Annual Report 2017

Santander Totta, SGPS

Annual Report

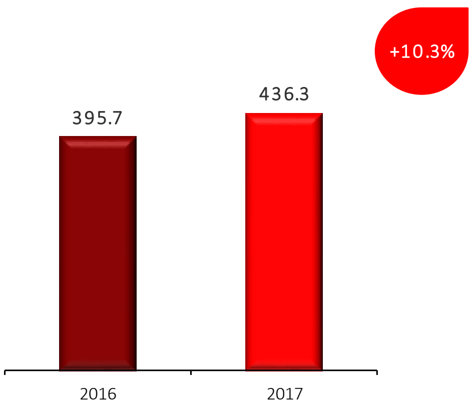
2017

Main Highlights

We closed 2017 as the largest private Bank in Portugal in terms of assets and credit and with the best results, capital ratings and ratios of the whole financial system, a position acquired through organic growth and through the acquisition of Banco Popular Portugal. This integration brings us greater strength and allows us to expand our offer and continue to grow efficiently and sustainably, more than ever endeavouring to become the reference Bank in community support

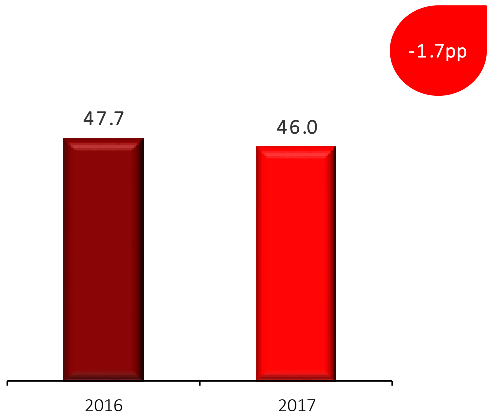
CONSOLIDATED NET INCOME

Million euro



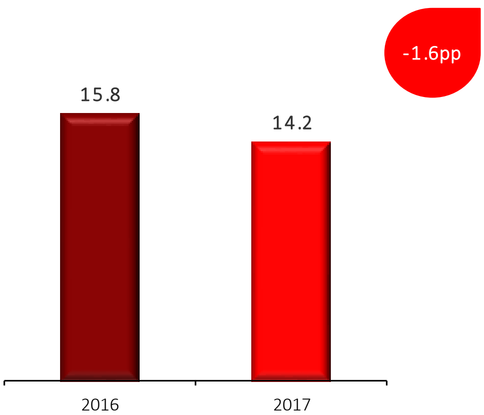
EFFICIENCY RATIO

%



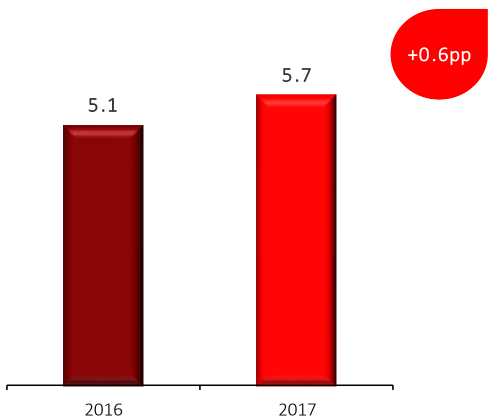
CET I RATIO

%



NON-PERFORMING EXPOSURE RATIO

%



Indicator Chart

BALANCE SHEET AND RESULTS (million euro)	2017	2016	Var.
Net Assets	**53,169**	44,992	+18.2%
Loans and advances to customers (net)	**39,646**	31,459	+26.0%
Customers' Resources	**36,698**	31,851	+15.2%
Total shareholders' equity	**4,032**	3,694	+9.1%
Net Interest Income	**696.9**	732.0	-4.8%
Fees and Other Income	**327.4**	316.1	+3.6%
Net Income from Banking Activities	**1,147.7**	1,197.0	-4.1%
Net Operating Income	**619.7**	625.9	-1.0%
Income before taxes and non-controlling interests	**590.8**	547.8	+7.8%
Consolidated net income attributable to the shareholders' of ST SGPS	**436.3**	395.7	+10.3%

RATIOS	2017	2016	Var.
ROE	**11.8%**	11.1%	+0.7 p.p.
ROA	**0.8%**	0.9%	-0.1 p.p.
Efficiency ratio	**46.0%**	47.7%	-1.7 p.p.
CET I ratio* (phasing-in)	**14.2%**	15.8%	-1.6 p.p.
Tier I* ratio	**16.8%**	19.0%	-2.2 p.p.
Capital* ratio	**16.9%**	19.0%	-2.1 p.p.
Credit at Risk Ratio	**5.1%**	5.6%	-0.5 p.p.
Non-Performing Exposure Ratio	**5.7%**	5.1%	+0.6 p.p.
Restructured loans / Total loans	**7.6%**	8.6%	-1.0 p.p.
Restructured loans not included in credit at risk / Total loans	**4.6%**	6.5%	-1.9 p.p.
Credit at Risk Coverage Ratio	**82.1%**	89.4%	-7.3 p.p.
Non-Performing Exposure Coverage Ratio	**55.4%**	65.3%	-9.9 p.p.
Cost of credit	**0.11%**	0.13%	-0.02 p.p.
Loan-to-deposit ratio	**121.0%**	109.1%	+11.9 p.p.

RATING	2017	2016
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	**AL**	BBBH

Other Data	2017	2016	Var.
Employees	**6,816**	6,200	+616
Employees in Portugal	**6,781**	6,167	+614
Branches	**682**	657	+25
Total Branches and Corporate Centers in Portugal	**670**	642	+28

* With results net of payout

Message from the Chairman of the Board of Directors

In 2017, Santander Totta consolidated its position in the Portuguese market, in a particularly difficult environment, in which the competition has been restructured and showing greater strength.

Within the picture of the heavy financial crisis which devastated the banking industry throughout the latter years, Santander Totta was the sole Bank in the Portuguese financial system that showed positive results during all that period, without the need of public or other support. It was the Bank that obtained the best capital ratios, which earned it the best awards received from the main entities that analysed the industry (Euromoney, The Banker, Global Finance and Exame). And it was also the Bank that obtained the best ratings, graded upwards by Fitch, DBRS and Standard & Poor's.

As referred by Ana Botín, during the opening of the new headquarters at the beginning of the year, "Santander Totta is an example both for the Santander Group and for the Country".

For these attainments I want to congratulate the Executive Committee and all the teams that report to it.

Banco Santander is focused on its digitalization process; we want to become a digital Bank with digital solutions that ease our customers' requirements and our employees' procedures. In February 2017, Banco Santander announced the setting up of Santander Digital with the objective to accelerate the attainment of its commercial objectives and to place Santander as one of the most digital and innovatory banks worldwide. Santander Digital is carrying out a fundamental role in order to achieve 18.6 million loyal customers and 30 million digital customers by the end of 2018.

I equally take this advantage to highlight the acquisition of the former Banco Popular Portugal, an operation which will render Banco Santander Totta as the largest private bank in the Country, in terms of assets and credit, and which provides an excellent opportunity for growth and to increase market share in the segment of small and middle sized companies. This operation, aligned with the Group's sustained growth strategy, jointly with the Bank's performance in 2017, allow us to strengthen our purpose in the support of domestic economy and Portuguese families, with special emphasis in the support for higher education.

Santander Totta is representative of 5% of Banco Santander's global results and is able to count upon the support of a shareholder, Banco Santander, which, due to its geographical and business diversification, to its capital soundness and to its prudent risk management, affords a stability that differentiates it from the other players in the market.

Last, but not least, a word of esteem for all the Bank's employees who contributed towards these excellent results and to our being a Simple, Personal and Fair Bank in the overall outlook of its business activity. We will continue, in 2018, with our special focus on our customers to aid the prosperity of families and enterprises.

António Basagoiti

Santander Totta was the sole Bank in the Portuguese financial system that always showed positive results

We want to be a digital Bank with digital solutions that ease our customers' requirements and our employees' procedures

Santander Totta is one of the more relevant units in the Santander Group

2017 was a good year for Portugal. Economic activity improved as did consumer confidence. All of this had a positive effect in the banking industry in Portugal and particularly in Santander Totta.

We closed 2017 as the largest private bank in Portugal in terms of assets and credit and capital ratios in all the financial system. This situation was achieved through strong organic growth together with the acquisition of Banco Popular Portugal. This integration provides us with greater strength and will allow us to expand our offer and to continue growing efficiently and sustainably, more than ever endeavouring to become the reference Bank in community support.

We kept to a growth based upon our culture and on our way to carry things out: Simple, Personal and Fair with our Employees, Customers, Shareholders and Society in general. We asserted ourselves as a sound partner for our customers, both private and companies, and again proved to be a stable and secure investment for our shareholders.

The Bank was again awarded, in 2017, with the main national and international prizes. Several studies placed the bank in the foremost positions both in the case of soundness and in customer satisfaction as well as in its commitments to society.

Santander Totta SGPS closed 2017 with consolidated net income amounting to 436.3 million euros, a 10.3% year on year increase, and with highlights on the Bank's rating levels, attributed by the several notation agencies: Fitch – BBB+; Moody's – Ba1; S&P – BBB-; and DBRS – A(l), some of which in excess of those of the Republic itself.

We also continued being the reference institution in support to companies and enterprises. With the acquisition of Banco Popular Portugal, Banco Santander Totta ends the year as the leader in all the PME Investimento, PME Crescimento and PME Capitalizar lines, as well as leader in 8 of the 12 credit lines launched since 2008.

Banco Santander Totta obtained the largest share in the International Public Tender of the IFRRU 2020 programme, for the financing of companies and private individuals heading projects in the area of urban refurbishment. Total financing made available by the Bank amounted to 713 million euros, greater than 50% of the system's total offer.

Santander Advance Empresas continued demonstrating its potential as a support programme for Portuguese companies, both via its financial and non-financial features. The pt.santanderadvance.com site has received more than 2.5 million page views since its being launched.

The Advance Management Programme carried out training sessions this year, in Lisbon and Porto, as well as, for the first time, in the Madeira and Azores autonomous regions. This proximity and coverage mirrors the way in which the Bank wishes to relate with its Customer, and aims to strengthen one of the companies' strategic assets – human capital. Santander Universities Work Placement Scholarships also deserves reference, since it ended 2017 with 570 completed work placements and 37% of trainees obtaining employment in the hosting companies.

Box Santander Advance Companies continued its progress throughout the Country in 2017, providing presentations to entrepreneurs from north to south, with an area that shared best practices and ideas, sealing a greater proximity between the Bank, the companies and the community.

We closed 2017 as the largest private Bank in Portugal in assets and credit

Several studies placed the Bank in foremost positions in terms of soundness and in customer satisfaction as well as to its commitments with Society

Banco Santander Totta obtained the largest share in the International Public Tender of the IFRRU 2020 programme

Santander Universities Work Placement Scholarships also deserves reference with 570 completed work placements and 37% of trainees obtaining employment in the hosting companies

All these initiatives are already a reference in the industry and contribute towards the pronouncement of Santander Totta as the strategic partner of the Portuguese entrepreneurial fabric. The Bank ends 2017 with a 17% market share in total production of loans to companies.

Mundo 1|2|3 has been asserting itself as the Bank's primary multiproduct solution and already has more than 360,000 account opening customers, with a recorded increase in adhesions as well as increases in benefits provided.

Also Santander Select, the Bank's offer for the affluent segment, continued developing its global offer through new solutions such as the Select Global Value.

Mortgage loan is one of the financial products with greater relevance for most of our Customers, the Bank continuing its competitive offer. Proof of this commitment is the Bank's market share in production of mortgage loans to Customers, 21% in 2017 (a 2.3p.p. increase as compared to 2016). In the Azores and Madeira, where Santander Totta enjoys clear leadership, one in every four contracts is concluded with the Bank.

One of 2017's greatest challenges, and which will be renewed in 2018, is the combining of traditional banking practices with the important innovation and digitalization processes with which the industry is going through, and which is being demanded by Customers During 2017, the Bank achieved 558,000 digital customers and launched innovatory products such as *CrediSIMPLES, ebroker* or *PagaSIMPLES*, products which are exclusively digital. It simultaneously advanced with digital solutions for entrepreneurial customers.

As to risks, we have a well-defined risk appetite to execute commercial plans and to achieve sustainable growth. The Customer is the fulcrum of risk management, and his treatment is reflected in our reputation and, evidently, in the Bank's results. We are extremely conscious of the importance of risk management and because of this have created new and more effective tools.

An amount of 7.5 million euros was invested, throughout 2017, in projects of social responsibility, directly benefiting more than 21,300 people. Our commitment with Higher Education Institutions, with Innovation and Entrepreneurialism, is in our DNA and it is through it that we demonstrate our contribution towards sustainable development and prosperity in our society. At end-2017, the Bank increased to 53 the number of protocols of agreement with the higher education institutions in Portugal and distributed 1,150 scholarships and prizes.

We were also present in aid programmes to the victims of the fires which plagued the Country in 2017 and which grievously impacted the year. Conscious of its role, the Bank directly supported the Revita fund with half a million euros and a further 70,000 euros were obtained via the contributions of more than 1,500 people. We equally took part in the line of Credit for the Support of Treasuries of Companies affected by the fires.

We proceeded with the strengthening of our culture in endeavouring to become a Simple, Personal and Fair Bank in all that we perform. We renewed our Certificate as a Family Responsible Company (EFR), and were recognized as a *Great Place to Work*, considered as the Best Bank to Work in Portugal and the second large sized company to work for in the Country. This way of life results in new working regimes, with an improved balance between private and professional life and with clear benefits for both the bank and its employees.

In the first few months of 2018 we were again considered as being the Bank with Better Reputation in the Global assessment of RepScore Pulse of the On Strategy survey for the banking industry.

For all these reasons, we renew our ambition to be the best commercial Bank, contributing towards business development and family support.

António Vieira Monteiro

Mundo 1|2|3 has been asserting itself as the Bank's primary multiproduct solution

One of 2017 's greatest challenges, and which will be renewed in 2018, is the combining of traditional banking practices with important innovations and digitalization processes.

Our commitment with Higher Education institutions, with Innovation and Entrepreneurialism is in our DNA

Prizes and Awards

Best Bank in Portugal - *Euromoney*

Banco Santander Totta received, at a ceremony held in the Tower of London, the prize for "Best Bank in Portugal", attributed by *Euromoney* magazine within the sphere of the 26th gala performance of *Euromoney Awards for Excellence*. Santander Totta has already been awarded 16 times with this prize. In 2017, Santander Group was considered as the "Best Worldwide Bank for Companies".

Bank of the Year in Portugal - *The Banker*

Banco Santander Totta was awarded the prize for "Bank of the Year in Portugal", attributed by The Banker magazine, a member of the Financial Times Group, within the sphere of *The Banker Awards 2017*. This is the ninth time in the last decade that Santander Totta receives this award. In its turn, Santander was also considered as "Best Global Bank".

