
Mortgage	19,262	17,043	+13.0%
Consumer	1,617	1,501	+7.7%
Loans to corporates	19,056	13,190	+44.5%

Note: loans to companies includes loans to institutionals and public administrations

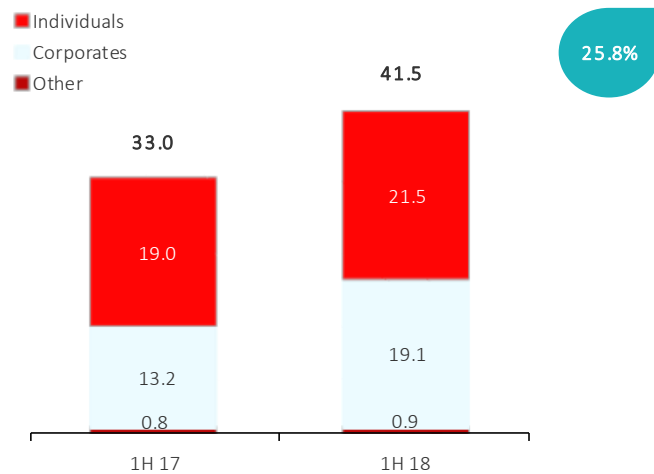
Loans to individuals stood at €21.5 billion, a rise of 13.3% in the past year, with a transverse increase of its major components: up 13.0% in mortgage loans at €19.3 billion and up 7.7% in consumer credit at €1.6 billion, with market-share gains.

Loans to corporates amounted to €19.1 billion, an increase of 44.5% compared to the end of the first half of 2017, with an increase of the market share within the scope of the strategy of support for the national corporate businesses.



## LOANS AND ADVANCES TO CUSTOMERS (GROSS)

million euro



The inclusion of the loan portfolio of former Banco Popular Portugal contributed to the better balance of the loan structure, with the increase of the relative weight of the corporate segment. Loans to corporates as a proportion of the total portfolio stood at 40% at the end of the first half of 2017, rising to 46% at the end of June 2018. In turn, loans to

individuals accounted for 58% a year ago, falling to 52% at the end of the first six months of the current year.

The non-performing exposure ratio, in keeping with the EBA definition, stood at 4.9%, with a coverage by provisions of 54.6%.

CREDIT RISK RATIOS	1H 18	1H 17	Var.
Non-performing exposure ratio	4.9%	4.9%	+0.0 p.p.
Non Performing Exposure coverage ratio	54.6%	61.2%	-6.6 p.p.
Cost of credit	(0.00%)	0.09%	-0.09 p.p.

On June 30, 2018, customer resources amount to €40.5 billion, up 22.3% compared to the same period last year.

RESOURCES	1H 18	1H 17	Var.
<b>Customers' resources</b>	<b>40,498</b>	<b>33,120</b>	<b>+22.3%</b>
On-balance sheet resources	34,413	28,461	+20.9%
Deposits	34,413	28,461	+20.9%
Off-balance sheet resources	6,085	4,659	+30.6%
Investment funds	2,128	1,664	+27.9%
Insurance and other resources	3,957	2,996	+32.1%

Total customer deposits amounted to €34.4 billion at the end of the first half of 2018, an increase of 20.9%. This was the result of the inclusion of the former Banco Popular Portugal portfolio, of the strong activity of the sales network and of customer trust, the current low remuneration of these investments notwithstanding. Deposits account for 85% of total customer resources.

Off-balance sheet resources stood at €6.1 billion, closing the first six months of 2018 with a y-o-y growth of 30.6%, reflecting the amount of €4 billion euros of insurance and other resources, with a sharp growth in the order of 32.1%, and €2.1 billion of investment funds marketed by the Bank, which rose 27.9%, reflecting the diversification of customer resources.

## Solvency ratios

At the end of the first half of 2018, the Common Equity Tier 1 (CET 1) ratio stood at 12.6% (fully implemented), above the minimum SREP requirements defined by the European Central Bank.

<b>CAPITAL</b> (million euro)	<b>1H 18</b>	<b>1H 17</b>	<b>Var.</b>
<b>Common Equity Tier 1</b>	<b>2,750</b>	<b>2,940</b>	<b>-6.5%</b>
Tier I Capital	2,750	2,940	-6.5%
Total Capital	2,796	2,952	-5.3%
<b>Risk Weighted Assets (RWA)</b>	<b>21,855</b>	<b>18,217</b>	<b>+20.0%</b>
CET 1 ratio	12.6%	16.1%	-3.5 p.p.
Tier 1 ratio	12.6%	16.1%	-3.5 p.p.
Total Capital Ratio	12.8%	16.2%	-3.4 p.p.

### Commercial Banking

#### Individuals

In the first half of 2018, the Bank continued its strategy involving the transformation of its business model, with simplification of processes and development of the digital platform, improving efficiency and customer-service quality, which has translated into an increase of the number of loyal and digital customers.

The strategy underpinned by the Bank's strength and by customer confidence resulted in an increase of loan productions, in response to customers' needs in the implementation of their projects.



In the first six months of the year mortgage-loan production amounted to slightly more than €1 billion, 28% up over the same period of the preceding year, while consumer loans production amounted to around €250 million. "CrediSimples", released in January 2017, an innovative offer available only via the digital channels, accounted for some 43% of new production in the second quarter.

In turn, production of new loans in the Business/SME segment increased by 14.2% compared to last time, a growth largely underpinned by the enlargement of the customer base.

Individuals' resources rose €824 million compared to end of 2017. The result of the increased diversification of the customers' placements with the Bank, with emphasis on demand and term deposits.

The number of Mundo 1|2|3 customers (customers having an account, a card and insurance protection) exceeded 228,000, with a growth of more than 25,000 in the first half. Mundo 1|2|3 is a multiproduct solution directed at individual customers of the Bank, that, in addition to the advantages of the 1|2|3 account, can provide an additional set of benefits, via cash-back in the Mundo 1|2|3 card account.



In Means of Payment, Banco Santander Totta has continued to focus on its distinctive offer for the different customer segments it covers.

With regard to individual customers, the focus remained on placement of the Mundo 1|2|3 card, more than 30,000 1|2|3 cards having been placed during this period. The cards marketed by the Bank grew by more than 11,500 in terms of new credit-card customers.

For the corporate segment, the Bank continued to focus on the Advance offer, with emphasis on the POS Advance Package. In this respect, the increase is underscored of the POS park by more than 1,100 terminals.

Maintaining its offer of diversified, innovative and transparent financial solutions, the business of the Private Banking area performed well in the first half, with a growth of customer numbers, assets under management, profitability and market share, in line with the goals set for 2018.

A major contribution to the good performance in the first half of 2018 was the close relationship between the various areas of the Bank, particularly the Corporate area, with which a dynamic customer cross-reference strategy is maintained, providing them with an integrated experience transverse to all their needs.

The digital customers rate increased by 3pp since the beginning of the year, now accounting for 44% of active customers. In order to accompany this evolution, Private Banking, which seeks to stay at the forefront of digitisation, has formed a digital-transformation team in order to seek and develop the best technological solutions for customers.

For the 7th straight year Santander Totta Private Banking was distinguished as the best Private Banking area operating in Portugal, according to *Euromoney* magazine, and also, for the 3rd consecutive year, it achieved the same distinction by the *Global Finance* magazine. These awards acknowledge and enhance the quality of the teams and of the Bank's investment solutions.



#### Promoters and Brokers

During the first half of 2018, the Promoters and Estate Agents area maintained a major focus on monitoring and fostering the External Promoters and Estate Agents channels, following a strategy based on proximity and on the follow-up of the activity of these partners and acknowledgement of their merit and performance.

As for the External Promoters, the business model was consolidated after the important changes introduced in the second half of 2017, strengthening communication and focusing on the activities of the partners in attracting new customers and on proximity with the respective help desks. Several campaigns were launched in order to distinguish the best promoters in various aspects of the business such as customer acquisition and loyalty, creating conditions for these partners to remain focused and identified with the Bank's main priorities.

In the Promoter Stores Project the strategy of complementarity between this network and the branch

network was maintained, four stores having been opened during the period, making total of 342 stores in operation.

With regard to Estate Agents, the major focus in 2018 is on the implementation of the new legislation governing loan intermediaries, which came into force on January 1, the partners having been informed of the need to submit applications for authorisation to the Bank of Portugal to be able to continue loan intermediary business, accompanying and clarifying questions as to the candidature process.

As for the evolution of the business, the growth trend of this channel was confirmed, and mortgage-loan production was in line with the budget, allowing the goals established for the first two quarters of this year to be met. The customary presence of the Bank at the National Conventions of the main partners was maintained, strengthening the excellent relationship with the major franchising networks the real-estate sector.

Up to the end of 2018, continuity will be lent to the strategy followed, consolidating and adjusting the business models as and where necessary for these important customer and business acquisition channels to continue to contribute to the increase of the Bank's results.

## Companies

The Bank continued its strategy of support to the corporate sector and of strengthening an ever closer relationship with customers, through a set of programmes and initiatives.



Among these, emphasis is given to the Santander Advance Programme, an intensive training course for directors, financial managers and

CEOs of SMEs in the areas of management, leadership and finance.

The offer of online courses is also kept on as an important support for companies, both customers and non-customers of the Bank, improving the skills of their staff in areas as diverse as planning, sales, languages or marketing.



In the second quarter, the Bank organised another two "BOX – Santander Advance" events, in Porto and in Torres Vedras, consolidating its policy of proximity with businesses and local bodies as they are a moment for the exchange of experiences, opinions and knowledge-sharing with

all participants.

Also within the scope of the Santander Advance Business programme, in order to further extend its value proposition, the Bank released the "Connect Your Business" solution. This solution, which several companies have already signed up for, allows the creation of an app simply, quickly and cheaply,

thus simplifying greater presence in the digital world and the ability to ensure greater customer loyalty, increase sales and stand out from other competitors.

New partnerships are planned, complementing the financial offer, targeting increasingly comprehensive support for the Business customers.

The Santander Advance Business programme thus maintains its outstanding position in the marketplace for the number of non-financial solutions that it places at the disposal of Portuguese companies, such as courses, employment, training, internationalisation and, now too, at digital level.

The Bank continues its strategy of consolidation of its positioning in international business, and is the financial partner of Portuguese companies in their export and import procedures, supporting companies in internationalisation processes in various foreign markets.

The Bank has seen consistent growth of its market share in trade-finance operations, benefiting from its financial strength, which enables acceptance of their risk, and inherently, that of the Portuguese companies its customers, in the International markets.

This dynamic has allowed a growth of the number of transactions, volumes and operating income in international business operations, with particular emphasis on the growth of commissions.

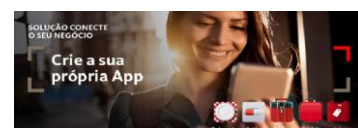
This work was recognised by the "Best Trade Finance Provider 2018" award granted by the *Global Finance* magazine, which recommends Banco Santander in Portugal for Portuguese firms as the appropriate partner in their international business.

## Institutional Banking

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

In the first half of 2018, Institutional Banking business was based mainly on the support for Regional and Local Public Administration, meeting its needs, both in terms of funding and in terms of transactions, offering customers of this segment a diverse and innovative range of products and services.

At the end of the first half, Loans and advances to customers in this



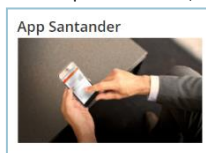


segment stood around €1.37 billion euros, not very different from the end of 2017. Resources amounted to €1.256 billion, a growth of 7.6% since the beginning of the year, the result of the Bank's focus on increasing customer transactions with Santander.

## Omni-channelling

During the first half of 2018, implementation of the Multichannel Transformation Plan continued (ensuring at the same time the management of the channels of the former-Banco Popular), preparing the unification of systems and channels in accordance with the strategy defined by the Group for the direct channels, the aim being to modernise and simplify and to be closer to the customers, while increasing the provision of bank services at Digital level.

In this connection, new features have been implemented, to broaden the offer in order to substantially improve customer experience, significantly increasing the adherence to non-in-person channel and the sales made.



### Digital Channels

#### Individuals

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

- The App came to provide access to digital statements, as was already the case at NetBanco;
- The App's menus have been redesigned to allow easier access to features that are not available via the buttons of the home screen and the App's asset screen has been completely redesigned;
- The App's card area has been revamped to give clearer information about card balances and movements, and to make easier those transactions that make sense for each card (pay card, manage notifications, etc.);
- Accounts in foreign currency were launched on the App;
- The information and descriptions of the movements have been improved, as has the information on the history of fund prices;
- In transfers, the customer is informed in advance of the costs and execution times.

From the point of view of product marketing, the most important milestones were:

- A consultancy service was released that generates for customers a range of investment opportunities available

at Santander, resulting from answers given by them to specific questionnaires and from the analysis of the concentration of their assets;

- The domestic services insurance was released, a works accident insurance provided by Aegon Santander Portugal Não Vida – Companhia de Seguros, SA, geared specifically for household domestic services.

#### Companies

In the first half of 2018, NetBanco Companies continued its improvement plan, both at functional and at design level, always with a view to enabling simplified interaction and improving user experience. The main novelties are underscored:

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



The Companies App, launched a year ago, continued to be a priority during the first half of 2018. It has asserted itself through its simplicity of use, focused at all times on the needs of its users. Very accessible and easy to use it is, nowadays, an important tool in supporting the business of corporate customers. Is available for iOS and Android and is a key way to attract companies' transactions and ensure their loyalty. The following functions are underscored:

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

#### Public Website

The strategy of redesigning the public website for individual customers was continued, always with a special focus on the conversion elements (call-to-action and/or online adherence)

and content simplification. Investment in metrics tools and content-optimisation analysis (SEO) was increased.

Digital campaigns were implemented as was the “Digital Customer” contest, comprising 3 raffles involving a total offer of 12 iPhones, to attract digital customers, all this aligned with the Marketing strategy. Also highlighted are the launch of the new public Non-Habitual Residents in Portugal area and the new product-information pages.

In the area of the companies public website a page was released for the first time containing all the information on the various “Loose Chats” conferences, including those of the Santander Advance Companies Box, with emphasis on the programmes, videos and press coverage.

The public website has an average of 1.2 of million different visitors per month and more than 8.8 million views per month.

### **Contact Centre**

Activity in the first half of 2018 continued the growth seen in previous half-years, with a greater alteration of the contact mix and greater weight of the digital-channels support.

There were more than 1.1 million contacts with customers, 85% were calls, 13% emails, and the remaining 2% were chats and answer iterations on the pages and profiles of the Bank’s social networks.

The activity of companies at the Contact Centre showed very positive evolution and growth, now accounting for about 20% of total activity.

The Contact Centre continues to be the main point of support for digital activity, not only as a point of support for doubt clarification and customer support, or in the decisive role it plays in App and NetBanco accession, as well as in the promotion and derivation of customer activity to the digital channels.

During the first 6 months of the year, several functions were implemented, with emphasis on the new GDPR directive support services, the creation of an attendance centre for confirming activity, a forwarding pilot for calls of the Individuals and Businesses network and the implementation of various commercial actions to support the digital initiatives and campaigns

Management of the Contact Centre of the former Banco Popular has come to be the same and is included in the same space, the measures necessary for the merge into a single Contact Centre in the second half of 2018 having been implemented.

## **International business – residents abroad**

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

The main function of the customers resident abroad area is to support the Bank’s individuals & businesses commercial networks in the creation of strong commercial and proximity links with the communities of Portuguese and Portuguese descendants living abroad, through its representative office network and branches in 7 countries (South Africa, Germany, Canada, France, United Kingdom, Switzerland and Venezuela), as well in as in promotion and in attracting customers and business among foreigners who choose Portugal to invest and establish their non-habitual residence.



In the first half of 2018, the international business of Banco Santander Totta for customers resident abroad has focused on diversification of the customers’ investment portfolios, the increase of attraction of remittances and of the market share of transfers from abroad, increase of the loan portfolio and of customer loyalty, with massification of accession to and use of the digital channels (NetBanco and Mobile), as well as attracting new customers.

The Bank was present at several events having a relevant impact on the segment, both in Portugal and locally in the countries where we have representations. The international commercial management model was implemented at the representative offices and a transfers campaign was launched in order to reinforce the trust and loyalty relationship with the Bank.

The business of customers resident abroad continues to be influenced by the tax framework, with the FATCA in the USA and the CRS (Common Reporting Standard) regimes, which influenced the customers’ growing decision to invest in real estate in Portugal.

Transfers from abroad have grown significantly, with expressive gain of the Bank’s market share, as a result of the strenght, reliability and the actions implemented that have increased the attractiveness and the importance of this service for customers resident abroad.

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

- The digital channels were provided with new features enabling the increase and broadening of the potential for adherence, consultation and subscription of products by customers at any place and time, especially with the possibility of subscribing to funds, financial and life insurance, and consultation of foreign currency positions.

- Visits by branch managers and commercial managers to Portuguese communities abroad were organised. Additionally, visits were made by the heads of the representative offices to branches and estate agents in Portugal, allowing maximisation of business results and articulation with the networks.
- Digital brochures were prepared for Non-Habitual Residents and for Portuguese Residents Abroad, originally from Madeira, for the purpose of strengthening communications and the Bank's position in this segment
- The Non-Habitual Residents public website was made available at NetBanco, in Portuguese and English.

The London Branch will close by the end of 2018. In order to ensure continued support for the Portuguese community in the United Kingdom, the Bank is to open an office in its place.

## Corporate & Investment Banking

During the first half of 2018, the Structured Loan area carried on its business, accompanying the trend of companies in exploring new investment opportunities, with emphasis, during this period, on a wide range of operations in sectors such as renewable energies, transportation and logistics, and beverages, among others.

Various loans and refinancing were also granted in the real-estate sector, including shopping malls and property development for prime residences and tourism apartments.

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

The Corporate Finance area kept up its activity related with mergers and acquisitions and Equity Capital Markets, with emphasis in this period on the successful completion of consultancy for Morgan Stanley Infrastructure Partners in the acquisition of 75% of Torres de Portugal from PT Portugal of the Altice Group.

The Fixed Income & FX (FIC) area intensified its presence with the customers, they too very aware of the risk variables that can impact negatively on their business, which was reflected in the high (and nominal) number of operations contracted. In the first half of the year, more than 50% of loans formalised were actually contracted at a fixed rate, which reflects, on the one hand, the growing concerns of companies regarding the future performance of rates and, on the other hand, the Bank's response capacity in the light of the customers' needs in line with the greater volatility of the markets.

The continuation of historically low interest rates has conditioned the diversity of structures that the structured-products area is able to offer its customers. Thus, throughout

the first half of 2018, the marketing of the following products should be underlined: (i) two structured financial insurances, of a total amount of €133.6 million; and (ii) seven structured deposits (5 issues denominated in euros and two in US dollars), the total amount standing at approximately €167 million.

Cash equities activity accompanied the general market trend, with an increase of the volume traded, especially in May, as seen in the slight increase of the share in the online business to 5.9%. The focus on the eBroker platform was enhanced with the release of new initiatives for the commercial area and the release of new functions, including the availability of the OTC market for bonds, which is at a pilot-project stage with the Private Banking managers.

## Insurance and investment funds marketed

The Insurance area kept its focus on the relationship with customers, always seeking to diversify the products for the better protection of its customers, from a multichannel and digital standpoint and a communication differentiated by segment.

Domestic Services Protection Insurance was launched, the first autonomous insurance to be marketed via the Santander App. Online contracting of protection insurance accounted for 35% of the total and contracting financial insurance also performed very well on the digital channels.

Also released were new financial insurances, total placements of which amounted to about €429 million in the first half.

During this period financial and risk insurance commissions together amounted to about €49 million.

In parallel, the Bank continued to foster a service attitude, with an intensive plan of after-sales initiatives aimed at ongoing improvement of service quality and customer experience.

Throughout the first half of the year financial markets were quite volatile, with most assets, equities and bonds of companies performing in keeping with market corrections. In this environment, Santander Asset Management (SAM) sought to manage the risk of its mutual funds actively, with the goal of maximising the preservation of their value. Despite the corrections seen in the markets, it proved possible to maintain a positive rate of subscriptions to the funds and the first half ended with mutual funds under management in the amount of €2.02 billion, providing a market share of about 16.4%.

Real-estate investment funds totalled €446 million in assets under management at the end of the first half of 2018.

### Relevant Facts after the close of the period

There were no relevant facts after the close of the period



## The outlook for the second half of 2018

The Portuguese economy is set to maintain growth rates higher than the long-term trend, though lower than that observed in the first quarter of 2018. Even so, both Portugal and Europe are set to have annual growth rates of around 2%.

Banks will therefore continue to carry on their business in a context of moderate recovery of national and international activity, of low interest and inflation rates in a more demanding regulatory framework, particularly with regard to capital requirements, liquidity and leverage ratios, and also the new regulations concerning resolution mechanisms, with the consequent structural impact on the profitability of the financial institutions.

Banco Santander Totta has already absorbed the commercial and central services teams of the former Banco Popular Portugal, during the first half of the year, and it can be expected that in the second half it will finalise the process with the operational and technological integration. From then on, Banco Santander Totta will provide all its customers, regardless of the network of origin, with its competitive range of products and services, which has been externally recognised by the several awards obtained during this year.

The completion of the process of integration will allow a strengthening of Santander Totta's competitive position in the market as the largest privately owned bank in business in Portugal, continuing to be the reference Bank in support for the community.

For the second half of 2018, the main objectives of increase of market shares and customer loyalty, return on equity and turnover are maintained, at the same time as prudent management of the loan portfolio.

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

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

### Introduction

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 entire structure of the Bank, decisively influencing all the processes carried out at the Bank, taking into account not only the surroundings but also the attitudes, behaviours, values and principles that each of us demonstrates with regard to the different types of risks we face.

The *RiskPro* programme was implemented to involve all the Bank's 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.

### Credit Risk

In the first half of 2018, the activity of the Credit Risk Area had the following as main vectors:

- Maintaining the principle of segmentation in the treatment of credit risks, differentiating the approach to risks in the light of the characteristics of the customers and of the products;
- Maintaining the strictness of the admission criteria and, consequently, of the quality of risk admitted in each segment with a view to preserving the good quality of the loan portfolio;
- 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 possible problems in their repayment ability;
- This action, together with the loan quality of the Bank's customers, allowed the Bank to continue to keep the non-performing loans and loans at risk ratios under control and at acceptable levels. The business support levels were intensified in attracting new good-risk transactions and customers, and improvements were implemented in the processes with a view to responding to customers' requests more effectively and quickly;
- In portfolio and customer monitoring, the permanent focus was maintained on surveillance of lower-rating segments and on sectors that are, or expected to be, affected by the macro-economic context, with a view to mitigating the non-performing loan and late-payment ratios. The policy of permanent reviews of the portfolio continued, leading to the conclusion that the portfolio is analysed with appropriate criteria and the estimated levels of impairments are also appropriate;
- The customer monitoring and review meetings continued, the Bank's usual practice for the early detection of loan-portfolio alerts;
- The Bank continued to review, develop and apply improvement measures in the management of the new-loan admission process, with the aim of improving the quality of the customer service whenever they present new loan opportunities;
- With the inclusion of the former Banco Popular Portugal network, several credit-risk identification and assessment tasks were performed in respect of loan exposures, with a special focus on the major exposures. A temporary process was implemented of admission and monitoring of the transactions and customers received from that network, in the Banco Santander Totta models, until such time as the full integration of systems is concluded;
- In the standardised (or non-portfolio) risks, with a view to ongoing improvement and efficiency of the admission process, and bearing in mind the objective of portfolio quality, the Bank conducted the update and maintenance of the automatic decision models, particularly the scoring and behavioural systems used in the Individuals and Business segments;
- Also in the matter of standardised risks, the focus continued to be centred on ensuring portfolio quality, acting on management tardiness and non-performing loans, while continuing to provide a range of debt-restructuring products and solutions to adapt the customers' charges to their repayment capacity and current and future disposable income;
- In this sense the defined admission strategies were maintained in the Bank's decision-making systems, as was recourse to behavioural systems for the identification of preventative and roll-over measures to be offered to its customers;
- In order to maintain the commercial and cross-selling involvement of the customers and, at the same time, to increase the potential of attracting new customers, marketing campaigns were carried out for Businesses, aimed at the production of new loans and customer retention and ongoing operations in order to compensate for the natural erosion of this portfolio;

- In a macroeconomic scenario, now far less adverse as regards nonperforming loan, a strong focus was maintained on recoveries activity, increasing intervention agility. Underscored is the activity of mass management recoveries and permanent monitoring of special and judicial/extrajudicial cases;
- Maintenance of the policy of strengthening negotiations regarding payments in kind, so that they will occur as an alternative to legal action;
- 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, there continued to be a permanent focus on knowledge and monitoring of the loan portfolio for strict control of its risk, seeking to provide adequate and timely management information in order to allow measures to be taken with a view to proper management of the Bank’s risks;
- Attention was also paid to the Bank’s in-house models, almost all of which have already been recognised (by the regulators) as advanced (IRB) models for the calculation of the equity requirement, as well as their increasing inclusion in the management;
- Having studied the regulatory requirements, IT models and tools were developed for the application of IFRS 9.

## Risk model

### Introduction

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

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

Portfolio 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 in the portfolio. Assessment of these risks is based on in-house valuation and automatic-decision models, complemented, in a subsidiary manner, when the model is not sufficiently precise, by specialised risk-analyst teams.

### Risk measurement metrics and tools

Santander Totta 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 institutions and global wholesale banking segments, both in determining their rating and in monitoring the risks assumed. These tools assign a rating to each customer as a result of a quantitative or automatic module, based on data/balance sheet ratios or macroeconomic variables, complemented by the analysis performed by the risks analyst who monitors the customer.

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

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

For the standardised-risk portfolios, both of individuals and in non-portfolio businesses, scoring tools and decision-making models are implemented that automatically assign an assessment/decision of transactions presented. These decision tools are complemented with a behavioural scoring model, an instrument that allows greater predictability of the risks assumed and are used both for pre-sale and for sale.

### Credit risk parameters

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

estimated as well as the percentage of 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 and unexpected loss. The expected (or probable) loss is considered as an additional business cost (reflecting the risk premium), which is duly reflected in the price of the transactions.

The unexpected loss, which is the basis for the calculation of regulatory capital in keeping with the rules of the Basel (BIS II) capital accord, refers to a very large, though not very likely, loss that, given its nature, is not considered recurrent and must therefore be duly covered by own funds.

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

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*

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

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

### *Study of the risk, transaction decision and monitoring and control*

The study of the risk is a prerequisite of the authorisation of any loan operation at Banco Santander Totta. This study consists of analysing the customer's ability to fulfil its contractual obligations towards the Bank, entailing the credit quality of the customer, its 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 Totta is a strategic, comprehensive and business activity. The specific objectives of the recoveries process are the following:

- Ensuring the collection or settlement of amounts in an irregular situation, favouring negotiated solutions for the customer's loan situation to return to normal. If a negotiated solution is not possible, an effort will be made to recover the loans through the courts;
- Maintaining and strengthening 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: 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 the first half of 2018, the present value of transactions on interest-rate indices (Euribor) fell slightly, due to the early termination of some swaps contracted with non-financial groups reflecting the evolution of medium- and

long-term market rates. With regard to exposure to financial groups, there has been an increase of structural interest-rate risk hedging transactions, although the exposure has fallen, due to the appearance of LCH Clearnet as a clearing house.

## Balance-sheet risk

### Control of the balance-sheet risk

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

### Methodologies

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

Additionally, other risk indicators are calculated 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) ratio calculated in accordance with ECB rules stood at 186.9% on June 30, 2018.

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

- Interest rate: Sensitivity of net interest income and of the equity;
- Liquidity: Stress scenarios and short-term and structural liquidity ratios.

### Management of the balance-sheet structural risk

#### Framework

The inclusion of the business of the Popular Portugal Group marks the first half of 2018. The liquidity requirements of this

transaction necessarily resulted in a reduction of available liquidity reserve. Even so, at the end of 2017, at the time of the acquisition and merger of Banco Popular Portugal into Banco Santander Totta, the available liquidity reserve remained in a comfortable position, above €6 billion.

### Liquidity reserve

Santander Totta's policy is to maximise the available liquidity cushion to cope with adverse liquidity events. The impact of the acquisition and merger of Banco Popular Portugal was fully accommodated in this first half of the year, the first half of 2018 closing with a liquidity reserve of about €3 billion, higher than the figure at the end of 2017. This evolution was essentially the result of proactive measures generating eligible assets combined with the increase of the customer-deposits base, ensuring a liquidity cushion of €9 billion at the end of the first half of 2018.

### Funding

The funding needs arising from the acquisition of Banco Popular Portugal stemmed from the differential between loans granted and funds raised from customers, and therefore its inclusion in the perimeter of Santander in Portugal inevitably resulted in an increase of the loans-deposits ratio (about 126% percent at the yearend). During the first half of 2018, there has been a reduction of the commercial gap through the increase of the customers' deposits base, the first half of 2018 closing with a loans-deposits ratio of 117%.

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 sharp reduction of the net exposure to the Eurosystem, standing at less than €1 billion at the end of the first half.

The policy of diversification of sources and maturities was maintained in respect of short-term funding, as was the diversification of collateral allocated in transactions with repurchase agreement with financial institutions.

In terms of long-term funding, besides the €3.1 billion by the ECB, Santander Totta closed the first half of 2018 with about €1 billion of securitisations, €0.9 billion of loans provided by the European Investment Bank with a view financing structural projects of the Portuguese economy, and also €3.5 billion of covered bonds.

### Interest-rate risk

Commercial activity of extending credit and attracting deposits generates a naturally positive exposure to the interest-rate risk. This structural position results mainly from the fact that credit extended in Portugal is traditionally

almost all indexed to market rates (Euribor) as opposed to a deposits base (at sight) with an average duration of 5 years. This asymmetry generates a reappraisal differential between assets and liabilities resulting in positive sensitivity to the interest-rate risk.

Santander Totta'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 Banco Santander Totta operates.

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

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

## Methodologies

### Negotiation activity

The methodology applied in 2018, within the scope of Banco Santander Totta for negotiation activity, is the Value at Risk (VaR). Used as the basis is the methodology of historic simulation with a 99% confidence level and a one day time horizon, statistical adjustments having been applied that allow swift and effective inclusion of the more recent events that condition the risk levels assumed.

Complementing this, 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, 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.

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

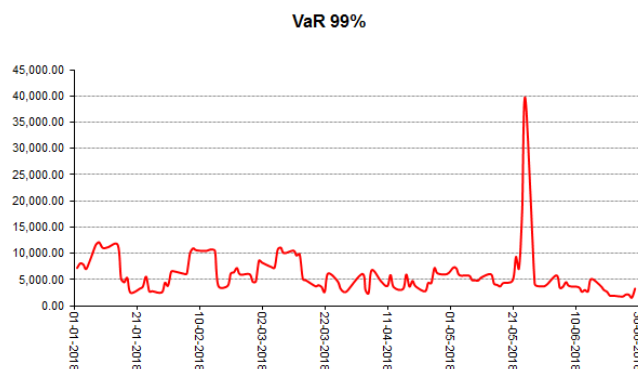
### Limits

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

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

### Quantitative analysis of the VaR throughout the year

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



VaR remained low, ranging between €1.5k and €39.5k.

## Operational Risk

### Definition and objectives

Banco Santander Totta (BST) defines operational risk as “the risk of loss arising from shortcomings or errors in internal processes, human resources or systems, or derived from external circumstances”. It distinguishes it from other types of risks, in that it is not associated to products or business, but is present in processes and/or assets, and is generated internally (people, systems, etc.) or as a consequence of external risks, such as actions of third parties or natural disasters.

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

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

BST’s priority is therefore to identify and mitigate risk sources, regardless of whether or not they have caused losses, through a uniform and integrated management approach for all areas involved.

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

## Management model

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

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

The operational risk function is structured in three lines of defence. The first line of defence consists of all of business and support areas, and is therefore responsible for operational risk incurred within its scope and its main function is to identify, assess, monitor, mitigate and communicate this risk.

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

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

The various stages of the management and control model allow:

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

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

- Promotes the development of an operational-risk culture;
- Allows full and effective management of the operational risk (identification, measurement/assessment, control/mitigation and information);
- Improves knowledge of the operational risks, both real and potential, and their attribution to the business and support lines;
- Operational-risk information contributes to the improvement of processes and controls, reduction of losses and volatility of revenues;
- Facilitates the establishment of operational-risk appetite limits.