Best Bank in Portugal - *Global Finance*

The North-American magazine Global Finance once again chose Santander Totta as the "Best Bank in Portugal", within the sphere of the World's *Best Banks 2017*, which distinguishes the banking institutions that best responded to their customers' needs and obtained the best results.

Best Large Bank, Soundest, Most Profitable and that Grew Further - *Exame*

Santander Totta was awarded by Exame magazine, "Best Large Bank" in Portugal in 2017, and was also selected as the "Soundest", the "Most Profitable" and that which "Grew Further". The Bank has been distinguished in these four categories for three consecutive years. The choice results from a study by Informa D&B and Deloitte which assessed the indicators and capital ratios of financial institutions in Portugal, with reference to 2016.

Banking Brand with Best Reputation - *Onstrategy*

Santander Totta was placed first as the best reputed banking brand, in the assessment of positioning and reputation by Global *RepScore Pulse* of Onstrategy, for 2017. The results shown assess trust, preference and recommendation, products and services, innovation and differentiation, business and financial performance, governance and ethics, leadership and vision.

5 Star Bank - *Usoot*

The Bank was distinguished, for the second consecutive time, with this award in the category of "Large Banks", having obtained the highest index of satisfaction in the industry, based on customer satisfaction, intent to recommend, trust in the brand and innovation. The study is carried out with Portuguese consumers and assesses the main variables which affect their purchasing decisions.

Safest Bank – *Global Finance*

Santander Totta was chosen as the "Safest Bank in Portugal", according to Global *Finance* magazine, within the scope of *World's Safest Banks 2017*, which distinguishes banks based upon the quality of the ratings of their long term debt and asset size.

Best *Trade Finance Provider* – *Global Finance*

The North-American magazine Global Finance chose Santander Totta, for the third consecutive year, as the "Best Trade Finance Provider" in Portugal, within the scope of the *World's Best Trade Finance Providers*. The award of this prize shows the important role that the Bank performs in supporting the international business of Portuguese companies. Santander Totta won three of the last four editions.

Best Private Banking Services Overall 2018 - *Euromoney*

Banco Santander Totta's Private *Banking* was chosen by *Euromoney* magazine, as "Best Private Banking Services Overall 2018". The Bank was also the winner in all customer service categories . This is the 7th consecutive time that Santander Totta receives this award.

Best Private Bank Award – *Global Finance*

Banco Santander Totta's Private *Banking* was chosen by *Global Finance* magazine as the best in Portugal, within the sphere of *The World's Best Private Banks Awards for 2018*, which distinguishes the best worldwide business models in private banking. In the three editions already published by the Award, Santander Totta's *Private Banking* was always classified in the first position

Best Place to Work

Santander Totta was considered the "Best Bank and the second best large company to work In Portugal". An assessment within the scope of *Great Place to Work*, which also took into consideration the opinion of the Bank's employees.

Other Awards

- **Best Private Banking in service categories** *Euromoney*

  Ultra-High Net Worth clients (Greater than US$ 30 million), High Net Worth clients (US$ 5 million to US$ 30 million), Super affluent clients (US$ 1 million to US$ 5 million), Asset Management, Investment Banking Capabilities, Commercial Banking Capabilities, Family Office Services, Research and Asset Allocation Advice, Philanthropic Advice, SRI/Social Impact Investing, International Clients, Succession Planning Advice and Trusts, Innovative Technology - Client Experience

- **Best Retail Bank in Portugal 2017**, *World Finance*

- **Portuguese Stock Exchange Prizes** - "Largest volume transacted in quoted derivatives" and of "financial broker with the largest sales volume of bonds quoted on the Portuguese Stock Exchange**",** within the scope of the *Euronext Lisbon Awards 2018*

- **Best Pension Fund/Distributor in Portugal 2017**, *World Finance*

- **1st place for commitment between company and employees**, *Korn Ferry Engagement Awards 2017*

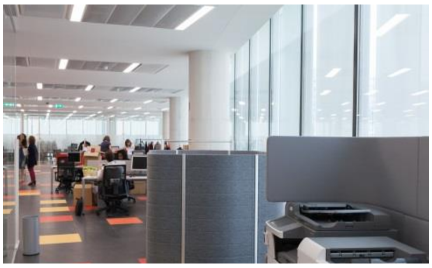
- **"Sustainability Prize" for Santander Totta Centre**, within the scope of the *10th Edition of "Construir" Prizes*

- Within the scope of National Real Estate Prizes, **honourable mention in category "Energy Efficiency in Buildings"**, for the Santander Totta Centre, awarded in parallel to the ceremony by *ADENE-Agência para a Energia ("Energy Agency")*

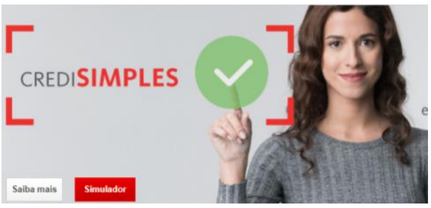
Other Relevant Facts in 2017

Santander Totta opens new head office

Santander Totta expanded its operational head office, with an innovative building, particularly in environmental terms and energy efficiency. The focus on resource efficiency with several eco-friendly solutions will enable an energy reduction of approximately 20%.



Santander Totta more digital and closer to its customers



The Bank continued its plan of digital transformation, aiming to be closer to its customers, as was the case with CrediSIMPLES, which allows contracting personal loans with the *App*.

+ 11% Digital Customers

Santander Advance for Companies, a Bank siding with the Economy

In the range of the non-financial features of Santander *Advance*, the Bank promoted meetings between entrepreneurs and college graduates throughout the Country. In 2017, under this Programme, 570 work placements were attributed in SME's.

2,000 Companies in training courses
(since the beginning of the programme)

Santander Totta committed to society

The Bank continued its support for society via actions of sustainability and for Santander Universities, aiding more than 270 associations, in projects connected to education, protection of minors, health, disability, social cohesion and care for the aged.

7.5 million euros invested in corporate social responsibility

21,300 beneficiaries

Mundo 1|2|3 solutions return 10 million euros to customers

The multiproduct financial solution Mundo 1|2|3, addressed to the Bank's private customers, which allows a wide set of benefits, namely via *cash-back* on the Mundo 1|2|3 card account, returned in 2017, approximately 10 million euros to its customers.

360,000 Mundo 1|2|3 customers

Santander Totta integrates Banco Popular Portugal

Banco Santander Totta finalized the acquisition of Banco Popular Portugal, on 27 December, thus becoming the largest private Bank in domestic assets and credit granted.

Largest private bank in Portugal

Acquisition of Banco Popular Portugal

On 7 June 2017, the Single Resolution Mechanism applied a measure of resolution to Banco Popular Español SA, following which it was acquired by Banco Santander SA.

On 5 September, within the context of the integration, in Portugal, of the business activities of the Banco Popular Group in the Santander Group, a number of operations were decided:

- The acquisition, by Banco Santander Totta, from Banco Popular Español, of 100% of Banco Popular Portugal' share capital;
- The acquisition, by Santander Totta SGPS, from Banco Popular Español, of 84.07% of Eurovida – Companhia de Seguros de Vida' share capital;
- The acquisition, by Totta Urbe, from Consulteam, of the respective asset portfolio.

Additionally, and also on the same date, the Boards of Directors of Banco Santander Totta and of Banco Popular Portugal approved a simplified merger project by incorporation, in line with the provisions of article No. 116 of the Companies Act, under which terms Banco Santander Totta legally incorporates Banco Popular Portugal, including its total assets and liabilities.

The respective authorizations from the competent supervision authorities, namely, the Bank of Portugal and the European Central Bank, were obtained in December, and the process of acquisition and simplified merger by the incorporation of Banco Popular Portugal in Banco Santander Totta was completed on 27 December 2017. Once the merger materialized, Banco Popular Portugal ceased to exist as a legal entity, and all its rights and obligations were transferred to Banco Santander Totta.

The formal process of commercial, operational and technological integration was commenced on that date, and is expected to be fully completed by the end of 2018; until such date the original IT systems will continue to co-exist.

From day one, the commercial and central services of the former Banco Popular Portugal were integrated in the structures of Banco Santander Totta. Simultaneously, a change occurred in the commercial brand, with the common brand "Santander Totta" being the only one in existence.

The integration of the Business of the former Banco Popular Portugal allowed leveraging the organic growth shown in latter years, contributing towards a 2p.p. increase in market share in terms of resources and 4p.p. in terms of loans, as a result of the incorporation of around 4 thousand million euros in deposits and of 6.1 thousand million euros in loans granted. This equally contributed towards a rebalancing of the credit structure, with an increase in the weight of the company segment.

Main data of the former Banco Popular Portugal:

118 branches

6,107M€ credit (gross)

890 employees

3,954M€ deposits

Brand

Santander Totta is a reference institution in the domestic financial industry, with a wide customer base and a network of physical contacts distributed throughout the Country, with digital solutions available to its customers, and is currently the largest commercial bank active in Portugal, in terms of assets and loans granted.

Its business is focused on commercial banking and it follows a strategy of proximity to the customer, privileging the offer of innovative and digital products and services, adapted to customers' financial requirements, through continued improvement in quality of service and customer experience.

For this purpose, the bank has been undergoing a digital transformation, on the one hand at the level of products and services launched, such as the case of CrediSIMPLES, which allows contracting personal loans via Homebanking or the *App* and, on the other, through simplifying and automating internal procedures, which aim to expedite improved response from the Bank to its Customers' requirements. Santander Totta has evolved at a good rate in this heading, with its digital customers showing an 11% year on year increase.

Santander Totta has the mission to contribute towards the development of people and companies and the ambition to become the best commercial bank in Portugal, earning the trust and loyalty of its employees, customers, shareholders and society in general, basing its action on more than ever being a Simple, Personal and Fair Bank.

Soundness, trust and reputation

Throughout 2017, Santander Totta has consolidated its positioning as a sound and trustful brand and as a reference in the domestic financial industry, as anyway shown in the main comparative surveys on the finance industry, as well as by the main awards that the Bank received during the whole year.

In the barometer of company financial services (BFin Bancos 2017), carried out by company Data-E, Santander Totta was highlighted as being the "Soundest Bank" for companies and was also considered as the "Globally Most Efficient Bank".

Equally, in the analysis carried out with private customers in the scope of the Basef Banca study organized by Marktest, the soundness and trust indicators were considered outstanding. Santander Totta is the "Soundest Bank", taking into account the customers responses as to their main bank in the assessment of their respective bank. In the end-year results the Bank is also highlighted as the "Bank of Choice" by the customers.

As previously referred, Santander Totta was also considered as the financial brand with the best reputation, reaching first place in the assessment of positioning and reputation in *Global RepScore Pulse*, carried out by OnStrategy, representative of Brand Finance in Portugal. The results shown assess trust, preference and recommendation, products and services, innovation and differentiation, business and financial performance, governance and ethics, leadership and social responsibility.

Our vision

Be the **best commercial bank**, obtaining trust and loyalty from employees, customers, shareholders and society in general

	Strategic priorities	Metrics
Employees	• Be the best Bank to work and rely on a strong internal culture	• Top 1 in "Best Bank to Work In"
Customers	• Have the trust and loyalty of our private and company customers • Support the Economy • Operational excellence and digital transformation	• Loyal private customers • Loyal company customers • Growth in loans granted to customers
Shareholders (4.0 million – Santander Group)	• Capital soundness and risk management • Improve profitability	• Fully loaded CET 1 capital ratio • NPL Ratio • RoTE • *Cost-to-Income*
Society in General	• Santander Universities • Support people in the communities where the Bank operates	• Number of Scholarships • Number of people supported by the Bank's social programmes

Our purpose	Our way of doing things
Contribute towards the development of people and companies	Simple | Personal | Fair

Santander Totta SGPS, SA

General Meeting

Chairman	José Manuel Galvão Teles
Deputy Chairman	António de Macedo Vitorino
Secretary	João Afonso Pereira Gomes da Silva

Board of Directors

Chairman	António Basagoiti Garcia-Tuñón
Deputy Chairman	António José Sacadura Vieira Monteiro
Secretary	José Carlos Brito Sítima
	Luís Filipe Ferreira Bento dos Santos
	Manuel António Amaral Franco Preto
	Pedro Aires Coruche Castro e Almeida

Audit Board

Chairman	José Duarte Assunção Dias
Members	Fernando Jorge Marques Vieira
	Ricardo Manuel Duarte Vidal Castro
Substitute	José Luis Areal Alves da Cunha

Auditors

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

Executive Committee

Chairman	António José Sacadura Vieira Monteiro
Members	José Carlos Brito Sítima
	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

Banco Santander Totta, SA

General Meeting

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

Board of Directors

Chairman	António Basagoiti Garcia-Tuñón
Deputy Chairman	António José Sacadura Vieira Monteiro
Deputy Chairman	Enrique Garcia Candelas
Members	Angel Rivera Congosto*
	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

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*Resigned on 20 February 2017
** Elected on 31 May 2017

Executive Committee

João Baptista Leite
Technology, Operations, Data Integration, Computer Security and Technological Risk

Pedro Castro e Almeida
Company Network, International Business, Construction Development, Global & Corporate Banking, Asset Management and Insurance whilst Marketing/Brokerage Bank

José Leite Maia
Private and Business Networks, *Private*, Control and Dynamization of P&N Network, Real Estate Promoters and Brokers, International (emigrants) and Institutional Banking

Luís Bento dos Santos
Communication, Corporate Marketing, Quality and Public Policy

Manuel Preto
Finance, Tax, Business Intelligence (Products, Marketing and CRM), Organization, Costs and Acquisitions, Buildings and General Services

Inês Oom de Sousa
Means of Payment, Multi-channelling, Segments, Universities, Sustainability and *Cross Segment*

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

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

Introduction

Santander Totta develops its business sustainably, contributing towards the economic and social development of the communities in which it operates, taking into consideration its impact on the environment and promoting stable relationships with its main interest groups

The main fulcrum of Santander Totta's Sustainability Policy is Higher Education. Through collaboration agreements that the Bank keeps with main Portuguese Universities and Polytechnic Institutions, it promotes knowledge and merit, develops entrepreneurialism, employability, international mobility and digital technology.

In supporting the community, Santander Totta guides its actions in the concession of aid and donations to several third sector institutions and by the participation of voluntary workers in several initiatives occurring throughout the year.

Additionally, and further to its investment in the community, the Bank also acts in nucleates of financial inclusion, climatic finance and reductions of consumption and emissions.

7.5 million euros in support projects to the communities

Collaboration with **more than 270** Associations connected to education, protection of minors, health, disability, social inclusion and care for the aged

21,314 people under support

Santander Universities

The Bank holds protocols of agreement with 53 of the main Portuguese Higher Education institutions, supporting more than 300 projects and, in 2017, awarded 1,150 scholarships – social, mobility, research and work placement.