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

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

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

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

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

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

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

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

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

Additionally, the Bank is at a stage of consolidation of the implementation of the new operational-risk management tool, which is common to several control areas, maximising synergies between the areas and allowing the use of common risk-assessment methodologies, in particular the alignment of the risk database with the identified events, internal control and respective action plans.

## Compliance and Reputational Risk

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

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

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

In accordance with the applicable legal and regulatory framework, the Bank has set up a compliance function, in the form of the Compliance and Conduct Co-ordination Division, the first line in the hierarchy of the Bank, to which functional management of the compliance and reputational risks is assigned.

In this connection, the Bank is also preparing a Reputational Risk Model, constructed in light of the counterpart corporate model, formal approval of which is expected in 2018.

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

- Corporate values;
- Compliance policy;
- Policies for the prevention of money laundering and terrorist financing;
- Codes of conduct;
- Marketing and product follow-up policies;
- Risk policy;
- Identification and management of conflicts of interest policy;
- Quality policy;
- Personal data processing and protection policy;
- Monitoring and follow-up of new regulations;
- Liaison with the supervisory authorities and follow-up of actions undertaken by them;
- Staff training policy;
- Social responsibility and environmental protection policies;
- Corporate defence policies;
- Funding policies for sensitive sectors.

## Complementary information and attachments

### Money Laundering Prevention

Santander Totta 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 fulfils the obligations determined by law and has an organic structure dedicated solely to the prevention and control of money laundering and terrorist financing within the Compliance and Conduct Co-ordination Division, the teams being trained in this matter and are regularly updated in order to identify and monitor possible risk situations, immediately informing the competent bodies as and where deemed appropriate.

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.

A special programme was established to monitor the activity of the business units of former Banco Popular Portugal, directed at strengthening the previous procedures in the sense of progressive homogenisation of the monitoring, follow-up and control criteria and tools, including holding training courses on prevention of money laundering and terrorist financing, in keeping with the Bank's standards.

In compliance with Bank of Portugal Circular Letter 2018/36 of 30/05/18, publication is awaited of the new notice that will regulate Law 83/2017 and establish the new framework of the prevention of money laundering and terrorist financing report.

On the other hand, the Bank, in compliance with Bank of Portugal Instruction nº 46/2012, prepared the Self-

Assessment Questionnaire on the prevention of money laundering and terrorist financing for the period from November 1, 2016, to November 30, 2017, and sent it to the Bank of Portugal, previously approved by the Executive Committee.

### Shareholder Structure

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

### Movement in own shares

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

On December 31, 2017, Banco Santander Totta, SA, held 399,215 treasury shares corresponding to 0.032% of its share capital. During the first half of 2018, Banco Santander Totta bought 2,887 treasury shares, corresponding to 0.0002% of its share capital, closing the semester with a total of 402,102 treasury shares.

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

#### TRANSACTION WITH OWN SHARES - 1H2018

	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31/12/2017	399,215	5.28	2,108,245	0.032%
Purchases	2,887	3.95	11,391	0.0002%
Disposals	0	-	0	
30/06/2018	402,102	5.27	2,119,637	0.032%

## Alternative Performance Indicators

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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"

### **Commercial revenue**

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

### **Gains/Losses on financial assets**

Sum of "Financial assets and liabilities at fair value through profit or loss", "Other financial assets at fair value through other comprehensive income", "exchange revaluation" and "Disposal of other assets"

### **Net income from banking activities**

Commercial revenue plus Gains/Losses on financial transactions

### **Operating costs**

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

### **Net operating income**

Net income from banking activities minus operating costs

### **Impairment, net provisions and other results**

Sum of "provisions net of reversals", "impairment of financial assets at amortised cost", "impairment on other financial assets net of reversals and recoveries", "impairment of other assets net of reversals and recoveries", "results from associates" and "Results of non-current assets held for sale".

### **Income before taxes and non-controlling interests**

Net operating income less impairments and net provisions plus "results from associates"

### **Income after taxes and before non-controlling interests**

Income before tax and non-controlling interests less taxes

### **Non-recurrent results**

Aggregate of several concepts distributed across several lines of the Bank's consolidated income statement. In the first half of 2018, it includes amounts arising from non-organic transactions, set out under provisions net of cancellations and taxes, among other lesser items.

### **Consolidated net income attributable to the shareholder of BST**

Income after tax and before non-controlling interests, less "non-controlling interests" plus other non-recurrent results

### **Cost-to-income ratio (or efficiency ratio)**

Ratio between operating costs and net income from banking activities

**Loans / Deposits ratio (transformation ratio)**

Calculated in accordance with the definitions arising from the “Memorandum of Understanding”

**Commercial gap**

Difference between “loans and other receivable balances at amortised cost” and “customers’ resources and other loans”

**Business Volume**

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

**Loans and advances to customers**

Corresponds to the balance sheet item “Credit granted and other balances receivable at amortised cost”

**Loans to individuals (mortgage and consumer) and corporates**

Defined in accordance with the management information system (MIS)

**Non-performing exposure ratio**

Non-productive 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

**Non-performing exposure coverage ratio**

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

**Cost of loans**

Ratio between “impairment of credit net of reversals and recoveries” (of the income statement) and the average of “gross loans and advances to customers” (of the balance sheet)

**Customer resources**

Sum of on-balance sheet resources and off-balance sheet resources

**Deposits**

Corresponds to the balance sheet item “Resources of customers and other debts”

**Off-balance sheet resources**

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

**Liquidity Coverage Ratio (LCR)**

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

**Return on Equity (RoE)**

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

**Return on Assets (RoA)**

Ratio between net income and net assets



## Declaration referred to item c) of § 1 of article no. 246 of the Securities Code

Item c) of §1 of article No. 246 of the Securities Code determines that each of the persons in charge of the company issue a declaration the content of which is defined therein.

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

"I declare, under the terms of and for the purposes set out in item c) of §1 of article No. 246 of the Securities Code that, to the best of my knowledge, the condensed financial statements for the first six months of the 2018 were prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, financial position and results of Banco Santander Totta, SA, and of the companies included in the consolidation perimeter, and that the interim management report faithfully sets out the information required under article 246(2) of the Securities Code".

### Board of Directors

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

## Consolidated Financial Statements

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The accounts for the first half of 2018 have been submitted neither to limited audit nor to the respective opinion of the Bank's auditors.

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2018 AND DECEMBER 31, 2017

(Amounts expressed in thousand Euros)

		30-06-2018			31-12-2017				
		Amounts before impairment and depreciation		Impairment and depreciation	Net assets	Net assets			
ASSETS	Notes					LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	30-06-2018	31-12-2017
Cash and deposits at central banks	5	2,482,343	-	2,482,343	1,039,554	<b>Liabilities</b>			
Balances due from other banks	6	614,798	-	614,798	658,155	Financial liabilities held for trading	7	1,367,419	1,533,760
Financial assets held for trading	7	1,342,896	-	1,342,896	1,515,236	Financial liabilities at amortised cost			
Other financial assets mandatory at fair value through profit or loss	8	237,611	-	237,611		<i>Resources of central banks</i>	18	3,056,295	3,080,538
Other financial assets at fair value through other comprehensive income	9	4,522,106	275	4,521,831	4,537,143	<i>Resources from other credit institutions</i>	18	4,284,642	4,351,086
Financial assets at amortised cost						<i>Resources of customers and other debts</i>	18	34,413,166	32,137,468
<i>Loans and advances to credit institutions</i>	10	892,298	27	892,271	826,367	<i>Debt securities</i>	18	4,434,866	4,581,237
<i>Credit granted and other balances receivable at amortized cost</i>	10	41,542,380	1,473,182	40,069,198	39,633,212	<i>Other financial liabilities</i>	18	215,616	
Held to maturity investments					108,809	Hedging derivatives	11	49,919	39,275
Hedging derivatives	11	53,190	-	53,190	15,349	Value adjustments on assets included in hedging ope	41	3,775	
Value adjustments on assets included in hedging operations	41	27,580	-	27,580		Provisions	19	483,944	167,550
Investment in associated companies	12	81,231	1,853	79,378	76,602	Tax liabilities	15	305,835	232,481
Investment properties	13	330,182	-	330,182	353,957	Equity representative instruments	20	69,397	69,026
Other tangible assets	14	865,550	515,332	350,218	353,305	Other liabilities	21	572,385	788,067
Intangible assets	14	448,699	419,779	28,920	34,299	Total liabilities		49,257,259	46,980,488
Tax assets	15	821,693	-	821,693	467,406				
Other assets	16	793,715	177,680	616,035	935,371	<b>Shareholders' equity</b>			
Non-current assets held for sale	17	114,704	37,459	77,245	87,269	Share capital	22	1,256,723	1,256,723
						Share premium account	22	193,390	193,390
						Other equity instruments	22	135,000	135,000
						Accumulated comprehensive income reserves	22	(219,901)	(277,225)
						Other reseves and retained earnings	22	1,730,331	1,975,354
						(Own shares)	22	(44,002)	(43,991)
						Consolidated net income attributable to the shareho	23	235,636	421,157
						Shareholders' equity attributable to the shareholders of BST		3,287,177	3,660,408
						Non-controlling interests	24	953	1,138
						Total shareholders' equity		3,288,130	3,661,546
Total assets		55,170,976	2,625,587	52,545,389	50,642,034	Total liabilities and shareholders' equity		52,545,389	50,642,034

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED INCOME STATEMENTS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2018 AND 2017

(Amounts expressed in thousands of Euros - tEuros)

	Notes	30-06-2018	30-06-2017
Interest income	26	625,718	536,154
Interest charge	27	(180,670)	(196,750)
<b>Net interest income</b>		<b>445,048</b>	<b>339,404</b>
Income from equity instruments	28	1,233	2,863
Income from services and commissions	29	225,574	197,867
Charges with services and commissions	30	(38,845)	(33,567)
Gains/Losses on financial assets			
<i>Financial assets and liabilities at fair value through profit or loss</i>	31	(5,001)	(2,418)
<i>Other Financial assets at fair value through other comprehensive income</i>	31	26,352	35,690
<i>Exchange revaluation</i>	31	4,762	4,425
<i>Disposal of other assets</i>	31	6,710	14,048
Other operating results	32	(26,677)	(17,087)
<b>Net income from banking activities</b>		<b>639,156</b>	<b>541,225</b>
Staff costs	33	(176,437)	(156,663)
General administrative costs	34	(106,377)	(83,367)
Depreciation in the year	14	(20,657)	(18,698)
Provisions, net of reversals	19	(306,510)	(8,086)
Impairment on financial assets at amortised cost	19	299	(14,889)
Impairment on other financial assets net of reversals and recoveries	19		164
Impairment of other assets net of reversals and recoveries	19	(21,626)	23,686
Results from associates	35	2,349	2,633
Results from non-current assets held for sale		3,782	
<b>Income before taxes and non-controlling interests</b>		<b>13,979</b>	<b>286,005</b>
Taxes	15	221,474	(63,495)
<b>Income after taxes and before non-controlling interests</b>		<b>235,453</b>	<b>222,510</b>
Non-controlling interests		183	-
<b>Consolidated net income attributable to the shareholders' of BST</b>		<b>235,636</b>	<b>222,510</b>
Number of ordinary shares outstanding		1,241,729,255	1,241,824,639
Earnings per share (in Euros)		0.19	0.18

The accompanying notes form an integral part of the consolidated balance sheet  
for the six-month period ended June 30, 2018

	June 30, 2018		June 30, 2017	
	Attributable to the shareholders of BST	Attributable to non- controlling interests	Attributable to the shareholders of BST	Attributable to non- controlling interests
Consolidated net income for the period	235,636	(183)	222,510	-
Items that will not be reclassified subsequently to the income statement:				
Actuarial and financial deviations				
Gross value	(7,772)	-	12,518	-
Items that may be reclassified subsequently to the income statement:				
Revaluation reserves of associated companies valued by the equity method				
Fair value	587	-	530	-
Tax effect	(160)	-	(135)	-
Changes in financial assets at fair value through other comprehensive income				
Fair value	50,620	-	231,013	-
Tax effect	(14,600)	-	(66,985)	-
Changes in fair value of financial assets held to maturity				
Fair value	-	-	417	-
Tax effect	-	-	(121)	-
Changes in fair value of cash flows hedging derivatives				
Fair value	41,520	-	1,161	-
Tax effect	(12,871)	-	(336)	-
Consolidated comprehensive income for the first half year	292,960	(183)	400,572	-

The accompanying notes form an integral part of the consolidated income statements for the six-month period ended June 30, 2018

BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2018 AND 2017

(Amounts expressed in thousands of Euros)

	Share capital	Share premium account	Other equity instruments	Revaluation reserves			Legal reserve	Other reserves	Retained earnings	Own shares	Net income for the period	Non-controlling interests	Shareholders' equity
				Legal revaluation	Fair value	Deferred taxes							
<b>Balances as at December 31, 2016</b>	<b>1,256,723</b>	<b>193,390</b>	<b>135,000</b>	<b>23,245</b>	<b>(855,728)</b>	<b>223,333</b>	<b>311,098</b>	<b>915,175</b>	<b>726,339</b>	<b>(43,621)</b>	<b>380,032</b>	<b>670</b>	<b>3,265,656</b>
Appropriation of net income	-	-	-	-	-	163	33,650	159,967	(116,598)	-	(77,182)	-	-
. Transfer to reserves	-	-	-	-	-	-	-	(45,817)	-	-	(302,850)	-	(348,667)
. Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
Long ter incentives - shares	-	-	-	-	-	-	-	196	-	-	-	-	196
Other	-	-	-	-	-	-	-	(134)	-	-	-	6	(128)
Consolidated comprehensive income for the first half-year 2017	-	-	-	-	245,639	(67,577)	-	-	-	-	222,510	-	400,572
<b>Balances as at June 30, 2017</b>	<b>1,256,723</b>	<b>193,390</b>	<b>135,000</b>	<b>23,245</b>	<b>(610,089)</b>	<b>155,919</b>	<b>344,748</b>	<b>1,029,387</b>	<b>609,741</b>	<b>(43,621)</b>	<b>222,510</b>	<b>676</b>	<b>3,317,629</b>
Purchase of own shares	-	-	-	-	-	-	-	-	-	(370)	-	-	(370)
Merger & acquisition of former Banco Popular Portugal	-	-	-	-	-	-	-	(8,411)	-	-	-	-	(8,411)
Long ter incentives - shares	-	-	-	-	-	-	-	(220)	-	-	-	-	(220)
Other	-	-	-	-	-	-	-	104	5	-	-	462	571
Consolidated comprehensive income for the second half-year 2017	-	-	-	-	231,390	(77,690)	-	-	-	-	198,647	-	352,347
<b>Balances as at December 31, 2017</b>	<b>1,256,723</b>	<b>193,390</b>	<b>135,000</b>	<b>23,245</b>	<b>(378,699)</b>	<b>78,229</b>	<b>344,748</b>	<b>1,020,860</b>	<b>609,746</b>	<b>(43,991)</b>	<b>421,157</b>	<b>1,138</b>	<b>3,661,546</b>
Appropriation of net income	-	-	-	-	-	-	69,563	342,256	9,338	-	(421,157)	-	-
. Transfer to reserves	-	-	-	-	-	-	-	(618,597)	-	-	-	-	(618,597)
. Distribution of dividends	-	-	-	-	-	-	-	-	-	-	-	-	-
Acquisition of own shares	-	-	-	-	-	-	-	-	-	(11)	-	-	(11)
Impact of opening IFRS9 application	-	-	-	-	-	-	-	(43,551)	-	-	-	-	(43,551)
Long ter incentives - shares	-	-	-	-	-	-	-	186	-	-	-	-	186
Other	-	-	-	-	-	-	-	(4,218)	-	-	-	(2)	(4,220)
Consolidated comprehensive income for the first half-year 2018	-	-	-	-	84,955	(27,631)	-	-	-	-	235,636	(183)	292,777
<b>Balances as at June 30, 2018</b>	<b>1,256,723</b>	<b>193,390</b>	<b>135,000</b>	<b>23,245</b>	<b>(293,744)</b>	<b>50,598</b>	<b>414,311</b>	<b>696,936</b>	<b>619,084</b>	<b>(44,002)</b>	<b>235,636</b>	<b>953</b>	<b>3,288,130</b>

The accompanying notes form an integral part of the consolidated statements of changes in shareholders' equity for the six-month period ended June 30, 2018



BANCO SANTANDER TOTTA, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2018 AND 2017

(Amounts expressed in thousands of Euros)

	<u>30-06-2018</u>	<u>30-06-2017</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Interest and commissions received	760,321	703,005
Payment of interest and commissions	(198,754)	(224,567)
Payment to staff and suppliers	(296,794)	(271,010)
Foreign exchange and other operating results	(28,454)	(12,680)
Recovery of uncollectable loans	3,722	2,651
Operating results before changes in operating assets and liabilities	<u>240,041</u>	<u>197,399</u>
(Increase) / decrease in operating assets		
Loans and advances to credit institutions	(68,641)	(1,049,822)
Financial assets held for trading	172,445	144,703
Credit granted and other balances receivable at amortized cost	(253,721)	(236,125)
Assets and liabilities at fair value through profit or loss	(1,253)	9,352
Non-current assets held for sale	(17,691)	(103,847)
Investment properties	23,776	16,340
Other assets	<u>248,274</u>	<u>251,164</u>
	<u>103,189</u>	<u>(968,235)</u>
Increase / (decrease) in operating liabilities		
Resources of financial institutions	(90,935)	1,042,456
Resources of customers and other debts	2,386,930	(40,302)
Financial liabilities held for trading	(166,341)	(128,384)
Other liabilities	<u>(114,947)</u>	<u>18,810</u>
	<u>2,014,707</u>	<u>892,580</u>
Net cash flow from operating activities before income tax	2,357,937	121,744
Income tax paid	<u>(71,414)</u>	<u>(26,740)</u>
<b>Net cash flow from operating activities</b>	<u>2,286,523</u>	<u>95,004</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Dividends received	1,233	2,863
Purchase of financial assets at fair value through other comprehensive income	(558,613)	(965)
Sale of financial assets at fair value through other comprehensive income	615,338	1,226,468
Other financial assets mandatory at fair value through profit or loss	(237,611)	-
Sale of held-to-maturity investments	-	5,885
Income from financial assets at fair value through other comprehensive income	95,075	119,442
Purchase of tangible and intangible assets	(15,463)	(15,061)
Sale of tangible assets	<u>1,179</u>	<u>1,223</u>
Net cash flow from investing activities	<u>(98,862)</u>	<u>1,339,855</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Issuance/(redemption) of debt securities	(145,301)	(250,137)
Interest paid on bonds issued and other	(24,291)	(32,068)
Dividends paid	(618,324)	(348,486)
Interest paid on subordinated liabilities	<u>(313)</u>	<u>(315)</u>
	<u>(788,229)</u>	<u>(631,006)</u>
<b>Net Increase / (Decrease) (a) in cash and cash equivalents</b>	<u>1,399,432</u>	<u>803,853</u>
Cash and cash equivalents at the beginning of the period	1,697,709	1,536,809
The : Cash and cash equivalents at the end of the period for the six-month period ended June 30, 2018	3,097,141	2,340,662

The accompanying notes form an integral part of the consolidated statements of cash flows  
for the six-month period ended June 30, 2018



## INTRODUCTION

Banco Santander Totta, SA (hereinafter also "Bank", "BST" or "Group") was established in 1864 and was formerly known as Companhia Geral de Crédito Predial Português, SA (CPP), and it has its registered office in Portugal at Rua do Ouro, 88, Lisbon. The Bank was nationalised in 1975 and transformed into a state-owned public limited company in 1990. On December 2, 1992, the Bank was reprivated by means of a public share offering at a special session of the Lisbon Stock Exchange.

As from December 2000, the Bank joined the Santander group, following the acquisition of Banco Totta & Açores, SA, by the Group. (totta). The main balances and transactions maintained with companies of the Santander Group during the first halves of 2018 and 2017 are detailed in Note 39.

On December 16, 2004, a demerger/merger operation of totta was registered, under which its financial holdings in Foggia, SGPS, SA and in Totta Seguros – Companhia de Seguros de Vida, SA, were spun off, the remainder of its business, together with Banco Santander Portugal, SA (BSP), having been incorporated by merger into CPP, which changed its name to the present one.

On May 3, 2010, the Bank carried out the merger by incorporation of Banco Santander de Negócios Portugal, SA (BSN). The transaction was recorded for accounting purposes with reference to January 1, 2010.

On April 1, 2011, the Bank carried out the merger by incorporation of Totta Crédito Especializado – Instituição Financeira de Crédito, SA (Totta IFIC).

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

Following the decision of the Single Resolution 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. In view of the restructuring of the business of Banco Popular in Portugal and its inclusion in the Santander Group, Banco Santander, SA, demonstrated the intention to transfer all the shares representing the share capital and voting rights of Banco Popular Portugal, SA (BAPOP) to BST.

In this sense, on December 22, 2017, the European Central Bank communicated its non-opposition to the purchase by BST of the whole of the share capital and voting rights of BAPOP and to the merger of BAPOP into BST. Consequently, the merger was registered on December 27, 2017.

BST is engaged in obtaining third-party financial resources, in the form of deposits and otherwise, which it invests, together with its own funds, in every sector of the economy, mainly in the form of extending credit or in securities, while also providing other banking services in the country and abroad.

The Bank has a nationwide network of 624 branches, (635 branches as at December 31, 2017) and has a branch in London as well as an International Financial Branch in the Madeira Autonomous Region. It also has several branches and representation offices abroad and holdings in subsidiaries and associated companies.

The Bank's financial statements for the first half of 2018 were approved at the Board of Directors meeting on September 25, 2018.

1. BASES OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of presentation of the accounts

The Group's consolidated financial statements have been prepared on a going concern basis, based on the books and accounting records maintained in accordance with the principles enshrined in the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Union, in accordance with Regulation (EC) nº 1606/2002 of the European Parliament and of the Council of July 19, transposed into Portuguese law by Decree-Law 35/2005, of February 17 and by Bank of Portugal Notice nº 1/2005 of February 21. As regards Group companies that use different accounting standards, adjustments are made for conversion to the IAS/IFRS.

The accounting policies used by the Bank in the preparation of its consolidated financial statements as at June 30, 2018, are consistent with those used in the preparation of the consolidated financial statements as at December 31, 2017, applying in particular IAS 34 (Interim Financial Reporting ), except those arising from regulatory changes that came into effect on January 1, 2018.

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

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

Adoption of standards (new and revised) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union. On January 1, 2018, the Bank adopted the following accounting standards:

- **IFRS 15** (new), "Revenue from contracts with customers". This new standard applies only to contracts for the delivery of goods or provision of services, and requires the entity to recognise the revenue when the contractual obligation to deliver assets or provide services is satisfied and for the amount that reflects the consideration to which the entity is entitled, as provided for in the "5-step method".
- **Amendments to IFRS 15**, "Revenue from contracts with customers". These amendments relate to the additional indications to be followed to determine the obligations of performance of a contract, at the moment of recognition of the revenue of an intellectual property licence, to the review of the indicators for the classification of the principal versus agent relationship, and to the new regimes intended to simplify the transition.
- **IFRS 9** (new), "Financial instruments". IFRS 9 replaces the requirements of IAS 39, concerning: (i) classification and measurement of financial assets and liabilities; (ii) recognition of impairment of receivables (through the expected-loss model); and (iii) requirements for the recognition and classification of hedge accounting.
- **IFRS 4** (Amendment), "Insurance contracts (application of IFRS 4 with IFRS 9)". This amendment assigns to entities that negotiate insurance contracts an option to recognise under Other comprehensive income, instead of recognition in the Income statement, the volatility that can result from application of IFRS 9 prior to the publication the new standard on insurance contracts. Additionally, temporary exemption is granted of application of IFRS 9 up until 2021 to those entities whose predominant business us that of insurer. This exemption is optional and does not apply to consolidated financial statements that include an insurance entity.

- **IFRS 2** (Amendment), "Classification and measurement of share-based payment transactions". This amendment clarifies the basis of measurement for cash-settled share-based payment transactions and the accounting of modifications at the level of share-based payments that alter their classification from cash-settled to equity-settled. Additionally, it introduces an exception to the principles of IFRS 2, which comes to require that a share-base payments plan be treated as if it were fully equity settled, when the employer is required to withhold an amount of tax from the employee and pay that amount to the tax authority.
- **IAS 40** (Amendment), "Transfers of investment property". This amendment clarifies that the assets may only be transferred from and to the investment property category where there is evidence of the change of use. Just the change of the management's intent of is not enough to effect the transfer.
- **Improvements to the 2014 – 2016 standards**. This cycle of improvements affects the following standards: IFRS 1, IFRS 12 and IAS 28.
- **IFRIC 22** (new), "Foreign currency transactions and advance consideration". It is an interpretation of IAS 21. The effects of changes in foreign exchange rates, and refers to the determination of the "transaction date" when an entity pays or receives advance consideration of contracts denominated in foreign currency. The "transaction date" determines the exchange rate to be used to convert foreign-currency transactions.

The adoption of the standards and interpretations referred to above had an impact mainly in terms of the disclosures and the presentation of the financial statements.

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

- **IFRS 16** (new), "Leases". This new standard replaces IAS 17, with a significant impact on the accounting by lessees who are now required to recognise a future lease liability reflecting payments of the lease and an 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 current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and; and (ii) recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.
- **IAS 28** (Amendment), "Long-term investments in associates and joint ventures". This amendment clarifies that long-term investments in associates and joint ventures (components of the investment of an entity in associates and joint ventures), which are not being measured using the equity method, are accounted for under IFRS 9, being subject to the impairment model of estimated losses, prior to any impairment test on the investment as a whole.
- **Improvements to the 2015 – 2017 standards**. This cycle of improvements affects the following standards: IAS 23, IAS 12, IFRS 3 and IFRS 11.

- **Conceptual Framework**, “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 17** (new), “Insurance contracts”. This new standard replaces IFRS 4 and applies to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary-participation features. IFRS 17 is based on the current measurement of technical liabilities 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
- **IFRIC 23** (new), “Uncertainty over income tax treatments”. 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.

#### ***Comparability of information***

On January 1, 2018, the Bank adopted for the first IFRS 9 Financial instruments. IFRS 9 introduces new requirements as regards (i) classification and measurement of financial assets and liabilities, (ii) measurement and recognition of credit impairment on financial assets through an expected-loss model and (iii) hedge accounting. The main changes were:



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

ASSETS	31-12-2017	Classification	Measurement	01-01-2018
Cash and deposits at central banks	1,039,554	-	-	1,039,554
Balances due from other banks	658,155	-	-	658,155
Financial assets held for trading	1,515,236	-	-	1,515,236
Other financial assets mandatory at fair value through profit or loss	-	77,580	-	77,580
Other financial assets at fair value through other comprehensive income	4,537,143	(77,580)	-	4,459,563
Financial assets at amortised cost				
<i>Loans and advances to credit institutions</i>	826,367	-	-	826,367
<i>Credit granted and other balances receivable at amortized cost</i>	39,633,212	115,975	(28,141)	39,721,046
Held to maturity investments	108,809	(108,809)	-	-
Hedging derivatives	15,349	-	-	15,349
Investment in associated companies	76,602	-	-	76,602
Investment properties	353,957	-	-	353,957
Other tangible assets	353,305	-	-	353,305
Intangible assets	34,299	-	-	34,299
Tax assets	467,406	(2,221)	19,593	484,778
Other assets	935,371	-	-	935,371
Non-current assets held for sale	87,269	-	-	87,269
<b>Total Assets</b>	<b>50,642,034</b>	<b>4,945</b>	<b>(8,548)</b>	<b>50,638,431</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Liabilities</b>				
Financial liabilities held for trading	1,533,760	-	-	1,533,760
Financial liabilities at amortised cost				
<i>Resources of central banks</i>	3,080,538	-	-	3,080,538
<i>Resources from other credit institutions</i>	4,351,086	-	-	4,351,086
<i>Resources of customers and other debts</i>	32,137,468	-	-	32,137,468
<i>Debt securities</i>	4,581,237	-	-	4,581,237
Hedging derivatives	39,275	-	-	39,275
Provisions	167,550	-	35,062	202,612
Tax liabilities	232,481	-	-	232,481
Equity representative instruments	69,026	-	-	69,026
Other assets	788,067	-	-	788,067
<b>Total liabilities</b>	<b>46,980,488</b>	<b>-</b>	<b>35,062</b>	<b>47,015,550</b>
<b>Shareholders' equity</b>				
Share capital	1,256,723	-	-	1,256,723
Share premium account	193,390	-	-	193,390
Other equity instruments	135,000	-	-	135,000
Accumulated comprehensive income reserves	(277,225)	4,886	-	(272,339)
Other reserves and retained earnings	1,975,354	59	(43,610)	1,931,803
(Own shares)	(43,991)	-	-	(43,991)
Consolidated net income attributable to the shareholders' of BST	421,157	-	-	421,157
Shareholders' equity attributable to the shareholders of BST	3,660,408	4,945	(43,610)	3,621,743
Non-controlling interests	1,138	-	-	1,138
<b>Total shareholders' equity</b>	<b>3,661,546</b>	<b>4,945</b>	<b>(43,610)</b>	<b>3,622,881</b>
<b>Total liabilities and shareholders' equity</b>	<b>50,642,034</b>	<b>4,945</b>	<b>(8,548)</b>	<b>50,638,431</b>

The impacts result primarily from the recognition of expected loan losses, the revaluation of equity instruments at fair value and the changes in classifications of financial assets by way of the Bank's business model.

### 1.2. Consolidation principles and registration of associate companies

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

Subsidiary companies are those in which the Group exercises effective control over their day-to-day management in order to obtain economic benefits from their business. Normally, control is evidenced by holding more than 50% of the share capital or voting rights, by exposure to or rights to variable results through its relationship with the company invested in and the ability to use its power over the business of the company invested in to affect the amount of their results. Additionally, as a result of the application of IFRS 10 – Consolidated financial statements, the Group includes special-purpose entities in its consolidation perimeter, in particular vehicles and funds set up within the context of securitisation operations, when it exercises effective financial and operational control over them and when it is exposed to the majority of the risks and benefits associated with their business.

The financial statements of subsidiary companies are consolidated using the full consolidation method as soon as the Group takes control over their business until such time as control ceases. All

significant balances and transactions between the consolidated companies have been eliminated. Additionally, where applicable, consolidation adjustments are made in order to ensure consistency in the application of the accounting principles. The amount corresponding to the holding of third parties in subsidiaries that have been consolidated using the full consolidation method is presented under Non-controlling interests (Note 24).

The acquisition cost is measured at the fair value of the assets given in return, of the liabilities assumed and of the equity interests issued for the purpose. The transaction costs incurred are recorded as expenses in the periods in which the costs are incurred, with the exception of the costs of issuing debt or equity securities, which have to be recognised in accordance with IAS 32 and 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 results relating to the consolidated investment fund are recognised as a deduction from Other operating income (Novimovest Fund) 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 than the group of assets comprising each of the Group's operational

segments, determination of the respective recoverable amount being based on estimates of future cash flows updated on the basis of discount rates considered appropriate by the Group based on appropriate and accepted methods. Impairment losses related to goodwill are recorded in profit or loss for the year and cannot be reversed. The goodwill of associated companies is included in the carrying amount of the holding, and is subject to impairment tests.

In a step-acquisition transaction resulting in the acquisition of significant influence, any interest previously held is revalued at fair value with a contra entry in profit or loss at the time of the first application of the equity method.

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

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

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

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

On the other hand, the Group decided to cancel, on the date of transition to the IAS/IFRS (January 1, 2004), the reserve arising from exchange-rate fluctuations caused by the translation of the financial statements of subsidiary and associate companies with functional currency other than euro, against retained earnings. From then on, and in accordance with IAS 21, the financial statements of subsidiaries, joint ventures and associates expressed in foreign currency are translated to euros using the following methodology:

- The translation of assets and liabilities expressed in foreign currency is made based on the closing exchange rate of the euro on the reporting date;
- Non-monetary assets carried at historical cost, including tangible fixed assets, continue to be carried at the original exchange rate; and
- Income and expenses determined in the different currencies are translated into euros at the average exchange rate of the month in which they are recognised.