The following prizes for scientific and academic merit deserve being highlighted:

- **Universidade de Coimbra 2017** – Prize awarded annually to Portuguese individualities that stood out in the ranges of culture or sciences, the winner receiving a 25,000 euro prize. In the 2017 edition the award went to choreographer, professor and programmer Madalena Victorino, an initiative that once again counted on the participation and support of Santander Totta.
- **Mário Quartin Graça -** Diogo Canavarro, Fábio Fernandes, Aziz José de Oliveira Pedrosa and Naldeir Vieira are the winners of the 8th edition of the Mário Quartin Graça scientific prize, a partnership between Santander Totta and the House of Latin America which aims to distinguish doctorate degrees earned by Portuguese and Latin-American researchers in Universities on both sides of the Atlantic Ocean.
- **Investigação Colaborativa Santander Totta/Universidade NOVA de Lisboa –** This award aims to distinguish, annually, research projects to be developed by NOVA University junior researchers and which involve, at least, two of the University's organic units. The project "The Policy of Constraints: Discourse Strategies in a Three Level Game" was distinguished in the 10th edition of this award
- **Primus Inter Pares –** Since 2003, the Primus Inter Pares Prize, a partnership between Santander Totta and the weekly Expresso, has been distinguishing the best finalists in the courses of Management, Economy and Engineering in Portugal, awarding the winners the opportunity to attend MBA courses in some of the best worldwide Business Schools.
- **Inovação Tecnológica – Universidade do Porto –** The Bank supported the University of Porto prize for technological innovation, whose aim is to promote enterprising eco-systems in Universities. Adélio Mendes, professor and researcher in the Porto Faculty of Engineering (FEUP), received the Technological Innovation Trophy, having registered more than 20 pioneering technology patents, mainly connected to the development of clean energies.
- **Universidade de Lisboa/Santander Universidades –** These prizes aim to encourage scientific research and the publication of articles and essays in internationally recognized magazines. In the 2017 edition 4 prizes and 13 honourable mentions were awarded. Each of the prize winners received a monetary award of 6,500 euros, which will aid the financing of their respective research projects and sabbaticals.
- **Santander Idea Puzzle –** This prize aims to distinguish the best research designs for doctorate degree purposes conceived with the *Idea Puzzle software*, both domestically and abroad. The national prize, in the 2017 edition was awarded to Sara Soares, with the research design "*Biological consequences of exposure to social adversity in childhood*". Internationally, the prize was awarded to Leonardo La Rosa, of the Ca*rlos III University* with the Doctorate degree project "*El periodismo de datos en España"*.
- **Jornalismo em Saúde Global e Medicina Tropical –** This is a joint initiative of Santander Universities and the Association

for the Development of Tropical Medicine (ADMT), with the collaboration of Casa da Imprensa (Press Association) and the Institute of Tropical Medicine of Lisbon's NOVA University (IHMT). The objective of this prize is to reward news reports that promote the public knowledge of tropical sicknesses and of issues related to global health. In its 2nd edition, the prize was awarded to Sara Sá, for her report "Public Enemy #1" covering the *zika* virus, published in *Visão* magazine.

In Higher Education, **1,150 scholarships and prizes** were awarded, amongst which 293 study scholarships, 243 Iberian-American and international mobility scholarships, 267 social scholarships and 335 work placement scholarships.

The Santander Universities Work Placement Scholarships Programme is a 3 year initiative, through which more than 1,000 work placement scholarships were awarded to finalists, until 2018.

Throughout 2017, Santander Totta awarded 243 international mobility scholarships to students, lecturers and researchers. The award of these scholarships implies an investment in excess of 500,000 euros and covered 22 Higher Education Institutions in Portugal.

The Mobility Scholarship Programme is developed, through Santander Universities, in 10 countries where Santander Group operates – Argentina, Brazil, Chile, Colombia, Spain, Mexico, Peru, Portugal, Puerto Rico and Uruguay – in order to develop interchange between students and researchers from Europe and Latin America.

In Portugal, students for graduate and master's degrees are able to opt between the Luso-Brazilian Scholarship Programme and the Iberian-American Scholarship Programme. In both cases, students may benefit from a 6 month interchange in a participating University. In the cases of lecturers and researchers, these may benefit from the Santander Research Scholarships Programme, which grants 2 month stays or 4 month scholarships for doctorate degree students.

In the case of entrepreneurialism, Santander Totta supported 17 distinct projects of which the following deserve being highlighted:

- European Innovation Academy - The *European Innovation Academy* (EIA), the largest university programme on acceleration in digital innovation, was held in Cascais - Portugal, with Santander Totta as the exclusive partner with Higher Education Institutions and in the finance area. EIA brings together the best university students from well-established American, Asian and European universities, with the objective to create technological *startups* which may become market leaders. The event had 300 participants, from 40 different universities.
- Concurso Nacional de Jovens Empreendedores - Santander Totta supported the 1st edition of the National Young Entrepreneurs Competition, which was held in June 2017, aiming to promote creative and social entrepreneurialism, promoting the creation of innovative business ideas. The targeted public of this initiative were Secondary and Higher Education students between the ages of 18 and 25.
- 2ª Edição do *Startup Fest* – Within the scope of the agreement with Porto University, Santander Universities supported the *Startup Fest*, the largest entrepreneurialism and innovation event of this University.

  In the 2017 edition, the prize for the "*Startup* of the Year" was awarded to Facestore, the first worldwide platform to permit direct purchasing through the social networks (including payment), without the need to be redirected to the site of the company or brand.
- Gala da Inovação da Universidade do Porto 2017 – This gala performance pays tribute to the members of the academic community who stood out in the areas of technological innovation, social innovation and artistic innovation and aims, at the same time, to dynamize relations between Porto University and the entrepreneurial fabric.
- Santander X: the largest worldwide platform for university entrepreneurialism – In October 2017, the launching occurred of Santander X platform, the largest network of university entrepreneurialism in the World, in which 40 Universities from the 7 countries which were founder members of the platform take part: Argentina, Brazil, Chile, Spain, Mexico, Portugal and Uruguay.

  Through Santander X, Universities and entrepreneurs from all over the World may collaborate, sharing ideas and knowledge, but are also able to attract investment and find potential collaborators or mentors. The Universities may also disseminate their best practices and monitor the respective entrepreneurialism programmes, assessing their impact.
- Poliempreende - The Poliempreende prize aims to distinguish the most innovative business idea and encourage the entrepreneurialism of students in the domestic Polytechnic Institutions, stimulating the creation of own businesses. The winners of the 14th edition of Poliempreende were António Mendes and João Frazão whom, jointly with their team of Setúbal Polytechnic, intend placing personalized motorcycles in legal circulation.
- Tecstorm no Instituto Superior Técnico – The Tecstorm competition was held in Instituto Superior Técnico (IST) (Lisbon University Faculty of Engineering), which brought together 18 Higher Education students with the objective to develop previously selected innovatory ideas within a 28 hour delay. The initiative was organized by JUNITEC (Instituto Superior Técnico Junior Companies), with the support of Santander Universities. The winning team was *"IFS Mine Hunters*" of the Lisbon Engineering Higher Institute (ISEL), which developed an off-road system which aims economically to identify and combat terrestrial mines.

- **Work Placement Scholarship Programme for Startups -** In 2017, Santander Totta launched, in partnership with the Youth Foundation, the Santander Youth Startup Programme, with the objective to provide to 50 young graduates or MBA degree holders with less than two years past their final examinations, and maximum 28 years of age, work placement experiences in domestic startups during a 3 month period.

Support to the Community and Environment

Social support

In 2017, Santander Totta collaborated with **Associação Terra dos Sonhos ("Land of Dreams Association")**, whose mission consists in making dreams come true of children and youths suffering from chronic diseases or in advanced state of sickness, and of needful children, youths and aged persons. Further to having contributed to the realizing of four dreams, Santander Totta equally supported the dissemination of the "Land of Dreams" fund gathering initiatives.

Santander Totta renewed its support to the **Associação Novo Futuro**, **("New Future Association")** whose task is to provide, in residential homes, physical, emotional and social care to children and youths deprived of secure family support. In 2017, the Bank again sponsored this Association's concert and the organization of the Solidarity Christmas Party which this Social Solidarity Private Institution (IPSS) annually sets up, providing the means of payment for the vendors as well as supporting the event's back office.

The **CEBI Foundation** is an IPSS whose objective is the support of children, youths, aged and disadvantaged families. Outstanding in its activity is the promotion of education, with more than 1,500 students and aid provided to more than 250 aged persons per annum. Additionally CEBI permanently harbours 30 children at risk, victims of neglect and mistreatment. Santander Totta's support, as founder member of CEBI, is applied in the education and well-being of these children.

Once more, Santander Totta invited its employees to take part in a Christmas solidarity campaign. The objective of the 2017 campaign was to support **Make a Wish**, whose mission is to organize the realization of wishes of children and youths suffering from grievous or degenerative diseases, providing them with moments of happiness and hope.

Through the acquisition of stars or bracelets, employees contributed towards the materialization of the wishes of these children. For each purchase carried out by employees, the Bank contributed with the same amount.

Santander Totta took part in the **5th Benefits Gala organized by the Ponta Delgada City Council** with a donation shared by the five IPSS of the Municipality, which have, as their main activity the hosting of children. Aided institutions were the Instituto de Apoio à Criança, Casa do Gaiato, Patronato de S. Miguel, Centro Social e Paroquial da Fajã de Baixo and Lar da Mãe de Deus.

In 2017, the Bank supported, for the first time, the **Centro Juvenil e Comunitário Padre Amadeu Pinto** (CJCPAP), located in the social quarters of Monte da Caparica and Pragal. This non-profit Social Institution has as its mission the promotion of the development and formal and informal education of the more vulnerable children and youths in the area.

The Bank also joined the **Orquestra Geração** project, focused on social development through music and with the aim to create a juvenile orchestra in 1st, 2nd and 3rd grade schools. This programme is intended to contribute towards a better balanced growth of children and youths, expanding their prospects and promoting greater social mobility.

Santander Totta renewed, in 2017, its support to **EPIS - Empresários pela Inclusão Social** (**Entrepreneurs for Social Inclusion**) –via the award of social scholarships that distinguish schools and other organizations by their best practices in promoting social inclusion of children and youths, as well as students' academic merits. Such scholarships aim to guarantee students all over the Country progress in their studies, in Secondary and Higher Education.

The **Advanced Programme for Social Leadership and Entrepreneurialism** of the **Girl MOVE Academy** was another of the projects which was supported by Santander Totta, within its scope of entrepreneurialism promotion. **Girl Move** is a Foundation whose mission is the setting up of a new generation of leaders to aid the development of Mozambique. Within the scope of this support, two Mozambican students were received in the Bank for professional work internships.

The Bank also supported **Missão País**, a project consisting of the organization of missions comprised by voluntary university students from various faculties in the Country, who travel to villages to provide support to local populations, through visits to homes for the aged, schools or ATL's (Recreational Activities). These youths also carry out "door-to-door" visits, with the intent to aid inhabitants in their daily tasks or to keep them company.

The **Association Greater Proximity Improved Living (Maior Proximidade Melhor Vida – MPMV)** provides support to approximately 130 aged people residing in the centre of Lisbon, through combating isolation, promoting health and well-being, as well as improving quality of life of aged people in their homes. Santander Totta supported two initiatives in the promotion of health and well-being of this IPSS:

"Cuidar+" ("Care+") and "Prevenir para não Remediar" ("Better Safe than Sorry") projects.

Throughout 2017, several social minded institutions and associations made their presence felt in the **Solidarity Centre** set up in the Bank's facilities, dedicated to the promotion of social solidarity projects and initiatives which had the support of voluntary workers in the promotion of the issues represented.

Health and Sports

With the objective to promote sports, a healthy life style and active ageing, Santander Totta developed and supported several initiatives throughout 2017, such as the renewal of the sponsorship of the Bicycle Tour of Portugal. Within the scope of this sponsorship the Bank subscribed, in 2016, a protocol of agreement with the Union of Portuguese Almshouses (UMP), in line with which 70 orthopaedic bicycles were provided to the Holy Almshouses of each of the arrival and departure cities of the 11 stages of the Tour. Aiming to include the Madeira and Azores Autonomous Regions, where the Tour does not take place, bicycles were also provided, covering approximately half the existing Almshouses in both archipelagos.

In May, Santander Totta joined the Portuguese Cardiology Foundation, which aims to promote health and prevention of cardiovascular diseases, to celebrate the "Month of the Heart" with its employees and customers. Cardiovascular screenings were thus carried out in several branches of the network. The objective of this initiative was to disseminate the importance of prevention and control of the risk factors of cardiovascular disease.

A further project launched within the range of health promotion was the Solidarity Login through which, for each login in the App or in NetBanco, the Bank awards 1 euro to the Portuguese Cancer Institute in Lisbon, up to a maximum amount of 30,000 euros. Funds collected are intended to support the refurbishment and expansion project of the Medulla Transplant Unit (UTM).

Santander Totta equally supported the Porto Cancer Institute, joining the solidarity concert organized to celebrate the National Day of Breast Cancer Prevention, an action intended to sensitize people on the importance in the prevention and humanizing health care in oncology.

In the area of oral health, Santander Totta supported two projects developed by the **Associação Mundo a Sorrir ("World in Smiles Association")**, whose mission is the promotion of health care and oral hygiene improvement with communities in vulnerable socioeconomic situations.

Regarding its policy in sports promotion, the Bank again supported several marathons all over the Country, connecting some of these events to solidarity issues.

As such, taking advantage of Santander Totta's sponsorship of **Corrida da Mulher ("Woman's Race")**, an event intended to obtain sensitivity towards the importance of breast cancer prevention and the collection of funds to combat that disease, the Bank contributed towards the Breast Cancer Screening Programme promoted by the Portuguese Anti-Cancer League through the offer of 250 mammography screenings in the Alentejo region.

During the Santander Totta Half Marathon, sponsored by the Bank, it announced its support for the **Angelitos Association**, which endeavours to improve the conditions in the rendering of health care in Paediatric Department of Beatriz Ângelo Hospital, in Loures, as well as in the promotion of the well-being of children and their families.

A further solidarity project connected to sports was the challenge that the Community "Correr Lisboa" ("Running in Lisbon"), in partnership with Banco Santander Totta, launched its members: run 175,000 km between January and November 2017.

Santander Totta assumed the commitment, once that objective was completed, to donate 10,000 euros to the Endoscopy Unit of the Portuguese Oncology Unit in Lisbon (IPO)

Social Inclusion

In the social inclusion area, Santander Totta developed and supported several projects in 2017. In partnership with the **BIPP Association (Semear Project)**, the Bank organized an Easter holiday camp for its employees' offspring. The children took part in an activities week jointly with handicapped children. This initiative aimed to provide recreation and, at the same time, encourage the inclusion of disabled children and their education as citizens.