Exchange differences arising on translation to euros are recorded in the Group's equity under Revaluation reserves – Exchange rate fluctuations.

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

### 1.3. Summary of the main accounting policies

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

#### a) Accrual accounting

The Bank uses the accrual-accounting principle for most items of the financial statements. Thus, costs and income are recorded as and when generated, regardless of the time of payment or receipt.

#### b) Foreign currency transactions

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

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

#### c) Financial instruments

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

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

In this connection, the main categories of financial assets provided for are:

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

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

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

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

#### Sale of credits

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

#### Securitised credit not derecognised

The Bank does not derecognise the credits sold in the securitisation operations when:

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

Credits sold and not derecognised are recorded under Customer loans and advances, and are subject to accounting criteria identical to other credit operations. Interest and commissions associated with the securitised credit portfolio are accrued in keeping with the respective term of the credit operations.

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

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

#### Derecognition

Assets are derecognised when (i) the Bank's contractual right to receive their cash flows expires, (ii) the Bank has substantially transferred all the risks and benefits inherent in holding them; or (iii) notwithstanding retaining a part, but not substantially the whole, of the risks and benefits inherent in holding them, the Bank 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. Gains and losses related to subsequent variation in the fair value are reflected in specific equity heading named Accumulated comprehensive income reserve until their sale, when they are reclassified to profit or loss for the period, with the exception of equity instruments that remain in share capital.

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

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

Financial assets and liabilities held for trading and other financial assets mandatorily at fair value through profit or loss

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

Financial assets and liabilities held for trading and other financial assets mandatorily at fair value through profit or loss are initially recognised at fair value. Gains and losses arising from subsequent valuation at fair value are recognised in the income statement.

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

When discounted cash flow techniques are used, the future financial flows are estimated in keeping with management's expectations, and the discount rate used corresponds to the market

rate for financial instruments of similar characteristics. In the price valuation models, the data used correspond to information on market prices.

The fair value of derivative financial instruments that are not traded on the stock market, including the credit-risk component assigned to the parties involved in the transaction (Credit Value Adjustments and Debit Value Adjustments), is estimated based on the amount that would be received or paid to settle the contract on the date in question, considering current market conditions, as well as the credit rating of the parties involved.

### **Financial liabilities**

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

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

According to analysis carried out by the Bank with reference to January 1, 2018, no significant impacts arising from the adoption of IFRS 9 have been identified.

### **Repo Operations**

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

### **Secondary market transactions**

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

### **Hedge accounting**

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

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

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

The Bank uses derivative financial instruments in particular to hedge the interest-rate risk arising from financing and investment activities. Derivatives that qualify for hedge accounting are carried



at their fair value and gains or losses are recognised in keeping with the Bank's hedge-accounting model.

Under the terms of IAS 39, 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 is recognised in profit or loss. Should the hedge be effective, the gains or losses resulting from the change in fair value of the hedged item relative to the risk being hedged are also recognised in profit or loss.

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

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

#### Cash flow hedge

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

In this sense, the Bank contracted financial derivatives to hedge the future interest flows of part of its mortgage loan portfolio remunerated at a floating rate and for structured deposits issued by the Bank remunerated at a floating rate.

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

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

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

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

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

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

### **Loan impairment**

IFRS 9 introduces the concept of expected loan losses that differs significantly from the concept of losses incurred provided for in IAS 39, thus bringing forward the recognition of loan losses in the financial statements of the institutions. IFRS 9 determines that the concept of impairment based on expected losses is to be applied to all financial assets except for financial assets at fair value through profit or loss and equity instruments measured at fair value through equity.

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

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

- expected loss for credit risk at 12 months, that is, total estimated loss resulting from default events of the financial instrument events that are possible within 12 months of the reporting date (called Stage 1);
- or expected loss per credit risk to maturity, that is, the estimated total loss resulting from all possible default events throughout the life of the financial instrument (referred to as Stage 2 and Stage 3). A provision for expected loss per credit risk to maturity is required for a financial instrument if the credit risk of that financial instrument has increased significantly since the initial recognition or if the financial instrument is impaired.

The expected loss per credit risk is an estimate weighted by the probability of the present value of the loan losses. This estimate results from the present value of the difference between the cash

flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the effective interest rate of the financial instruments.

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

#### Impaired financial assets

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

#### Purchased or originated credit-impaired (POCI) financial assets

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

#### Significant increase of the credit risk

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

The Bank uses scorings and rating systems for internal credit-risk management. These notations allow an assessment of the risk level of the transactions or of the customer at all times and they are considered in the credit-risk approval and monitoring decisions. The models are based on series of data that are considered as predictors of the risk of default, which apply judgements, that is, the credit-risk notations are defined using qualitative and quantitative factors that are indicative of the risk of default. The notations consider current characteristics and past events, and their significance for the level of risk is studied.

The Bank uses different criteria to determine if credit risk has increased significantly per asset portfolio, in particular:

- Limits of relative variation of the accumulated PD for the residual maturity of the transaction. The limits of relative variation are differentiated by PD level to the extent that variations of risk in very low risk transactions may not represent a significant increase of the risk. It should be noted that customers with no alteration of the credit-risk notation can have a significant deterioration (accumulated PD variation above the defined limit) for evolution of the residual term (sensitivity of the transactions differentiated over time) or by alterations of future expectations regarding the economy.
- Regardless of the outcome of the aforesaid evaluation, the Bank assumes that the credit risk of a financial asset has increased significantly since the initial recognition when the contractual payments are overdue by more than 30 days or when the transactions are identified as loans restructured loans for financial difficulties.

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

### Credit risk parameters

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

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

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

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

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

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

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

### Collective analysis

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

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

### Individual Analysis

The individual analysis process is applied to customers with Stage 3 exposure (assets impaired assets and in default internal risk-management purposes) individually significant (exposure greater than €1 million).

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

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

#### Incorporation of forward-looking information

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

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

#### d) Tangible assets

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

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

	<u>Years of useful life</u>
Premises	50
Equipment	4 to 10

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

As provided for in IFRS 1, tangible assets acquired until January 1, 2004 were recorded at their book value on the date of transition to the IAS/IFRS, which corresponded to the acquisition cost adjusted for revaluations performed in accordance legislation in force arising from the evolution of the general price indices. A portion corresponding to 40% of the increase of the depreciation resulting from these revaluations is not accepted as a cost for tax purposes, and the corresponding deferred tax liabilities are recorded.

Whenever there is an indication that the tangible fixed asset may be impaired, an estimate of its

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

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

The Bank's premises that are undergoing sale are carried under Other assets. These assets were transferred at their net carrying amount in accordance with IAS 16 (acquisition cost, net of 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.

e) Intangible assets

The Bank records under this heading expenses incurred with development of projects relating to information technologies implemented and at the implementation stage, as well as those relating to software purchased, in every case where their expected impact has to be reflected in years subsequent to that in which they are made. An analysis is performed annually to identify possible impairment losses.

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

In the first half of 2018 the Bank recognised €1,182k of internally-generated intangible assets. In 2017, the Bank did not recognise any intangible assets generated internally.

f) Investment properties

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

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

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

g) Available-for-sale non-current assets

The Bank essentially recognises under Non-current assets held for sale real estate, equipment and other assets received by way of payment in kind or auction for the payment of overdue loan transactions when they are available for immediate sale in their present condition and there a likelihood of their sale with a period of one year. If they do not meet these criteria, those assets are carried under Other assets (Note 16).

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

Their initial recognition is at the lower of their fair value less expected selling costs and the carrying amount of the loans granted constituting the object of the recovery. Subsequently, these assets are measured at the lesser of the initial recognition amount and fair value less costs to sell, and they are not depreciated. Unrealized losses on these assets, thus determined, are recorded in profit or loss.

h) Provisions

A provision is set aside where there is present (legal or constructive) obligation resulting from past events in respect of which there will be a probable outflow of funds that can be determined reliably. The amount of the provision corresponds to the best estimate of the amount to be disbursed to settle the liability on the reporting date.

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

i) Employee post-employment benefits

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

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

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

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

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

Liabilities for past services recognised as at December 31, 2010, were not altered with the publication of the aforesaid decree-law, since the reduction of the amount of the pensions payable by the Bank related with workers in active service was applicable to the future services of



the employees, beginning on January 1, 2011.

In this way, the cost of the current service cost fell as from that date, but the Bank came to bear the Single Social Charge (TSU) of 23.6%. On the other hand, the Bank is still liable for the payment of disability 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 London Branch are covered by a defined-benefit pension plan, for which the Branch 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.

BST'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 the former Banif, BST took over the pension liabilities of a number of former Banif workers.

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

- i) Change in the formula for determining the employer's contribution to the SAMS, which is no longer a percentage of the pension and becomes a fixed amount (€87.64 per beneficiary and €37.93 in the case of pensioners); and
- ii) Introduction of a new benefit called pension bonus – end of career bonus. This benefit, because it is allocated on the date of retirement or in event of death, is considered a post-employment benefit and therefore comes to form part of the retirement liabilities.

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

#### Application of IAS 19

On January 1, 2005, the Bank elected not to apply IAS 19 retrospectively, having then recalculated the actuarial gains and losses that would be deferred had it adopted this standard since the beginning of the pension plans. Thus, the actuarial gains and losses existing as at January 1, 2004, as well as those arising from the adoption of IAS 19 were cancelled/recorded against retained earnings on that date.

In 2011 the Bank changed the accounting policy for recognition of actuarial gains and losses, no longer adopting the corridor method, and coming to recognise actuarial gains and losses directly in equity (Other comprehensive income), as provided for in the revised version of IAS 19.

On the other hand, as from January 1, 2013, following the revision of IAS 19 – Employee benefits, the Bank came to carry the following components under Staff costs of the income statement:

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

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

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

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

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

j) Corporation tax

BST and Group companies located in Portugal are subject to the tax system established in the Corporation Tax Code (IRC). The accounts of the branch are included in the Bank's accounts for tax purposes. In addition to being subject to IRC, the results of the branch are also subject to local taxes in the country where it is established. The local taxes are deductible from the IRC taxable income in Portugal under article 91 of the respective Code and of the Double Taxation Agreements concluded by Portugal.

As amended by the 2011 State Budget Act (Law 55-A/2010 of December 3) and in accordance with article 92 of the IRC Code, tax paid in accordance with article 90(1), net of deductions related to double international taxation and to tax benefits, cannot be less than 90% of the amount that would be determined should the taxpayer not enjoy tax benefits and the arrangements provided for in article 43(13) of the IRC Code.

Following the enactment of Law 2/2014, of January 16 (IRC Reform) and of the wording provided by the 2018 State Budget Act (Law 114/2017 of December 29), the taxation of corporate earnings for 2018 and 2017 came to be the following:

- IRC rate of 21% on taxable profit;
- Municipal surcharge at a rate between 0% and 1.5% on taxable profit;
- State surcharge at a variable rate on taxable income in accordance with the following tiers:
 

- Up to €1,500k	0%
- between €1,500k and €7,500k	3%
- between €7,500k and €35,000k	5%
- over €35,000k (7% in 2017)	9%

In this way, the changes mentioned above imply that the tax rate used by the Bank in determining and recording deferred taxes was 31%.

Tax losses generated as from and including 2014 may be used during the 12 subsequent taxation periods. On the other hand, the reporting period for tax losses is six years for losses generated in 2008 and 2009, four years for losses generated in 2010 and 2011 and five years for losses generated in 2012 and 2013. However, the deduction of losses to be carried out each year may not exceed 70% of the respective taxable income, and the remainder (30%) may be used by the end of the reporting period.

Following the publication of Bank of Portugal Notice nº 5/2015, entities that presented their financial statements in keeping with the Adjusted Accounting Standards, issued by the Bank of Portugal (NCA) came to apply the International Financial Reporting Standards as adopted in the European Union in preparation of their separate financial statements. In this connection, in the Bank's separate financial statements, the customer loan portfolio and the guarantees provided became subject to recording impairment losses calculated in accordance with the requirements laid down in IFRS 9 (in 2018) and IAS 39 (in 2017), in the place of recording provisions for specific risks, for general credit risks and for country risk, under the terms previously set out in Bank of Portugal Notice 3/95.

Regulatory Decree 5/2016, of November 18 came to establish the ceilings for impairment losses and other value corrections for specific credit deductible for purposes of determination of taxable income under IRC in 2016. This methodology was also applied to the treatment of the transitional adjustments related to the credit impairments of entities that had previously submitted their financial statements in NCAs.

Additionally, the regulatory decree includes a transitional rule that provides for the possibility of the positive difference between the amount of provisions for loans constituted on January 1, 2016, under Bank of Portugal Notice nº 3/95 and the impairment losses recorded on that same date in respect of the same loans being considered in the determination of the 2016 taxable profit

only in so far as it exceeds the tax losses generated in taxation periods started on or after January 1, 2012, and not used. The Bank elected to apply the transitional rule.

Regulatory Decree nº 11/2017 of December 28 extended the 2016 tax regime to 2017.

The Santander Totta Group decided to apply the Special Taxation of Groups of Companies Regime (RETGS) in 2017. Under this regime, the Group's taxable profit/tax loss corresponds to the sum of the taxable profit/tax loss that comes to be determined by the parent company through the algebraic sum of tax results determined in the periodic separate statements of each company. The companies covered by this scheme are: Santander Totta, SGPS - the controlling company, and Taxagest, BST, Santander Totta Seguros and TottaUrbe - controlled companies.

The gain obtained by application of the RETGS is allocated to the entities in question in the taxable income of each company.

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

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

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

Deferred tax assets and liabilities have been calculated on the basis of the tax rates enacted for the period when it is expected that the asset will be realised or the liability incurred.

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

#### Banking sector contribution

With the publication of Law 55/2010, of December 31, the Bank came to be covered by the banking sector contribution regime. This contribution has the following basis of incidence:

- a) Liabilities determined and approved by taxpayers less the Tier 1 and Tier 2 capital and deposits covered by the Deposit Guarantee Fund. From the liabilities so determined the following are deducted:
  - Items that in accordance with the applicable accounting standards are recognised as own funds;
  - Liabilities associated with the recognition of liabilities for defined-benefit plans;
  - Liabilities for provisions;
  - Liabilities arising from revaluation of derivative financial instruments;
  - Deferred income revenues, without consideration of those in respect of borrowing operations;
  - Liabilities for assets not derecognised in securitisation operations.
- b) The notional value of off-balance sheet derivative financial instruments determined by the taxpayers, with the exception of hedging derivative financial instruments or whose position at risk is mutually offset.

The rates applicable to the tax bases defined in subparagraphs a) and b) above are 0.110% and 0.0003%, respectively, as provided for in the amendment introduced by Order-in-Council 176/2015, of June 12, to article 5 of Order-in-Council 121/2011 of March 30.

k) Long-term share incentive plans

The Bank has long-term incentive plans on shares in Banco Santander, SA, the parent company of the Santander Group. Given their characteristics, these plans consist of equity-settled share-based payment transactions, as defined in IFRS 2 and IFRIC 11. The management, coverage and implementation of these long-term incentive plans is ensured directly by Banco Santander SA. The Bank annually pays Banco Santander, SA, the amount related to these plans.

Recording these plans consists of recognising the right of the Bank's employees to these instruments under Other reserves, with a contra-entry under Staff costs, to the extent that they correspond to remuneration for services rendered.

The description of the long-term incentive plans on options on shares in Banco Santander SA, that are in force is included in Note 40.

l) Treasury shares

Treasury shares are carried in equity accounts at acquisition cost and are not subject to revaluation. Gains and losses realised on sale of treasury shares, as well as the respective taxes are recorded directly in equity and do not affect the year's profit or loss.

m) Provision of insurance mediation services

The Bank uses the accrual-accounting principle in relation to income from the provision of insurance mediation services - commissions. Thus, this income is recorded as and when generated, regardless of the time of payment or receipt. The amounts receivable are subjected to impairment loss analyses.

The Bank does not collect insurance premiums on behalf of insurers, nor does it handle funds relating to insurance contracts. There is therefore no other asset, liability, income or expense to report in respect of insurance mediation business carried on by the Bank, other than those already disclosed.

n) Cash & cash equivalents

For the purposes of the preparation of the cash-flow statement, the 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 Bank's financial statements are continually assessed, representing on each reporting date the Board of Directors' best estimate, taking into account historical performance, accumulated experience and expectations as to future events that, in the circumstances at issue, are believed to be reasonable.

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

Employee post-employment benefits

Retirement and survivor pensions are estimated based on actuarial evaluations carried out by external experts certified by the Insurance and Pension Fund Supervisory Authority (ASF). These estimates incorporate a set of financial and actuarial assumptions, including the discount rate, mortality and disability tables, pension and salary growth, among others.

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

#### Valuation of financial instruments not traded on active markets

In the valuation of financial instruments not traded on active markets valuation models or techniques are used. Accordingly, the valuations obtained correspond to the best estimate of the fair value of those instruments on the reporting date. To ensure an appropriate segregation of duties, the value of those financial instruments is determined by a body independent of the trading function.

#### Fair value

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

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

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

- For financial instruments transacted on active markets, closing price on the reporting date;
- For debt instruments not traded on active markets (including unlisted or illiquid securities), valuation methods and techniques are used that include:
  - i) Bid prices disclosed by means of dissemination of financial information, such as Bloomberg and Reuters, including market prices available for recent transactions;
  - ii) Bid prices obtained from financial institutions operating as market makers; and
  - iii) Valuation models that take into account market data that would be used in setting a price for the financial instrument, reflecting market interest rates and volatility, as well as the liquidity and the credit risk associated with the instrument.

#### Amortised cost

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

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

#### Determination of impairment losses

Impairment losses on loans are calculated as indicated in Note 1.3. (c). In this way, determination of the impairment through individual analysis corresponds to the judgement of the Board of Directors regarding the economic and financial situation of its customers and to its estimate of the value of the guarantees associated with the respective loans, with the consequent impact on expected future cash flows. The determination of impairment through collective analysis is performed on the basis of historical parameters for comparable types of operations, taking default and recovery estimates into consideration.

#### 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.

In order to adapt the IRC code to the international accounting standards adopted by the European Union and to the Accounting Standardisation System (SNC), enacted by Decree-Law 158/2009 of July 13, Decree-Law 159/2009, of July 13 was enacted.

The aforesaid decree-law amended several articles of the IRC code, having also revoked article 57(2) of the 2007 State Budget. These provisions came into force on January 1, 2010.

In this sense, these rules were observed for the determination of the taxable profit in 2018 and 2017 in keeping with the Bank's interpretation thereof.

#### Determination of the outcome of legal proceedings in progress

The outcome of the legal proceedings in progress, as well as the respective need for provisions to be set aside, is estimated on the basis of the opinion of the Bank's lawyers/legal advisors and decisions of the courts to date, which, however, might not come about.

### 3. DISCLOSURES BY SEGMENTS

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

#### **Global Corporate Banking:**

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

#### **Retail Banking:**

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

#### **Commercial Banking:**

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

**Corporate Activities:**

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

The breakdown of the income statement by operating segment as at June 30, 2018, is as follows:

	June 30, 2018				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Financial margin (narrow sense)	43,336	243,590	58,805	99,317	445,048
Income from equity instruments	-	-	-	1,233	1,233
<b>Financial margin</b>	<b>43,336</b>	<b>243,590</b>	<b>58,805</b>	<b>100,550</b>	<b>446,281</b>
Net commissions	23,330	156,958	14,777	(8,336)	186,729
Other results from banking activity	-	2,271	-	(28,948)	(26,677)
<b>Commercial margin</b>	<b>66,666</b>	<b>402,819</b>	<b>73,582</b>	<b>63,266</b>	<b>606,333</b>
Results from financial operations	7,058	2,089	925	22,751	32,823
<b>Net income from banking activities</b>	<b>73,724</b>	<b>404,908</b>	<b>74,507</b>	<b>86,017</b>	<b>639,156</b>
Operating costs	(12,667)	(249,430)	(19,065)	(1,652)	(282,814)
Depreciation and amortization	(1,430)	(18,774)	(453)	-	(20,657)
<b>Net operating income</b>	<b>59,627</b>	<b>136,704</b>	<b>54,989</b>	<b>84,365</b>	<b>335,685</b>
Impairment and provisions, net of reversals	12,424	(5,732)	(1,558)	(332,971)	(327,837)
Result from associates	-	-	-	2,349	2,349
Results from non-current assets held for sale	-	-	-	3,782	3,782
<b>Income before taxes</b>	<b>72,051</b>	<b>130,972</b>	<b>53,431</b>	<b>(242,475)</b>	<b>13,979</b>
Taxes	(22,258)	(40,873)	(16,564)	301,169	221,474
Non-controlling interests	-	-	-	183	183
<b>Net income for the period</b>	<b>49,793</b>	<b>90,099</b>	<b>36,867</b>	<b>58,877</b>	<b>235,636</b>

As at June 30, 2018, the breakdown of the assets and liabilities under management of each business segment, in accordance with information used by the Bank's Management for decision-making, is as follows:

	30-06-2018				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
<b>Assets</b>					
Credit granted and other balances receivable at amortized cost					
Mortgage loans	-	17,408,978	-	1,853,480	19,262,458
Consumer loans	-	1,585,283	-	31,955	1,617,238
Other loans	3,617,971	4,392,021	8,295,509	2,884,001	19,189,502
Total allocated assets	<b>3,617,971</b>	<b>23,386,282</b>	<b>8,295,509</b>	<b>4,769,436</b>	<b>40,069,198</b>
Total non-allocated assets					12,476,191
<b>Total Assets</b>					<b>52,545,389</b>
<b>Liabilities</b>					
Resources in the balance sheet					
Resources of customers and other debts	1,157,205	23,634,306	5,732,932	3,888,723	34,413,166
Debt securities	-	32,165	-	4,402,701	4,434,866
Total allocated resources	<b>1,157,205</b>	<b>23,666,471</b>	<b>5,732,932</b>	<b>8,291,424</b>	<b>38,848,032</b>
Total non-allocated Liabilities					10,409,227
<b>Total Liabilities</b>					<b>49,257,259</b>
<b>Guarantees and sureties given</b>	<b>124,672</b>	<b>428,827</b>	<b>762,608</b>	<b>350,623</b>	<b>1,666,730</b>

<sup>(1)</sup> includes assets and liabilities of former BAPOP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

The breakdown of the income statement by operating segment as at June 30, 2017, is as follows:

	June 30, 2017				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities	Total Consolidated
Financial margin (narrow sense)	43,379	210,116	47,682	38,227	339,404
Income from equity instruments	-	-	-	2,863	2,863
<b>Financial margin</b>	<b>43,379</b>	<b>210,116</b>	<b>47,682</b>	<b>41,090</b>	<b>342,267</b>
Net commissions	20,769	140,853	8,922	(6,244)	164,300
Other results from banking activity	-	3,264	-	(20,351)	(17,087)
<b>Commercial margin</b>	<b>64,148</b>	<b>354,233</b>	<b>56,604</b>	<b>14,495</b>	<b>489,480</b>
Results from financial operations	7,625	2,011	1,267	40,842	51,745
<b>Net income from banking activities</b>	<b>71,773</b>	<b>356,244</b>	<b>57,871</b>	<b>55,337</b>	<b>541,225</b>
Operating costs	(10,085)	(212,717)	(15,969)	(1,259)	(240,030)
Depreciation and amortization	(1,504)	(16,713)	(481)	-	(18,698)
<b>Net operating income</b>	<b>60,184</b>	<b>126,814</b>	<b>41,421</b>	<b>54,078</b>	<b>282,497</b>
Impairment and provisions, net of reversals	605	(6,583)	8,272	(1,419)	875
Result from associates	-	-	-	2,633	2,633
<b>Income before taxes</b>	<b>60,789</b>	<b>120,231</b>	<b>49,693</b>	<b>55,292</b>	<b>286,005</b>
Taxes	(18,237)	(36,353)	(14,908)	6,003	(63,495)
Non-controlling interests	-	-	-	-	-
<b>Net income for the period</b>	<b>42,552</b>	<b>83,878</b>	<b>34,785</b>	<b>61,295</b>	<b>222,510</b>

As at December 31, 2017, the breakdown of the assets and liabilities under management of each business segment, in accordance with information used by the Bank's Management for decision-making, is as follows:

	31-12-2017				
	Global Corporate Banking	Retail Banking	Commercial Banking	Corporate Activities <sup>(1)</sup>	Total Consolidated
<b>Assets</b>					
Credit granted and other balances receivable at amortized cost					
Mortgage loans	-	17,214,078	-	1,877,051	19,091,129
Consumer loans	-	1,573,175	-	45,829	1,619,004
Other loans	3,531,951	4,285,335	7,582,698	3,523,095	18,923,079
Total allocated assets	<b>3,531,951</b>	<b>23,072,588</b>	<b>7,582,698</b>	<b>5,445,975</b>	<b>39,633,212</b>
Total non-allocated assets					11,008,822
<b>Total Assets</b>					<b>50,642,034</b>
<b>Liabilities</b>					
Resources in the balance sheet					
Resources of customers and other debts	1,105,358	22,802,008	3,739,715	4,490,387	32,137,468
Debt securities	-	33,652	-	4,547,585	4,581,237
Total allocated resources	<b>1,105,358</b>	<b>22,835,660</b>	<b>3,739,715</b>	<b>9,037,972</b>	<b>36,718,705</b>
Total non-allocated Liabilities					10,261,783
<b>Total Liabilities</b>					<b>46,980,488</b>
<b>Guarantees and sureties given</b>	<b>205,505</b>	<b>425,552</b>	<b>718,156</b>	<b>368,389</b>	<b>1,717,603</b>

<sup>(1)</sup> includes assets and liabilities of former BAPOP

As at June 30, 2018 and December 31, 2017, the Bank did not have relevant business in any distinct geography other than that of the domestic business.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017  
(Expressed in thousands of euros, except where otherwise stated)

4. GROUP COMPANIES AND TRANSACTIONS THAT OCCURRED DURING THE YEAR

As at June 30 2018 and December 31, 2017, the subsidiaries and associated companies and their most significant financial data taken from the respective financial statements, excluding adjustments on conversion to IAS/IFRS can be summarised as follows:

	Direct (%) participation		Effective (%) participation		Total assets (net)		Shareholders' equity		Net income of the year	
	30-06-2018	31-12-2017	30-06-2018	31-12-2017	30-06-2018	31-12-2017	30-06-2018	31-12-2017	30-06-2018	31-12-2017
BANCO SANTANDER TOTTA, S.A.	Matriz	Matriz	Matriz	Matriz	56,817,692	52,850,084	3,136,300	3,510,488	237,283	695,630
TOTTA IRELAND, PLC <sup>(2)</sup>	100.00	100.00	100.00	100.00	455,466	449,882	456,376	449,743	7,383	812
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. <sup>(1)</sup>	100.00	100.00	100.00	100.00	343,980	122,175	128,406	116,184	(1,107)	1,819
TAXAGEST,SGPS,SA	99.00	99.00	99.00	99.00	55,745	55,745	55,742	55,742	-	(4)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	79.64	79.51	79.64	79.51	354,089	367,737	340,899	336,915	4,540	7,840
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	100.00	100.00	100.00	100.00	7,036	7,049	6,931	6,870	62	96
HIPOTOTTA NO. 1 PLC	-	-	-	-	142	142	38	38	-	-
HIPOTOTTA NO. 4 PLC	-	-	-	-	735,310	786,999	(3,355)	(4,492)	1,137	1,294
HIPOTOTTA NO. 5 PLC	-	-	-	-	711,221	755,365	(5,601)	(4,329)	(1,272)	361
HIPOTOTTA NO. 4 FTC	-	-	-	-	667,047	720,237	667,294	721,331	-	1,615
HIPOTOTTA NO. 5 FTC	-	-	-	-	643,757	685,863	641,428	684,664	-	3,395
ATLANTES MORTGAGE NO 1 PLC	-	-	-	-	87,633	97,900	40	40	-	-
ATLANTES MORTGAGE NO 1 FTC	-	-	-	-	66,647	75,393	66,319	73,008	-	304
Operações de Securitização geridas pela GAMMA, STC	-	-	-	-	3,804,598	1,800,914	-	-	-	-
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	25.81	25.81	25.81	25.81	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	21.86	21.86	21.86	21.86	326,760	347,928	97,104	102,658	8,607	24,309
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	25.76	25.77	25.76	25.77	137,105	143,683	100,110	98,294	1,816	3,887
BANIF INTERNACIONAL BANK, LTD	100.00	100.00	100.00	100.00	674	656	92	60	33	2,218
PRIMESTAR SERVICING, S.A. <sup>(3)</sup>	80.00	80.00	80.00	80.00	2,401	17,075	1,440	2,480	3	(1,392)
EUROVIDA - COMPANHIA DE SEGUROS VIDA, S.A. <sup>(3)</sup>	15.90	15.90	15.90	15.90	952,388	984,565	110,687	108,669	1,711	7,963

n/a – not available

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

As at June 30, 2018 and December 31, 2017, the business, the location of the registered office and the consolidation method used for the companies included in the consolidation were as follows:

Company	Activity	Headquarters	Consolidation Method
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Headquarters
TOTTA IRELAND, PLC <sup>(2)</sup>	Investment management	Ireland	Full
TOTTA URBE - Emp.Admin. e Construções, S.A	Holding company	Portugal	Full
BENIM - Sociedade Imobiliária, S.A.	Real estate management	Portugal	Equity
BANIF INTERNATIONAL BANK	Banking	Bahamas	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDIT	Issuance and management of credit cards	Portugal	Equity
HIPO TOTTA nº 1 PLC	Investment management	Ireland	Full
HIPO TOTTA nº 4 PLC	Investment management	Ireland	Full
HIPO TOTTA nº 5 PLC	Investment management	Ireland	Full
HIPO TOTTA nº 4 FTC	Securitized loans fund	Portugal	Full
HIPO TOTTA nº 5 FTC	Securitized loans fund	Portugal	Full
Operações de Securitização geridas pela GAM	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 PLC	Securitized loans fund	Ireland	Full
ATLANTES MORTGAGE 1 FTC	Securitized loans fund	Portugal	Full
NOVIMOVEST - Fundo de Investimento Imobiliário	Fund management	Portugal	Full
GAMMA, Sociedade Financeira de Titularização	Securitized loans	Portugal	Full
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Real Estate Fund	Portugal	Equity
PRIMESTAR SERVICING, S.A. <sup>(3)</sup>	Investment management	Portugal	Full
EUROVIDA - COMPANHIA DE SEGUROS VIDA, S.A.	Insurance	Portugal	-

- (1) The equity of this subsidiary includes supplementary capital contributions amounting to €99,760k.
- (2) By virtue of this subsidiary closing its economic year on November 30, the amounts reflected in the "Income for the period" columns correspond to the net income determined between December 1, 2017 and June 30, 2018, and the month of December 2017.
- (3) The holdings in these companies were included in the assets acquired by the Bank in December 2017 following the acquisition and merger of operation of BAPOP described in Note 1.4.

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

During 2017, the Group wound up Santotta-Internacional, SGPS.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

As at June 30, 2018, and December 31, 2017, the composition of the Novimovest Fund balance sheet was as follows:

	30-06-2018	31-12-2017
Securities portfolio	3,257	3,210
Real estate portfolio	330,181	353,957
Accounts receivable	9,482	9,759
Cash and banks	11,132	479
Accruals and deferrals	37	332
	<u>354,089</u>	<u>367,737</u>
Fund capital	340,899	336,915
Adjustments and provisions	5,330	5,208
Accounts payable	5,258	23,186
Accruals and deferrals	2,602	2,428
	<u>354,089</u>	<u>367,737</u>

As at June 30, 2018, and December 31, 2017, the consolidated net income includes a profit of €3,616k and €2453k, respectively, attributable to the Novimovest Fund.

5. CASH AND DEPOSITS AT CENTRAL BANKS

The breakdown of this heading is as follows:

	30-06-2018	31-12-2017
Cash	248,486	288,202
Demand deposits - Bank of Portugal	<u>2,233,857</u>	<u>751,352</u>
	<u>2,482,343</u>	<u>1,039,554</u>

In accordance with Regulation nº 2818/98, of December 1, issued by the European Central Bank, as from January 1, 1999, credit institutions established in the participating Member States are subject to setting aside minimum reserves in accounts held with the participating National Central Banks. The basis of incidence includes all deposits at central banks and at financial and monetary institutions located outside the euro area and all customer deposits with maturities less than two years. A coefficient of 1% is applied to this base and an amount of €100,000 is deducted. The minimum required reserves are remunerated at the REFI rate (on these dates this rate is zero), the excess has a penalty of 0.4%.

Compliance with the mandatory minimum deposits, for a given observation period, is carried out taking into consideration the average of balances of deposits at the Bank of Portugal during that period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018  
(Expressed in thousands of euros, except where otherwise stated)

6. BALANCES DUE FROM OTHER BANKS

The breakdown of this heading is as follows:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Balances due from domestic banks		
Demand deposits	6,739	6,548
Cheques for collection	-	106,065
Other balances due	725	-
Balances due from foreign banks		
Other credit institutions		
Demand deposits	607,334	543,038
Cheques for collection	-	2,504
	<u>614,798</u>	<u>658,155</u>

As at December 31, 2017, the sub-heading Cheques pending collection is in respect of cheques drawn by third parties on other credit institutions, which, in general, are cleared within the business days next following. On June 20, 2018, these headings came to be carried under Financial assets at amortised cost.

As at June 30, 2018, and December 31, 2017, Balances with credit institutions abroad – Current accounts included a current account in the amounts of €80,732k and €78,870k, respectively, which can be used as certain obligations vis-à-vis third parties are fulfilled.

7. FINANCIAL LIABILITIES HELD FOR TRADING

The breakdown of this heading is as follows:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Financial assets held for trading		
Derivatives with positive fair value	1,339,639	1,511,183
Securities - Participating units - Maxirent	3,257	3,525
Securities – Shares	-	528
	<u>1,342,896</u>	<u>1,515,236</u>
Financial liabilities held for trading		
Derivatives with negative fair value	(1,367,419)	(1,533,760)

As at June 30, 2018, and December 31, 2017, the breakdown of Derivative financial instruments is as follows:

	<u>30-06-2018</u>			<u>31-12-2017</u>		
	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
			(Note 11)			(Note 11)
Forwards	5,259	5,087	172	7,344	7,254	90
Swaps						
Currency swaps	467	980	(513)	161	4,988	(4,827)
Interest rate swaps	1,229,840	1,257,713	(27,873)	1,382,349	1,400,687	(18,338)
Equity swaps	9,923	10,288	(365)	10,083	11,779	(1,696)
Options						
Foreign exchange options	1,794	1,772	22	2,405	2,362	43
Interest rate options	-	-	-	154	154	-
Equity options	5,256	4,689	567	10,950	9,423	1,527
Caps & Floors	87,100	86,890	210	97,737	97,113	624
	<u>1,339,639</u>	<u>1,367,419</u>	<u>(27,780)</u>	<u>1,511,183</u>	<u>1,533,760</u>	<u>(22,577)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

As at June 30, 2018, the assets and liabilities headings relating to Derivative financial instruments are reduced by the amounts of approximately €24,691k and €27,496k of Credit Value Adjustments and Debit Value Adjustments, respectively (€25,000k and €30,594k as at December 31, 2017, respectively), in accordance with the method described in Note 41.

As at June 30, 2018, and December 31, 2017, almost all the trading derivative financial instruments were hedged back-to-back with Banco Santander, SA.

As at June 30, 2018, and December 31, 2017, Securities - Units involved units of the Maxirent Closed End Real Estate Investment Fund.

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

As at June 30, 2018, the breakdown of this heading is as follows:

Description	Fair value
Fundo Recuperação Turismo	98,092
Fundo Solução Arrendamento	40,742
Trindade Fundo de Investimento	20,715
Fundo Aquarius, FCR	20,219
Arrendamento Mais	14,561
Fundo Recuperação FCR	17,446
Fundo de Investimento Imobiliário Imorent	14,600
Banif Property	5,350
Unicampus - FEI Imobiliário Fechado	1,515
FCR Portugal Ventures Valor 2	909
Other	3,462
	<u>237,611</u>

These assets were previously carried in the Available-for-sale financial assets portfolio (Note 9).

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

The breakdown of this heading is as follows:

		30-06-2018					
		Acquisition cost	Interest receivable	Fair Value Reserve			Book Value
				Positive	Negative	Total	Impairment
						(Note 27)	(Note 23)
Debt instruments							
Issued by residents							
Public residentes	3,723,694	48,946	358,894	-	358,894	-	4,131,534
Other residents							
Non subordinated debt	50,226	686	816	-	816	(275)	51,453
Issued by non-residents							
Foreign public issuers	311,977	2,941	6,203	-	6,203	-	321,121
Other non-residents	776	1	-	(5)	(5)	-	772
	<u>4,086,673</u>	<u>52,574</u>	<u>365,913</u>	<u>(5)</u>	<u>365,908</u>	<u>(275)</u>	<u>4,504,880</u>
Equity instruments							
Measured at fair value	16,210	-	741	-	741	-	16,951
	<u>4,102,883</u>	<u>52,574</u>	<u>366,654</u>	<u>(5)</u>	<u>366,649</u>	<u>(275)</u>	<u>4,521,831</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

	31-12-2017						
	Acquisition	Interest	Fair Value Reserve				Book
	cost	receivable	Positive	Negative	Total	Impairment	Value
					(Note 22)	(Note 19)	
Debt instruments							
Issued by residents							
Public residents	3,299,882	80,725	320,594	-	320,594	(90)	3,701,111
Other residents							
Non subordinated debt	250,048	8,586	1,906	-	1,906	(230)	260,310
Subordinated debt	2,825	2	-	-	-	(2,827)	-
Issued by non-residents							
Foreign public issuers	441,994	2,473	-	-	-	-	444,467
Other non-residents	776	14	-	-	-	-	790
	<u>3,995,525</u>	<u>91,800</u>	<u>322,500</u>	<u>-</u>	<u>322,500</u>	<u>(3,147)</u>	<u>4,406,678</u>
Equity instruments							
Issued by residents							
Measured at fair value	102,603	-	807	(127)	680	(24,410)	78,873
Measured at cost	84,906	-	-	-	-	(34,871)	50,035
Issued by non-residents							
Measured at fair value	1,429	-	-	-	-	-	1,429
Measured at cost	874	-	-	-	-	(746)	128
	<u>189,812</u>	<u>-</u>	<u>807</u>	<u>(127)</u>	<u>680</u>	<u>(60,027)</u>	<u>130,465</u>
	<u>4,185,337</u>	<u>91,800</u>	<u>323,307</u>	<u>(127)</u>	<u>323,180</u>	<u>(63,174)</u>	<u>4,537,143</u>

The public issuers headings had the following characteristics:

Description	30-06-2018					31-12-2017				
	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Impairment	Book value
National public issuers										
Maturing between five and ten years	2,811,879	39,606	352,406	-	3,203,891	3,043,752	73,712	320,594	-	3,438,058
Others	911,815	9,340	6,488	-	927,643	256,130	7,013	-	(90)	263,053
Foreign public issuers										
Maturing between three and five years	1,508	1	8	-	1,517	1,509	4	-	-	1,513
Maturing between five and ten years	277,407	2,083	5,249	-	284,739	277,563	1,183	-	-	278,746
Others	33,062	857	946	-	34,865	162,922	1,286	-	-	164,208
	<u>4,035,671</u>	<u>51,887</u>	<u>365,097</u>	<u>-</u>	<u>4,452,655</u>	<u>3,741,876</u>	<u>83,198</u>	<u>320,594</u>	<u>(90)</u>	<u>4,145,578</u>

As at June 30, 2018, and December 31, 2017, the Group's portfolio contained Portuguese Treasury Bonds in the amounts of €239,812k and €94,669 respectively, used as collateral in lending operations (Note 18).

The other issuers headings had the following characteristics:

Description	30-06-2018					31-12-2017				
	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Gain/losses reflected in reserves	Impairment	Book value
Non subordinated debt										
CAIXA GERAL DEPOSITOS 3.75% JAN/2018	-	-	-	-	-	199,827	7,144	295	-	207,265
CGD 3% 2014/2019	49,995	686	816	-	51,497	49,991	1,442	1,611	-	53,044
Other	1,007	1	(5)	(275)	728	230	-	-	(230)	-
	<u>51,002</u>	<u>687</u>	<u>811</u>	<u>(275)</u>	<u>52,225</u>	<u>250,048</u>	<u>8,586</u>	<u>1,906</u>	<u>(230)</u>	<u>260,310</u>
Subordinated debt										
BPSM/97 - TOPS - OB. PERP. SUB	-	-	-	-	-	2,825	2	-	(2,827)	-

As at December 31, 2017 and 2016, Capital instruments included, among others, the following securities:

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Description	30-06-2018				31-12-2017			
	Acquisition cost	Gain/losses reflected in reserves	Impairment	Book value	Acquisition cost	Gain/losses reflected in reserves	Impairment	Book value
FUNDO SOLUCAO ARRENDAMENTO	-	-	-	-	40,366	(105)	-	40,261
AQUARIUS, FCR	-	-	-	-	19,753	-	-	19,753
ARRENDAMENTO MAIS - FIIFAH	-	-	-	-	14,431	-	-	14,431
UNICAMPUS-FEI IMOBILIARIO FECHAD	-	-	-	-	1,500	14	-	1,514
VISA INC series C	1,429	-	-	1,429	1,429	-	-	1,429
FCR PORTUGAL VENTURES VALOR 2	-	-	-	-	3,836	171	(3,099)	908
FUNFRAP-FUNDICAO PORTUGUESA, S.A	-	-	-	-	274	491	-	765
GARVAL - SOC.DE GARANTIA MUTUA S	620	59	-	679	201	19	-	220
FII FECHADO GEF II	-	-	-	-	391	16	-	407
FUNDO RECUPERACAO FCR CATEGOR	-	-	-	-	30,085	-	(12,715)	17,370
FUNDO FECHADO DE INVESTIMENTO IMOBILIÁRIO - IMORENT	-	-	-	-	18,850	-	(4,000)	14,850
BANIF PROPERTY	-	-	-	-	15,350	-	(10,000)	5,350
SIBS - SGPS, S.A.	3,985	-	-	3,985	3,985	-	-	3,985
ASCENDI NORTE - AUTO ESTRADAS DO NORTE	3,218	-	-	3,218	3,749	-	(531)	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE - PS	3,218	-	-	3,218	3,749	-	(531)	3,218
PORTUGAL CAPITAL VENTURES - SOCIEDADE DE CAPITAL DE RISCO,	840	-	-	840	1,065	-	(214)	851
OUTROS	2,900	682	-	3,582	2,675	74	(814)	1,935
SECURITIES WITH 100% IMPAIRMENT	-	-	-	-	28,123	-	(28,123)	-
	<u>16,210</u>	<u>741</u>	<u>-</u>	<u>16,951</u>	<u>189,812</u>	<u>680</u>	<u>(60,027)</u>	<u>130,465</u>

As at June 30, 2018, and December 31, 2017, the negative revaluation reserves resulting from the valuation at fair value, had the following devaluation percentages compared to the respective acquisition costs:

	30-06-2018				31-12-2017		
	Acquisition cost	Interest receivable	Negative reserve	Book value	Acquisition cost	Negative reserve	Book value
Debt instruments							
. Between 0% and 25%	<u>776</u>	<u>1</u>	<u>(5)</u>	<u>772</u>	<u>-</u>	<u>-</u>	<u>-</u>
Equity instruments							
. Between 0% and 25%	-	-	-	-	40,463	(118)	40,345
. Between 25% and 50%	-	-	-	-	19	(9)	10
	<u>776</u>	<u>1</u>	<u>(5)</u>	<u>772</u>	<u>40,482</u>	<u>(127)</u>	<u>40,355</u>

10. FINANCIAL ASSETS AT AMORTISED COST

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

	30-06-2018	31-12-2017
Loans and advances to other domestic banks		
Deposits	118,747	200,100
Loans	95,514	121,627
Other applications	378	260
Interest receivable	473	3,219
	<u>215,112</u>	<u>325,206</u>
Loans and advances to other foreign banks		
Very short term loans and advances	272,002	78,897
Deposits	262,051	275,006
Loans	748	748
Other applications	142,261	146,396
Interest receivable	124	114
	<u>677,186</u>	<u>501,161</u>
	<u>892,298</u>	<u>826,367</u>
Impairment of loans and advances to customers (Note 19)	<u>(27)</u>	<u>-</u>
	<u>892,271</u>	<u>826,367</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

	30-06-2018	31-12-2017
Unsecuritized loans		
Domestic loans		
To corporate clients		
Discount and other credit securities	208,562	253,651
Loans	9,445,180	9,599,810
Current account loans	1,397,949	1,337,239
Overdrafts	167,939	147,957
Factoring	1,476,960	1,528,015
Finance leasing	1,173,959	1,158,310
Other credits	75,783	90,151
To individuals		
Mortgage loans	13,977,829	15,636,395
Consumer credit and other loans	2,266,084	2,305,899
Foreign loans		
To corporate clients		
Loans	262,125	273,386
Current account loans	9,583	8,366
Overdrafts	21	78
Factoring	46,977	50,832
Finance leasing	4,180	4,650
Other credits	48,824	55,817
To individuals		
Mortgage loans	452,406	469,823
Consumer credit and other loans	43,316	45,685
	<u>31,057,677</u>	<u>32,966,064</u>
Loans represented by securities		
Non-subordinated debt securities	<u>4,524,137</u>	<u>4,280,415</u>
Non-derecognized securitized assets		
.Hipototta No. 4 PLC	671,022	711,848
.Hipototta No. 5 PLC	640,869	674,136
.Gamma STC	<u>3,376,230</u>	<u>1,449,644</u>
	<u>4,688,121</u>	<u>2,835,628</u>
Overdue loans and interest		
Up to 90 days	64,866	45,400
More than 90 days	<u>930,283</u>	<u>1,187,896</u>
	<u>995,149</u>	<u>1,233,296</u>
	<u>41,265,084</u>	<u>41,315,403</u>
Accrued interest		
Loans and advances	120,617	87,805
Loans represented by securities	18,958	15,263
Non-derecognized securitized assets	3,416	1,462
Hedge adjustments	-	18,408
Deferred expenses	79,048	73,742
Checks payable	86,134	
Debtors	105,852	
Commissions associated with amortized cost (net)	<u>(136,729)</u>	<u>(138,006)</u>
	<u>277,296</u>	<u>58,674</u>
	<u>41,542,380</u>	<u>41,374,077</u>
Impairment of loans and advances to customers (Note 19)	<u>(1,473,182)</u>	<u>(1,740,865)</u>
	<u>40,069,198</u>	<u>39,633,212</u>

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In the first halves of 2018 and 2017 portfolios of loans granted to individuals and companies were sold, with a book value of €14,583k and €43,384k, respectively. As a result of these transactions net gains were recorded in the amounts of €11,308k and €10,868k, respectively (Note 31).

As at June 30, 2018, and December 31, 2017, Domestic loans – To individuals - Residential included loans assigned to the autonomous assets of the mortgage loans issued by the Bank and by the former BAPOP amounting €9,760,441K and €9,980,181k, respectively (Note 18).

Movement under impairments losses during the first halves of 2018 and 2017 is presented in Note 19.

As at June 30, 2018, and December 31, 2017, the breakdown of overdue loans and interest by default period was as follows:

	30-06-2018	31-12-2017
Up to three months	64,866	45,400
Between three and six months	40,422	26,293
Between six months and one year	75,146	220,723
Between one year and three years	439,546	381,315
More than three years	375,169	559,565
	<u>995,149</u>	<u>1,233,296</u>

On June 30, 2018, the detail of the division by stage of the portfolio of loans and other receivable balances at amortised cost is as follows:

	Gross value	Provisions	Coverage
Stage 1	35,598,015	(79,956)	0.22%
Stage 2	3,391,864	(93,163)	2.75%
Stage 3	2,552,501	(1,300,063)	50.93%
	<u>41,542,380</u>	<u>(1,473,182)</u>	

11. HEDGING DERIVATIVES

The breakdown of this heading is as follows:

	30-06-2018			31-12-2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	13,249	46,560	(33,311)	14,620	34,411	(19,791)
Equity swaps	81	2,235	(2,154)	636	2,184	(1,548)
Options	-	-	-	93	493	(400)
Cash-flows hedge						
Interest rate swaps	39,860	1,124	38,736	-	2,187	(2,187)
	<u>53,190</u>	<u>49,919</u>	<u>3,271</u>	<u>15,349</u>	<u>39,275</u>	<u>(23,926)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

As at June 30, 2018, and December 31, 2017, the breakdown of derivative financial instruments was as follows:

Type of financial instrument	30-06-2018							
	Book Value	Notional amounts					Notional amounts	
		Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR Other
1. Derivatives held for trading (Note 7)								
Forwards								
Purchased	172	122,902	31,044	5,157	-	-	159,103	77,652 81,451
Sold		122,812	31,003	5,156	-	-	158,971	78,374 80,597
Currency swaps								
Purchased		1,548,072	689	-	-	-	1,548,761	517,665 1,031,096
Sold	(513)	1,547,426	711	-	-	-	1,548,137	1,031,672 516,465
Interest rate swaps	(27,873)	8,867	15,354	1,960,375	2,745,615	21,960,638	26,690,849	26,652,364 38,485
Equity swaps	(365)	121,793	176,195	138,295	-	769,654	1,205,937	1,205,937 -
Cross currency swaps								
Purchased	22	46,138	45,328	31,427	167,513	-	290,406	146,927 143,479
Sold		46,138	45,328	31,427	167,513	-	290,406	146,927 143,479
Equity options								
Purchased	567	-	-	114,178	90,693	-	204,871	204,871 -
Sold		-	-	114,178	90,693	-	204,871	204,871 -
Caps & Floors	210	408,965	421,630	1,046,733	617,740	997,643	3,492,711	3,492,711 -
	(27,780)	3,973,113	767,282	3,446,926	3,879,767	23,727,935	35,795,023	33,759,971 2,035,052
2. Hedging derivatives								
Fair value hedge								
Interest rate swaps								
Available-for-sale financial assets	(4,696)	-	-	-	-	80,000	80,000	80,000 -
Liabilities and loans	(28,615)	8,249	14,814	19,078	587,581	2,612,228	3,241,930	3,070,393 171,557
Equity swaps	(2,154)	21,043	45,630	41,992	47,665	-	156,330	22,537 133,793
Cash flow hedge								
Interest rate swaps	38,736	99,749	72,599	248,828	6,602,595	3,500,000	10,523,771	10,523,771 -
	3,271	129,041	133,043	309,898	7,237,841	6,192,228	14,002,051	13,696,701 305,350
Type of financial instrument	31-12-2017							
	Book Value	Notional amounts					Notional amounts	
		Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR Other
1. Derivatives held for trading (Note 7)								
Forwards								
Purchased	90	180,229	15,725	8,686	355	-	204,995	91,276 113,720
Sold		157,106	34,944	21,591	1,068	-	214,709	110,440 104,269
Currency swaps								
Purchased	(4,827)	699,485	4,202	279	-	-	703,966	10,681 693,286
Sold		704,179	4,290	284	-	-	708,753	698,094 10,659
Interest rate swaps	(18,338)	30,006	58,895	33,119	4,201,883	21,633,136	25,957,039	25,917,294 39,744
Equity swaps	(1,696)	-	-	298,077	138,295	518,252	954,624	954,623 -
Cross currency swaps								
Purchased	43	77,127	24,547	55,124	20,220	-	177,018	- 177,018
Sold		74,799	24,547	55,124	20,220	-	174,690	- 174,690
Equity options								
Purchased	1,527	-	-	-	204,862	-	204,862	204,862 -
Sold		-	-	-	204,862	-	204,862	204,862 -
Caps & Floors	624	783	10,945	831,619	1,627,014	958,037	3,428,398	3,428,399 -
	(22,577)	1,923,714	178,095	1,303,903	6,418,779	23,109,425	32,933,916	31,620,531 1,313,386
2. Hedging derivatives								
Fair value hedge								
Interest rate swaps								
Available-for-sale financial assets	(3,536)	50,000	-	30,000	-	-	80,000	80,000 -
Liabilities and loans	(16,255)	641	-	23,063	297,653	2,774,714	3,096,070	2,929,306 166,764
Auto Callable options	(400)	196,916	-	-	-	-	196,916	196,916 -
Equity swaps	(1,548)	141,339	396,089	65,439	69,644	-	672,511	542,766 129,745
Cash flow hedge								
Interest rate swaps	(2,187)	-	-	172,348	351,422	-	523,771	523,771 -
	(23,926)	388,895	396,089	290,851	718,719	2,774,714	4,569,268	4,272,759 296,509

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

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

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

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

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

In accordance with IAS 39, 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.

## 12. INVESTMENTS IN ASSOCIATED COMPANIES

As at June 30, 2018, and December 31, 2017, the breakdown of this heading is as follows:

	30-06-2018		31-12-2017	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Domestic				
Benim - Sociedade Imobiliária, S.A.	25.81	1,853	25.81	1,853
Eurovida - Companhia de Seguros de Vida	15.90	18,900	15.90	22,579
Lusimovest	25.76	25,798	25.77	25,329
Unicre - Instituição Financeira de Crédito, S.A.	21.86	34,680	21.86	32,373
		<u>81,231</u>		<u>82,134</u>
Impairment of investments in associates (Note 19)				
Eurovida - Companhia de Seguros de Vida		-		(3,679)
Benim - Sociedade Imobiliária, S.A.		(1,853)		(1,853)
		<u>(1,853)</u>		<u>(5,532)</u>
		<u>79,378</u>		<u>76,602</u>

The holding in Benim – Sociedade Imobiliária, SA, is indirectly held by the bank through Totta Urbe – Empresa de Administração e Construções, SA (Totta Urbe).

As at June 30, 2018, and December 31, 2017, the financial investments held in Unicre included goodwill. The impairment test conducted on the goodwill at Unicre revealed no impairment losses in this financial investment.

As of this day, there are no liabilities to be met before the associates not are there any contingent liabilities to be recognised by the Company arising from the holdings therein.

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13. INVESTMENT PROPERTIES

The breakdown of this heading is as follows:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Properties held by Novimovest Fund	<u>330,182</u>	<u>353,957</u>

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

As at June 30, 2018, and December 31, 2017, the characteristics of properties held by the Novimovest Real Estate Fund were as follows:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Land		
Urbanized	14,872	15,023
Non-urbanized	1,109	1,109
Finished constructions		
Rented	242,045	260,872
Not rented	54,964	60,198
Other construction projects	17,192	16,755
	<u>330,182</u>	<u>353,957</u>

On the other hand, during the first halves of 2018 and 2017, the properties held by the Novimovest Real Estate Fund generated, among others, the following annual income and charges:

	<u>30-06-2018</u>	<u>30-06-2017</u>
Rents (Note 32)	7,798	7,877
Condominium expenses	(578)	(632)
Maintenance and repair expenses	(542)	(407)
Insurances	(106)	(114)
	<u>6,572</u>	<u>6,724</u>

Movement under Investment properties in the first half of 2018 and in 2017 was as follows:

	<u>30-06-2018</u>			
	Balances at 31-12-2017	Increases	Fair value valuation	Balances at 30-06-2018
Properties held by Novimovest Fund	<u>353,957</u>	<u>-</u>	<u>(682)</u>	<u>330,182</u>
	<u>31-12-2017</u>			
	Balances at 31-12-2016	Increases	Fair value valuation	Balances at 31-12-2017
Properties held by Novimovest Fund	<u>378,374</u>	<u>-</u>	<u>(6,914)</u>	<u>353,957</u>

The effect of the valuation at fair value of the properties held by the Novimovest Real Estate Fund is recorded in the income statement under Other operating results – Gains / Losses on investment properties (Note 32).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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Investment properties held by the Group are valued every two years, or more frequently if an event occurs in the meantime giving rise to doubts as to the value of the latest valuation conducted by specialised, independent entities in accordance with the method described in Note 17.

As at June 30, 2018, and December 31, 2017, the form of determination of the fair value of the investment properties in accordance with the levels set out in IFRS 13 is as follows:

	Level 3	
	30-06-2018	31-12-2017
Investment properties	380,182	353,957

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 June 30, 2018, and December 31, 2017, of their main characteristics, of the valuation techniques adopted and of the more relevant inputs used in the determination of their fair value:

Description of the property	Use	Value on		Valuation technique	Relevant inputs
		30-06-2018	31-12-2017		
Hotel Delfim - Alvor Hotel in Portimão	Leased out	34,398	34,398	Income method	Lease value per m2 Capitalization rate
Sª Cruz do Bispo - Lots 1, 2 and 3 Plots in Matosinhos	Leased out	41,504	41,063	Comparative market method / Residual value method	Lease value per m2 Capitalization rate
Galerias Saldanha Residence Shopping Center in Lisbon	Leased out	26,366	26,050	Income method / Comparative market method	Lease value per m2 Capitalization rate
Warehouse in Perafita Warehouse in Matosinhos	Leased out	15,916	15,916	Income method / Comparative market method	Lease value per m2 Capitalization rate
Av. Antero de Quental, 9 Offices and store in Ponta Delgada	Leased out	11,699	11,941	Income method / Comparative market method	Lease value per m2 Capitalization rate
Estrada da Outurela, 119, Carnaxide Offices in Oeiras	Leased out	11,878	12,262	Income method / Comparative market method Income method / Cost method	Lease value per m2 Capitalization rate
Campos de Golf Vila Sol - G1 and G2 Golf courses in Loulé	Leased out	12,240	12,240	Income method / Cost method Income method / Cost method	Lease value per m2 Capitalization rate
Parque Logístico SPC Armazéns 1 e 4 Alfena - Valongo Plots	Leased out (SPC 1)	10,312	10,312	Income method / Comparative market method	Lease value per m2
Plots in Valongo	Construction in course	9,991	9,661	Comparative market method / Cost method Residual value method	Land value and cost of construction and marketing per m2
		<b>174,304</b>	<b>173,843</b>		

If there is an increase of the amount of rent per m2 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.



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14. OTHER TANGIBLE ASSETS AND INTANGIBLE ASSETS

Movement under these headings during the first halves of 2018 and 2017 is as follows.

30-06-2018														
Transfers														
31-12-2017			Write-offs and sales			From/to non-current assets held for sale		Depreciation in the period	Losses of impairment (Note 19)	30-06-2018				
Gross amount	Accumulated depreciation	Impairment (Note 19)	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation			Gross amount	Accumulated depreciation	Impairment (Note 19)	Net amount	
Tangible assets	Ativos tangíveis													
Property														
Property for own use	469,425	166,816	6,281	4,108	-	-	7,572	2,608	4,310	-	465,961	168,518	6,281	291,162
Leasehold expenditure	161,641	154,846	-	1	-	-	(3,774)	(829)	1,197	-	165,416	156,872	-	8,544
Other property	308	11	20	-	-	-	141	-	1	(20)	167	12	-	155
Unfinished tangible assets														
Property for own use	88	-	-	-	-	-	88	-	-	-	-	-	-	-
	631,462	321,673	6,301	4,109	-	-	4,027	1,779	5,508	(20)	631,544	325,402	6,281	299,861
Equipment														
Furniture and fixtures	28,370	22,867	-	1,173	7	7	-	-	531	-	29,536	23,391	-	6,145
Machinery and tools	6,936	5,883	-	49	1	1	-	-	131	-	6,984	6,013	-	971
Computer hardware	106,268	95,568	-	1,114	210	209	(268)	(268)	2,073	-	107,440	97,700	-	9,740
Indoor facilities	36,979	19,745	-	3,819	22	14	28	18	1,440	-	40,748	21,153	-	19,595
Vehicles	19,531	8,776	-	674	3,829	2,815	-	-	1,036	-	16,376	6,997	-	9,379
Security equipment	19,514	18,187	-	103	-	-	-	-	217	-	19,617	18,404	-	1,213
Other equipment	7,556	6,369	-	202	-	-	257	260	139	-	7,501	6,248	-	1,253
Unfinished tangible assets	9	-	-	-	9	-	-	-	-	-	-	-	-	-
	225,163	177,395	-	7,134	4,078	3,046	17	10	5,567	-	228,202	179,906	-	48,296
Other tangible assets														
Leased equipment	281	281	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	2,048	-	-	12	-	-	-	-	-	-	2,060	-	-	2,060
Other	3,463	3,462	-	-	-	-	-	-	-	-	3,463	3,462	-	1
	5,792	3,743	-	12	-	-	-	-	-	-	5,804	3,743	-	2,061
	862,417	502,811	6,301	11,255	4,078	3,046	4,044	1,789	11,075	(20)	865,550	509,051	6,281	350,218
Intangible assets	Ativos intangíveis													
Software purchased	438,890	406,376	-	3,281	-	-	-	-	9,549	-	442,171	415,925	-	26,246
Unfinished intangible assets	61	-	-	921	-	-	-	-	-	-	982	-	-	982
Business transfers	3,346	3,346	-	-	-	-	-	-	33	-	3,346	3,379	-	(33)
Other	1,040	475	-	-	-	-	-	-	-	-	1,040	475	-	565
Negative consolidation differences	1,160	-	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	444,497	410,197	-	4,202	-	-	-	-	9,582	-	448,699	419,779	-	28,920

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

	30-06-2017												
	31-12-2017				Write-offs and sales		Transfers			30-06-2017			
	Gross amount	Accumulated depreciation	Impairment (Note 19)	Acquisitions	Gross amount	Accumulated depreciation	From/to non-current assets held for sale		Depreciation in the period	Gross amount	Accumulated depreciation	Impairment (Note 19)	Net amount
							Gross amount	Accumulated depreciation					
Tangible assets													
Property													
Property for own use	402,284	143,664	3,870	1,826	2,215	155	(10,223)	(3,519)	3,732	391,672	143,722	3,870	244,080
Leasehold expenditure	148,941	141,295	-	-	151	154	(46)	(46)	1,331	148,744	142,426	-	6,318
Other property	1,307	148	20	-	14	-	-	-	3	1,293	151	520	622
Unfinished tangible assets													
Property for own use	88	-	-	-	-	-	-	-	-	88	-	-	88
	552,620	285,107	3,890	1,826	2,380	309	(10,269)	(3,565)	5,066	541,797	286,299	4,390	251,108
Equipment													
Furniture and fixtures	23,621	19,843	-	1,243	83	82	-	-	445	24,781	20,206	-	4,575
Machinery and tools	6,027	5,462	-	103	3	3	-	-	75	6,127	5,534	-	593
Computer hardware	95,298	83,486	-	1,418	84	79	-	-	2,075	96,632	85,482	-	11,150
Indoor facilities	28,458	15,404	-	1,738	21	15	(258)	(116)	1,085	29,917	16,358	-	13,559
Vehicles	20,470	9,800	-	743	2,483	1,735	-	-	947	18,730	9,012	-	9,718
Security equipment	13,264	12,368	-	318	-	-	-	-	153	13,582	12,521	-	1,061
Other equipment	5,546	4,706	-	200	1	1	-	-	119	5,745	4,824	-	921
	192,684	151,069	-	5,763	2,675	1,915	(258)	(116)	4,899	195,514	153,937	-	41,577
Other tangible assets													
Leased equipment	281	281	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1,826	-	-	36	-	-	-	-	-	1,862	-	-	1,862
Other	3,464	3,463	-	-	1	1	-	-	-	3,463	3,462	-	1
	5,571	3,744	-	36	1	1	-	-	-	5,606	3,743	-	1,863
	750,875	439,920	3,890	7,625	5,056	2,225	(10,527)	(3,681)	9,965	742,917	443,979	4,390	294,548
Intangible assets													
Software purchased	414,887	385,087	-	5,294	-	-	(225)	-	8,733	419,956	393,820	-	26,136
Unfinished intangible assets	2,894	-	-	2,141	-	-	225	-	-	5,260	-	-	5,260
Business transfers	3,346	3,346	-	-	-	-	-	-	-	3,346	3,346	-	-
Negative consolidation differences	1,160	-	-	-	-	-	-	-	-	1,160	-	-	1,160
	422,287	388,433	-	7,435	-	-	-	-	8,733	429,722	397,166	-	32,556

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

15. TAX ASSETS AND TAX LIABILITIES

As at June 30, 2018, and December 31, 2017, the breakdown of these headings is as follows:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Current tax assets	178,925	19,053
Deferred tax assets	642,768	448,353
	<u>821,693</u>	<u>467,406</u>
Current tax liabilities	102,169	75,364
Deferred tax liabilities	203,666	157,117
	<u>305,835</u>	<u>232,481</u>

As at June 30, 2018, and December 31, 2017, the breakdown of taxes in the income statement is as follows:

	<u>30-06-2018</u>	<u>30-06-2017</u>
Current taxes	61,661	(49,788)
Deferred assets	159,813	(13,707)
	<u>221,474</u>	<u>(63,495)</u>

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 2014. As a result of the 2014 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 (in liabilities) the amount that it considers appropriate to satisfy the additional assessments to which it was subjected, as well as for contingencies relating to fiscal years not yet reviewed by the Tax Authority (Note 19).