A further initiative supported in 2017, was the **Salvador Association Professional integration Project**, whose objective is to enhance the professional integration of people afflicted with motor disability, contributing to their quality of life and towards a more inclusive society. Santander Totta's sponsorship of this project will allow supporting the professional integration of approximately 200 people with motor disability, the Bank having also received three trainees that participated in this project.

Equally in this area, the **Portuguesa Asperger's Syndrome Association (APSA)** distinguished Santander Totta as a "Receptive Company", since it considers that the Bank supports social and professional integration of people afflicted with Asperger's Syndrome (AS); the Bank made available two work placements in differing areas to such persons.

The Bank also contributed to the inclusion of disabled students in Porto University through the provision of support to **Porto University Office of Support for Students with Special Educational Requirements** (GAENEE.UP).

After the fires that swept through the area of Pedrógão Grande in June 2017, Santander Totta opened a Solidarity Account with the objective to aid the victims. The Bank contributed with the amount of 500,000 euros and, thanks to the support provided by 1,500 persons, it was possible to collect a further 73,480 euros to support the people affected by the fires.

Additionally, the Bank contributed to the fund gathering campaign of Renascença Radio Station, intended to support the Voluntary Fire Brigades.

Financial Education

In 2017, 170 voluntary employees collaborated with the partnership of the Bank with **Junior Achievement**, lecturing classes and accompanying more than 3,300 Basic and Secondary Education students in the whole Country.

Within the scope of the **Santander Advance** programme for companies, Santander Totta offers its customers training through the Advance Management programme and the *Advance Journey* programme, which are free programmes that the Bank makes available to companies' employees whether customers or not. Courses may be attended personally or online and are intended for intermediate and senior staff levels. Personal training is undertaken by renowned Universities such as the NOVA School of Business & Economics, in Lisbon, and the Porto Business School.

Since the beginning of the programme, more than 2,000 companies received training with Santander Advance.

The **Santander Advance Box** is a proximity concept between the Bank, companies and Universities, a meeting place to share knowledge, best practices and ideas. In this space, which visits the Country's main Cities, the Bank makes available, at no cost, different courses and workshops, amongst which a module of Financial Education.

Santander Totta became associated to the vocational guidance digital platform **Design the Future**, which allows the cross-over of training offers in Portugal with young people's profiles and vocation, thus aiming to help them in the choice of the best academic and professional option, in line with market requirements.

Volunteering

Santander Totta promotes volunteering amongst its employees, and has developed several initiatives during the year.

Aiming to encourage the practice of an active citizenry through volunteering and to recognize the efforts of the younger people committed to society, Santander Universities launched, in 2016, the **University Volunteering Prize (PVU)**. The 2017 edition of this prize attracted a total of 50 candidacies, which mobilized 5,000 volunteers in several causes. The prize winners were announced on 5 December, International Volunteering Day.

A group of 77 Santander Totta volunteers took part in a **Casa da Luz Volunteering action**, in Lisbon; this institution mainly cares for young persons of the feminine gender, either in emergency situations or who require being followed up.

In the celebration of the tercentenary of the Mafra Palace, EPIS – Entrepreneurs for Social Inclusion – carried out the largest **volunteering action in the cleansing of the Mafra Park**. The action was promoted with several entities that are EPIS associates, amongst them Santander Totta, which took part with a group of approximately 20 volunteers.

A group of the Bank's employees also took part in a corporate volunteering action which involved 150 volunteers from 24 different companies. The initiative took place in the Serras do Porto Park, in Valongo, within the scope of the **12th Edition of GIRO** which, in 2017, was dedicate to fire prevention. The volunteers carried out tasks related to the maintenance of planted areas, cleaning up of eucalyptus florests, as well as the cutting and removal of invading species.

Fourteen Santander Totta employees volunteered in aiding the preparation of products for the **BIPP Christmas Sale** (Parents to Parents Data Bank). BIPP aims for the total inclusion in society of persons with special needs and counts upon the regular support of volunteers from the Bank.

Santander Totta joined Universia for the launching in Portugal of the **Ajudamos.pt**, platform, a network of sites that disseminates volunteering projects, where anyone can be registered and present a candidacy. The IPSS (Social Solidarity Private Institutions) and Higher Education Institutions that wish to promote such initiatives with students can disclose their offers of volunteering simply and freely in this platform, which accesses a large base of volunteers.

Culture

In 2017, Banco Santander Totta concluded a partnership with the fado songstress Ana Moura, in order to promote Portuguese culture, both nationally and internationally. This partnership will last for two years and sponsors more than 100 concerts by the artist. Ana Moura will become a **SELECT** face, allowing the Bank to use her image in several promotional issues relative to one of the Santander Totta's reference brands.

Santander Totta organized, jointly with the Santander Group Foundation, an exhibition of Iberian painting and sculpture, with the theme **"Luzes e Sombras, Diálogos e Perspetivas Ibéricas" (Iberian Lights and Shades, Dialogues and Perspectives")** .

The exhibition, held in the Bank's head office, in Rua do Ouro, Lisbon, had on view several of the best works of art of the collections of Banco Santander Totta and Banco Santander Foundation. The entry to the exhibition was associated to a social cause, since visitors gave a minimum donation of 2 euros which totally reverted to the paediatric Services of the Lisbon IPO.

The Bank subscribed a protocol with the Institute of Cooperation and Language – Camões, through the payment of scholarships, which aims to contribute towards the carrying out of courses in higher education. Through this protocol, the Bank will offer scholarships to students of higher education courses which will take place in Portugal and will be held in Portuguese. Santander Totta will become, as such, a Portuguese Language Promoting Company, a status granted to persons/entities that provide pecuniary contributions towards the promotion of the Portuguese language.

Santander Totta supported a new edition of the **Arts Festival**, which is held every summer in the main historical sites of the city of Coimbra. In its 9th edition, the Festival was dedicated to the theme "Metamorphosis" and comprised a Music Cycle, Gastronomy and Stage Arts.

The **Estação Imagem ("Season Image") Prize** aims to promote quality works in photo reporting and is already an international reference in the industry. The award is intended for photo reporters from Portugal, from PALOP (Portuguese Speaking African Countries) and from Galicia, or those residing there. In addition to the 2017 Season Image Prize, Santander Totta also sponsored 6 photo reporting exhibitions with works by internationally recognized photographers.

Environment

Santander Totta recognizes that climate change is one of the greatest challenges which society is facing, and has been developing measures of energy efficiency and reduction of consumption in all its facilities, as well as promoting sustainable practices with its employees in order to guarantee the sustainable development of its business.

In the expansion of its operational headquarters, opened in the beginning of 2017, a model of efficient resource management was implemented, with several eco-friendly solutions that allow reductions in energy consumption. It is a building with numerous environmental and energy valences, amongst which stand out the high efficiency of the heating, ventilation and air conditioning equipment, the air treatment units with free-cooling possibilities, the lifts equipped with an energy regeneration system, the use of rain to water the gardens covering the building and the installation of natural light measuring and movement sensors that allow controlling lighting and reduce energy consumption.

The Bank has implemented policies that aim to reduce the emission of greenhouse gases, using less pollutant alternatives to travelling, such as tele-presence and videoconference which aim to reduce travel and, should such be necessary the use of public transport instead of individual transport.

The Bank continues implementing the **Papeleiras e Peteiras Project**, which aims to collect paper and plastic bottles for recycling. Remaining materials, such as glass, other types of plastic and organic waste, are separated and recycled. It has also been developing a plan to reduce its water consumption by the monthly follow up of invoices and by the implementation of the waterbeep system, which permanently monitors consumption and issues alerting e-mails should the limits of daily consumption be exceeded, as well as continuous and average consumption.

Throughout the latter years the Bank has developed several consumption reduction measures and improved the efficient use of energy in its facilities, as referred below:

- Installation of presence sensors in meeting rooms, offices, sanitary facilities, *back-offices*, records and cupboards;
- Replacement of obsolete air conditioning systems by others with lower consumption;
- Regulation of the *set point* of AVAC equipment and control of its timing;
- Regulation of lighting in line with the natural light index;
- Replacement of light bulbs with more efficient substitutes;
- Use of renewable energies - **micro production -** in 20 branches;
- Reduction in the power of the "up's" of the technical poles of the branch network;
- Installation of natural light and movement measuring sensors (buildings and parking lots), with presence sensors, lighting control by timing and by zoning;
- Installation of reflecting film;
- Installation of a *free cooling* system, to operate with external temperatures below 20º C, disconnecting the air conditioning system;
- Equipment disconnected on holidays;
- Replacement of lifts in operational head office with more efficient systems;
- Monthly follow up of consumptions.

The promotion of both internal and external good practices has been one of the concerns of the Bank's Sustainability Policy, through sensitizing and informing its employees and the different stakeholders, regarding the best practices to be adopted, towards sustainable development.

International

The world economy accelerated, in 2017, at the highest growth rate observed since the beginning of the economic and financial crisis, in 2008, thus extending the cyclical recovery started in mid-2016.

This greater dynamism resulted from the joint growth of the developed economies which extended the favourable cycle of the latter years, with the current correction of several imbalances that had penalized business activities in the more recent years in developing countries.

World Economic Growth

	2015	2016	2017
World	**3.4**	**3.2**	**3.7**
Advanced Economies	**2.2**	**1.7**	**2.3**
USA	2.9	1.5	2.3
Euro Area	2.0	1.8	2.4
United Kingdom	2.2	1.9	1.7
Japan	1.1	0.9	1.8
Developing Countries	**4.3**	**4.4**	**4.7**
Africa	3.4	1.4	2.7
Asia	6.8	6.4	6.5
China	6.9	6.7	6.8
Central and Eastern Europe	4.7	3.2	5.2
Middle East	2.7	4.9	2.5
Latin America	0.1	-0.7	1.3
Brazil	-3.8	-3.5	1.1

Source: IMF (January 2018)

The cyclical recovery of the world economy was readily shown by the dynamics of international trade, which nurtured acceleration in investment, especially in the developed economies, and in the increase in industrial production. The rate of unemployment decreased in most of the economies, thus contributing towards improving consumer confidence and encouraged the recovery in consumer expenditure.

Better financial conditions equally contributed towards this recovery, with lower interest rates, as well as lower levels of volatility. In spite of the fact that the central banks of the developed economies were initiating a process of removal of stimuli and non-conventional policies implemented during the last decade, this reversal of policies was always followed by a strategy of market communication that aimed to mitigate adverse impacts and turbulence that could compromise confidence and economic recovery.

The US economy evolved positively, as compared with 2016. The 2.3% growth estimated for 2017 is in line with potential growth and marks out the eighth year of consecutive expansion in a particularly lengthy business cycle.

This growth was particularly made clear by the improved investment dynamism, which positively contributed to fixed investment, but moderated by a lower negative contribution relative to stock variations. The contribution of private consumption towards growth remained basically unaltered, and the rate of unemployment dropped slightly to an annual average of 4.4% (-50b.p. as compared to 2016).

At end-2017, the Senate and the Chamber of Representatives reached agreement over tax reform, with generalized tax decreases, especially in the case of companies, which could generate an important stimulus for business activities in 2018, overcoming risks attached to uncertainty as to trade policies in the Trump Administration.

The US Federal Reserve maintained, throughout the year, its policy of gradual removal of stimuli, increasing the main reference interest rate three times, in steps of 25b.p., to the interval between 1.25%-1.50%, whilst its preview of future action continued aiding expectations of two to three similarly sized increase during 2018.

In June 2017, the Federal Reserve detailed its plan for the gradual removal of stimuli which it had notified three months earlier: from September onwards, the US Central Bank no longer invested monthly in a determined amount of assets, beginning by 10,000 million dollars and gradually increasing it until reaching 50,000 million dollars per month after a twelve month period.

In the euro zone, 2017 was a year of consolidation of economic growth, deepening and strengthening the recovery commenced in 2017. Growth rates showed greater uniformity amongst the different countries, with French and Italian recovery standing out, after being near to stagnation in previous years.

The heavy European electoral cycle did not penalize growth in spite of the existing uncertainty at the beginning of the year as to the possible rise to power of populist parties in some countries, especially in France, but Emanuel Macron’s victory and his European and reformist agenda contributed positively towards confidence. In Germany, the general elections held in September gave rise, after a negotiating deadlock, to the repetition of a coalition Government between CDU/CSU and SPD.

Growth in Spain slowed down, in a consolidation recovery, but also due to the instability caused by the independency process in Catalonia, which led to the change in head offices (and fiscal domicile) of many of the companies domiciled in that Region. Notwithstanding, Spain clocked growth in excess of 3% in 2017.

	GDP	Inflation
Euro Area	**2.4**	**1.5**
Germany	2.2	1.7
France	1.8	1.2
Spain	3.1	2.0
Italy	1.5	1.3

Source: EC (January 2018)

As an outcome of growth dynamics, the European Central Bank reassessed its monetary policy, especially its non-conventional measures. It left unaltered its reference interest rates but, in March 2017, reduced the volume of acquisition of financial assets by 20 thousand million euros per month, to 60 thousand million euros. Already in December, the ECB communicated that, with effect from January 2018, the volume of asset acquisitions would be reduced by half to 30 thousand million euros per month, and that the programme would terminate, unless exceptional circumstances should require exceptional measures, in September 2018. Later on, the ECB will replace the issues of matured portfolio debt by new acquisitions, thus keeping unaltered the total value of acquired assets.

The *Brexit* process continued in the United Kingdom, but in a more difficult political framework, after the early elections held on 8 June resulting in a loss of Parliamentary majority by the Conservative Government The erosion of political power was reflected in a lower negotiation capacity with the remaining 27 member states of the European Union, after article 50 of the Treaty of Lisbon was actioned in March 2016. At the end of the first stage of negotiation, regarding the terms of the "divorce", the United Kingdom gave way on certain key-points, such as the border with the Republic of Ireland, or the rights of European citizens residing in the United Kingdom. The effective *Brexit* date was set at 23:00 hours on 29 March 2019. The "27" agreed that the period of transition will end on 31 December 2020, although the United Kingdom preferred a more extended period.

The British economy continued slowing down, although gradually, "contradicting" several scenarios that envisaged the possibility of an immediate recession. The pound sterling's depreciation, together with the low levels of unemployment, contributed to inflation exceeding the 3% barrier, causing the Bank of England to increase its main reference interest rate, for the first time since July 2007, to 0.5% (+25b.p).

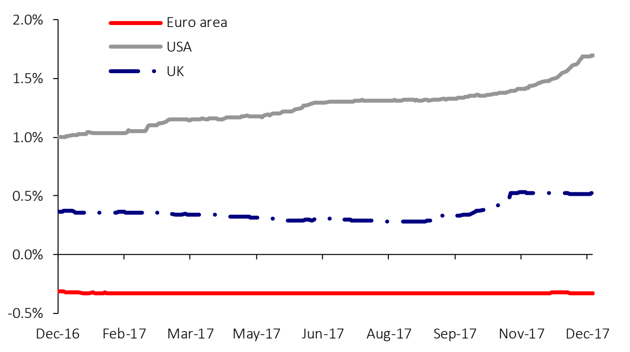
In the emerging economies the year was equally characterized by a recovery in economic activity. In China, which in latter years has been under close scrutiny and the focus of some uncertainty, measures adopted by the authorities allowed growth to become stabilized. GDP will have increased by 6.8% in 2017, but the reasons for the structural deceleration of activity still remain, simultaneously with the change in the growth model.

In Latin America, business activity also evolved more favourably, abandoning the recessive situation that characterized the latter years, in large measure due to the recovery shown by Brazil which, in 2017, grew by approximately 1% after the almost 8% cumulative shrinkage in the last two years. In Mexico, the uncertainty caused by the evolution in the trade relations with the USA and the future of NAFTA, contributed towards a very moderate growth.

Financial markets were relatively calm, as shown by the reduced levels of volatility and low levels in interest rates, in spite of the reversal which is beginning in the monetary cycle, with central banks increasing reference interest rates and reducing, or even reverting, the volumes of liquidity injected in the market.

Short term interest rates, both in the USA and United Kingdom, reflected the changes in the reference rates made by the respective central banks, increasing, especially in the USA, where the Federal Reserve maintains its guidance on increasing rates. The divergence with the dynamism of the rates in the euro zone was enlarged, since the ECB, in spite of reducing the volumes in asset acquisitions, continues signalling that it may act, if and when necessary.

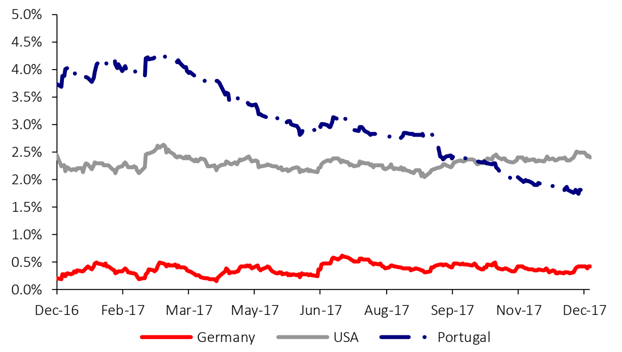
3-Months Interest Rates



Source: Bloomberg

The repricing movement in long term interest rates which had already started in the previous year continued although differentiated. In the USA, 10 year interest rates became consolidated around 2.5%, reflecting expectations that the increase in interest rates will be gradual within a context of controlled inflation. In Germany, yields became consolidated at positive levels, although below 0.5%, after having remained negative during part of 2016.

10 Year Bond Yields

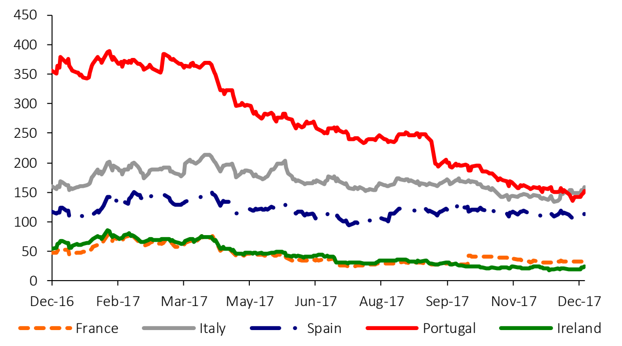


Source: Bloomberg

The improved economic environment in Europe endured the correction of the budgetary imbalances, with most of the countries reducing deficits and stabilizing or even lowering the ratio of public debt to GDP.

In Portugal, yields lowered gradually throughout the year, to approximately 2%, for 10 year loans. The sounder economic growth and commitment with budgetary targets resulted in the improvement of the ratings attributed to the Republic by both S&P and Fitch, to investment grade levels.

10 Year Bond Yield Spreads
(bp)



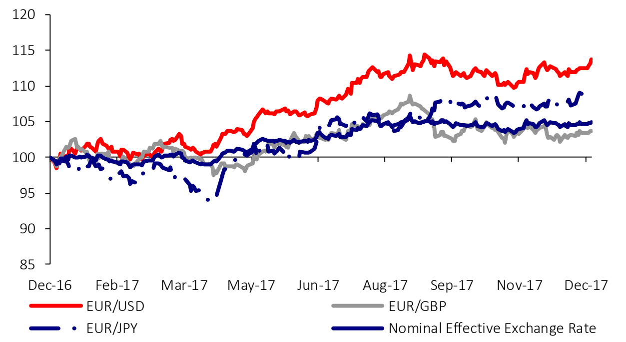
Source: Bloomberg

In this environment, and in the euro zone, the spreads, compared to Germany generally narrowed, with special reference, however, to the Portuguese public debt, which reduced from a peak of almost 400b.p. at the beginning of the year to 150b.p. at end-2017, even becoming placed below the spread of the Italian debt.

In the foreign exchange market, the main dynamism was characterized by the appreciation of the euro against most currencies. In spite of the differences in monetary policy and in reference interest rates, the euro appreciated approximately 15% against the US Dollar. Contradicting prior policy, the Trump Administration referred several times that a weak dollar was in the interest of the North-American economy.

Sterling currency registered a more moderate depreciation, possibly because a larger decrease had already been recorded in 2016, after the *Brexit* referendum. Against the Dollar, Pound sterling reverted part of the depreciation shown in 2016.

Main Exchange Rates
(Dec-2016 = 100)

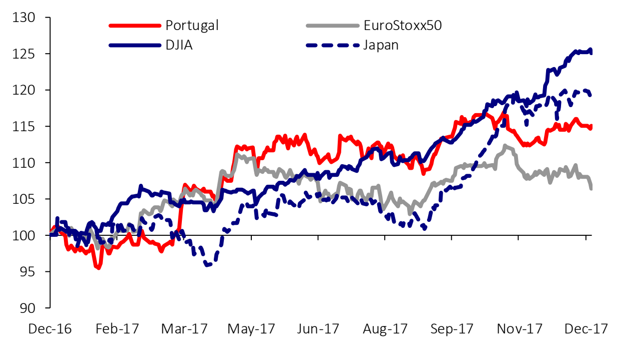


Source: BCE

Equity markets generally registered increased gains in 2017, in a movement which was strengthened from the second quarter onwards, when data concerning economic growth reinforced expectations that the recovery was sustained.

Equity markets in the USA registered continued increased gains, with strengthening of this trend after the Summer, not just with growth consolidation, but mainly due to the approval by Congress of the fiscal reform, which brought about a lowering of taxes charged on companies.

Equity Markets
(Dec-2016 = 100)

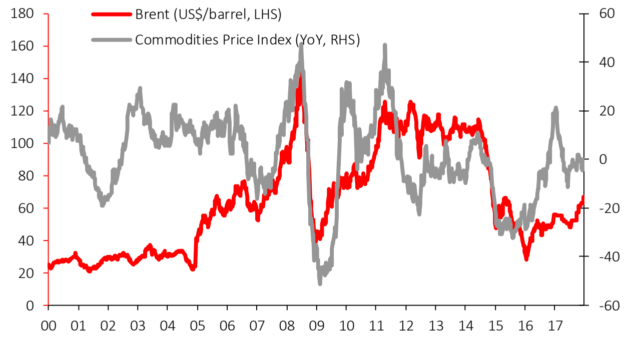


Source: Bloomberg

In Europe, the recovery of the equity markets was more diffident, affected at times by the electoral processes in relevant countries, such as Holland, France and Germany. At year-end, some uncertainty was felt due to the political developments in Catalonia and the expected early elections in Italy.

In Portugal, the main index PSI-20 registered a gain of approximately 15%, with most of the quoted shares evolving favourably, although some companies reflected the reorganization of their shareholder structure. The improved macroeconomic situation, from the point of view of growth and correction of the main imbalances, as well as the improved risk notation of the Republic to investment grade, contributed towards this development.

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



Source: Bloomberg

Oil prices rose by approximately 19% by year-end, to 66 US Dollars per barrel, thus recovering to the highest levels since 2015. The heavy demand perspectives, the agreements between OPEP and other producers to regulate production, and the political instability in the Middle East strongly contributed to this increase.

Similar dynamics were registered for the remaining raw materials, from base metals to cereals, although the latter on a lesser scale.

Gold, in spite of low levels of volatility, maintained its role as a reserve asset, partly due to the instability in the Korean peninsula, having attained a maximum of USD 1,360 in the Summer and ending the year at USD 1,330 per ounce.

Portuguese Economy

The improvement in the international economic environment, between 2015 and 2017, energized a faster recovery of the Portuguese economy, bolstered by the growth in exports which reflected the capability of Portuguese companies to guide their products and services to a more diversified external market.

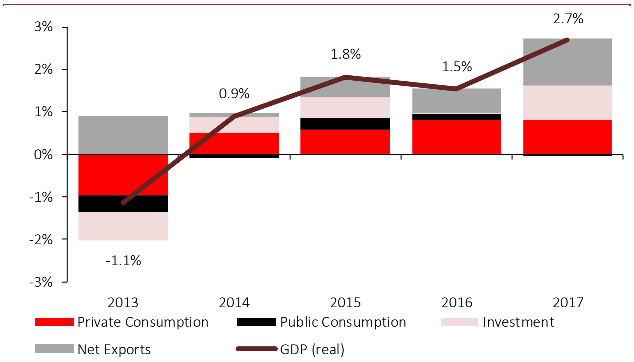
Macroeconomic Data

	2015	2016	2017
GDP	**1.8**	**1.6**	**2.7**
Private Consumption	2.3	2.1	2.2
Public Consumption	1.3	0.6	0.1
Investment	6.4	0.8	8.4
Exports	6.1	4.4	7.9
Imports	8.5	4.2	7.9
Inflation (average)	0.5	0.6	1.4
Unemployment	12.4	11.1	8.9
Fiscal Balance (% GDP)	-3.1	-2.0	-0.9
Public Debt (% GDP)	128.8	129.9	125.7
Current Account Balance (% GDP)	1.3	1.6	1.4

Source: INE, Banco de Portugal, Ministério das Finanças

In 2017, the Portuguese economy grew approximately 2.7%, with exports growing by 7.9% as the main growth engine, contributing 3.3p.p. to total growth. The second growth engine was gross domestic fixed investment (GDFI), which grew by 8.4%, with all its components registering positive growth, particularly investment in transport goods (+19.6%), machinery and equipment (+14.5%) and construction (+8%). GDFI contributed 1.4p.p. to the total growth of the economy. The third engine was private consumption, which grew 2.2%, particularly supported by the acquisition of durable goods (+6.0%).

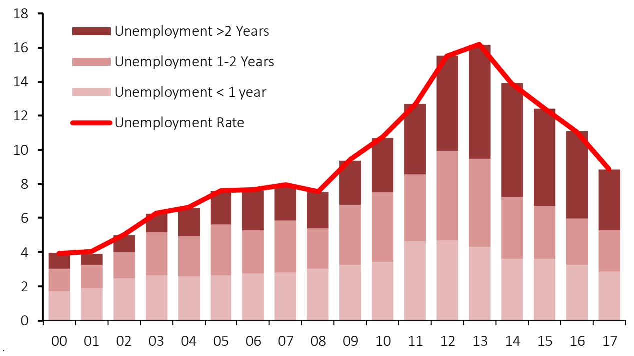
Contributions to GDP Growth (YoY)



Source: INE

The labour market continued improving throughout 2017, with the effective employment rate (permanent contracts) standing at approximately 60% of active population. The year witnessed the creation of +161,300 jobs. Unemployment rate decreased to 8.1% in the fourth quarter, the lowest level since 2009, and to 8.9% on an annual average.

Unemployment Rate



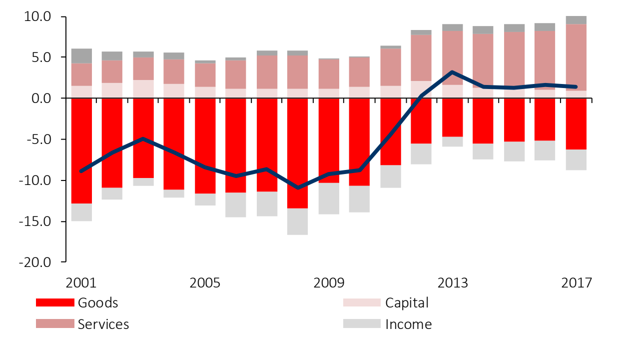
Source: INE

In spite of the improvement in economic activity and in the labour market, the rate of family savings in the third quarter of 2017 decreased to 4.4% of gross available income, resulting from a more pronounced increase in consumption (+3.4%) as compared to a more moderate growth in available income (1.7%), in homologous terms.

Resulting from the improvement in competitiveness of the Portuguese exporting companies, a sustained increase was verified in the weight of exports to 43% of GDP in 2017 (in nominal terms), whilst in 2008 exports represented only 27%. Consequently, the trade balance went from recurring deficits averaging 8% of GDP, to a trade surplus of 2% of GDP, since 2013. In 2017 the trade balance stood a 1.5% of nominal GDP.

The increase in the exports of goods deserves being highlighted, contributing towards the effective reduction of the deficit by 8.8p.p. of GDP in the last 8 years (that is, from a 15.3% deficit in 2008 to 6.5% in 2017). The origin of this notable improvement was the increase in exports of metals and machinery which jointly represented 34% of total goods exported.

Current and Capital Account
(% GDP)



Source: Banco de Portugal, INE

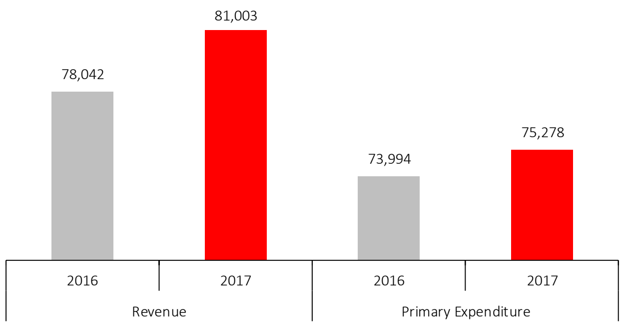
Service exports continued strengthening its surplus position, with tourism contributing with +5p.p. of GDP, from a total balance of +7p.p.,in 2017. The weight of tourism exports in GDP is currently 7%.

The high indebtedness of the economy (338% of nominal GDP in the fourth quarter of 2017) is still a restriction to economic growth, with special incidence on investment, and continues being the greatest risk factor in the medium term. In spite of the deleveraging process, the private sector, in the fourth quarter of 2017, registered an indebtedness ratio of 212% of GDP, of which 74% pertains to families (53% in mortgage loans and 21% in consumer credit) and 138% pertains to non-financial companies. The public sector registered a ratio of 125.7% of GDP, with a pronounced decrease at year-end due to an early repayment of a significant part of the IMF loans.