The Santander Totta Group decided to apply the Special Taxation of Groups of Companies Regime (RETGS). This new regime involves the algebraic sum of the tax results determined in the separate periodic returns of each company. The companies covered by this scheme are: – the parent company Santander Totta, SGPS, and the controlled companies (Taxagest, BST, Santander Totta Seguros, TottaUrbe).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

16. OTHERS ASSETS

The breakdown of this heading is as follows:

	30-06-2018	31-12-2017
Debtors and other applications	-	110,852
Supply contracts	-	824
Gold, other precious metals, coins and medals	3,145	3,236
Promises and other assets received as settlement of defaulting assets received as settlement of defaulting	618,106	397,886
Income receivable and deferred income	27,265	26,484
Liabilities with pensions and other benefits		
Pension fund-BST	-	37,417
Pension fund-London branch	-	(6,729)
Pension fund-ex-Banif	-	(31,936)
Pension fund-BAPOP	-	2,383
Deferred costs	5,502	7,147
Other assets pending regularization	139,697	588,019
	<u>793,715</u>	<u>1,135,583</u>
Impairment losses (Note 19):		
Debtors and other applications		
Debtors and other applications	-	(7,774)
Debtors, other investments and other assets		
Assets received as settlement of defaulting loans	(149,788)	(128,159)
Own properties for sale	(27,892)	(29,282)
Supplies	-	(486)
Other assets and other investments	-	(34,511)
	<u>(177,680)</u>	<u>(200,212)</u>
	<u>616,035</u>	<u>935,371</u>

As at June 30, 2018, and December 31, 2017, Income receivable mainly included commissions receivable from insurers for the marketing of their insurance (Note 36).

As at June 30, 2018, and December 31, 2017, Other includes loan/borrowing transactions pending settlement as detailed below:

	30-06-2018		31-12-2017	
	Other assets	Other liabilities (Note 21)	Other assets	Other liabilities (Note 21)
Interest receivable from swap contracts established with Portuguese State-owned companies	-	-	394,152	-
Cheques, values in transit and other transactions to be settled	28,060	(57,930)	35,229	(73,354)
Transfers within SEPA	65,051	(214,167)	83,994	(211,271)
Balances to be settled in ATM's	1,798	-	2,967	-
Other	44,788	(83,334)	71,677	(50,259)
	<u>139,697</u>	<u>(355,431)</u>	<u>588,019</u>	<u>(334,884)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018  
(Expressed in thousands of euros, except where otherwise stated)

17. NON-CURRENT ASSETS HELD FOR SALE

The breakdown of this heading is as follows:

	30-06-2018	31-12-2017
Properties received as settlement of defaulting Equipment	113,119	128,551
	1,585	1,574
	<u>114,704</u>	<u>130,125</u>
Impairment losses (Note 19)	(37,459)	(42,856)
	<u>77,245</u>	<u>87,269</u>

Movement under Non-current assets held for sale in the six-month period ended June 30, 2018, was as follows:

	2018										
	31-12-2017				Transfers		Impairment			30-06-2018	
	Gross amount	Accumulated impairment	Increases	Sales	Gross amount	Impairment	Increases	Reversals	Utilisation	Gross amount	Accumulated impairment
	(Note 19)	(Note 19)			(Note 19)	(Note 19)		(Nota 19)		(Note 19)	(Note 19)
Properties:											
Received as payment	128,551	(41,576)	15,002	(33,226)	2,792	902	(1,426)	370	5,518	113,119	(36,212)
Equipment	1,574	(1,280)	26	(15)	-	-	(50)	78	5	1,585	(1,247)
	<u>130,125</u>	<u>(42,856)</u>	<u>15,028</u>	<u>(33,241)</u>	<u>2,792</u>	<u>902</u>	<u>(1,476)</u>	<u>448</u>	<u>5,523</u>	<u>114,704</u>	<u>(37,459)</u>
											<u>77,245</u>

These assets are carried at the amount agreed by negotiation or judicial means, after deduction of the lesser of the costs the Bank expects to incur with their sale, or their quick-sale value. On the other hand, assets recovered following the termination of finance lease contracts are carried in assets for the amount of principal outstanding on the date of termination of the contract.

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

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

a) Market method

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

b) Income method

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

c) Cost method

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

18. FINANCIAL LIABILITIES AT AMORTISED COST

The resources of central banks sub-heading comprises the following:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Resources of Bank of Portugal		
Deposits	3,051,756	3,076,000
Resources of other Central Banks		
Deposits	4,539	4,538
	<u>3,056,295</u>	<u>3,080,538</u>

The resources of other credit institutions sub-heading comprises the following:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Resources of domestic credit institutions		
Deposits	201,690	270,227
Other resources	1,031	23
Interest payable	15	22
	<u>202,736</u>	<u>270,272</u>
Resources of foreign credit institutions		
Consigned resources	900,000	950,000
Deposits	391,405	378,798
Sale operations with repurchase agreement	2,751,949	2,710,621
Other resources	37,591	40,686
Interest payable	961	709
	<u>4,081,906</u>	<u>4,080,814</u>
	<u>4,284,642</u>	<u>4,351,086</u>

As at June 30, 2018, and December 31, 2017, "Resources of foreign credit institutions – Sale operations with repurchase agreement", is broken down by type of asset underlying the repo operations:

Type of underlying	30-06-2018			
	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	239,812	(7)	(14)	239,791
Non-subordinated Bonds issued by domestic credit institutions	43,497	-	-	43,497
Bonds issued by the group in the context of securitization operations and repurchased by BST	972,865	-	-	972,865
Covered bonds issued and reacquired by BST	1,495,838	(25)	(17)	1,495,796
	<u>2,752,012</u>	<u>(32)</u>	<u>(31)</u>	<u>2,751,949</u>
Type of underlying	31-12-2017			
	Capital	Interests	Deferred costs	Total
Treasury Bonds - Portugal	94,669	(11)	5	94,663
Non-subordinated Bonds issued by domestic credit institutions	43,497	-	-	43,497
Bonds issued by the group in the context of securitization operations and repurchased by BST	997,298	47	(8)	997,337
Covered bonds issued and reacquired by BST	1,575,134	(32)	22	1,575,124
	<u>2,710,598</u>	<u>4</u>	<u>19</u>	<u>2,710,621</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

The resources of customers and other debts sub-heading comprises the following:

	30-06-2018	31-12-2017
Term deposits	16,627,627	15,703,242
Demand deposits	15,281,241	13,168,309
Other Clients Resources	1,495,900	1,935,634
Savings deposits	977,996	1,180,229
Advance notice deposits	14,513	20,612
	<u>34,397,277</u>	<u>32,008,026</u>
Interest payable	15,889	19,646
Cheques and orders payable	-	104,246
Hedge Adjustments	-	5,550
	<u>15,889</u>	<u>129,442</u>
	<u>34,413,166</u>	<u>32,137,468</u>

The debt securities sub-heading comprises the following:

	30-06-2018	31-12-2017
Bonds in circulation		
Covered bonds		
Issued	7,700,000	7,700,000
Repurchased	(4,200,000)	(4,200,000)
Interest payable and another deferred costs and income	(14,631)	(14,137)
Bonds issued in securitization operations		
Issued	5,177,234	3,249,292
Repurchased	(4,173,429)	(2,121,485)
Interest payable and another deferred costs and income	(67,355)	(71,535)
Cash Bonds		
Issued	-	1,072
Interest payable and another deferred costs and income	-	29
	<u>4,421,819</u>	<u>4,543,237</u>
Other		
EMTN Programme	729	25,744
Interest payable	4	224
	<u>733</u>	<u>25,968</u>
Subordinated Perpetual Bonds Totta 2000		
Issued	270,447	270,447
Repurchased	(270,447)	(270,447)
Subordinated Perpetual Bonds BSP 2001		
Issued	13,818	13,818
Repurchased	(13,818)	(13,818)
Subordinated Perpetual Bonds CPP 2001	4,275	4,275
Banco Santander Totta SA 7.5%	7,599	7,599
	<u>11,874</u>	<u>11,874</u>
Interest payable	440	158
	<u>4,434,866</u>	<u>4,581,237</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

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

The conditions of the covered bonds and cash bonds are described in Annex I, and those of subordinated liabilities in Annex II.

Between May 2008 and June 2018, BST undertook twenty-three covered-bond issues under the €12,5000,000,000 Covered Bonds Programme. As at June 30, 2018, and December 31, 2017, covered bonds had autonomous assets and liabilities comprising:

	30-06-2018	31-12-2017
Loans and advances (Note 10)	9,760,441	9,980,181
Credit interests	7,917	8,151
Commissions	(46,371)	(45,258)
Deferred costs	4,167	2,130
Derivatives	(89,695)	(105,205)
	<u>9,636,459</u>	<u>9,839,999</u>

Movement under covered bonds and cash bonds and other debt issued by the Group during 2017 and the first half of 2018 was as follows:

	Bonds outstanding		EMTN Programme
	Issued	Repurchased	Issued
Balances at December 31, 2016	6,975,005	(4,458,983)	28,460
.Issues BAPOP	1,072	-	729
.Issues made	2,750,000	-	-
.Issues repurchased	(2,024,800)	258,983	-
.Exchange rate movements	(205)	-	(3,445)
Balances at December 31, 2017	7,701,072	(4,200,000)	25,744
.Issues repurchased	(1,072)	-	(25,015)
Balances at June 30, 2018	<u>7,700,000</u>	<u>(4,200,000)</u>	<u>729</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

Movement within the scope of the BST securitisation operations during 2017 and the first half of 2018 was as follows:

	Bonds	
	Issued	Repurchased
Balances at December 31, 2016	4,509,231	(3,061,174)
. Repurchased	(1,259,939)	970,145
. Reacquired		
. Hipototta 4 - Class A	-	(30,456)
Balances at December 31, 2017	3,249,292	(2,121,485)
. Issued	2,266,000	-
. Repurchased	(338,058)	239,324
. Reacquired		
. Hipototta13	-	(2,266,000)
. Hipototta 4 e 5	-	(25,268)
	1,927,942	(2,051,944)
Balances at June, 30 2018	5,177,234	(4,173,429)

The Other financial liabilities sub-heading comprises the following:

	30-06-2018	31-12-2017
Cheques and orders payable	102,138	
Creditors and other resources		
Creditors resulting from operations with futures	4,269	
Public sector	26,234	
Creditors under factoring contracts	46,814	
Other	36,161	
	215,616	-

19. MOVEMENT IN PROVISIONS AND IN IMPAIRMENT

Movement under Provisions and under impairment during the first halves of 2018 and 2017, was as follows:

	31-12-2017	IFRS 9	2018				30-06-2018
			Increases	Reversals	Utilization	Others	
Provisions for tax contingencies	11,023	-	-	-	-	-	11,023
Provisions for pensions and other charges	39,931	-	116,180	-	(14,624)	-	141,487
Impairment and provisions for guarantees and other sureties given	24,021	35,062	12,233	(12,127)	-	-	59,189
Other provisions	92,575	-	204,203	(13,979)	(6,554)	(4,000)	272,245
	167,550	35,062	332,616	(26,106)	(21,178)	(4,000)	483,944

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

	2017				
	31-12-2016	Increases	Reversals	Utilization	30-06-2017
Provisions for tax contingencies	11,802	-	-	-	11,802
Provisions for pensions and other charges	85,982	25,239	-	(37,575)	73,646
Impairment and provisions for guarantees and other sureties given	21,547	5,773	(4,060)	-	23,260
Other provisions	101,519	42,879	(61,745)	(9,037)	73,616
	<u>220,850</u>	<u>73,891</u>	<u>(65,805)</u>	<u>(46,612)</u>	<u>182,324</u>

	2018					
	31-12-2017	IFRS 9	Impairment losses	Reversals of impairment losses	Utilization and others	Recoveries of past due loans
Impairment losses (Note 10)	1,740,865	59,640	179,001	(176,029)	(330,268)	1,473,209
Impairment losses on other financial assets at fair value through other comprehensive income (Note 9)	63,174	(62,899)	1,705	(1,705)	-	275
Impairment on investments in associates (Note 12)	5,532	-	-	-	(3,679)	1,853
	<u>1,809,571</u>	<u>(3,259)</u>	<u>180,706</u>	<u>(177,734)</u>	<u>(333,947)</u>	<u>1,475,337</u>
Tangible assets (Note 14)	6,301	-	-	-	(20)	6,281
Other assets (Note 16)	200,212	(31,499)	35,425	(14,827)	(11,631)	177,680
Non recurrent assets held for sale (Note 17)	42,856	-	1,476	(448)	(6,425)	37,459
	<u>249,369</u>	<u>(31,499)</u>	<u>36,901</u>	<u>(15,275)</u>	<u>(18,076)</u>	<u>221,420</u>
	<u>2,058,940</u>	<u>(34,758)</u>	<u>217,607</u>	<u>(193,009)</u>	<u>(352,023)</u>	<u>1,696,757</u>

	2017					
	31-12-2016	Impairment losses	Reversals of impairment losses	Transfers and others	Utilizations	30-06-2017
	Balance of the year					Balance of the year
Impairment of loans and advances to customers						
Domestic loans	696,237	493,888	(607,749)	-	(12,009)	570,367
Foreign loans	28,761	-	-	-	(28,761)	-
Non-derecognized securitized loans	10,719	362	(2,145)	-	-	8,936
Other securitized loans and receivables	4,053	2,081	-	-	-	6,134
Impairment of overdue loans and interest						
Loans and advances to customers						
Foreign loans	713,229	333,637	(108,433)	-	(243,841)	694,592
Non-derecognized securitized loans	59,244	4,962	(10,037)	-	(34,479)	19,690
Foreign loans	147,560	14,122	(103,148)	5,279	(968)	62,845
Other securitized loans and receivables	3,000	-	-	-	(3,000)	-
	<u>1,662,803</u>	<u>849,052</u>	<u>(831,512)</u>	<u>5,279</u>	<u>(323,058)</u>	<u>1,362,564</u>
Impairment of available for sale financial assets	61,370	25	(189)	-	(415)	60,791
Impairment of investments in associated companies	1,500	-	-	-	-	1,500
	<u>62,870</u>	<u>25</u>	<u>(189)</u>	<u>-</u>	<u>(415)</u>	<u>62,291</u>
Impairment of financial assets						
Non-current assets held for sale	53,201	1,471	(2,233)	9,617	(7,390)	54,666
Tangible assets	3,890	500	-	-	-	4,390
Other assets	139,583	9,808	(33,232)	(9,617)	(2,237)	104,305
	<u>196,674</u>	<u>11,779</u>	<u>(35,465)</u>	<u>-</u>	<u>(9,627)</u>	<u>163,361</u>
	<u>1,922,347</u>	<u>860,856</u>	<u>(867,166)</u>	<u>5,279</u>	<u>(333,100)</u>	<u>1,588,216</u>

As at June 30, 2018, and December 31, 2017, the breakdown of Provisions for pensions and other charges was as follows:

	30-06-2018	31-12-2017
Restructuring plans	117,187	15,811
Supplementary pension plan of the Board of Directors (Note 39)	24,300	24,120
	<u>141,487</u>	<u>39,931</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

20. EQUITY REPRESENTATIVE INSTRUMENTS

As at June 30, 2018, and December 31, 2017, this item represented units of the Novimovest Fund not held by the Group.

21. OTHER LIABILITIES

The breakdown of this heading is as follows:

	30-06-2018	31-12-2017
Creditors and other resources		239,646
Relating to personnel		
Vacation and vacation subsidies	30,503	38,333
Other variable remuneration	20,630	28,161
Christmas subsidy	8,944	-
Other personnel costs	9,153	7,898
Other charges	125,927	133,000
Liabilities with pensions (Note 37)		
Pension fund of BST	(16,832)	-
Pension fund of London branch	4,138	-
Pension fund of former Banif	31,936	-
Pension fund of former BAPOP	(1,241)	-
Other deferred income	2,977	5,332
Liability operations to be settled	819	813
Other (Note 16)	355,431	334,884
	<u>572,385</u>	<u>788,067</u>

22. SHAREHOLDERS' EQUITY

As at June 30, 2018, and December 31, 2017, the Bank's share capital was represented by 1,256,723,284 shares, each of a par value of €1, fully subscribed and paid up by the following shareholders:

	30-06-2018		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%	1,241,180
Taxagest, SGPS, S.A. (own shares)	14,593,315	1.16%	14,593
Own shares	402,256	0.03%	402
Other	548,200	0.04%	548
	<u>1,256,723,284</u>	<u>100.00%</u>	<u>1,256,723</u>
	31-12-2017		
	Number of shares	% of participation	Amount
Santander Totta, SGPS, S.A.	1,241,179,513	98.76%	1,241,180
Taxagest, SGPS, S.A. (own shares)	14,593,315	1.16%	14,593
Own shares	399,215	0.03%	399
Other	551,241	0.05%	551
	<u>1,256,723,284</u>	<u>100.00%</u>	<u>1,256,723</u>

In the first half of 2018, the Bank purchased 3,041 treasury shares for the amount of €11,000.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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Under the terms of Order-in-Council nº 408/99, of June 4, published in *Diário da República* – 1st series B, n.º129, the issue premiums, in the amount of €193,390k, cannot be used for the allocation of dividends or for the acquisition of treasury shares.

Other capital instruments refer to the ancillary capital contributions granted by shareholder Santander Totta, SGPS, SA, which neither bear interest nor have a defined reimbursement period. Those contributions can be reimbursed only by resolution of the Board of Directors, upon prior authorisation of the Bank of Portugal.

In 2018 the Bank distributed dividends in the amount of €618,597k (amount of dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.492 per share.

In 2017 the Bank distributed dividends in the amount of €302,850k (amount of dividends allocated to treasury shares), equivalent to a unit dividend of approximately €0.241 per share. During the period the Bank distributed free reserves in the amount of €45,817k.

As at June 30, 2018, and December 31, 2017, the breakdown of the revaluation reserves is as follows:

	30-06-2018	31-12-2017
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Available-for-sale financial assets (Note 9)	366,649	323,180
Investments held to maturity		(7,151)
Available-for-sale financial assets of companies under the equity method	1,569	969
Cash-flow hedging instruments	27,619	(13,901)
Actuarial gains and losses (Note 37)		
Pension Fund of BST	(668,276)	(658,333)
Pension Fund of the Lond branch of BST	(10,721)	(13,406)
Pension fund of Former Banif	(8,008)	(8,008)
Pension fund of Former BAPOP	(514)	-
Actuarial gains and losses of companies under the equity method	(2,062)	(2,049)
Legal revaluation reserves	23,245	23,245
	<u>(270,499)</u>	<u>(355,454)</u>
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
Other financial assets at fair value through other comprehensive income	(112,393)	(99,867)
Financial assets held to maturity		2,074
Revaluation reserves of companies under the equity method	(399)	(247)
Cash-flow hedging instruments	(8,562)	4,309
Tax impact of actuarial gains and losses	174,740	174,740
Tax impact from the change in accounting policies of companies under the equity method	360	368
Relating to the revaluation of tangible assets	<u>(3,148)</u>	<u>(3,148)</u>
	<u>50,598</u>	<u>78,229</u>
	<u>(219,901)</u>	<u>(277,225)</u>

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

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

During 1998, under Decree-Law 31/98 of February 11, the Bank revalued its tangible fixed assets, increasing their value, net of accumulated depreciation, by approximately €23,245k, which was recorded in revaluation reserves. The net amount resulting from revaluation carried out can only be used for share capital increases or to cover losses, as and when that are used (amortised) or the assets to which they relate are sold.

As at June 30, 2018, and December 31, 2017, the breakdown of Other reserves and retained earnings is as follows:

	30-06-2018	31-12-2017
Legal reserve	414,311	344,748
Other reserves		
Reserves of consolidated companies	33,024	358,856
Reserves of companies consolidated under the equity method	5,064	3,096
Merger reserve		
By incorporation of Totta and BSP	541,334	541,334
By incorporation of BSN	35,405	35,405
By incorporation of Totta IFIC	90,520	90,520
By incorporation of BAPOP	(8,411)	(8,411)
Other reserves	-	60
Retained earnings	619,084	609,746
	<u>1,730,331</u>	<u>1,975,354</u>

#### Legal reserve

In accordance with the provisions of Decree-Law 298/92, of December 31, amended by Decree-Law 201/2002, of September 26, BST sets aside a legal reserve until it equals the share to capital or sum of the free reserves formed and retained earnings, if greater. To this end, a fraction of not less than 10% of the net profit 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 losses or to increase the share capital.

#### Merger reserve

In accordance with legislation in force, the merger reserve is considered equivalent to the legal reserve, and may only be used to cover accumulated losses or increase the share capital.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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23. CONSOLIDATED NET INCOME ATTRIBUTABLE TO THE SHAREHOLDERS OF BST

In 2017 and 2016, the determination of the consolidated profit can be summarised as follows:

	30-06-2018		30-06-2017	
	Net Income for the year	Contribution to the consolidated net income	Net Income for the year	Contribution to the consolidated net income
Net income of BST (individual basis)	237,283	237,283	348,903	348,903
Net income of other Group companies:				
Totta Ireland, Plc.	6,571	6,571	6,541	6,541
Novimovest - Fundo de Investimento Imobiliário Aberto	4,540	3,616	3,094	2,453
Unicre, Instituição Financeira de Crédito, S.A.	8,607	1,881	9,357	2,012
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	62	62		
Totta Urbe, Empresa de Administração e Construções, S.A.	(1,107)	(1,107)	612	612
Banif International Bank, LTD	33	33	4,453	4,453
Lusimovest Fundo de Investimento Imobiliário	1,816	468	2,222	573
Taxagest, S.A.	-	-	(1)	(1)
Primestar Serving	3	2	-	-
	<u>20,525</u>	<u>11,526</u>	<u>26,278</u>	<u>16,643</u>
Elimination of dividends:				
Totta Ireland, Plc.		(10,800)		(10,800)
Unicre, Instituição Financeira de Crédito, S.A.		-		(4,171)
Santotta - Internacional, SGPS, S.A.		-		(96,500)
		<u>(10,800)</u>		<u>(111,471)</u>
Adjustments related with securitization operations		(1,423)		(27,897)
Other		(950)		(3,668)
Consolidated net income for the period		<u><u>235,636</u></u>		<u><u>222,510</u></u>

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

	30-06-2018	30-06-2017
Consolidated net income attributable to the shareholders of BST	235,636	222,510
Weighted average number of ordinary shares issued	1,256,723,284	1,256,723,284
Weighted average number of own shares	14,994,029	14,898,645
Weighted average number of ordinary shares outstanding	1,241,729,255	1,241,824,639
Basic earnings per share attributable to the shareholders of BST (Euros)	0.19	0.18

24. NON-CONTROLLING INTERESTS

As at June 30, 2018, and December 31, 2017, the breakdown per entity of the value of third-party holdings in Group companies is as follows:

	30-06-2018	31-12-2017
Taxagest, S.A.	557	557
Other	396	581
	<u>953</u>	<u>1,138</u>

25. OFF-BALANCE-SHEET ACCOUNTS

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

	30-06-2018	31-12-2017
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,666,730	1,717,603
Documentary credits	354,295	347,498
Assets pledged as guarantees		
Bank of Portugal	135,565	176,242
Deposit Guarantee Fund	87,374	85,814
Investor Indemnity System	8,889	6,601
Assets pledged as guarantees in monetary policy operations	9,269,779	7,810,862
	<u>11,522,632</u>	<u>10,144,620</u>
Commitments		
Credit lines		
Revocable	4,869,125	5,192,952
Irrevocable	900,754	1,352,174
Deposit Guarantee Fund	68,969	68,969
Investor Indemnity System	7,822	9,401
Other revocable commitments	216	215
Credit lines	81,496	87,221
	<u>5,928,382</u>	<u>6,710,932</u>
Liabilities for services rendered		
Deposit and custodial services	31,945,641	32,122,516
Amounts received for collection	199,409	220,568
Other values	145,106	136,972
	<u>32,290,156</u>	<u>32,480,056</u>

Assets pledged as collateral for monetary policy operations, correspond to the collateral pool that the Bank has with the European Central Bank, to ensure operational liquidity.

Deposit Guarantee Fund

Pursuant to Decree-Law 298/92 of December 31, the Deposit Guarantee Fund was created in November 1994 in order to secure the deposits made at credit institutions, in accordance with the limits established in the General Credit Institutions Regime. The initial contribution to the Fund, established by Ministry of Finance Order-in-Council, was made through the delivery of cash and deposit securities, and has been amortised over 60 months as from January 1995. Except for what is referred to in the following paragraph, the regular annual contributions to the Fund are recognised as a cost for the period to which they relate. Until 2011, as permitted by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Deposit Guarantee Fund, having also entered into an irrevocable commitment to the Deposit Guarantee Fund to pay up the 10 % of the annual contribution, if and when so requested. The total unpaid amounts accumulated as at June 30, 2018, and December 31, 2017, for which this commitment was entered into amounts to €68,969k. The assets pledged to the Bank of Portugal are reflected under off-balance sheet headings at their market value. In 2018 and 2017, the Bank paid 100% of the annual contribution in the amounts of €44k and €21k, respectively (Note 32).

Investor Compensation System (SII)

Liabilities to the Investor Compensation System are not recognised as cost. These liabilities are covered through the acceptance of an irrevocable commitment to make their payment, if it comes to be required, a part of which (50%) is secured by pledge of Portuguese Treasury securities. As at June 30, 2018, and December 31, 2017, these liabilities amounted to €7,822k and €9.401k, respectively.

26. INTEREST INCOME

The breakdown of this heading is as follows:

	30-06-2018	30-06-2017
Interest on cash and deposits		
In foreign credit institutions	622	15
Interest on applications		
In domestic credit institutions	2,162	1,408
In foreign credit institutions	580	4,145
Interest on loans and advances to customers		
Domestic loans	317,082	246,025
Foreign loans	7,306	6,453
Other loans and receivables	39,050	39,165
Interest from securitized assets not derecognized	19,991	15,303
Income from comissions received associated to amortized cost	31,643	21,209
Interest on overdue loans	4,239	6,407
Interest and similar income on other financial assets		
Available-for-sale financial assets at fair value through other comprehensive income	55,848	62,431
Financial assets held to maturity		3,271
Hedging derivatives	122,622	128,106
Other	24,573	2,216
	<u>625,718</u>	<u>536,154</u>



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27. INTEREST CHARGE

The breakdown of this heading is as follows:

	<u>30-06-2018</u>	<u>30-06-2017</u>
Interest on resources of Central Banks		
Bank of Portugal	63	1,725
Interest on resources of credit institutions		
Domestic	111	92
Foreign	1,920	1,145
Interest on customers' deposits		
Deposits		
Residents	26,351	31,340
Non-residents	2,828	3,105
Interest on debt securities issued		
Bonds	22,940	18,261
Other debt securities	57	339
Interest on subordinated liabilities		
Subordinated loans	313	315
Interest on hedging derivatives	119,238	133,324
Other interest	6,849	7,104
	<u>180,670</u>	<u>196,750</u>

28. INCOME FROM EQUITY INSTRUMENTS

This item refers to dividends received and is broken down as follows:

	<u>30-06-2018</u>	<u>30-06-2017</u>
SIBS – Sociedade Interbancária de Serviços, S.A.	1,159	2,799
Unicampos	65	49
Other	9	15
	<u>1,233</u>	<u>2,863</u>

29. INCOME FROM SERVICES AND COMMISSIONS

The breakdown of this heading is as follows:

	<u>30-06-2018</u>	<u>30-06-2017</u>
On guarantees given		
Guarantees and securities	8,734	7,938
Documentary credits	1,711	1,341
On commitments to third parties		
Irrevocable credit lines	529	56
Revocable commitments	473	1,494
By banking services provided		
Deposit and custody services	2,577	2,245
Asset management and collection	6,450	5,739
Real estate and mutual fund management	13,346	9,583
Transfers	1,365	782
Card transactions	43,501	41,478
Annuities	12,976	11,773
Credit operations	24,542	23,082
Other	7,003	140
On operations carried out on behalf of third parties		
On securities	8,655	8,939
Other	1,214	114
Other commission received		
Insurance companies (Note 36)	47,581	46,636
Deposits	32,370	23,854
Cheques	4,749	5,535
Other	7,798	7,138
	<u>225,574</u>	<u>197,867</u>

30. CHARGES WITH SERVICES AND COMMISSIONS

The breakdown of this heading is as follows:

	<u>30-06-2018</u>	<u>30-06-2017</u>
On guarantees received		
Guarantees and securities	1,220	1,909
On banking services rendered by third parties		
Funds for collection and management	701	648
Transactions with customers	22,469	21,881
Credit operations	7,093	5,034
Other services rendered	3,922	2,329
On operations carried out by third parties		
Securities	1,400	922
Other	1,031	710
Other commission paid	1,009	134
	<u>38,845</u>	<u>33,567</u>

31. GAINS/LOSSES ON FINANCIAL ASSETS

The results of assets and liabilities at fair value through profit or loss and results of other financial assets mandatory at fair value through profit or loss sub-headings are as follows:

The results of other financial assets at fair value through other comprehensive income sub-heading is broken down as follows:

	<u>30-06-2018</u>	<u>30-06-2017</u>
Financial assets held for trading:		
Equity instruments	106	(57)
Derivative instruments:		
Swaps:		
Currency swaps	344	(105)
Interest rate swaps	(6,880)	(3,554)
Equity swaps	1,669	(670)
Options:		
Currency swaps	58	121
Equity swaps	(852)	1,738
Interest rate guarantee contracts	243	151
	<u>(5,312)</u>	<u>(2,376)</u>
Other financial assets mandatory at fair value through P&L accounts		
Equity instruments	328	-
Securities - other	(3)	-
	<u>325</u>	<u>-</u>
Hedging derivatives:		
Swaps		
Interest rate swaps	(15,061)	7,891
Equity swaps	(130)	2,199
Autocallable options	133	279
Value adjustments of hedged assets and liabilities	15,044	(10,411)
	<u>(14)</u>	<u>(42)</u>
	<u>(5,001)</u>	<u>(2,418)</u>

The results of other financial assets at fair value through other comprehensive income sub-heading comprises the following:

	<u>30-06-2018</u>	<u>30-06-2017</u>
Debt instruments		
National public issuers	25,529	35,535
Foreign public issuers	775	-
Other	48	-
Equity instruments		
Measured at fair value	-	101
Measured at historical cost	-	54
	<u>26,352</u>	<u>35,690</u>

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The exchange revaluation sub-heading comprises the following:

	30-06-2018	30-06-2017
Gains on the revaluation of the foreign exchange position	146,193	48,585
Losses on the revaluation of the foreign exchange position	(141,431)	(44,160)
	<u>4,762</u>	<u>4,425</u>

The breakdown of the results of the disposal of other assets is as follows:

	30-06-2018	30-06-2017
Gains on the sale of loans and advances to customers (Note 10)	13,694	11,334
Gains on non-current assets held for sale		4,848
Gains on tangible assets	9,513	5,834
Other gains on financial operations	666	233
Other gains on non financial operations	97	-
	<u>23,970</u>	<u>22,249</u>
Losses on tangible assets	(7,276)	(6,979)
Losses on the sale of loans and advances to customers (Note 10)	(2,386)	(466)
Losses on non-current assets held for sale		(41)
Other losses on financial operations	(23)	(715)
Other losses on non-financial operations	(7,575)	-
	<u>(17,260)</u>	<u>(8,201)</u>
	<u>6,710</u>	<u>14,048</u>

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### 32. OTHER OPERATING RESULTS

The breakdown of this heading is as follows:

	30-06-2018	30-06-2017
Other Operating income		
Rents received	8,174	7,996
Capital gains on investment properties	1,404	17,556
Reimbursement of expenses	1,338	1,363
Income from rendering of services	1,743	2,034
Rents of automatic payment terminals	9,267	10,079
Other	2,944	1,237
	<u>24,870</u>	<u>40,265</u>
Other operating expenses		
Subscriptions and donations	(3,504)	(4,136)
Contributions to the Deposit Guarantee Fund	(44)	(21)
Contributions to the Resolution Fund	(22,219)	(19,352)
Unrealized losses on investment properties	(2,086)	(19,011)
Charges related to transactions made by customers	(1,031)	(2,985)
Charges related to ATMs	(5,954)	(6,374)
Other charges and operating expenses	(13,008)	(3,977)
Other taxation		
Direct	(2,281)	(645)
Indirect	(1,420)	(851)
	<u>(51,547)</u>	<u>(57,352)</u>
	<u>(26,677)</u>	<u>(17,087)</u>

During the first six months of 2018 and 2017, Rents earned includes the amounts of €7,798k and €7,877k, respectively, in respect of the rents received by the Novimovest Real Estate Fund.