The evolution of public finance, in 2017, registered a budgetary deficit of 0.9% of GDP, better than the initial estimate of 1.4% in the 2017 state budget, and resulting from a greater growth than expected in total revenues (+4.9%), in particular from indirect tax revenues (+6%) and from the increase in social contributions (+4%), associated to an increase in public expenditure (+3.5%).

The fall in the cost of servicing the public debt (-2.5%) limited a more enhanced growth in public expenditure. The State budget for 2018 estimates a budgetary deficit of the public administration of 1.0% of GDP.

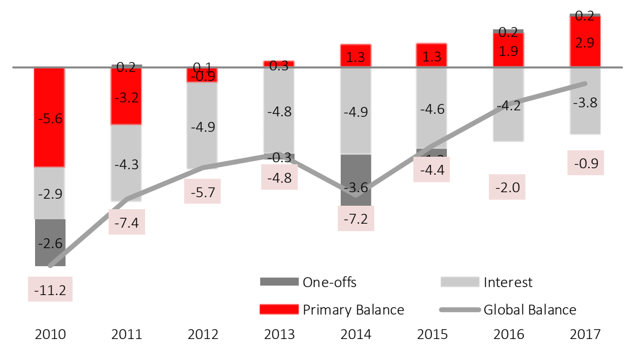
Current Revenue and Primary Expenditure
(€ mn)



Source: Ministério das Finanças

The interest rates of the debt of the Portuguese Republic continue registering minimum levels, resulting from the reduction in the perception of the sovereign risk by investors, leveraged by the good economic performance and by the evolution of the public accounts, all of which resulted in the improvement of the rating notation of the Republic to "BBB-", already in investment grade, both by Standard & Poors, in September and, in December 2017, to "BBB" by Fitch. In January 2018, the 10 year interest rate was being quoted below 2.0%, and the differences to the German debt was lower than 150b.p. (and lower than the corresponding spread of the Italian debt).

Fiscal Balance
(% GDP)



Source: Ministério das Finanças

In 2017, the Treasury maintained the regular access to the international financial markets, and continued focused on the diversification of sources of finance, especially in the retail segment. In 2017, approximately 7 thousand million euros were sold in family savings products, distributed between OTRV (floating rate retail bonds) and Savings Certificates. At year-end, the Treasury adjusted the conditions of remuneration of the savings products to the yields of public debt, which resulted in a decrease in interest rates.

This capturing of family savings did not have a visible impact in the volume of private deposits with the domestic financial system, which remained almost unaltered as compared to 2016.

The Portuguese financial sector, in 2017, proceeded with the several restructuring processes. The public bank completed its recapitalization as agreed with the European authorities and, in October, the Resolution Fund finalized the sale of Novo Banco to the LoneStar fund, keeping however a 25% share in its capital. At year-end, and following the measure of resolution applied to Banco Popular Español (which was acquired by Banco Santander), Banco Santander Totta acquired and incorporated Banco Popular Portugal.

The dynamics of credit aggregates continued being characterized by deleveraging, in a large measure associated to the management of non -productive assets held by banks in their balance sheets. Between December 2016 and September 2017, in line with Bank of Portugal data, the stock of non-performing loans was reduced by 6.5 thousand million euros.

This evolution cancelled the effects of the increase in new loan production for private customers (an almost further 3 thousand million euros, largely in mortgage loans), since new production of credit for companies registered a 3.3% reduction in the year.

Main risks and uncertainties for 2018

The banking industry involves, by definition, risk management. In addition to the risks which are intrinsically associated to it, there is an additional set of risk factors that may influence the development of its business in 2018, such as the internal and external economic environment, or the regulatory and supervision context.

Although the economic environment, as described in the previous chapter, has evolved positively, several risk factors subsist which could affect rate of growth. On the one hand, there are relevant geopolitical risks, with several ongoing and latent conflicts in different parts of the globe, which somewhat contribute to a sense of aversion to risk by business operators.

On the other hand, risks of greater protectionism exist on the part of several countries and/or economic blocks. The possibility of reversal of some relevant trade agreements or the unilateral imposing of tariffs or other barriers to free trade could adversely influence growth dynamics.

Europe overcame, in 2017, an important electoral period, but which, in some cases, did not cancel political uncertainty, with the formation of minority or coalition governments, whose resilience could be subject to testing in 2018. In the case of the United Kingdom, the time-limit for the completion of an agreement over "Brexit" is getting nearer, with the effective date for the exit from the European Union set for 23:00 hours of 29 March 2019. In other countries, political unity continues to be a latent risk. In other countries, equally, the institutions could be placed in quandary, thus impacting in differing ways the action of the European Union.

In Portugal, in spite of the ongoing correction of the macroeconomic imbalances, several risk factors subsist. The external environment is a determining factor for economic growth, as a result of the impact it may have on exports, especially of goods, but also of services.

On another hand, an eventual global increase in risk aversion could influence investment dynamics with repercussions both on employment and on the possible demand for credit.

In spite of the important developments in latter years, in which the budgetary deficit was reduced from about 10% of GDP in 2009-2010, to 0.9% in 2017, budgetary restriction will continue. The strict compliance with budgetary targets continues essential to reduce the ratio of debt to GDP and thus support the confidence of international investors and allow improvement in risk perception towards the Republic.

Regarding the financial industry, the risks and uncertainties are connected, on the one hand, to the scenario of low interest rates, which continues affecting the industry's profitability. Contrariwise, should the European Central Bank commence a swifter increase in the reference interest rates, this could affect customers' credit capacity in complying with their liabilities.

In 2018, the financial system, aside from profitability issues, will be focused on the need to commence complying with the minimum requisites relative to equity capital and to eligible liabilities (*MREL – Minimum Requirement on Eligible Liabilities*), as required in the Banking Recovery and Resolution Directive (BRRD).

Still regarding regulatory issues, in addition to the progressive entry in force of the rules to calculate regulatory capital (phase-in of the rules known as Basel III), discussions are taking place on alterations to the calculation of risk-weighted assets (RWA).

In Europe, and within the scope of banking regulation, there are ongoing discussions covering alteration procedures to CRD IV and to CRR, as well as the adaptation to PSD2, the directive which will open the supply of payment services to other entities, whether financial or not. Financial operators will equally have to adapt their rules of marketing financial products to MIFID II (Marketing of Financial Instruments Directive).

Commercial Banking

Private Customers

In 2017, the Bank continued its strategy of transforming its business model, with simplifying processes and development of the digital platform, with the objective of improving quality of customer service and efficiency. This strategy has been reflected in the increase in the numbers of loyal and digital customers.

With the integration of the former Banco Popular Portugal, the market share of loans to the Bank's private customers increased by around 2p.p., leveraging the organic growth which has been viewed in latter years.

The year under analysis was also characterized by a significant growth in contracted mortgage loans, aided by a marketing campaign with the slogan "Quem quer casa vem ao Totta" ("Who wants a home comes to Totta"): The Bank's market share, in end-December, stood at 21% (excluding the production of the former Banco Popular Portugal).

The launching of "CrediSIMPLES", in January 2017, an innovative offer only available in digital channels, initially in the Bank's App and since September also in NetBanco, bolstered a 10.4% growth in production of personal loans, representing around 15% of total production (excluding the former Banco Popular Portugal).

The resource diversification structure that the Bank has been implementing has resulted in accentuated growth in marketed mutual funds and financial insurance.

The number of Mundo 1|2|3 customers exceeded 360,000, of which around 204,000 already have the account, the card and protection insurance (with a 44% growth in the year). In March, this solution comprised a new advantage for customers: 1% reimbursement of the amount paid in IMI (Municipal Real Estate Tax). Mundo 1|2|3 is a multi-product solution addressed to the Bank's private customers who, in addition to the advantages of the 1|2|3 card, can provide an additional set of benefits, via *cash-back* in the Mundo 1|2|3 card account. Since its launching, the Bank, via cash-back, has returned 15.9 million euros to its customers.

In Means of Payment Banco Santander Totta has continued to back its differing offer for each of the different customer segments it handles. With regard to private customers focus has been kept on the sale of the Mundo 1|2|3 card and in launching new card functionalities in App and Netbanco. In this respect the launching of new functionalities such as the digital contracting of credit cards, highlight should be given to the management of credit limits through digital channels, or PagaSimples, which allows one-click credit card payment in instalments for any given purchase.

For the companies' segment, the Bank has continued to back the *Advance* offer, both with POS feature and with cards, at the same time as it has focused the continuous improvement in transactional bank solutions, in order that it continues to be the day-to-day process for its company customers.

In the Private Banking area, through the offer of financial solutions with a diversified logic, supported by a relationship of trust and proximity between the customer and the Bank, it succeeded, once again, to successfully surmount during a year of intense challenges regarding growth in customer numbers, managed assets, profitability and market share.

The offers of investment solutions based on diversified assets under management, with applications in mutual funds, financial insurance and management on behalf of third parties, enjoyed significant growth

Through a joint task with the Group's Global Division of Private Banking and taking advantage of experience and market knowhow, a new technological platform was implemented, fully adapted to the business model, which will permit total portability for interaction with the customer and thus improve his experience in his relationship with the Bank. Similarly, sound growth was registered in customers' adhesion to digital channels, thus reinforcing their permanent connection with the bank.

Also set up was a global division of Private Wealth Santander Group where the Private Banking area of Santander Totta is comprised, in order to make available a larger solution of investment products and services of great quality and accessible in the several geographies where the Bank operates.

The Private Banking of Santander Totta was, for the 7th consecutive year, distinguished as the best Private Banking area operating in Portugal, as stated in *Euromoney* magazine, and also received, for the 3rd consecutive year, a similar distinction from *Global Finance* magazine. These awards recognize and strengthen the quality of teams and of the Bank's investment solutions.

Companies

The Companies' segment continued to merit special attention in Santander Totta's business activities, with significant strengthening in terms of the Bank's market share after the acquisition of Banco Popular Portugal.

Focus on the growth of customer Companies is also materialized via proximity actions with customers, such as the non-financial offer of Santander Advance Empresas (training, work placements, etc.) and the local initiatives of conferences in several of the Country's regions (Box Santander Advance Empresas).

The Santander Group was distinguished by *Euromoney* magazine with the "World's Best Bank for SMEs" award, stressing that Santander's global strategy, with reference to the Santander Advance Empresas programme, goes further than just financing, since it covers training actions, internationalization and connectivity that allow companies to overcome challenges and find solutions that allow economic value creation.

Regarding protocoled loans, particularly in the PME Capitalizar line, Banco Santander Totta exceeded the 20% market share objective in the Capitalizar line, both in framework operations (21.3% in December 2017) and in contracted operations (26.1% considering the former Banco Popular Portugal). Also outstanding is the IFRRU 2020 line (Financial Instrument for Urban Rehabilitation and Revitalization) in which the Bank (including the former Popular Portugal) have obtained the largest credit line in the market.

During 2017, Santander Totta was the international business partner of more than 5,700 companies on a monthly basis. This number represents a growth in excess of 10% relative to 2016, attaining a 13% market share in trade finance and having kept to a sustained and permanent growth in the last 5 years.

Omni channelling

The implementation of the Multichannel Transformation Plan continued in 2017, in line with the strategy defined by the Group for direct channels, aiming to modernize, simplify and being closer to its customers, enabling and increasing the offer of the Bank's digital services.

In this context, new functionalities were implemented and improvements carried out to widen the offer, substantially upgrading customer experience, significantly increasing the adhesion to non-personalized channels and sales carried out via the channels.

Digital Channels

In the private segment, 2017 was marked by greatly strengthening the marketing of products through digital channels.

As previously referred, at the beginning of the year it was launched on the *App* Santander Totta, a personal loan product, known as CrediSIMPLES, with the possibility of immediate contracting, following a positive analysis by the Bank's systems. Santander Totta pioneered the launching of a solution with these characteristics.

CrediSIMPLES was initially launched in the *App* Santander Totta, in line with the mobile first strategy. Later on the same solution was launched in NetBanco, to ensure a wider choice of the preferred channel by the customer.

Still within the family of loan products, the Bank made available, in the digital channels, the contracting of credit cards. In this case as well, it is possible for customers to immediately contract a credit card, should they comply with the Bank's criteria and risk models and with the specific rules and limits of contracting through digital channels.

Both personal loans or credit cards have a device available that allows customers to send their processes to the branch should conditions not exist to carry out immediate contracting. The branch may thus analyse the best alternatives with the customer.

Also launched this year, in the 2 channels, was the PagaSIMPLES product, which permits customers to pay in monthly instalments purchases made with credit cards. Equally launched in NetBanco was the subscribing of pensions savings plans.

In addition to the commercial offer, several improvements were carried out and new functionalities launched in the *App* and Netbanco.

An ambitious improvement plan was implemented in NetBanco Empresas, regarding functionalities and usability, always with the intent of providing simple interaction and improving customer experience, with the following features standing out:

- Cancelling of credit and debit cards and possibility of requesting their replacement;

- Visualising entries in TPA/POS;
- New screens for carrying out payments for services either on a once only basis or by instalments of up to 30 payments, and the presentation of the layout of executed and to be executed transactions;
- Viewing entries and statements of the individual cards of companies' employees;
- Tutorial videos on card management in NetBanco Empresas;
- Online adhesion to *SafeCare Corporate* and *LifeCorporate* insurance;
- Improvement in transfer functionalities;
- New functionalities for beneficiaries and batch payments – domestic and international transfers and letters-cheque;
- New functionalities and improvement of transactions pending signature, namely, repeating transactions without requiring data entries, and improvement in the balance and entry functionalities;
- Request for opening of Documentary Credits with dematerialized signature.

The App Santander Totta Empresas was launched in the second half of 2017, available for both iOS and Android, with the following functionalities:

- 3 means of access: 4 digit PIN; touch ID; access credential to NetBanco Empresas;
- Approval of transactions pending authorization;
- Push notifications of pending transactions;
- SEPA transfers;
- Services payments, State payments, asset viewing;

More than 7,000 users had adhered at end-2017.

Public site

During 2017 the strategy was maintained in the redesigning of the public site for retail customers with regard to standardizing and simplifying contents and images, always especially focusing conversion components (call-to-action). Measuring and analysis tools for optimizing contents (SEO) were developed and strengthened.
The launching of new areas of pension savings should be highlighted, jointly with the new Mundo 1|2|3 pages, mutual funds, cards, a new pension simulator and the launching of the eBroker platform.

The 1|2|3 personal and mortgage loan simulators were subject to improvement, as well as the insurance profiler. Campaigns and pastimes were implemented to capture digital customers, aligned with marketing strategy, highlighting the promotion of CrediSIMPLES, with online contracting in the *App* for private customers.

The public site exhibits an average of 1 million single visitors each month and more than 5 million monthly views.

Contact Centre

Business activity in 2017 exceeded that of the homologous period, highlighting the change in the contact mix, with greater weighting in the support of digital channels. This increase in business also derives from the higher number of the Bank's customers resulting from the recent incorporations.

On a monthly average, more than 155,000 contacts with customers took place, sorted by 140,000 calls, 13,000 e-mails and approximately 2,000 chat sessions. Also followed and managed were approximately 1,500 monthly iterations in the pages and profiles of the Bank's social networks.

The companies' activities in the Contact Centre registered a very positive evolution, already representing approximately 20% of total activity, with a significant increase in functionalities and autonomy, and the carrying out of the consolidation of the Companies' Attendance Centre.

The Contact Centre continues as the main pillar of support of digital activity, not just as an aid to clarifying doubts and customer support or in the decisive role it performs in the adhesion processes to the App and Netbanco, but also in the promotion and changing customers' business activities to the digital channels.

Several functionalities were implemented in 2017, such as:

- Broker Online support, a team of market experts to aid the Bank's customers and employees regarding market features;
- Santander Próximo Superline, which is a support and complementary aid for Santander Próximo customers;
- Assessment of customer satisfaction at the end of Superline calls and support for Netbanco Empresas;
- Commercial team for personal and mortgage loans following customers' request for contact on the Bank's site or in campaign pages;
- Automation measures in the analysis of e-mails in order that subsequent treatment is more efficient and provide swifter responses to customers;
- Specific attending services for customers in the *Private* segment.

International business – residents abroad

The segment of customers residing abroad has two sub-segments: (1) private Portuguese customers residing abroad; and (2) private foreign customers residing in Portugal with the status of non-permanent residents.

The main function of the area of customers residing abroad is to support the Bank's private and business commercial networks in the setting up of solid and proximity links with the Portuguese and Luso-descendant communities residing abroad through its network of representative offices and branches which exist in 7 countries (South Africa, Germany, Canada, France, United Kingdom, Switzerland and Venezuela) as well as the promotion and capturing of foreign customers and businesses that have chosen Portugal to invest and establish their non-permanent residence.

In 2017, the international business of Banco Santander Totta for customers residing abroad privileged the diversification of customers' portfolios of financial applications, increase in the capturing of remittances and of market share of transfers from abroad, increase in the credit portfolio and customer loyalty, with massifying adherence and usage of digital channels (Net Banco and Mobile), capturing of new customers and the consolidation of integration of the former Banif's external units' operations.

The Bank attended several external events with relevant impact in the segment, both in Portugal and locally in countries where it is represented. Several campaigns were implemented aiming to strengthen the relation of trust and loyalty to the Bank with highlight on the campaign for the welcoming of the Portuguese returning from abroad for their holidays.

The business concerning customers residing abroad was influenced by the constant regulatory alterations, namely the fiscal situation with the FACTA regime in the USA and the CRS (Common Reporting Standard) that weighed upon the increasing number of decisions to invest in the real estate market in Portugal.

Transfers from abroad grew significantly with expressive gains in the Bank's market share, resulting from the soundness and trust on the actions developed that permitted increasing the attractiveness and the relevance of this service for customers residing abroad.

Following the commercial strategy of proximity and multi-channel accessibility with customers residing abroad, the initiatives listed below were implemented:

- New functionalities that allow increasing and expanding the potential of adhesion, viewing and subscribing of products in the customers' accounts in any location and at any moment, namely with the possibility of subscribing both mutual and financial funds, and life insurance;
- Promotion of visits by branch managers to Portuguese external communities. As a complement, visits were undertaken by managers of representative offices to branches and real estate brokers in locations, in Portugal, which could allow maximizing commercial results and connections with commercial networks;
- In Switzerland, the moving of the representative offices in Geneva to a more central location was successfully carried out and a transfer agreement was concluded with PostFinance.

The London branch has continued to evince excellent evolution in controlling the credit portfolio, whilst providing relevant support to branches in Portugal to service the Portuguese community that lives and works in the United Kingdom and the foreign nationals that wish to invest in Portugal.

Global Corporate Banking

Throughout 2017, the area of Structured Finance developed its activity through financing and/or financial consultancy to projects related with energy, distribution of natural gas and the real estate business, namely shopping centres and real estate promotion for prime residences and tourist apartments.

In bond markets, Santander Totta took part, as bookrunner, in the 7 and 10 year issues for EDP and Brisa Concessões Rodoviárias, respectively, in the private sale of 6 year bonds for José de Mello Saúde and in the securitization of EDP tariff debts.

In 2017, the business of the Corporate Finance area was developed through coordination, intermediation and financial consultancy operations to a number energy, motorway and media companies, thus reinforcing the portfolio of merger and acquisition operations.

Within a context of uncertainty but in a more favourable macroeconomic global environment, most companies opted to formalize their financing at fixed rates, thus removing the risk of increases in interest rates. Within this framework, the Bank has adapted its offer of alternatives to customers' requirements, which has resulted in the increase of fixed rate loan contracts.

With regard to the exchange rate area, the number of customers that chose the Bank as partner in their foreign exchange transactions has continued to show an increasing trend.

In the Structured Products area 7 structured financial insurance contracts were marketed, amounting to 249 million euros, as well as 16 structured products (in euros and US Dollars) totalling an amount of 252 million euros.

Insurance and investment funds marketed

In 2017, the Insurance area continued consolidating its commercial relationship with customers in order to improve their protection, adapting the range of insurance products to the Bank's customer segmentation in a multi-channel view. Focus was kept simultaneously in after-sales processes, internally promoting a servicing attitude, with an intensive plan of initiatives to improve the quality of service and, consequently, customer experience.

Digitally, the online sale of "Proteção SafeCare", Life, "Viva Mais", Home and Accidents insurance, accounted for more than 30% of the total of these products and, in the 3rd quarter of the year was extended to the online sale of financial insurance.

In 2017, commissions on financial and risk insurance contracts amounted in total to more than 90 million euros, contributing by approximately 26% to the total commissions earned by the Bank. Commissions on both autonomous protection insurance contracts and those bound to loans contributed with approximately 75 million euros.

"Proteção SafeCare" and "Proteção Lar" continued registering great demand, rising to upward of 70,000 policies throughout the year. Focus was equally maintained on the marketing of solutions to protect family income in case of death through the marketing of Personal Accident and "Proteção Vida" policies, as well as the sale of "LifeCorporate", "SafeCare Corporate" and "Viva Mais Corporate" addressed to the Advance segment.

Santander Asset Management (SAM) ended the year with 2.0 thousand million euros in security mutual funds under management, an annual growth of 496 million euros and a 16.3% market share.

Aiming to rationalize the product range a merger was arranged between the Santander Multiactivos 0-30 mutual fund and the Santander Select Defensivo mutual fund, whose assets under management amounted to approximately 267 million euros at year-end, and also the merger of Santander Multiactivos *20-60* with Santander Global mutual funds, with managed assets at year-end amounting to approximately 331 million euros.

Real estate management funds amounted to 440 million euros in assets under management at end-2017.

Relevant factors after year-end

In January 2018 the Bank concluded a new securitization amounting to 2,266,000 thousand euros, to which were assigned mortgage loans. The loans were assigned to Gamma STC, this entity having financed the operation through the issue of Hipototta 13 class A, B and C bonds with different levels of subordination and rating and thus of remuneration. These bonds were purchased in total by the Bank.

Outlook for 2018

Economic activity should maintain the favourable momentum of the latter years, with an approximate 2% growth, both in Portugal and in Europe. In Portugal, the economic cycle evinces signs of maturity, with a slight deceleration as compared to 2017.

As such, banks will continue developing their business in a context of a moderate recovery in domestic and international activity, low interest and inflation rates and a more demanding regulatory framework, namely as to equity requisites, liquidity and leveraging ratios, and also as to the new regulations concerning resolution mechanisms, with the consequent structural impact in the profitability of financial institutions

With the acquisition of the former Banco Popular Portugal, at end-2017, Santander Totta commenced the immediate integration of the commercial teams and central services of that bank in the structures of Banco Santander Totta. The rebranding of all the branches occurred simultaneously, "Santander Totta" now being the sole existing brand. One of the main priorities in 2018 shall be the operational and technological integration of the former Banco Popular Portugal.

This integration will allow the strengthening of the competitive position of Santander Totta in the market, as the largest private Bank in the industry in Portugal, continuing to be the prime Bank in the support of the community.

The main objectives for 2018 will continue being the increase in market shares and in customer loyalty, equity profitability and business volumes, simultaneously with the prudent management of the credit portfolio.

Santander Totta will continue its strategy in the support for the revitalization of the Portuguese economy and companies, together with a policy of strict control of the risks associated to the granting and follow-up of loans.

Within the process of commercial transformation which is being implemented, the Bank will continue the policy of simplifying procedures, with the strengthening of the multichannel distribution in order to render a more complete and accessible customer service, and to expedite risk management with better adjusted models to each customer segment, keeping to a cautious and strict control of the assumed risks.

Human Resources

Number of Employees in Portugal	6.781	Female 44,5%	Male 55,5%
% Manager and leading staff Female / Total Leading	33%	Academic qualifications	53% with higher educational training
	Average age	44.7 years	

Human Resources activity, in 2017, was focused on the objective of the Bank being **"The Best Company to Work"** and to contribute that it more than ever becomes a Bank that is **Simple, Personal and Fair**.

Consolidating the **Santander Way culture**, support the process of cultural and digital transformation, promoting the offer of value that the Bank provides to its employees and strengthening the measures that promote equilibrium between personal and professional life, were some of the outstanding features of the year under analysis.

On another hand highlight should be given to the dynamism of management in terms of the adequacy of structures, of simplifying procedures and on the implementation of several corporate programmes that aim to strengthen employees' commitment.

Also deserving highlight is the setting up and development of the *App* and *website* **Somos Santander Totta** and the creation of the Culture and Digital School, as differentiating factors that promote proximity and culture and where its characteristics of comprehensiveness and universality are manifest.

Within the scope of the Knowledge and Development area, highlight goes to the training programme on the Financial Instruments Market Directive (MiFID II), which involved approximately 4,000 employees in the commercial areas and which resulted in a total of 316,179 training hours.

In *e-learning* format, training actions stood out in regulatory and compliance issues such as Prevention of Money Laundering, General Code of Conduct, Business Continuity Model, Course in Insurance Brokerage or Reinsurance Intermediary and Euro Note. Regarding commercial strategy, specific programmes were carried out to support the implementation of projects amongst which stand: ***SmartRed*, *Ready Sales By Galileu*** and **Santander Próximo**.

The **Culture and Digital School** was launched in May; the objective of this area is to support the Bank's cultural and digital transformation, guaranteeing the participation of all employees in a participative and collaborative approach in the search for new ideas and solutions. This is a concept that goes further than traditional training, a model of knowledge transmission. Some of the topics approached were: *Going Digital*, Collaboration and Participative Tools, *Fintech* Revolution, Creativity Tools, Corporate Innovation, Entrepreneurialism Innovation, *Digital and You* and Paradoxes in Leadership, all of which included the participation of specialist speakers on the subjects approached and had high levels of participation.

In the case of self-development the launching took place of the **Oferta Aberta** programme, which comprises 5 training catalogues that cover all the Bank's functions (27 courses, which unfolded in 62 actions and resulted in 1,052 attendances).

For the development of leading staff the launching took place of the Corporate Programme *Leading By Example,* and the 1st edition was carried out of the Santander *Executive Programme* with the development in business, leadership and personal management competences. Within the scope of Oferta Aberta this component was discharged with courses such as Leader *Coach*; Impact and Influence; Resonant Leadership, what is stated without words, Creatively and Think Different.

Specific courses took place in order to promote well-being and stress management, such as Mindfulness, Body Mind Flow and Bringing Performance to Human Capital. Also in the range of Development, programmes took place in Executive Coaching and 31 Leading Staff.

With an offer of approximately 100 courses in *e-learning*, 69% of total training hours were achieved via platform, thus allowing a larger offer to answer individual needs and geographical dispersion.

Within the scope of collaboration with the Universities, the Bank attended the main domestic schools: Católica, Nova, ISCTE, ISEG and FEP, and received, throughout the whole year, as work placements, 153 students from several schools and Universities.

2.15 million euros invested in training

83 hours of training per employee

All structural levels created opportunities for growth and career, based on the Bank's culture of meritocracy, and 134 functional upgrades were carried out deriving from individual performance in effort and teamwork.

Also to be highlighted is the implementation of the SAT – *Santander Assistant Team* project, which consisted of the setting up of four teams (SAT's), which centralized the support tasks of current area management, providing specialized service and allowing improved service efficiency.

To ease and expedite contact with the Human Resources manager a new functionality was entered in the *App* and *website* "Somos Santander Totta", through which employees may directly book a personal meeting or telephone contact.

In line with developments carried out in latter years, a set of strengthening measures was introduced that can be framed within the field of certification as a Family Responsible Company.

Since employee health is a priority a Nursing and Medical Assistance Office was made available in the Santander Totta Centre, which provides nursing care and medical aid.

Also set up, in the beginning of the year, was a free transport service (Mini-Bus) for employees working in the Santander Totta Centre. The bus makes several daily runs between Sete Rios bus and tube terminals and Santander Totta Centre, and with an enlarged schedule both morning and evening, in order to permit a flexible arrangement of the schedules required by each employee. The Mini-Bus had an average 200 daily users, or 46,600 annual passengers which prove the acceptance of this measure.

Regarding measures that aim to provide a better quality of life, employees with lower incomes continued receiving special consideration. The Bank's minimum wage was altered from 1,000 euros to 1,200 euros per month for all those who work full time (corresponding to a 20% increase) and it was simultaneously decided to expand the number of employees covered by benefits with reference to the monthly effective wage. As such, the limit foreseen for access to the current measures in force in the range of the Family Responsible Company increased from 2,100 euros to 2,200 euros per month.

Banco Santander Totta subscribed the Portuguese Diversity Letter and is thus committed to respect, value and optimize all the potential of people's diversity, such as race, gender, inclusion of persons with special needs and sexual orientation. Within this sphere it developed a set of best practices in which the outstanding factor is the creation of a policy of gender equality that includes principles, management bodies, directives and quality and compliance standards, so that equal opportunities exist between female and male genders.

Regarding diversity it is also important to refer the programme of Easter holidays for employees' offspring, organized in partnership with the BIPP (Projeto Semear) Association, an innovatory project that promotes inclusion through education and conviviality amongst children and youths, some of whom suffering from disabilities, reconciling diversion and education for citizenry.

Promoting, encouraging and consolidating the components of the *Santander Way* culture and supporting the process of cultural and digital transformation were the focus of the activity of the Commitment and Recognition area, evincing amongst others, via the development and implementation of the ***App*** and ***website*** **Somos Santander Totta**, the creation of the **Cultural and Digital School**, of the corporate application **StarmeUp** and the **BeHealthy Programme** , having equally carried out another edition of the Somos Santander Week.