Decree-Law 24/2013 of February 19, established the regime governing bank contributions to the new Resolution Fund, created for the purpose of prevention, mitigation and containment of the systemic risk. According to Bank of Portugal Notice nº 1/2013 and Instructions nºs 6/2013 and 7/2013, payment is laid down of an initial contribution and periodic contributions to the Resolution Fund. BST's periodic contribution in 2018 and 2017 amounted to €7,754k and €4,556k, respectively.

Within the scope of the single Resolution mechanism the annual contributions will be transferred to the Single Resolution Fund, in accordance with article 3(3) of the agreement on the transfer and pooling of the contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014. The Bank of Portugal, as resolution authority, determines the amount of the contribution of each institution depending on the risk profile of each entity. In December 2015 the Bank paid an additional contribution to the Resolution Fund in the amount of €13,318k, in keeping with a letter received from the Bank of Portugal in November 2015. In 2017 and 2018 and as provided for in the Bank of Portugal's letter, the Single Resolution Board (CUR) allowed banking institutions, in these years, to opt for the use of irrevocable payment commitment, in the proportion of 15% of the amount of the annual contribution. The annual contribution amounted to €17,253k and €17,406k, respectively.

33. STAFF COSTS

The composition of this heading is as follows:

	30-06-2018	30-06-2017
Remuneration		
Management and supervisory boards (Note 39)	4,652	4,646
Employees	117,515	104,940
Stock option plans (Note 40)	186	186
Other variable remuneration	14,320	11,722
	<u>136,673</u>	<u>121,494</u>
Mandatory social charges		
Charges on remuneration	31,949	28,939
Pension Funds (Note 37)	3,382	3,182
Other mandatory social charges	576	500
	<u>35,907</u>	<u>32,621</u>
Other staff costs		
Complementary pension plan (Note 37)	291	291
Staff transfers	687	255
Other	2,879	2,002
	<u>3,857</u>	<u>2,548</u>
	<u>176,437</u>	<u>156,663</u>

34. GENERAL ADMINISTRATIVE COSTS

The composition of this heading is as follows:

	30-06-2018	30-06-2017
External services		
Specialized services	40,081	26,908
Maintenance of software and hardware	22,451	20,405
Rent and leases	7,669	6,958
Communications	6,857	6,116
Advertising and publishing	7,087	5,950
Travel, lodging and representation expenses	2,862	2,899
Maintenance and repairs	3,660	2,136
Transportation	2,413	1,773
Insurance	771	609
Staff training	1,195	1,070
Other	4,618	3,103
External supplies		
Water, electricity and fuel	5,460	4,312
Current consumable material	1,131	993
Other	122	135
	<u>106,377</u>	<u>83,367</u>

35. RESULTS FROM ASSOCIATES

The composition of this heading is as follows:

	30-06-2018	30-06-2017
Unicre - Instituição Financeira de Crédito, S.A.	1,881	2,012
Lusimovest - Fundo de Inv. Imobiliário	468	573
Others	-	48
	<u>2,349</u>	<u>2,633</u>

36. PROVISION OF INSURANCE MEDIATION SERVICES

Income from the provision of insurance mediation services relate primarily to commissions billed for the marketing of life and non-life insurance, as follows:

	30-06-2018			30-06-2017		
	Life Products	Non-Life Products	Total	Life Products	Non-Life Products	Total
	(Nota 29)			(Nota 29)		
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	22,400	-	22,400	25,541	-	25,541
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	15,487	-	15,487	16,511	-	16,511
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	-	2,371	2,371	-	1,010	1,010
Liberty Seguros	-	6,629	6,629	-	6,840	6,840
Others	694	-	694	(3,266)	-	(3,266)
	<u>38,581</u>	<u>9,000</u>	<u>47,581</u>	<u>38,786</u>	<u>7,850</u>	<u>46,636</u>

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As at June 30, 2018, and December 31, 2017, Other assets – Income receivable - Of other services provided (Note 16) includes commissions receivable from insurers as detailed hereunder:

	30-06-2018	31-12-2017
Santander Totta Seguros - Companhia de Seguros de Vida, S.A.	11,147	9,958
Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	2,671	2,568
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	446	201
Others	15	1,125
	<u>14,279</u>	<u>13,852</u>

These amounts refer essentially to the commissions determined and not yet paid in respect of premiums of insurance marketed during the second quarter of 2018 and the last quarter of 2017.

### 37. EMPLOYEE POST-EMPLOYMENT BENEFITS

For the determination of liabilities for past services to BST in respect of employees in service and those already retired, actuarial studies were conducted by Mercer (Portugal), Limitada. The current value of the past-service liabilities, as well as the related costs of current services, were calculated based on the Projected Unit Credit method.

BST's liabilities for retirement pensions, health care and death benefits as at June 30, 2018, and in the four preceding periods, as well as the respective coverage, are detailed as follows:

	2018	2017	2016	2015	2014	2013
Estimate of responsibilities for past services:						
- Pensions						
- Current employees	288,972	289,518	314,119	303,523	308,223	282,028
- Pensioners	35,086	34,059	31,526	26,928	26,343	22,891
- Retired staff and early retired staff	<u>473,433</u>	<u>475,916</u>	<u>424,970</u>	<u>399,942</u>	<u>415,679</u>	<u>399,434</u>
- Healthcare systems (SAMS)	797,491	799,493	770,615	730,393	750,245	704,353
- Death subsidy	147,689	147,942	147,207	151,544	151,903	137,970
- Retirement bonus	5,203	5,132	6,372	5,759	5,543	4,562
	<u>7,040</u>	<u>6,802</u>	<u>8,082</u>	-	-	-
	<u>957,423</u>	<u>959,369</u>	<u>932,276</u>	<u>887,696</u>	<u>907,691</u>	<u>846,885</u>
Coverage of responsibilities:						
- Net assets of the Fund	<u>974,255</u>	<u>996,786</u>	<u>932,465</u>	<u>914,204</u>	<u>910,580</u>	<u>840,543</u>
Excess / insufficient funding (Note 21)	<u>16,832</u>	<u>37,417</u>	<u>189</u>	<u>26,508</u>	<u>2,889</u>	<u>(6,342)</u>
Actuarial and financial deviations generated in the period/year						
- Change in assumptions	-	-	30,579	-	37,912	42,565
- Experience adjustments:						
- Other actuarial (gains) / losses	4,598	(4,319)	23,815	(9,857)	6,580	(1,775)
- Financial (gains) / losses	<u>5,345</u>	<u>(32,933)</u>	<u>2,050</u>	<u>(17,675)</u>	<u>1,111</u>	<u>(3,115)</u>
	<u>9,943</u>	<u>(37,252)</u>	<u>25,865</u>	<u>(27,532)</u>	<u>7,691</u>	<u>(4,890)</u>
	<u>9,943</u>	<u>(37,252)</u>	<u>56,444</u>	<u>(27,532)</u>	<u>45,603</u>	<u>37,675</u>

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 1year
Mortality table female population	TV 88/90
Technical actuarial rate (discount rate)	4%



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The amount of the liabilities transferred to Social Security determined on the basis of the above assumptions was €456,111k.

The main assumptions used by the Bank to determine its liabilities for retirement pensions as at June 30, 2018, and December 31, 2017, were as follows:

Mortality table	TV 88/90
Rate of return on pension fund assets	2.00%
Technical actuarial rate (discount rate)	2.00%
Wage growth rate	0.75%
Pension growth rate	0.50%
Inflation rate	0.75%

Decree-Law 167-E/2013, of December 31, changed the normal age of access to retirement under the general Social Security regime to 66 years, 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 first half of 2018 and in the year ended December 31, 2017, can be detailed as follows with regard to the BST pension plan:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Liabilities at the beginning of the period	959,369	932,276
Cost of current services	2,038	4,536
Interest cost	9,209	17,912
Actuarial (gains)/losses	4,598	(4,319)
Early retirement	8,604	51,367
Amounts paid	(27,623)	(44,873)
Employee contributions	1,228	2,470
	-----	-----
Liabilities at the end of the period	957,423	959,369
	=====	=====

The cost for the year relating to pensions includes the cost of current service and the interest costs, deducted from the expected return of the assets of the Pension Fund. In the first halves of 2018 and 2017, the breakdown of pension costs is as follows (Note 33):

	<u>30-06-2018</u>	<u>30-06-2017</u>
Cost of current services	2,038	2,268
Interest cost	9,209	8,956
Return on assets calculated with the discount rate	(9,209)	(8,956)
	-----	-----
Defined-benefit plan	2,038	2,268
Defined-contribution plan	555	631
London Branch plan	162	283
BAPOP plan	627	-
	-----	-----
	3,382	3,182
	=====	=====

BST employees taken on after January 1, 2009, came to be enrolled in Social Security, and are covered by a

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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supplementary defined-contribution pension plan, and by the rights acquired under clause 93 of the CBA (published in BTE nº 29 of August 8, 2016). The plan is funded through contributions by employees (1.5%) and by BST (1.5%) calculated on the basis of the effective monthly remuneration. For the purpose, each employee may opt for an open pension at his or her choice, to which BST transfers his or her contribution.

Movement under actuarial deviations of the London Branch in the first half of 2018 and in 2017 was as follows:

Balance at December 31, 2016	695,584
Actuarial gains on pensions generated in 2017	(1,437)
Financial gains on pensions generated in 2017	(27,281)
Actuarial gains on healthcare and death benefit in 2017	(2,882)
Financial gains on healthcare and death benefit in 2017	(5,651)
	-----
Balance as at December 31, 2017 (Note 22)	658,333
Actuarial losses on pensions generated in 2018	4,011
Financial losses on pensions generated in 2018	4,427
Actuarial losses on healthcare and death benefit in 2018	587
Financial losses on healthcare and death benefit in 2018	918
	-----
Balance as at June 30, 2017 (Note 22)	668,276
	=====

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.

Santander Pensões - Sociedade Gestora de Fundos de Pensões, SA, is the entity that manages the BST Pension Fund. As at June 30, 2018, and December 31, 2017, the number of participants of the Fund was as follows:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Employees in service <sup>(1)</sup>	4,764	4,789
Pensioners	(1,137)	1,123
Retirees and early retirees	5,575	5,561
	-----	-----
	11,476	11,473
	=====	=====

(1) Of whom 327 and 274 employees belong to the defined-contribution plan as at June 30, 2018, and December 31, 2017, respectively.

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Movement under demographic alterations in the first half of 2018 and in 2017 was as follows:

	Assets		Retired staff and early retired staff	Pensioners
	Defined contribution plan	Defined benefit plan		
Total number at December 31, 2016	265	4,838	5,358	1,092
Leavers:				
. Current employees	(20)	(35)	-	(6)
. Due to mortality	-	(3)	(101)	(29)
Transfers	-	(294)	294	-
Joiners	29	9	10	66
Total number at December 31, 2017	274	4,515	5,561	1,123
Transfers	-	(46)	46	-
Joiners (net)	53	(32)	(32)	14
Total number at June 30, 2018	327	4,437	5,575	1,137

Movement under the BST Pension Fund during the first half of 2018 and in 2017 was as follows:

Carrying amount as at December 31, 2016	932,465
Bank's contributions (cash)	55,879
Employee contributions	2,470
Net income of the Fund:	
. Return on assets calculated with the discount rate	17,912
. Return on assets calculated above the discount rate	32,933
Amounts paid	(44,873)
Carrying amount as at December 31, 2017	996,786
Bank's contributions (cash)	-
Employee contributions	1,228
Net income of the Fund:	
. Return on assets calculated with the discount rate	9,209
. Income of the Fund below the discount rate	(5,345)
Amounts paid	(27,623)
Carrying amount as at June 30, 2018	974,255

The rates of return of the Pension Fund as at June 30, 2018 and December 31, 2017, amounted to 1.25 % and 5.45%, respectively.

The investments and allocation policy of the BST Pension Fund determines that the asset portfolio be constituted in compliance with security, profitability and liquidity criteria, through a diverse set of investments, namely shares, bonds, other debt securities, holdings in collective-investment institutions, bank deposits, other monetary assets and land and buildings included in the land registry.

On the other hand, that policy is guided by risk-diversification and profitability criteria and the Fund's Management Company may opt for a more or less conservative policy by increasing or decreasing the exposure to equities or bonds, according to its expectations as to the evolution of the markets and in accordance with the defined investment limits.

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

<u>Asset Class</u>	<u>Intervals foreseen</u>
Bonds	40% to 95%
Real estate	0% to 25%
Equities	0% to 20%
Liquidity	0% to 15%
Alternatives	0% to 10%
Commodities	0% to 5%

As at June 30, 2018, and December 31, 2017, the composition of the BST Pension Fund was as follows:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Debt instruments:		
. Rating A	29,119	22,113
. Rating BBB	338,260	313,459
. Rating BB	60,584	58,132
. Without rating to the issuance and issuer	64,000	104,686
Real estate funds	158,385	160,019
Mutual funds	200,362	186,024
Real estate funds		
. Commercial spaces	21,273	22,059
. Land	863	863
Equity instruments:		
. Portuguese shares – listed	288	366
. Portuguese shares – not listed	40,954	51,642
Derivative financial instruments		
. Options listed	748	771
	<u>914,836</u>	<u>920,134</u>
Deposits	29,155	55,016
Others	30,264	21,636
	<u>974,255</u>	<u>996,786</u>

As at June 30, 2018, and December 31, 2017, the method for the determination of the fair value of the assets and liabilities mentioned above adopted by the BST Pension Fund Management Company, as recommended in IFRS 13 (Note 41), was as follows:

	<u>30-06-2018</u>				<u>31-12-2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Debt instruments	427,963	-	64,000	491,963	393,704	-	104,686	498,390
Investment Funds	182,647	-	176,100	358,747	155,688	-	190,355	346,043
Equity instruments	41,242	-	-	41,242	52,008	-	-	52,008
Derivative financial instruments	748	-	-	748	771	-	-	771
Real estate	-	-	22,136	22,136	-	-	22,922	22,922
	<u>652,600</u>	<u>-</u>	<u>262,236</u>	<u>914,836</u>	<u>602,171</u>	<u>-</u>	<u>317,963</u>	<u>920,134</u>

As at June 30, 2018, and December 31, 2017, the Pension Fund's portfolio included the following assets

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related with companies of the Santander Group in Portugal:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Rented properties	14,902	14,948
Securities (including units in funds managed)	152,849	151,199
	-----	-----
	167,751	166,147
	=====	=====

In 2010 insurance was taken out at Santander Totta Seguros – Companhia de Seguros de Vida, SA, to meet the liabilities of a new supplementary defined-contribution pension plan attributed to the Bank's senior management. The initial contribution to the new plan amounted to €4,430k. In the first halves of 2018 and in 2017 the premium paid by the Bank amounted to €291k (Note 33).

This plan covers the contingencies of retirement, death and permanent absolute disability for customary work or disability.

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 June 30, 2018, and December 31, 2017, 95 employees were covered by this plan.

Defined benefit pension plan – London Branch

As at June 30, 2018, and December 31, 2017, the main assumptions used in the calculation of retirement pension liabilities covering the employees of BST's London Branch were as follows:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Mortality table	AMC00/AFC00	AMC00/AFC00
Technical actuarial rate (discount rate)	2.7%	2.40%
Salary growth rate	3.3%	2.40%
Pension growth rate	1.9%	2.00%
Inflation rate	2.3%	2.40%

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As at June 30, 2018, and December 31, 2017, the liabilities for the defined-benefit pension plan of the London Branch and their coverage were as follows:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Estimated liabilities for past-services	44,263	47,440
Coverage – Pension Fund asset value	40,125	40,711
	-----	-----
Amount not funded – London Branch	(4,138)	(6,729)
	=====	=====

With regard to the pension plan of the London Branch, the breakdown of the movement under liabilities for past services in the first half of 2018 and in 2017 is as follows:

Liabilities as at December 31, 2016	49,894
Cost of current services	240
Interest cost	1,245
Actuarial gains	(3,182)
Amounts paid	(757)
	-----
Liabilities as at December 31, 2017	47,440
Cost of current services	82
Interest cost	564
Actuarial gains	(3,337)
Amounts paid	(486)
	-----
Liabilities as at June 30, 2018	44,263
	=====

Movement in the Pension Fund of the London Branch in the first half of 2018 and in 2017 was as follows:

Book value as at December 31, 2016	37,501
Net income of the Fund:	
· Return on assets calculated with the discount rate	931
· Income of the Fund below the discount rate	(414)
Contribution of the Branch	3,450
Amounts paid	(757)
	-----
Book value as at December 31, 2017	40,711
Net income of the Fund:	
· Return on assets calculated with the discount rate	484
· Income of the Fund below the discount rate	(652)
Contribution of the Branch	68
Amounts paid	(486)
	-----
Carrying amount as at June 30, 2018	40,125
	=====

The breakdown of the costs of the defined-benefit plan of the London Branch in the first halves of 2018

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and 2017 is as follows:

	<u>30-06-2018</u>	<u>30-06-2017</u>
Cost of current services	82	129
Interest cost	564	621
Return on assets calculated with the discount rate	(484)	(467)
	----	----
	162	283
	===	===

Movement under actuarial deviations of the London Branch in the first half of 2018 and in 2017 was as follows:

Balance at December 31, 2016	16,872
	-----
Actuarial gains on pensions	(3,180)
Financial losses with pensions	414
	-----
Balance as at December 31, 2017 (Note 22)	13,406
Actuarial gains with pensions	(3,337)
Financial losses with pensions	652
	-----
Balance as at June 30, 2018 (Note 22)	10,721
	=====

As at June 30, 2018, and December 31, 2017, the portfolio of the Pension Fund of the London Branch included the following assets:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Debt instruments	18,952	22,332
Equity instruments	1,983	5,900
Other instruments	19,094	9,102
Deposits	96	3,377
	-----	-----
Value of the Fund	40,125	40,711
	=====	=====

Liabilities for defined-benefit pension plans expose the Bank to the following risks:

- Investment risk – the updated value of the liabilities is calculated on the basis of a discount rate determined with reference, in terms of credit risk, to high-quality bonds denominated in euros; if the return of the Pension Fund is below that discount rate, it will create a shortfall in the funding of the liabilities.
- Interest-rate risk - a decrease of the interest rate of the bonds will increase the pension liabilities.
- Longevity risk – the updated amount of the liabilities is calculated on the basis of the best estimate at the time of the expected mortality of the participants before and after the retirement date. An increase of the life expectancy of the plan's participants will increase the pension liabilities.

- Salary risk – the updated amount of the liabilities is calculated on the basis of an estimate of the future salary of the participants. So, an increase of the participants' salary will increase the pension liabilities.

#### Pension Fund – former Banif

As a result of the resolution measure applied to Banif on December 20, 2015, a number of employees were transferred to BST, 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 BST 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.

Employees of the former Banif were covered by different types of pension plans:

- a) The first pension plan, defined-benefit, was subdivided between the Banif population and the former Banco Banif e Comercial dos Açores (BBCA), with different benefits. Defined-benefit pension plan I – BANIF subpopulation: (i) payment of disability, presumable disability and survivor pensions complementing Social Security; (ii) future payment of mandatory contributions for post-employment medical care (SAMS, the Medical-Social Assistance Services). For employees eligible for the retirement pension, the contribution of 6.5% was made on pensions and for employees associated with the defined-contribution plan, the benefit was changed to a single capital on retirement, corresponding to 6.5% of the capital constituted, based on the initial contribution plus the amount of the future contributions. Future contributions to the SAMS were changed in accordance with the new rules of the CBA.
- b) Defined-benefit pension plan I – former BBKA 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.

The former Banif had two defined-contribution pension plans:

- c) Pension plan II – monthly contribution by the former 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 the former Banif before January 1, 2007, with the exception of those included following the merger by incorporation of the former BBKA, 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 - monthly contribution by the former 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.

BST assumed the former Banif liabilities in the three pension plans. As at December 31, 2017, the population covered is as follows:



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	31-12-2017	
	Subpopulation former Banif	Subpopulation former BBKA
		Total
Current employees	752	185
Retired staff and pensioners	94	156
Early retired staff	13	175
Former participants with vested rights	-	81
Retired of the defined contribution plan	162	-
Total	1,021	597

Defined contribution pension plans - employees covered

	31-12-2017
Plan II	500
Plan III	272
Total number	772

The breakdown of the estimated liabilities for past services as at December 31, 2017, using the BST assumptions, is as follows for the defined-benefit pension plan (considering both the former Banif and the former BBKA subpopulations):

	31-12-2017			
	Liabilities			
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement
				Total
Current Employees	26,301	7,966	154	1,193
Retired staff and pensioners	75,104	7,187	183	-
Early retired staff	15,963	3,832	179	-
Former participants with vested rights	3,178	1,201	-	-
Total liabilities for past services	120,546	20,186	516	1,193
				142,441
Book value of the pension fund				110,505
Insufficient fund				(31,936)

As at December 31, 2017, the portfolio of the former Banif Pension Fund associated with the defined-

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benefit pension plan by asset type is as follows:

Type of Asset	31-12-2017	
	Total	Relative weight
Debt instruments	63,879	53.94%
Securities investment fund	22,015	18.59%
Real estate fund	3,010	2.54%
Real estate properties	14,680	12.40%
Equity instruments	2,605	2.20%
Deposits	5,426	4.58%
Other	1,422	1.20%
	<u>113,037</u>	
Assets to be transferred	(2,532)	
	<u><u>110,505</u></u>	

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 former Banif employees who were not transferred to the Bank.

#### Pension Fund – BAPOP

Following the acquisition/merger of BAPOP on December 27, 2017, BST took over its Pension Fund in its entirety. The BAPOP the pension plan is a defined-benefit plan that provides the benefits laid down in the CBA. The Fund also assumes the liabilities for past services of the former employees, in the proportion of the time they have been in the service of BAPOP. This plan also includes a pension plan for the executive members of the board of directors that ensures payment of old-age, disability and survivors' pensions.

As at June 30, 2018, and December 31, 2017, the population covered is as follows:

	<u>30-06-2018</u>	<u>31-12-2017</u>
Current employees	954	847
Retired staff and pensioners	133	133
Former employees (management)	2	2
Former employees	1,167	1,167
Total	<u><u>2,256</u></u>	<u><u>2,149</u></u>

The directors' plan does not have participants at this time, the 2 existing directors having left (one without vested rights and the other who became part of the population of former participants (Directors)).

The breakdown of the estimated liabilities for past services as at June 30, 2018, and December 31, 2017,

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using the BST assumptions, is as follows:

	30-06-2018	31-12-2017
Current employees	76,307	75,675
Retired staff and pensioners	53,330	54,914
Former employees (management)	2,722	2,725
Former employees	30,661	30,661
Total liabilities for past services	163,020	163,975
Book value of the pension fund	164,261	166,358
Over financing	1,241	2,383

As at June 30, 2018, and December 31, 2017, the portfolio of the former Banif Pension Fund associated with the defined-benefit pension plan by asset type is as follows:

Assets	30-06-2018		31-12-2017	
	Total	Relative weight	Total	Relative weight
Debt instruments	85,961	52.33%	87,653	52.69%
Participation units	62,808	38.24%	65,178	39.18%
Deposits	15,492	9.43%	13,527	8.13%
	164,261		166,358	

### 38. SECURITISATION OPERATIONS

#### Description of the operations

Between July 2003 and January 2018, BST 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 BST under the said agreements, while the Hipototta nº 4 and Hipototta nº 5 were maintained. In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the transaction through the issue of Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration. The whole of these bonds were acquired by the Bank.

The Hipototta Funds (nº 4 and nº 5) are managed by Navegador – Sociedade Gestora de Fundos de Titularização de Créditos, SA. (Navegador). 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 Navegador.

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 BST and from the Directorate General of the Treasury to Fundos Hipototta (nº 4 and nº 5) PLC, separating the instalments into principal and interest.

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

As at June 30, 2018, bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P	Moody's			Up to early redemption date	After early redemption date
Class A	2,616,040	580,701	A	A1	September 2018	December 2014	Euribor 3 months + 0,12%	Euribor 3 months + 0,24%
Class B	44,240	21,892	A	NR	September 2018	December 2014	Euribor 3 months + 0,19%	Euribor 3 months + 0,40%
Class C	139,720	69,139	CCC	NR	September 2018	December 2014	Euribor 3 months + 0,29%	Euribor 3 months + 0,58%
	<u>2,800,000</u>	<u>671,732</u>						
Class D	14,000	14,000	NR	NR	September 2018	December 2014	Residual income of the securitized portfolio	
	<u>2,814,000</u>	<u>685,732</u>						

Hipototta nº 5 PLC								
Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Initial	Current	S&P	Moody's			Up to early redemption date	After early redemption date
Class A1	200,000	-			0.00 February 2060	February 2014	Euribor 3 months + 0,05%	Euribor 3 months + 0,10%
Class A2	1,693,000	536,719	A	A1	0.00 February 2060	February 2014	Euribor 3 months + 0,13%	Euribor 3 months + 0,26%
Class B	26,000	26,000	A	A2	0.00 February 2060	February 2014	Euribor 3 months + 0,17%	Euribor 3 months + 0,34%
Class C	24,000	24,000	A	Baa2	0.00 February 2060	February 2014	Euribor 3 months + 0,24%	Euribor 3 months + 0,48%
Class D	26,000	26,000	A-	Ba1	0.00 February 2060	February 2014	Euribor 3 months + 0,50%	Euribor 3 months + 1,00%
Class E	31,000	31,000	BBB-	B3	0.00 February 2060	February 2014	Euribor 3 months + 1,75%	Euribor 3 months + 3,50%
	<u>2,000,000</u>	<u>643,719</u>						
Class F	10,000	6,437	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	<u>2,010,000</u>	<u>650,156</u>						

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.

BST has a put option to reimburse the bonds in advance, on the dates indicated above. For all the Hipototta, BST has call option to repurchase in advance the loan portfolios at par when these are equal to or less than 10% of the initial amount of the operations.

Additionally, up to 5 days before the interest-payment dates in each quarter, the Hipototta are entitled to make partial repayments of bonds issued of classes A, B and C, as well as of classes D and E in the case of Hipototta nº 5 PLC, in order to adjust the amount of the liabilities to that of the assets (loan portfolio).

The Hipototta nº 4 class D bonds and the Hipototta nº 5 class F bonds constitute the last liability to be settled.

The remuneration of the bonds of these classes corresponds to the difference between the yield of the securitised loan portfolios and the sum of all costs of the operations, namely:

- Taxes;
- Expenses and commissions calculated on the value of the portfolios (custody fee and 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, the estimated yield of the securitised loan portfolios included in the calculation of the remuneration of the Hipototta nº 4 PLC Class D bonds corresponded to an annual average rate of 0.9%. In the Hipototta nº 5 PLC class F bonds it corresponded to an average annual rate of 0.9% on the total value of the loan portfolio.

On the date on which the securitisations were contracted, subordinated loans were concluded between BST and Hipototta, which correspond to credit facilities/lines in case of a need for liquidity on the part of

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Hipototta. Swap Agreements were also concluded between the Santander Group and BST securitisation vehicles intended to cover the interest-rate risk.

#### Former Banif securitisation operations

In the wake of the resolution measure applied to former Banif, BST acquired a number of securitisation operations issued by the said entity, and the corresponding securitised loans and bonds issued were transferred.

The securitisation operations acquired are detailed below:

##### Atlantes Mortgage nº 1

Operation carried out in February 2003, in which mortgage-loan contracts were ceded. The loans were sold to a credit securitisation fund called Atlantes Mortgage nº 1 FTC, which issued units subscribed by Atlantes Mortgage nº 1 PLC having its registered office in Ireland. To finance itself, the company Atlantes Mortgage nº 1 PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration. This securitisation operation is managed by Navegator.

Atlantes Mortgage nº 1 PLC						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody's		Up to early redemption date
Class A	462,500	20,973	AA-	A1	January 2036	Euribor 3 months + 0,054%
Class B	22,500	22,500	BBB-	A1	January 2036	Euribor 3 months + 1,3%
Class C	12,500	12,500	BB-	A2	January 2036	Euribor 3 months + 2,6%
Class D	2,500	2,500	B-	Ba2	January 2036	Euribor 3 months + 4,75%
	<u>500,000</u>	<u>58,473</u>				
Class E	15,400	15,400	NR	NR	January 2036	Residual income of the securitized portfolio
	<u>515,400</u>	<u>73,873</u>				

##### 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						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody's		Up to early redemption date
Class A	253,000	3,672	AA-	A1	September 2047	Euribor 3 months + 0,3%
Class B	19,000	19,000	A-	A1	September 2047	Euribor 3 monthss + 0,76%
Class C	9,000	9,000	BB+	A3	September 2047	Euribor 3 monthss + 1,75%
	<u>281,000</u>	<u>31,672</u>				
Class D	10,000	10,000	NR	NR	September 2047	Residual income of the securitized portfolio
	<u>291,000</u>	<u>41,672</u>				

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Atlantes Mortgage nº 2

Operation carried out in March 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 2, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 2						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody's		Up to early redemption date
Class A	349,100	132,823	A	NR	September 2060	Euribor 3 months + 0,33%
Class B	18,400	13,817	BBB-	NR	September 2060	Euribor 3 months + 0,95%
Class C	7,500	5,632	BB	NR	September 2060	Euribor 3 months + 1,65%
	<u>375,000</u>	<u>152,272</u>				
Class D	16,125	16,125	NR	NR	September 2060	Residual income of the securitized portfolio
	<u>391,125</u>	<u>168,397</u>				

Azor Mortgage nº 2

Operation carried out in July 2008, when the mortgage loans originated at the former BBKA were ceded to Gamma STC. To finance itself, Gamma STC issued Azor Mortgages nº 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage nº 2						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody's		Up to early redemption date
Class A	253,500	104,606	AA-	NR		
Class B	46,500	43,080	NR	NR	December 2065	Euribor 3 m + 0,3%
	<u>300,000</u>	<u>147,686</u>			December 2065	Euribor 3 m + 0,8%
Class D	6,750	6,750	NR	NR		
	<u>306,750</u>	<u>154,436</u>			December 2065	Residual income of the securitized portfolio

Atlantes Mortgage nº 3

Operation carried out in October 2008, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 3, classes A, B and C bonds, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 3						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody's		Up to early redemption date
Class A	558,600	227,672	AA-	NR	August 2061	Euribor 3 months + 0,2%
Class B	41,400	31,448	NR	NR	August 2061	Euribor 3 months + 0,5%
	<u>600,000</u>	<u>259,120</u>				
Class C	57,668	57,668	NR	NR	August 2061	Residual income of the securitized portfolio
	<u>657,668</u>	<u>316,788</u>				

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#### Atlantes Mortgage nº 4

Operation carried out in February 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 4, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 4						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody's		Up to early redemption date
Class A	514,250	257,141	A+	NR	December 2064	Euribor 3 months + 0,2%
Class B	35,750	28,318	NR	NR	December 2064	Euribor 3 months + 0,5%
	550,000	285,459				
Class C	74,250	74,250	NR	NR	December 2064	Residual income of the securitized portfolio
	624,250	359,709				

#### Atlantes Mortgage nº 5

Operation carried out in December 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 5, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 5						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody's		Up to early redemption date
Class A	455,000	214,668	AA-	NR	November 2068	Euribor 3 months + 0,15%
Class B	45,000	38,037	NR	NR	November 2068	Euribor 3 months + 0,3%
	500,000	252,705				
Class C	66,250	66,250	NR	NR	November 2068	Residual income of the securitized portfolio
	566,250	318,955				

#### Atlantes Mortgage nº 7

Operation carried out in November 2010, in which a residential mortgage-loan portfolio was ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 7, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 7						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody's		Up to early redemption date
Class A	357,300	169,534	AA-	NR	August 2066	Euribor 3 months + 0,15%
Class B	39,700	31,504	NR	NR	August 2066	Euribor 3 months + 0,3%
	397,000	201,039				
Class C	63,550	63,550	NR	NR	August 2066	Residual income of the securitized portfolio
	460,550	264,589				

#### Hipototta 13

In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000k, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the transaction through the issue

of Hipototta 13 bonds, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration. The whole of these bonds were acquired by the Bank.

Hipototta nº 13						
Issued debt	Amount		Rating		Redemption date	Remuneration
	Initial	Current	S&P	Moody's		Up to early redemption date
Class A	1,716,000	1,592,928	NR	NR	October 2017	Eurb 3m + 0,6%
Class B	484,000	484,000	NR	NR	October 2017	Eurb 3m + 1,0%
	2,200,000	2,076,928				
Class C	66,000	66,000	NR	NR	October 2017	Residual income of the securitized portfolio
	2,266,000	2,142,928				

### 39. RELATED ENTITIES

The Bank's related entities with which it maintained balances or transactions in the first half of 2018 are as follows:

Name of the related entity	Head office
<b>Entities that directly or indirectly control the Group</b>	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
<b>Entities under direct or indirect control by the Group</b>	
Banif International Bank, Ltd (Bahamas)	Bahamas
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Santotta Internacional, S.G.P.S., Sociedade Unipessoal, LDA	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta Ireland, PLC	Ireland
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Primestar Servicing	Portugal
<b>Entities significantly influenced by the Group</b>	
Benim - Sociedade Imobiliária, SA	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Lusimovest - Fundo de Inv. Imobiliário	Portugal
Eurovida - Companhia de Seguros de Vida	Portugal
Popular Seguros - Companhia de Seguros S.A.	Portugal
<b>Special purpose Entities that are directly or indirectly controlled by the Group</b>	
Hipototta NO. 1 PLC	Ireland
Hipototta NO. 1 FTC	Portugal
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Operações de Securitização geridas pela GAMMA, STC	Portugal



Name of the related entity	Head office
<b>Entities under direct or indirect common control by the group</b>	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Allfunds Bank International S.A.	Luxembourg
Banco Santander (México), S.A.,	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banco Popular	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Bank AG	Germany
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Generales Seguros y Reaseguros, S.A.	Spain
Santander Global Facilities,SL	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Issuances, SA	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnología y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Spain
Sovereign Bank	USA
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

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The Bank's related entities with which it maintained balances or transactions in 2017 are as follows:

<b>Name of the related entity</b>	<b>Head office</b>
<b>Entities that directly or indirectly control the Group</b>	
Santander Totta, SGPS	Portugal
Santusa Holding, S.L.	Spain
Banco Santander, S.A.	Spain
<b>Entities under direct or indirect control by the Group</b>	
Banif International Bank, Ltd (Bahamas)	Bahamas
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Primestar Servicing, S.A.	Portugal
Santotta Internacional, S.G.P.S, Sociedade Unipessoal, LDA	Portugal
Taxagest, S.G.P.S., S.A.	Portugal
Totta Ireland, PLC	Ireland
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
<b>Entities significantly influenced by the Group</b>	
Benim - Sociedade Imobiliária, SA	Portugal
Eurovida - Companhia de Seguros de Vida	Portugal
Fundo de Investimento Imobiliário Lusimovest	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
<b>Special purpose Entities that are directly or indirectly controlled by the Group</b>	
Atlantes Mortgage 1 FTC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Hipototta NO. 1 FTC	Portugal
Hipototta NO. 1 PLC	Ireland
Hipototta NO. 4 FTC	Portugal
Hipototta NO. 4 PLC	Ireland
Hipototta NO. 5 FTC	Portugal
Hipototta NO. 5 PLC	Ireland
Operações de Securitização geridas pela GAMMA, STC	Portugal

Name of the related entity	Head office
<b>Entities that directly or indirectly control the Group</b>	
Abbey National Treasury Services plc	United Kingdom
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Allfunds Bank International S.A.	Luxembourg
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banco Popular	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Univeria Portugal, Prestação de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIC.	Spain
Santander Back-Office Globales Mayorista	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,SL	Spain
Santander Investment Securities,Inc	EUA
Santander Investment, S.A.	Spain
Santander Issuances, SA	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnología y Operaciones AEIE	Spain
Santander Totta Seguros, Companhia de Seguros de Vida, S.A.	Portugal
Sovereign Bank	EUA
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

As at June 30, 2018, and December 31, 2017, the balances and transactions maintained during these years with related parties were as follows:

	30-06-2018		
	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
<b><u>Assets:</u></b>			
Balances due from banks	71,145	-	11,405
Financial assets held for trading	191,633	-	3,464
Loans and advances to credit institutions	316,438	60,089	123,378
Credit granted and other balances receivable at amortized cost	-	29,557	100,772
Hedging derivatives	13,003	-	-
Current Tax Assets	49,662	-	-
Investment in associated companies	-	79,378	-
Other assets	4,277	-	16,360
<b><u>Liabilities:</u></b>			
Financial liabilities held for trading	1,320,950	-	7,615
Resources from other credit institutions	25,640	2,825	310,308
Resources of customers and other debts	396,637	189,966	578,540
Debt securities	100,999	-	4,297
Hedging derivatives	13,540	-	4,623
Current tax liabilities	48,867	-	-
Other liabilities	2,762	-	18,900
<b><u>Costs:</u></b>			
Interest charge	111,389	1	9,637
Charges with services and commissions	717	-	1,238
Losses on financial assets	267,289	-	90,449
General administrative costs	2,736	-	17,823
<b><u>Income:</u></b>			
Interest income	107,100	697	1,680
Gains on financial assets	210,768	-	86,077
Income from services and commissions	197	289	29,729
Results from associates	-	2,349	-
Other operating results	-	53	126
<b><u>Off balance sheet items:</u></b>			
Guarantees provided and other contingent liabilities	28,843	625	103,433
Guarantees received	1	-	162
Commitments to third parties	150,000	38,000	86,145
Currency operations and derivatives	27,187,371	-	592,475
Responsibilities for services rendered	3,335,566	509,930	3,780,354

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

	31-12-2017		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities under direct or indirect common control by the Group
<b><u>Assets:</u></b>			
Balances due from banks	29,109	-	43,726
Financial assets held for trading	209,479	-	5,710
Loans and advances to credit institutions	312,676	50,025	276,225
Credit granted and other balances receivable at amortized cost	-	67,053	51,250
Hedging derivatives	14,755	-	-
Current Tax Assets	317	-	-
Other assets	4,227	3,920	15,673
<b><u>Liabilities:</u></b>			
Financial liabilities held for trading	1,461,194	-	27,266
Resources from other credit institutions	41,161	1,656	305,053
Resources of customers and other debts	153,550	491	830,580
Debt securities	97,727	-	310
Hedging derivatives	10,929	-	3,536
Subordinated liabilities	-	-	4,297
Current tax liabilities	71,725	-	-
Other liabilities	118	-	24,660
<b><u>Costs:</u></b>			
Interest charge	227,673	-	22,770
Charges with services and commissions	3,829	-	2,001
Result of assets and liabilities at fair value through profit or loss	1,034,609	-	125,866
General administrative costs	3,133	-	42,460
Other operating results	12	-	-
Impairment of investments in associates	-	353	-
<b><u>Income:</u></b>			
Interest income	216,349	1,004	2,520
Result of assets and liabilities at fair value through profit or loss	1,057,021	-	125,866
Income from services and commissions	427	393	56,797
Result of foreign exchange revaluation	1,774	-	-
Result from associates	-	6,226	-
Other operating results	-	-	229
<b><u>Off balance sheet items:</u></b>			
Guarantees provided and other contingent liabilities	54,830	26	101,586
Guarantees received	1	-	162
Commitments to third parties	150,000	52,000	139,842
Currency operations and derivatives	26,159,458	-	753,419
Responsibilities for services rendered	3,834,653	1,070	3,644,677

**GOVERNING BODIES****Board of Directors**

As at June 30, 2018, and December 31, 2017, advances or loans granted to members of the governing bodies, considered key management personnel of the Bank, amounted to €449 and €481k, respectively. As at June 30, 2018 & 2017, the fixed and variable remuneration totalled €4,652k and €4,646k respectively (Note 33).

The Bank has a Long-term Individual Incentive Plan within the framework of the multi-year remuneration, which is described in Note 40. For the members of the Board of Directors, the amount carried under Staff costs in the first halves of 2018 and 2017 is presented below:

	<u>30-06-2018</u>	<u>30-06-2018</u>
Long-Term Individual Incentive Plan	65	75
	==	==

With regard to post-retirement benefits, the members of the Board of directors who have an employment tie with BST 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 BST 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 BST Board of Directors in line with what had previously been defined in the former Totta Regulation. Members of the Board of Directors whose length of service is at least fifteen consecutive or interpolated years will be entitled to a pension supplement amounting to 80% of their gross annual salary. For terms of office less than fifteen years, the amount of the retirement pension supplement will be determined by the remuneration committee. For these persons, it is currently determined that the retirement pension supplement shall be 65% of the annual gross salary, for terms of office equal to or greater than ten years and 75% of the annual gross salary, for terms of office equal to or greater than twelve years. This defined-benefit pension plan is a supplementary plan and is dependent on the General Social Security Regime.

As at June 30, 2018, and December 31, 2017, liabilities with this plan amounted to €24,300k and €24,120k, respectively, and were covered by a provision of the same amount carried under Provisions for pensions and other charges (Note 19).

With regard to termination of employment benefits, as provided for in the Companies Code, whenever, by decision of BST, the term of office of a member of the governing ends early, it shall compensate the member of the governing body with the future remuneration to which he or she is entitled up until the end of his or her term of office.

#### 40. INCENTIVE PLANS - SHARES

The Bank has an active Long-term Individual Incentive Plan forming part of the multi-year variable remuneration, for a restricted number of employees. Implementation of this plan is subject to meeting the following objectives:

- i) Growth of the consolidated earnings per share ("EPA") of Banco Santander in 2019 compared to 2016;
- ii) Behaviour of the Bank's total shareholder return ("TSR") in the 2017-2019 period in comparison with the weighted TSRs of a group of 17 reference entities (the "Reference Group"), attributing the appropriate TSR Coefficient in the light of the position of the Bank's TSR within the Reference Group;
- iii) Meeting the objective of fully-loaded common equity tier 1 or CET1 fixed for 2019, the goal being that on December 31, 2019, the fully-loaded consolidated CET1 index of the Santander Group will exceed 11.3%;

As described in Note 1.3(k), the accounting record of the share incentive plans is intended to recognise the right of the Bank's employees to these instruments in the income statement for the period, under Staff costs, to the extent that they correspond to a consideration for services rendered. The management, coverage and implementation of the plans was ensured by Banco Santander, SA, for all employees covered by the plan worldwide.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018  
(Expressed in thousands of euros, except where otherwise stated)

As at June 30, 2018, and December 31, 2017, the total cost of the Share Incentive Stock Plan for all employees of the Bank covered by it is as follows:

	<u>30-06-2018</u>	<u>30-06-2018</u>
Long-Term Individual Incentive Plan (Note 33)	186	186
	===	===

Availability of the shares is subject to continuation of the employees in the Santander Group.

41. DISCLOSURES WITHIN THE SCOPE OF APPLICATION OF THE IFRS 7 and IFRS 13 STANDARDS

**BALANCE SHEET**

*Categories of financial instruments*

As at June 30, 2018, and December 31, 2017, the carrying amount of financial instruments was as follows:

	30-06-2018				
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	2,233,857	248,486	-	2,482,343
Balances due from other banks	-	614,798	-	-	614,798
Financial assets held for trading	1,342,896	-	-	-	1,342,896
Other financial assets mandatory at fair value through profit or loss	237,611	-	-	-	237,611
Other financial assets at fair value through other comprehensive income	4,522,106	-	-	(275)	4,521,831
Loans and advances to credit institutions	-	892,298	-	(27)	892,271
Credit granted and other balances receivable at amortized cost	3,119,635	38,422,745	-	(1,473,182)	40,069,198
Hedging derivatives	53,190	-	-	-	53,190
	<b>9,275,438</b>	<b>42,163,698</b>	<b>248,486</b>	<b>(1,473,484)</b>	<b>50,214,138</b>
<b><u>Liabilities</u></b>					
Resources of central banks	-	3,056,295	-	-	3,056,295
Financial liabilities held for trading	1,367,419	-	-	-	1,367,419
Resources from other credit institutions	-	4,284,642	-	-	4,284,642
Resources of customers and other debts	730,390	33,682,776	-	-	34,413,166
Debt securities	-	4,434,866	-	-	4,434,866
Hedging derivatives	49,919	-	-	-	49,919
	<b>2,147,728</b>	<b>45,458,579</b>	<b>-</b>	<b>-</b>	<b>47,606,307</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

	31-12-2017				
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	751,352	288,202	-	1,039,554
Balances due from other banks		549,586	108,569	-	658,155
Financial assets held for trading	1,515,236	-	-	-	1,515,236
Available-for-sale financial assets	4,514,537	-	85,780	(63,174)	4,537,143
Loans and advances to credit institutions	-	826,367	-	-	826,367
Loans and advances to customers	2,985,884	38,388,193	-	(1,740,865)	39,633,212
Held-to-maturity investments	-	-	108,809	-	108,809
Hedging derivatives	15,349	-	-	-	15,349
	<u>9,031,006</u>	<u>40,515,498</u>	<u>591,360</u>	<u>(1,804,039)</u>	<u>48,333,825</u>
<b><u>Liabilities</u></b>					
Resources of central banks	-	3,080,538	-	-	3,080,538
Financial liabilities held for trading	1,533,760	-	-	-	1,533,760
Resources of other credit institutions	-	4,351,086	-	-	4,351,086
Resources of customers and other debts	1,366,902	30,666,320	104,246	-	32,137,468
Debt securities	-	4,569,205	-	-	4,569,205
Hedging derivatives	39,275	-	-	-	39,275
Subordinated liabilities	-	12,032	-	-	12,032
	<u>2,939,937</u>	<u>42,679,181</u>	<u>104,246</u>	<u>-</u>	<u>45,723,364</u>

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

**INCOME STATEMENT**

In the half years ended on December 31, 2018 and 2017, the breakdown of net gains and losses on financial instruments was a follows:

	30-06-2018					
	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	667,193	(672,504)	(5,311)	-	-	-
Other financial assets mandatory at fair value through profit or loss	1,515	(1,170)	345	-	-	-
Other financial assets at fair value through other comprehensive income	85,184	(1,706)	83,478	50,620	-	50,620
Cash and deposits at central banks and credit institutions	3,364	-	3,364	-	-	-
Credit granted and other balances receivable at amortized cost	654,834	(189,378)	465,456	-	-	-
Hedging derivatives	123,844	(135,518)	(11,674)	41,520	-	41,520
Resources of central banks and from credit institutions	-	(2,094)	(2,094)	-	-	-
Resources of customers and other debts	48,310	(29,328)	18,982	-	-	-
Debt securities	589	(27,556)	(26,967)	-	-	-
	<u>1,584,833</u>	<u>(1,059,254)</u>	<u>525,579</u>	<u>92,140</u>	<u>-</u>	<u>92,140</u>
Guarantees given	22,572	(12,333)	10,239	-	-	-
Credit lines	1,102	-	1,102	-	-	-

	30-06-2017					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,440,285	(1,442,663)	(2,378)	-	-	-
Available-for-sale financial assets	90,979	(33)	90,946	231,013	-	(157,523)
Balances in central banks and other credit institutions	5,568	-	5,568	-	-	-
Loans and advances to customers	1,219,069	(865,949)	353,120	-	-	-
Held-to-maturity investments	3,271	-	3,271	417	-	417
Hedging derivatives	141,841	(136,687)	5,154	1,161	-	(10,097)
Resources in central banks and other credit institutions	-	(2,962)	(2,962)	-	-	-
Resources of customers and other debts	39,654	(37,122)	2,532	-	-	-
Debt securities	393	(23,462)	(23,069)	-	-	-
Subordinated liabilities	-	(315)	(315)	-	-	-
	<u>2,941,060</u>	<u>(2,509,193)</u>	<u>431,867</u>	<u>232,591</u>	<u>-</u>	<u>232,591</u>
Guarantees given	13,339	(5,773)	7,566	-	-	-
Credit lines	1,550	-	1,550	-	-	-

The amounts referred to above do not include gains and losses arising from foreign exchange revaluation of the respective financial instruments which, on June 30, 2018 and 2017, corresponded to net gains in the amounts of €4,762k and €4,425k, respectively (Note 31).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

In the first halves of 2018 and 2017, the breakdown of interest and commission income and expenses, determined in accordance with the effective interest-rate method, in respect of financial assets and liabilities not carried at fair value through profit or loss, was as follows:

	30-06-2018			30-06-2017		
	Income	Expense	Net	Income	Expense	Net
<b>Ativo</b>						
Balances due from other banks	622	-	622	15	-	15
Other financial assets at fair value						
through other comprehensive income	55,848	-	55,848	62,431	-	62,431
Loans and advances to credit institutions	2,742	-	2,742	5,553	-	5,553
Credit granted and other balances receivable at amortized cost	419,311	(12)	419,299	334,561	(15)	334,546
Held to maturity investments	478,523	(12)	478,511	405,831	(15)	405,816
<b>Passivo</b>						
Resources of central banks	-	(63)	(63)	-	(1,725)	(1,725)
Resources from other credit institutions	-	(2,031)	(2,031)	-	(1,237)	(1,237)
Resources of customers and other debts	-	(29,179)	(29,179)	-	(34,445)	(34,445)
Debt securities	-	(27,243)	(27,243)	-	(23,462)	(23,462)
Subordinated liabilities	-	(313)	(313)	-	(315)	(315)
	-	(58,829)	(58,829)	-	(61,184)	(61,184)
Guarantees given	10,445	-	10,445	9,279	-	9,279
Credit Lines	1,002	-	1,002	1,550	-	1,550

In the first halves of 2018 and 2017, the breakdown of commission income and costs, not included in the calculation of the effective interest rate, in respect of financial assets and liabilities not carried at fair value through profit or loss, was as follows:

	30-06-2018			30-06-2017		
	Income	Expense	Net	Income	Expense	Net
<b>Assets</b>						
Credit granted and other balances receivable at amortized cost	28,979	(8,124)	20,855	27,367	(5,745)	21,622
<b>Liabilities</b>						
Resources of customers and other debts	45,658	-	45,658	36,876	-	36,876

During the first halves of 2018 and 2017 the Bank recognised financial income in respect of Interest income on non-performing loans, or in situations of impairment, in the amounts of €4,239k and €6,407k, respectively (Note 26).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

**OTHER DISCLOSURES***Hedge accounting*

As at June 30, 2018, and December 31, 2017, the detail of hedging derivatives and financial instruments designated as hedged items was as follows:

	30-06-2018					
	Hedged item			Hedging instrument		
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Credit granted and other balances receivable at amortized cost	3,111,327	3,117,717	27,104	3,144,821	3,111,148	(35,797)
Other financial assets at fair value						
through other comprehensive income	80,000	89,509	476	89,985	80,000	(4,623)
Resources of customers and other debts	(729,392)	(730,390)	(3,775)	(734,165)	287,131	4,955
Cash flow hedge:						
Credit granted and other balances receivable at amortized cost	10,000,000	10,000,000	-	10,000,000	10,000,000	39,860
Resources of customers and other debts	523,771	523,771	-	523,771	523,771	(1,124)
	<u>12,985,706</u>	<u>13,000,607</u>	<u>23,805</u>	<u>13,024,412</u>	<u>14,002,050</u>	<u>3,271</u>

	31-12-2017					
	Hedged item			Hedging instrument		
	Nominal value	Value net of impairment	Fair value adjustments	Book value	Nominal Value	Fair Value
Fair value hedge:						
Loans and advances to customers	2,961,958	2,967,188	18,408	2,985,596	2,961,934	(26,116)
Available-for-sale financial assets	80,000	92,722	-	92,722	80,000	(3,536)
Resources of customers and other debts	(1,358,810)	(1,361,352)	(5,550)	(1,366,902)	1,003,563	7,913
Cash flow hedge:						
Resources of customers	523,771	523,771	-	523,771	523,771	(2,187)
	<u>2,206,919</u>	<u>2,222,329</u>	<u>12,858</u>	<u>2,235,187</u>	<u>4,569,268</u>	<u>(23,926)</u>

*Cash flow hedge*

The expected periods for the occurrence of cash flows that will affect the profit or loss of the period are as follows:

	30-06-2018					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	<u>(75)</u>	<u>(49)</u>	<u>13,866</u>	<u>25,020</u>	<u>(26)</u>	<u>38,736</u>

	31/12/2017					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	<u>-</u>	<u>-</u>	<u>(761)</u>	<u>(1,426)</u>	<u>-</u>	<u>(2,187)</u>

Gains and losses recognised in the income statements for first halves of 2018 and 2017, with fair-value hedge transactions, were as follows:

	30-06-2018			30-06-2017		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Credit granted and other balances receivable at amortized cost	8,695	(8,695)	-	(472)	472	-
Other financial assets at fair value						
through other comprehensive income	3,845	(3,845)	-	(10,201)	10,201	-
Resources of customers and other debts	2,504	(2,518)	(14)	102	(144)	(42)
Debt securities	-	-	-	160	(160)	-
	<u>15,044</u>	<u>(15,058)</u>	<u>(14)</u>	<u>(10,411)</u>	<u>10,369</u>	<u>(42)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

Fair value of financial instruments

As at June 30, 2018, and December 31, 2017, the detail of the financial instruments was as follows:

	30-06-2018			31-12-2017		
	Measured at fair value	Not measured at fair value	Total	Measured at fair value	Not measured at fair value	Total
<b><u>Assets</u></b>						
Cash and deposits at central banks	-	2,482,343	2,482,343	-	1,039,554	1,039,554
Balances due from other banks	-	614,798	614,798	-	658,155	658,155
Financial assets held for trading	1,342,896	-	1,342,896	1,515,236	-	1,515,236
Other financial assets at fair value through profit or loss	237,611	-	237,611	-	-	-
Other financial assets at fair value through other comprehensive income	4,521,831	-	4,521,831	4,486,980	50,163	4,537,143
Loans and advances to credit institutions	-	892,271	892,271	-	826,367	826,367
Credit granted and other balances receivable at amortized cost	3,117,717	36,951,481	40,069,198	2,985,596	36,647,616	39,633,212
Held to maturity investments	-	-	-	-	108,809	108,809
Hedging derivatives	53,190	-	53,190	15,349	-	15,349
	<u>9,273,245</u>	<u>40,940,893</u>	<u>50,214,138</u>	<u>9,003,161</u>	<u>39,330,664</u>	<u>48,333,825</u>
<b><u>Liabilities</u></b>						
Resources of central banks	-	3,056,295	3,056,295	-	3,080,538	3,080,538
Financial liabilities held for trading	1,367,419	-	1,367,419	1,533,760	-	1,533,760
Resources from other credit institutions	-	4,284,642	4,284,642	-	4,351,086	4,351,086
Resources of customers and other debts	730,390	33,682,776	34,413,166	1,366,902	30,770,566	32,137,468
Debt securities	-	4,434,866	4,434,866	-	4,569,205	4,569,205
Hedging derivatives	49,919	-	49,919	39,275	-	39,275
Subordinated liabilities	-	-	-	-	12,032	12,032
	<u>2,147,728</u>	<u>45,458,579</u>	<u>47,606,307</u>	<u>2,939,937</u>	<u>42,783,427</u>	<u>45,723,364</u>

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 June 30, 2018, and December 31, 2017, the fair value of financial assets and liabilities measured at fair value or subject to fair value corrections in accordance with the application of hedge accounting, was as follows:

	30-06-2018				
	Acquisition cost	Accruals interest	Valuation	Impairment	Net book value
<b><u>Assets</u></b>					
Financial assets held for trading	3,257	-	1,339,639	-	1,342,896
Other financial assets at fair value through profit or loss	237,611	-	-	-	237,611
Other financial assets at fair value through other comprehensive income	4,102,883	52,574	366,649	(275)	4,521,831
Credit granted and other balances receivable at amortized	3,111,327	8,308	-	(1,918)	3,117,717
Hedging derivatives	-	-	53,190	-	53,190
	<u>7,455,078</u>	<u>60,882</u>	<u>1,759,478</u>	<u>(2,193)</u>	<u>9,273,245</u>
<b><u>Liabilities</u></b>					
Financial liabilities held for trading	-	-	1,367,419	-	1,367,419
Resources of customers and other debts	729,392	998	-	-	730,390
Hedging derivatives	-	-	49,919	-	49,919
	<u>729,392</u>	<u>998</u>	<u>1,417,338</u>	<u>-</u>	<u>2,147,728</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

	31-12-2017					
	Acquisition cost	Accruals interest	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
<b><u>Assets</u></b>						
Financial assets held for trading	3,342	-	1,511,894	-	-	1,515,236
Available-for-sale financial assets	4,099,557	91,800	323,180	-	(27,557)	4,486,980
Loans and advances to customers	2,961,958	5,517	-	18,408	(287)	2,985,596
Hedging derivatives	-	-	15,349	-	-	15,349
	<u>7,064,857</u>	<u>97,317</u>	<u>1,850,423</u>	<u>18,408</u>	<u>(27,844)</u>	<u>9,003,161</u>
<b><u>Liabilities</u></b>						
Financial liabilities held for trading	-	-	1,533,760	-	-	1,533,760
Resources of customers and other debts	1,358,810	2,542	-	5,550	-	1,366,902
Hedging derivatives	-	-	39,275	-	-	39,275
	<u>1,358,810</u>	<u>2,542</u>	<u>1,573,035</u>	<u>5,550</u>	<u>-</u>	<u>2,939,937</u>

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 June 30, 2018, and December 31, 2017, the carrying amount of financial instruments measured at fair value or subject to value adjustments for hedging operations, had the following detail by valuation methodology:

	30-06-2018			
	Methodology of determining fair value			
	Listed in active markets (Level 1)	Other valuation techniques (Level 2) (Level 3)		Total
<b><u>Assets</u></b>				
Financial assets held for trading	-	1,339,639	3,257	1,342,896
Other financial assets at fair value through profit or loss	1,984	5,351	230,276	237,611
Other financial assets at fair value through other comprehensive income	2,470,985	2,035,369	15,477	4,521,831
Credit granted and other balances receivable at amortized cost	-	3,117,717	-	3,117,717
Hedging derivatives	-	53,190	-	53,190
	<u>2,472,969</u>	<u>6,551,266</u>	<u>249,010</u>	<u>9,273,245</u>
<b><u>Liabilities</u></b>				
Financial liabilities held for trading	-	1,367,419	-	1,367,419
Resources of customers and other debts	-	730,390	-	730,390
Hedging derivatives	-	49,919	-	49,919
	<u>-</u>	<u>2,147,728</u>	<u>-</u>	<u>2,147,728</u>

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	31-12-2017			
	Methodology of determining fair value			
	Listed in active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
<b><u>Assets</u></b>				
Financial assets held for trading	312	1,511,184	3,740	1,515,236
Available-for-sale financial assets	2,364,892	2,043,671	78,417	4,486,980
Loans and advances to customers	-	2,985,596	-	2,985,596
Hedging derivatives	-	15,349	-	15,349
	<u>2,365,204</u>	<u>6,555,800</u>	<u>82,157</u>	<u>9,003,161</u>
<b><u>Liabilities</u></b>				
Financial liabilities held for trading	-	1,533,760	-	1,533,760
Resources of customers and other debts	-	1,366,902	-	1,366,902
Hedging derivatives	-	39,275	-	39,275
	-	<u>2,939,937</u>	-	<u>2,939,937</u>

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, open-end securities investment funds and equities.
- Level 2 – Financial instruments carried at fair value using internal valuation models which use as inputs significant observable market data. This category includes some securities of the available-for-sale financial assets portfolio valued using indicative bids provided by external counterparts and most of the hedge and trading derivative financial 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
FRA's	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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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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).

When the inputs used in the valuation of derivative financial instruments result from observable market data, the Bank classified its derivative financial instruments as Level 2. When this valuation resulted from internal information prepared by the Bank, it classifies those financial instruments as Level 3.

- Level 3 – The Bank classifies at this level financial instruments measured through internal models with some inputs that do not correspond to observable market data. In particular, securities not listed on active markets for which the Bank uses extrapolations of market data were classified in this category.

In the first half of 2018 and in 2017, 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 mandatory at fair value through comprehensive income	Available-for-sale financial assets	Total
	Securities	Derivatives				
December 31, 2016	3,175	-	-	-	32,598	35,773
Acquisitions	530	-	-	-	46,282	46,812
Liquidation	-	-	-	-	(354)	(354)
Reclassifications	-	-	-	-	-	-
Changes in fair value	35	-	-	-	(109)	(74)
December 31, 2017	3,740	-	-	-	78,417	82,157
First implementation of IFRS9	(346)	-	77,428	1,335	(78,417)	-
Acquisitions	-	-	119,601	631	-	120,232
Reclassifications	(184)	-	32,169	13,510	-	45,495
Changes in fair value	47	-	1,079	-	-	1,126
June 30, 2018	3,257	-	230,277	15,476	-	249,010

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

	30-06-2017		31-12-2017	
	EUR	USD	EUR	USD
Overnight	-0.29%	2.31%	-0.28%	1.77%
1 month	-0.29%	2.31%	-0.28%	1.77%
3 months	-0.28%	2.34%	-0.27%	1.69%
6 months	-0.27%	2.41%	-0.27%	1.74%
9 months	-0.26%	2.50%	-0.26%	1.82%
1 year	-0.25%	2.58%	-0.25%	1.88%
3 years	-0.04%	2.83%	0.01%	2.15%
5 years	0.27%	2.87%	0.32%	2.23%
7 years	0.54%	2.87%	0.57%	2.30%
10 years	0.88%	2.90%	0.89%	2.38%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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As at June 30, 2018, and December 31, 2017, the carrying amount and fair value of the financial instruments measured at amortised cost was as follows:

	30-06-2018		
	Book value	Fair value	Difference
<b><u>Assets</u></b>			
Cash and deposits at central banks	2,482,343	2,452,726	(29,617)
Balances due from other banks	614,798	700,933	86,135
Loans and advances to credit institutions	892,271	893,860	1,589
Credit granted and other balances receivable at amortized cost	36,951,481	36,643,898	(307,583)
	<u>40,940,893</u>	<u>40,691,417</u>	<u>(249,476)</u>
<b><u>Liabilities</u></b>			
Resources of central banks	(3,056,295)	(3,039,261)	17,034
Resources from other credit institutions	(4,284,642)	(4,292,738)	(8,096)
Resources of customers and other debts	(33,682,776)	(33,789,068)	(106,292)
Debt securities	(4,434,866)	(4,480,899)	(46,033)
	<u>(45,458,579)</u>	<u>(45,601,966)</u>	<u>(143,387)</u>
	31-12-2017		
	Book value	Fair value	Difference
<b><u>Assets</u></b>			
Cash and deposits at central banks	1,039,554	1,027,786	(11,768)
Balances due from other banks	658,155	658,155	-
Available-for-sale financial assets	50,163	50,163	-
Loans and advances to credit institutions	826,367	829,678	3,311
Loans and advances to customers	36,647,616	36,956,365	308,749
Investments held to maturity	108,809	114,936	6,127
	<u>39,330,664</u>	<u>39,637,083</u>	<u>306,419</u>
<b><u>Liabilities</u></b>			
Resources of central banks	(3,080,538)	(3,083,784)	(3,246)
Resources of other credit institutions	(4,351,086)	(4,363,550)	(12,464)
Resources of customers and other debts	(30,770,566)	(30,779,154)	(8,588)
Debt securities	(4,569,205)	(4,856,194)	(286,989)
Subordinated liabilities	(12,032)	(13,064)	(1,032)
	<u>(42,783,427)</u>	<u>(43,095,746)</u>	<u>(312,319)</u>

To determine the fair value of financial instruments carried at amortised cost or historical cost, the valuation methods used consisted of valuation techniques involving, in particular, updating future cash



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flows. As at June 30, 2018, and December 31, 2017, details of the valuation methods used to determine the carrying amount of financial instruments measured at amortised cost or historical cost are as follows:

30-06-2018				
Methodology for determining fair value				
Listed in active markets (Level 1)	Other valuation techniques		Total	
	(Level 2)	(Level 3)		
<b><u>Assets</u></b>				
Cash and deposits at central banks	-	2,452,726	-	2,452,726
Balances due from other banks	-	700,933	-	700,933
Loans and advances to credit institutions	-	893,860	-	893,860
Credit granted and other balances receivable at amortized cost	-	-	36,643,898	36,643,898
	-	4,047,519	36,643,898	40,691,417
<b><u>Liabilities</u></b>				
Resources of central banks	-	(3,039,261)	-	(3,039,261)
Resources from other credit institutions	-	(4,292,738)	-	(4,292,738)
Resources of customers and other debts	-	-	(33,789,068)	(33,789,068)
Debt securities	-	(4,480,899)	-	(4,480,899)
	-	(11,812,898)	(33,789,068)	(45,601,966)

31-12-2017				
Methodology for determining fair value				
Listed in active markets (Level 1)	Other valuation techniques		Total	
	(Level 2)	(Level 3)		
<b><u>Assets</u></b>				
Cash and deposits at central banks	-	1,027,786	-	1,027,786
Balances due from other banks	-	658,155	-	658,155
Available-for-sale financial assets	-	-	50,163	50,163
Loans and advances to credit institutions	-	829,678	-	829,678
Loans and advances to customers	-	497,136	36,459,229	36,956,365
Investments held to maturity	9,364	-	105,572	114,936
	9,364	3,012,755	36,614,964	39,637,083
<b><u>Liabilities</u></b>				
Resources of central banks	-	(3,083,784)	-	(3,083,784)
Resources of other credit institutions	-	(4,363,550)	-	(4,363,550)
Resources of customers and other debts	-	-	(30,779,154)	(30,779,154)
Debt securities	-	(4,856,194)	-	(4,856,194)
Subordinated liabilities	-	(13,064)	-	(13,064)
	-	(12,316,592)	(30,779,154)	(43,095,746)

The main assumptions used in the determination of fair value by type of financial instrument, were as follows:

- The future cash flows of the investments and resources of credit institutions were discounted using interest-rate curves for the money market;
- For the purposes of the discount of future flows of the customer loan portfolio, the fair value of loans granted at a floating rate was determined taking into account the average spread of the production of the last quarter of the period. As for fixed-rate loans, future cash flows were discounted at the average rates charged by the Bank in the last quarter of the period;

- 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 month of the period 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;

## **RISK MANAGEMENT**

### **CREDIT RISK**

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

Credit-risk management is carried out by an independent body, the Group's 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 and credit cards) and the rating used at the Bank.

The counterparty risk consists of the latent credit risk in financial markets transactions corresponding to the possibility of default by the counterparties of the contracted terms and subsequent occurrence of financial losses for the Bank. The types of transactions covered include the purchase and sale of securities, contracting repos, securities lending and derivative instruments. Given the high complexity and volume of transactions, as well as the requirements of adequate control of the consolidated risks in certain customer segments, the control perimeter is defined in keeping with the segments at issue.

Control of these risks is performed on a daily basis in accordance with an integrated system that allows registration of the approved limits and real-time updating of positions, and provides information on the availability of limits and aggregate exposure, also in real time, for the various products and maturities. The system also allows transverse control (at different levels) of the concentration of risks by groups of customers/counterparties.

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

For specific customer segments (namely global corporate clients) emphasis is given to the implementation of economic-capital limits, incorporating in the quantitative control the variables associated with the creditworthiness of each counterparty.

Risk analyses for customers or economic groups where the Bank has an exposure of more than €500,000 are performed by risk analysts who monitor the customers and are supported by rating models developed by the Bank and approved by the regulatory entities. Preparation of these models is mandatory. The assignment of various internal rating levels, ranging from 1 to 9, 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 analysis of the following factors:

- . Demand/Market;
- . Partners/Management;
- . Access to credit;

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- . Profitability;
- . Flow generation;
- . Solvency.

A rating of 1 (minimum) to 9 (maximum) is assigned to these factors in accordance with the following weighting:

Weighting parameters	Large Companies	Small and medium size Companies
Demand/Market	20%	20%
Equity holders/Management	15%	15%
Access to credit	10%	10%
Profitability	15%	55%
Generation of funds	25%	
Solvency	15%	

The rating is calculated by the analysts, based on information provided by the customer, general information on the sector and external databases. The end rating by each partial valuation area is subsequently introduced into the Bank's computer system.

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

- Rating 1 – 3: High credit-risk customer;
- Rating 4 – 6: Moderate credit-risk customer;
- Rating 7 – 9: Low credit-risk customer;

As at June 30, 2018, and December 31, 2017, the maximum exposure to the credit risk and the respective carrying amount of the financial was as follows:

	30-06-2018		31-12-2017	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	2,482,343	2,482,343	1,039,554	1,039,554
Balances due from other banks	614,798	614,798	658,155	658,155
Financial assets held for trading	1,342,896	1,342,896	1,515,236	1,515,236
Other financial assets at fair value through profit or loss	237,611	237,611		
Other financial assets at fair value through other comprehensive income	4,521,831	4,521,831	4,537,143	4,537,143
Loans and advances to credit institutions	892,271	892,271	826,367	826,367
Credit granted and other balances receivable at amortized cost	40,069,198	45,839,077	39,633,212	46,178,338
Held to maturity investments			108,809	108,809
Hedging derivatives	53,190	53,190	15,349	15,349
Investment in associated companies	79,378	79,378	76,602	76,602
	<u>50,293,516</u>	<u>56,063,395</u>	<u>48,410,427</u>	<u>54,955,553</u>
Guarantees provided	<u>2,021,025</u>	<u>2,021,025</u>	<u>2,065,101</u>	<u>2,065,101</u>

The maximum exposure in Loans granted and other balances receivable as at June 30, 2018, included €900,754k and €4,869,125k relating to irrevocable credit lines and revocable credit lines, respectively (€1,352,174k and €5,192,952k as at December 31, 2017, respectively).

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

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In this sense, as at June 30, 2018, and December 31, 2017, the breakdown of performing and non-performing exposures was as follows:

	30-06-2018			31-12-2017		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	38,990,239	(172,590)	0.4%	38,375,856	(246,286)	0.6%
Non-performing exposures						
. Loans represented by securities	7,154	(7,014)	98.0%	1,613	(318)	19.7%
. Households	733,726	(278,361)	37.9%	825,187	(310,259)	37.6%
. Corporates	1,811,261	(1,015,217)	56.1%	2,171,421	(1,184,002)	54.5%
	2,552,141	(1,300,592)		2,998,221	(1,494,579)	
	41,542,380	(1,473,182)		41,374,077	(1,740,865)	

As at June 30, 2018, and December 31, 2017, the degree of cover of the non-performing exposures by real guarantees was as follows:

	30-06-2018			31-12-2017		
	Book value	Collateral	Coverage	Book value	Collateral	Coverage
Non-performing exposures						
. Loans represented by securities	7,154	-	-	1,613	-	-
. Households	733,726	410,902	56.0%	825,187	462,708	56.1%
. Corporates	1,811,261	496,097	27.4%	2,171,421	546,194	25.2%
	2,552,141	906,999		2,998,221	1,008,902	

Forborne exposures

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

As at June 30, 2018, and December 31, 2017, the breakdown of deferred exposures was as follows:

	30-06-2018			31-12-2017		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	1,191,210	(45,110)	3.8%	1,321,740	(83,046)	6.3%
Non-performing exposures						
. Households	448,957	(155,755)	34.7%	469,715	(143,945)	30.6%
. Corporates	1,219,011	(698,161)	57.3%	1,347,323	(771,626)	57.3%
	1,667,968	(853,916)		1,817,037	(915,571)	
	2,859,178	(899,026)		3,138,777	(998,617)	

LIQUIDITY RISK

The balance sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury, Commercial Marketing and International areas. Committee meetings are held monthly and at them the balance-sheet risks are analysed and strategic options decided.

For the ALM area the following balance-sheet management limits are defined:

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- Limits intended to control the interest-rate risk, in particular, the sensitivity of the net interest margin (NIM) and the sensitivity of market value of equities (MVE) to unexpected interest-rate variations; and
- Limits intended to control the liquidity risk through the net accumulated liquidity and illiquidity coefficient indicators.

The Bank's funding policy considers the evolution of the balance-sheet aggregates, the structural situation of the maturities of assets and liabilities, the net interbank debt level in the light of the available lines, maturity dispersal and minimisation of the costs associated with the funding activity.

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

As at June 30, 2018, and December 31, 2017, the breakdown of the projected (not discounted) cash flows of the financial instruments, in keeping with their maturities, was as follows:

	30-06-2018							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
<b>Assets</b>								
Cash and deposits at central banks	248,486	-	-	-	2,241,678	-	-	2,490,164
Balances due from other banks	614,798	-	-	-	-	-	-	614,798
Financial assets held for trading	1,342,896	-	-	-	-	-	-	1,342,896
Other financial assets mandatory at fair value through profit or loss	-	-	-	-	-	-	237,611	237,611
Other financial assets at fair value through other comprehensive income	2	15,100	152,185	239,163	240,597	4,408,918	16,210	5,072,175
Loans and advances to credit institutions	288,421	636	150,931	402,811	6	20,798	-	863,603
Credit granted and other balances receivable at amortized cost	238,532	2,494,482	4,772,924	9,197,109	6,165,732	22,034,984	-	44,903,763
Hedging derivatives	53,190	-	-	-	-	-	-	53,190
Investments in associates	-	-	-	-	-	-	81,231	81,231
	<b>2,786,325</b>	<b>2,510,218</b>	<b>5,076,040</b>	<b>9,839,083</b>	<b>8,648,013</b>	<b>26,464,700</b>	<b>335,052</b>	<b>55,659,431</b>
<b>Liabilities</b>								
Resources of central banks	4,538	-	-	3,025,116	-	-	-	3,029,654
Financial liabilities held for trading	1,367,419	-	-	-	-	-	-	1,367,419
Resources of other credit institutions	488,593	1,605,453	1,015,121	56,271	600,322	500,000	-	4,265,760
Resources of customers and other debts	15,652,688	5,504,663	9,000,994	4,045,401	335,268	10,125	-	34,549,139
Debt securities	-	45,145	875,428	1,048,597	293,019	2,509,449	-	4,771,638
Hedging derivatives	49,919	-	-	-	-	-	-	49,919
	<b>17,563,157</b>	<b>7,155,261</b>	<b>10,891,543</b>	<b>8,175,385</b>	<b>1,228,609</b>	<b>3,019,574</b>	<b>-</b>	<b>48,033,529</b>
	31-12-2017							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
<b>Assets</b>								
Cash and deposits at central banks	288,202	-	-	-	750,711	-	-	1,038,913
Balances due from other banks	658,155	-	-	-	-	-	-	658,155
Financial assets held for trading	1,515,236	-	-	-	-	-	-	1,515,236
Available-for-sale financial assets	2	269,082	39,244	282,819	232,741	4,158,575	189,812	5,172,275
Loans and advances to credit institutions	121,812	20,161	171,647	477,281	-	-	-	790,901
Loans and advances to customers	290,673	2,929,461	4,626,212	8,740,195	6,557,776	22,344,748	-	45,489,065
Held-to-maturity investments	-	11,621	8,434	19,869	18,366	70,382	-	128,672
Hedging derivatives	15,349	-	-	-	-	-	-	15,349
Investments in associates	-	-	-	-	-	-	82,134	82,134
	<b>2,889,429</b>	<b>3,230,325</b>	<b>4,845,537</b>	<b>9,520,164</b>	<b>7,559,594</b>	<b>26,573,706</b>	<b>271,946</b>	<b>54,890,700</b>
<b>Liabilities</b>								
Resources of central banks	4,538	-	-	2,446,000	630,000	-	-	3,080,538
Financial liabilities held for trading	1,533,760	-	-	-	-	-	-	1,533,760
Resources of other credit institutions	431,699	1,494,882	1,274,616	1,478	550,751	600,000	-	4,353,426
Resources of customers and other debts	13,547,552	6,234,421	7,000,193	5,323,558	136,317	9,338	-	32,251,379
Debt securities	-	59,016	142,293	1,827,403	301,370	2,573,292	-	4,903,374
Hedging derivatives	39,275	-	-	-	-	-	-	39,275
Subordinated liabilities	-	32	601	1,268	1,266	16,575	-	19,743
	<b>15,556,824</b>	<b>7,788,351</b>	<b>8,417,703</b>	<b>9,599,707</b>	<b>1,619,704</b>	<b>3,199,205</b>	<b>-</b>	<b>46,181,495</b>

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, other financial assets mandatorily at fair value through profit or loss and equity instruments classified as other financial assets at fair value through other comprehensive income) 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;
- The projected flows relating to current accounts have been considered as payable on demand.

#### **MARKET RISK**

Market risk generally consists of the potential variation of the value of a financial instrument due to unexpected changes of market variables such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard method applied for the Bank's trading activity is Value at Risk (VaR). The Historic Simulation standard is used as the basis with a confidence level of 99% and a time horizon of one day, statistical adjustments being applied in order to include the more recent events that condition the risk levels assumed. This measure is only used for cash management at Group level.

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).

As regards the structural interest-rate risk, the model used in the analysis allows measurement and control of all the factors associated with the market risk of the balance sheet, particularly the risk directly originated by the movement of the yield curve, given the existing structure of indices and repricing, which determine the sensitivity of net interest income and the sensitivity of the asset value of the balance-sheet instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

**Interest-rate risk**

As at June 30, 2018, and December 31, 2017, the breakdown of financial instruments by exposure to the interest-rate risk was as follows:

	30-06-2018				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
<b>Assets</b>					
Cash and deposits at central banks	-	2,233,857	248,486	-	2,482,343
Balances due from other banks	-	-	614,798	-	614,798
Financial assets held for trading	-	-	3,257	1,339,639	1,342,896
Other financial assets mandatory at fair value through profit or loss	-	-	237,611	-	237,611
Other financial assets at fair value through other comprehensive income	4,085,966	230	435,635	-	4,521,831
Loans and advances to credit institutions	326,956	536,635	28,680	-	892,271
Credit granted and other balances receivable at amortized cost	7,606,176	32,015,586	447,436	-	40,069,198
Hedging derivatives	-	-	-	53,190	53,190
	12,019,098	34,786,308	2,015,903	1,392,829	50,214,138

<b>Liabilities</b>					
Resources of central banks	3,056,295	-	-	-	3,056,295
Financial liabilities held for trading	-	-	-	1,367,419	1,367,419
Resources of other credit institutions	53,245	4,230,421	976	-	4,284,642
Resources of customers and other debts	17,570,338	16,826,939	15,889	-	34,413,166
Debt securities	3,508,018	1,041,038	(114,190)	-	4,434,866
Hedging derivatives	-	-	-	49,919	49,919
	<u>24,187,896</u>	<u>22,098,398</u>	<u>(97,325)</u>	<u>1,417,338</u>	<u>47,606,307</u>

	31-12-2017				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
<b><u>Assets</u></b>					
Cash and deposits at central banks	-	751,352	288,202	-	1,039,554
Balances due from other banks	-	-	658,155	-	658,155
Financial assets held for trading	-	-	4,053	1,511,183	1,515,236
Available-for-sale financial assets	3,992,470	192,867	351,806	-	4,537,143
Loans and advances to credit institutions	288,704	497,128	40,535	-	826,367
Loans and advances to customers	8,094,066	31,976,135	(436,989)	-	39,633,212
Held-to-maturity investments	9,057	99,173	579	-	108,809
Hedging derivatives	-	-	-	15,349	15,349
	12,384,297	33,516,655	906,341	1,526,532	48,333,825

<b>Liabilities</b>					
Resources of central banks	3,080,538	-	-	-	3,080,538
Financial liabilities held for trading	-	-	-	1,533,760	1,533,760
Resources of other credit institutions	124,560	4,225,795	731	-	4,351,086
Resources of customers and other debts	18,806,798	13,201,228	129,442	-	32,137,468
Debt securities	3,526,087	1,128,572	(85,454)	-	4,569,205
Hedging derivatives	-	-	-	39,275	39,275
Subordinated liabilities	7,599	4,275	158	-	12,032
	<u>25,545,582</u>	<u>18,559,870</u>	<u>44,877</u>	<u>1,573,035</u>	<u>45,723,364</u>

**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, by difference between them and 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 used to simulate the spot curve of the date of analysis with the underlying forward curve; 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

As at June 30, 2018, and December 31, 2017, the sensitivity of the asset value of the Bank's financial instruments to positive and negative variations of 100 basis points (bp) for a one-year time horizon was:

	30-06-2018		31-12-2017	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
<b><u>Assets</u></b>				
Cash and deposits at central banks	970	86,365	395	30,772
Other financial assets mandatory at fair value through profit or loss	(347,275)	368,428	(332,156)	355,694
Loans and advances to credit institutions	(882)	821	(1,430)	409
Credit granted and other balances receivable at amortized cost	(609,003)	548,859	(627,248)	578,901
	<u>(956,190)</u>	<u>1,004,473</u>	<u>(960,439)</u>	<u>965,776</u>
Hedging derivatives	<u>(23,261)</u>	<u>(111,541)</u>	<u>169,730</u>	<u>(199,282)</u>
<b><u>Liabilities</u></b>				
Resources of central banks	(64,166)	22,867	(80,016)	37,533
Resources of other credit institutions	(12,081)	21,977	(14,387)	24,449
Resources of customers and other debts	(786,574)	657,711	(750,746)	650,832
Debt securities	<u>(173,086)</u>	<u>165,505</u>	<u>(189,257)</u>	<u>186,169</u>
	<u>(1,035,907)</u>	<u>868,060</u>	<u>(1,034,406)</u>	<u>898,983</u>

**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);
- 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 decrease factor applied is determined periodically using the market-risk method;

The VaR values used correspond to the highest of those calculated with the decrease factor in force and those calculated using uniform weighting;

- Calculation currency: In the process of calculating the VaR all positions are valued in euros, which guarantees that the risk-free currency is the local currency. However, VaR values are reported in US dollars (USD) in order to allow the aggregation of different units; and
- Market date time window: A 2-year time window is used, or at least 520 data obtained from the VaR calculation reference date going back in time.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

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 June 30, 2018, and December 31, 2017, the VaR associated with the interest-rate risk corresponded to:

	30-06-2018	31-12-2017
VaR Percentil 99%	(1)	(1)
VaR Weighted Percentil 99%	(1)	(1)

**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 that the risks involved are not very relevant, and it is implemented primarily through the use of currency swaps. Risk limits are stipulated for the exchange-rate risk that are controlled by the Market Risks area.

As at June 30, 2018, and December 31, 2017, the detail of the financial instruments by currency was as follows:

	30-06-2018		
	Euros	US Dollars	Other currencies
<b>Assets</b>			
Cash and deposits at central banks	2,478,869	2,069	1,405
Balances due from other banks	245,948	208,138	160,712
Financial assets held for trading	1,341,340	1,539	17
Other financial assets mandatory at fair value through profit or loss	237,611	-	-
Other financial assets at fair value through other comprehensive income	4,521,831	-	-
Loans and advances to credit institutions	620,211	171,602	100,458
Credit granted and other balances receivable at amortized cost	39,568,559	466,601	34,038
Hedging derivatives	47,131	6,059	-
Investments in associates	79,378	-	-
	<u>49,140,878</u>	<u>856,008</u>	<u>296,630</u>
			<u>50,293,516</u>
<b>Liabilities</b>			
Resources of central banks	3,056,295	-	-
Financial liabilities held for trading	1,365,851	1,564	4
Resources of other credit institutions	4,270,267	13,766	609
Resources of customers and other debts	32,787,703	1,335,552	289,911
Debt securities	4,434,866	-	-
Hedging derivatives	47,673	2,233	13
	<u>45,962,655</u>	<u>1,353,115</u>	<u>290,537</u>
			<u>47,606,307</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT June 30, 2018

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

	31-12-2017			
	Euros	US Dollars	Other currencies	Total
<b><u>Assets</u></b>				
Cash and deposits at central banks	1,033,618	1,960	3,976	1,039,554
Balances due from other banks	373,489	163,024	121,642	658,155
Financial assets held for trading	1,512,930	2,103	203	1,515,236
Financial assets available-for-sale	4,537,143	-	-	4,537,143
Loans and advances to credit institutions	726,613	78,897	20,857	826,367
Loans and advances to customers	39,184,885	41,745	406,582	39,633,212
Held to maturity investments	108,809	-	-	108,809
Hedging derivatives	10,995	4,354	-	15,349
Investments in associates	76,602	-	-	76,602
	<u>47,565,084</u>	<u>292,083</u>	<u>553,260</u>	<u>48,410,427</u>
<b><u>Liabilities</u></b>				
Resources of central banks	3,080,538	-	-	3,080,538
Financial liabilities held for trading	1,531,476	2,094	190	1,533,760
Resources of other credit institutions	4,271,833	29,603	49,650	4,351,086
Resources of customers and other debts	30,685,451	419,792	1,032,225	32,137,468
Debt securities	4,544,190	-	25,015	4,569,205
Hedging derivatives	37,495	1,765	15	39,275
Subordinated debt	12,032	-	-	12,032
	<u>44,163,015</u>	<u>453,254</u>	<u>1,107,095</u>	<u>45,723,364</u>

As at June 30, 2018, and December 31, 2017, the VaR associated with the exchange-rate risk corresponded to:

	30-06-2018	31-12-2017
VaR Percentil 99%	(1)	(7)
VaR Weighted Percentil 99%	(2)	(4)

**Asset price risk****Financial Instruments – trading**

As at June 30, 2018, and December 31, 2017, the Bank had no risk associated with asset prices with regard to its trading financial instruments, and so the VaR associated with this risk is zero.

42. **NOTE ADDED FOR TRANSLATION**

These financial statements are a free translation on the financial statements originally issued in the Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

## BANCO SANTANDER TOTTA, SA

## SUBORDINATED LIABILITIES AT JUNE 30, 2018 (Note 18)

(Amounts expressed in thousands of Euros)

Securities issued	Currency	Amount of the issue			Accrual	Total		Interest rate	Issue date	Maturity date	Index
		Total	Subscribed by the Group	Consolidated Balance sheet		Consolidated Balance Sheet					
Covered Bonds											
Hipotecária XIII - 1ª	EUR	750,000	-	750,000	(9,729)	740,271	1.63%	11-Jun-2014	11-Jun-2019	Fixes interest rate	
Hipotecária XIV	EUR	750,000	750,000	-	-	-	0.75%	04-Mar-2015	04-Mar-2022	Fixes interest rate	
Hipotecária XV	EUR	750,000	-	750,000	3,849	753,849	0.88%	27/Out/2015	27/out/2020	Fixes interest rate	
Hipotecária XVI	EUR	200,000	200,000	-	-	-	0.84%	24-Feb-2016	24-Feb-2022	Fixes interest rate	
Hipotecária XVII	EUR	750,000	750,000	-	-	-	0.90%	15-Apr-2016	15-Apr-2023	Fixes interest rate	
Hipotecária XVIII	EUR	750,000	750,000	-	-	-	0.65%	26-Jul-2016	26-Jul-2023	Fixes interest rate	
Hipotecárias XX - 1ª	EUR	750,000	750,000	-	-	-	1.20%	07-Dec-2017	07-Dec-2027	Fixes interest rate	
Hipotecárias XXI	EUR	1,000,000	1,000,000	-	-	-	1.48%	10-Apr-2017	10-Apr-2027	Fixes interest rate	
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	(7,382)	992,618	0.88%	25-Apr-2017	25-Apr-2024	Fixes interest rate	
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(1,369)	998,631	1.25%	26-Sep-2017	26-Sep-2027	Fixes interest rate	
		7,700,000	4,200,000	3,500,000	(14,631)	3,485,369					
Bonds issued on securitization operations											
Hipototta 4 - Classe A - Notes	EUR	580,701	396,096	184,605	(533)		Floating	09-Dec-2005	30-Dec-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	21,892	21,892	-	-		Floating	09-Dec-2005	30-Dec-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	69,139	36,975	32,165	-		Floating	09-Dec-2005	30-Dec-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	14,000	14,000	-	-		Floating	09-Dec-2005	30-Dec-2048	Residual return generated by securitized portfolio	
Hipototta 5 - Classe A2 - Notes	EUR	536,719	378,652	158,067	(210)		Floating	22-Mar-2007	28-Feb-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	-	-		Floating	22-Mar-2007	28-Feb-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	-	-		Floating	16-Mar-2007	28-Feb-2060	Euribor 3m+0,24% (until early reimbursement in february 2014); Euribor 3m+0,48% (after early reimbursement date)	
Hipototta 5 - Classe D - Notes	EUR	26,000	26,000	-	-		Floating	22-Mar-2007	28-Feb-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	-	-		Floating	22-Mar-2007	28-Feb-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	6,437	6,437	-	-		Floating	22-Mar-2007	28-Feb-2060	Residual return generated by securitized portfolio	

## BANCO SANTANDER TOTTA, SA

## SUBORDINATED LIABILITIES AT JUNE 30, 2018 (Note 18)

(Amounts expressed in thousands of Euros)

Securities issued	Currency	Amount of the issue			Accrual	Total Consolidated Balance Sheet	Interest rate	Issue date	Maturity date	Index
		Total	Subscribed by the Group	Consolidated Balance sheet						
Atlantes Mortgage PLC - classe A	EUR	20,973	3,600	17,373	8		Floating	13-Feb-2003	17-Jan-2036	Euribor 3m+0,54%;
Atlantes Mortgage PLC - classe B	EUR	22,500	-	22,500	46		Floating	13-Feb-2003	17-Jan-2036	Euribor 3m+1,30%;
Atlantes Mortgage PLC - classe C	EUR	12,500	-	12,500	59		Floating	13-Feb-2003	17-Jan-2036	Euribor 3m+2,60%;
Atlantes Mortgage PLC - classe D	EUR	2,500	-	2,500	23		Floating	13-Feb-2003	17-Jan-2036	Euribor 3m+4,75%;
Atlantes MTG n1 CL E 2036	EUR	15,400	15,400	-	-		Floating	13-Feb-2003	17-Jan-2036	Residual return generated by securitized portfolio
Azor Mortgage PLC classe A	EUR	3,672	755	2,917	-		Floating	25-Nov-2004	20-Sep-2047	Euribor 3m + 0,30%
Azor Mortgage PLC classe B	EUR	19,000	1,000	18,000	2		Floating	25-Nov-2004	20-Sep-2047	Euribor 3m + 0,76%
Azor Mortgage PLC classe C	EUR	9,000	2,500	6,500	3		Floating	25-Nov-2004	20-Sep-2047	Euribor 3m + 1,75%
Azor Mortgage PLC classe D	EUR	10,000	10,000	-	-		Floating	25-Nov-2004	20-Sep-2047	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 2 - A	EUR	132,823	-	132,823	(17,824)		Floating	05-Mar-2008	18-Sep-2060	Euribor 3m + 0,33%
Atlantes Mortgage PLC serie 2 - B	EUR	13,817	13,817	-	-		Floating	05-Mar-2008	18-Sep-2060	Euribor 3m + 0,95%
Atlantes Mortgage PLC serie 2 - C	EUR	5,632	5,632	-	-		Floating	05-Mar-2008	18-Sep-2060	Euribor 3m + 1,65%
Atlantes Mortgage PLC serie 2 - D	EUR	16,125	16,125	-	-		Floating	05-Mar-2008	18-Sep-2060	Residual return generated by securitized portfolio
Azor Mortgage PLC serie 2 - A	EUR	104,606	104,606	-	-		Floating	24-Jul-2008	14-Dec-2065	Euribor 3m + 0,30%
Azor Mortgage PLC serie 2 - B	EUR	43,080	43,080	-	-		Floating	24-Jul-2008	14-Dec-2065	Euribor 3m + 0,8%
Azor Mortgage PLC serie 2 - C	EUR	6,750	6,750	-	-		Floating	24-Jul-2008	14-Dec-2065	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 3 - A	EUR	227,672	70,957	156,715	(12,633)		Floating	30-Oct-2008	20-Aug-2061	Euribor 3m + 0,20%
Atlantes Mortgage PLC serie 3 - B	EUR	31,448	31,448	-	-		Floating	30-Oct-2008	20-Aug-2061	Euribor 3m + 0,50%
Atlantes Mortgage PLC serie 3 - C	EUR	57,668	57,668	-	-		Floating	30-Oct-2008	20-Aug-2061	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 4 - A	EUR	257,141	-	257,141	(36,296)		Floating	16-Feb-2009	30-Dec-2064	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 4 - B	EUR	28,318	28,318	-	-		Floating	16-Feb-2009	30-Dec-2064	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 4 - C	EUR	74,250	74,250	-	-		Floating	16-Feb-2009	30-Dec-2064	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 5 - A	EUR	214,668	214,668	-	-		Floating	21-Dec-2009	23-Nov-2068	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 5 - B	EUR	38,037	38,037	-	-		Floating	21-Dec-2009	23-Nov-2068	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 5 - C	EUR	66,250	66,250	-	-		Floating	21-Dec-2009	23-Nov-2068	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 7 - A	EUR	169,534	169,534	-	-		Floating	19-Nov-2010	23-Aug-2066	Euribor 3m + 0,15%
Atlantes Mortgage PLC serie 7 - B	EUR	31,504	31,504	-	-		Floating	19-Nov-2010	23-Aug-2066	Euribor 3m + 0,30%
Atlantes Mortgage PLC serie 7 - C	EUR	63,550	63,550	-	-		Floating	19-Nov-2010	23-Aug-2066	Residual return generated by securitized portfolio
Hipototta n°13 Classe A	EUR	1,592,928	1,592,928	-	-		Floating	09-Jan-2018	23-Oct-2072	
Hipototta n°13 Classe B	EUR	484,000	484,000	-	-		Floating	09-Jan-2018	23-Oct-2072	
Hipototta n°13 Classe C	EUR	66,000	66,000	-	-		Floating	09-Jan-2018	23-Oct-2072	
		<b>5,177,234</b>	<b>4,173,429</b>	<b>1,003,806</b>	<b>(67,355)</b>					
<b>Other</b>										
Euro medium Term Note-37 <sup>a</sup>	EUR	212	-	212	-		0.75%	09-Aug-2016	09-Aug-2019	Fixed interest rate
Euro medium Term Note-38 <sup>a</sup>	EUR	517	-	517	4		0.75%	29-Sep-2016	29-Sep-2019	Fixed interest rate
		<b>729</b>	<b>-</b>	<b>729</b>	<b>4</b>					
		<b>12,877,963</b>	<b>8,373,429</b>	<b>4,504,535</b>	<b>(81,982)</b>					

BANCO SANTANDER TOTTA, SASUBORDINATED LIABILITIES AT JUNE 30, 2018 (Note 18)

(Amounts expressed in thousands of Euros)

Securities issued	Currency	Amount of the issue			Accrual			Total Consolidated Balance sheet	Interest rate	Maturity	Early repayment as from:
		Total	Subscribed by the Group	Consolidated Balance sheet	Total	Subscribed by the Group	Consolidated Balance sheet				
Obrigações Perpétuas Subordinadas 2000	EUR	270,447	270,447	-	99	99	-	-	1.48%	Perpetual	June 22, 2010
Obrigações Perpétuas Subordinadas BSP 2001	EUR	13,818	13,818	-	71	71	-	-	1.48%	Perpetual	February 23, 2011
Obrigações Perpétuas Subordinadas CPP 2001	EUR	4,275	-	4,275	22	-	22	4,253	1.48%	Perpetual	February 23, 2011
Obrigações Banco Santander Totta,SA 7,5%	EUR	7,599	-	7,599	418	-	418	7,181	1.48%	Perpetual	October 6, 2026
		<b>296,139</b>	<b>284,265</b>	<b>11,874</b>	<b>610</b>	<b>170</b>	<b>440</b>	<b>12,314</b>			