Launching took place, at the beginning of the year, of StarmeUp, a corporate digital recognition platform that allows each employee to distinguish employees, individually or as a group, which can be identified with **Santander Way** behaviours.

Corporate behaviours to become a Simpler, Personal and Fairer Bank

- Show respect
- Truly listen
- Talk straight
- Keep promises
- Support people
- Embrace change
- Actively collaborate
- Bring passion

Between 5 and 9 June, a further edition of **Somos Santander, Week** was carried out, an initiative that aims to bring together employees with the Santander Way culture and reinforce that they are all part of a diverse and global organization with the common mission to contribute towards the progress of people and companies. Culture, Be Healthy, Volunteering and Family were the main topics of the activities programme of the 2017 Somos Santander Week.

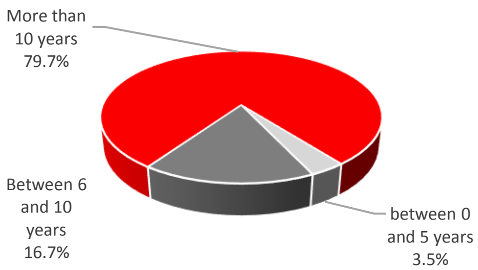
Employees' health and well-being was the reason for the implementation of the BeHealthy corporate programme that aims to promote and create healthy living habits for employees, and several initiatives were developed such as the opening of the Santander Totta Centre Gymnasium on Saturday mornings, establishing protocols with "Holmes Place", "Solinca" and "Fitness Hut" health clubs, offer of free participation in running events and marathons sponsored by the Bank and health screenings carried out in partnership with the Portuguese Cardiology Institute and Holmes Place.

The 11th edition of the Prize for Excellence was held in 2017, whose aim is to distinguish employees' offspring that stood out due to their academic performance in secondary education. Forty eight youngsters were awarded prizes in the 2016/2017 school year, and also valued the role of their parents in following up the work of their offspring.

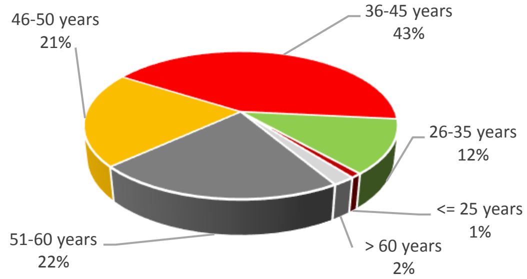
A further Global Commitment Survey was carried out in September. This allows identifying areas of improvement and to establish action plans and simultaneously analyse what is being achieved:

Global Commitment	92% Employees are aware of their duties to build a Simpler, Personal and Fairer Bank	91% Employees are aware of what is expected of their tasks
87% participation	86% Employees are proud of working in the Bank	

Distribution of employees by lenght of service



Distribution of employees by age group



Technology

An area was created in 2017 dedicated to digital transformation, led by the business areas and strongly supported by Technology. Multidisciplinary working teams with participants specialized in products, channels, legal issues, risks, compliance, etc., shared the same objectives focused on customer satisfaction and functionalities.

The Digital Technology area was the catalysing agent for the implementation of the **Agile/Scrum** methodology adapting the banking reality and strictness culture, control of operational risk and focused on the end-customer of Banco Santander Totta.

The challenge of these multidisciplinary teams was focused on promoting the knowledge of the ongoing technological transformation, the new means of managing data and information, namely via *Data Lake* and *Big Data*, and with the use of Cloud and the new means of interaction between systems (APIs, Blockchain) in order to enable the following up of all regulatory changes and the demands of current and future customers. It is intended that new simpler and more effective technologies may materially aid the Bank's products and services in order to bring it nearer to the day-to-day requirement of private and company customers.

In addition this methodology of the proximity of business, customers and technology endeavours to obtain from each of the intervening parties the greatest possible share of knowledge, respecting the regulations in force and the new challenges of the banking industry, as well as simplifying and bringing the Bank nearer to its customers.

On another hand, a number of projects and structuring initiatives in the different areas was also ensured, aiming to run a continuous process to improve operational and application efficiency, cost optimization, service levels, and reduction of technological risk and opportunely adapting these to business requirements.

The development of regulatory projects was maintained, namely MIFID II, auditor's recommendations and inspections, impairments, directives, roll-over of loans, incidence reductions, stabilizing and optimizing the exploit of technological resources, as well as the increased availability of services offered by the Bank, particularly in the channels available on the Internet and in Mobile Banking.

The Network Means area has been acting systematically, through visits and periodical actions with business units, guaranteeing compliance with the established procedures and regulatory framework in force, identifying weaknesses in internal control and operations and promoting several mitigating, formative, support and improvement actions.

Data Governance, via the CDO (Chief Data Officer) function, stands out , in close connection with the Risks area, in the follow up and development of the RDA (risk data aggregation) model, following the BCBS 239 principles, the implementation of the model and the policies of data governance, as well as the structured model of Data Quality.

Concerning the issue of Security and Technological Risk, the activity was marked by the alignment with the global strategy of Cyber-security defined in the Group, and approved by the Board of Directors of Banco Santander Totta, which establishes the following fundamental principles:

- The commitment with the mission to contribute towards the development of people and companies, considering the continuous and increasing dependency upon digital systems and progressive digital transformation of the business, with companies and with customers;
- Strengthening of resilience in the face of cyber threats, through the development of a global system based upon the key-principles of defence, and of anticipation and involvement of all that is related with the organization, staff, customers, regulators and third parties.

In line with the strategy and defined principles, a 3 year Transformation Plan was initiated, with 2017 having constituted an important stage of even greater mobilization of the team for a gradual change in the implementation of cyber-security and strengthening of approach capability, considering the demands of the new threats and cyber-risks, aiming towards the increasing rise of its security threshold.

Additionally, being the area represented in the Working Group of the new Payment of Services Directive (PSD2-2015-2366), the team has contributed in identifying the requisites to be implemented, in terms of security, in the range of the new business processes foreseen in this Directive.

Within the scope of this mission, to sensitize and raise awareness of the risks and threats of cyber-security, several actions were developed, amongst which stands out the training action for staff officers that included the external participation of the National Cyber-security Centre and of the Judiciary Police organization to combat cyber-crime.

Quality

2017 was a year of development of the cultural transformation started in 2016 which, at customer level, has as its strategic fulcrum the option of Banco Santander Totta positioning itself as a ***Customer Centric*** company, rendering the customer a service of excellence.

The power behind this cultural transformation is the concept and the signature **"Só o 10 nos completa" ("Only 10 fulfills us")**, with which it is intended to render awareness of and transmit the public commitment that Banco Santander Totta's employees comply with their mission when all its stakeholders, particularly its customers, value and classify them with the maximum classification in the assessment scale (note 10).

This objective is in line with the internationally adopted satisfaction measurement methodology known as Net *Promoter Score NPS*, which uses a satisfaction scale of 1 to 10, it happening that, in 2017, the Bank submitted itself to several assessments by its customers where the survey of 70,000 transacting customers stands out.

The **"Só o 10 nos completa"** concept was carried out in several promotional initiatives with employees and customers.

Likewise, the behavioural programme **"um olhar, um sorriso" ("one glance, one smile")** which configures an attendance protocol that defines and demands an attendance behaviour in all contact opportunities; especially in customers' visits to the Bank's branches. Six months after this programme was implemented, the degree of compliance with this protocol was 85%.

Also deserving of reference is the development and results of the programme of valuing branches which classifies each of them with the attributing of "stars", in a scale of 2 to 5, in line with the respective result relative to a very complete series of attributes which are measured by validated procedures.

All the business units are monitored and comprise the "star" quality system, with quarterly classifications and rankings, which, in 2017 led to finding that 51% branches had a 4 or 5 star ranking, and that there was a very significant reduction in 2 star branches, which mirrors the policy that has been followed in the correction of performance asymmetries considering the global improvement of the network.

In the framework of consolidation of this ranking as an element of distinction and sharing with customers, a certificate was created this year for the 4 and 5 star branches, which are classified as "branch of reference" and "branch of excellence", which will be posted in the public zone and delivered every half year.

In this area, also, it should be referred that, in 2017, the Company Network was included in this classification programme, submitting the commercial areas to the assessment procedures, with technical specifications adapted to companies, with a 75% result in the 4 and 5 star network.

With regard to the Companies Network, the launching of an innovatory programme should also be stressed: the "**Empresas Mais**" where the Quality area, with the Companies' managements, during visits and working sessions, presents a model of the Bank's quality management, assessment of services rendered and commercial relationship, measurement of quality and delivery, satisfaction, expectations and requirements and also benchmarking.

In the area of the processes of continuous improvement, 2017 was characterized within production processes in two points which are considered as priorities: (i) reduction in the number of reworks which occur in each process (approximately 10% reduction in 2017) and (II) compliance of the *Service Level Agreements* committed for the processes (delays).

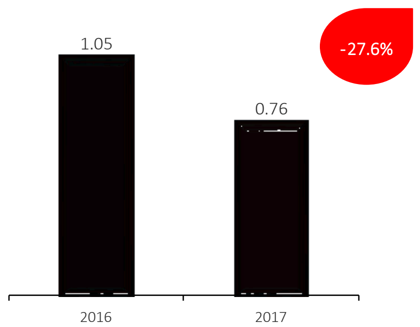
Special reference should also be made to the guidelines created in 2017, within the scope of **written communication to customers** the purpose of which is to review mass produced written information from the Bank, especially that which concerns reporting of entries and positions, whether the respective support be physical or digital. This activity commenced in the Companies segment with the adoption of several improvements in the digital channel (Netbanco empresas) and written accounting reports (35 *quick-wins*).

With respect to the assessment of the Bank by the customers and in which reference is exclusively made to service quality/customer experience attributes, the main 2017 indicators relate to classifications of at least 9 or 10: Satisfied with Bank – 49%; Recommended – 52%; Simple Bank- 45%; Personal Bank – 51%; and Fair Bank – 41%.

With respect to positioning compared with the competition, the Bank carries out an annual assessment that compares satisfaction of the Bank's customers and of its main competitors. This assessment is carried out in all the geographies where the Santander Group is represented, with execution rules defined corporately and with an audit carried out by the Quality corporate structure. In 2017, Banco Santander Totta complied with the objective to be positioned in one of the first 3 places (TOP 3), although it was penalized relative to 2016 as a result of the restructuring process of the

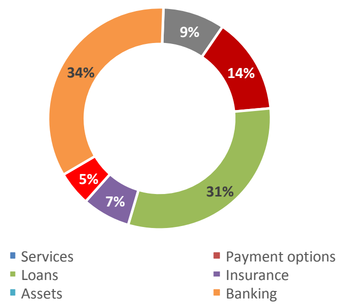
Complaint indicators

Nº OF COMPLAINTS / CUSTOMERS*



* For every 10,000 customers

COMPLAINTS TYPE



Consolidated Business

Introduction

At the end of 2017, Santander Totta SGPS obtained net income amounting to 436.3 million euros, a 10.3% year on year increase. This evolution resulted from banking business with an increase in market share of loans to companies and mortgage loans, and from reduction in expenses and impairments.

On 27 December 2017, the process of acquisition by simple merger by incorporation of Banco Popular Portugal in Banco Santander Totta was concluded. As a consequence of this operation, information related to business volume, number of employees and branches already comprises the business of the former Banco Popular Portugal.

The credit portfolio increased by 25.0%, totalling 41.4 thousand million euros, with a 12.7% increase in loans to private customers and 45.3% in loans to companies. The incorporation of the loan portfolio of the former Banco Popular Portugal contributed to the improved balance in the structure of the total loan portfolio, due to the increase of the relative weight of the companies segment.

The ratio of credit at risk stood at 5.1% (5.6% at end-2016), with an 82.1% coverage. The ratio of non-performing exposure stood at 5.7% (5.1% in the homologous period), with the respective coverage by provisions standing at 55.4%.

Customers' resources amounted to 36.7 thousand million euros, showing a 15.2% annual growth, with mutual funds, insurance and other resources increasing by 25.4% and deposits by 13.7%.

The transformation ratio, measured by the weight of net loans over deposits, stood at 121.0% in 2017 (109.1% at end-2016).

The *Common Equity Tier 1* (CET 1) regulatory capital ratio stood at 14.2%, exceeding the minimum requirements set by the European Central Bank.

Net financing with the Eurosystem stood at 2.5 thousand million euros at end- 2017. In turn, the value of the portfolio of assets eligible as guarantees in financing operations with the Eurosystem amounted to 12 thousand million euros.

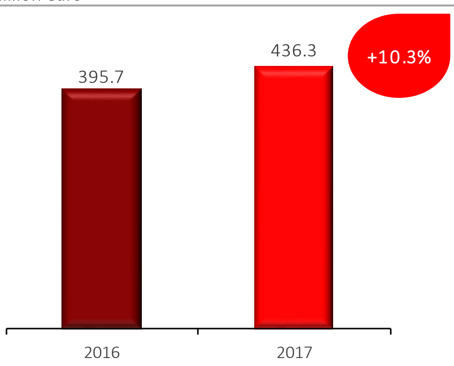
In April 2017, Banco Santander Totta placed a 7 year issue amounting to one thousand million euros in mortgage bonds, the first syndicated issue since 2015. In September, Banco Santander Totta placed a 10 year issue amounting to one thousand million euros in mortgage bonds with an interest rate of 100b.p. below that of the Portuguese Republic.

The comfortable liquidity position was corroborated by an LCR (Liquidity Coverage Ratio) standing at 123.1%, complying with the fully implemented regulatory requirements which will come into force in 2018.

In September 2017, S&P increased the rating of Banco Santander Totta to BBB- and Moody's confirmed the Bank's rating after the acquisition of Banco Popular Portugal. In December, DBRS and Fitch increased the risk notation of the Bank's long term debt to AL and BBB+, respectively. The current rating notations of Banco Santander Totta's long term debt as compared with those of the Portuguese Republic are as follows: Fitch – BBB+ (Portugal – BBB), Moody's – Ba1 (Portugal – Ba1), S&P – BBB- (Portugal – BBB-) and DBRS – AL (Portugal – BBBL).

CONSOLIDATED NET INCOME

Million euro



Results

CONSOLIDATED INCOME STATEMENTS (million euro)	2017	2016	Var.
Net interest income	**696.9**	**732.0**	**-4.8%**
Income from equity instruments	2.9	4.2	-30.6%
Net fees	331.1	305.7	+8.3%
Other income	(14.7)	(0.1)	>200%
Insurance activity	11.0	10.4	+5.7%
Commercial revenue	**1,027.2**	**1,052.3**	**-2.4%**
Gain/losses on financial transactions	120.5	144.8	-16.8%
Net income from banking activities	**1,147.7**	**1,197.0**	**-4.1%**
Operating costs*	(527.9)	(571.1)	-7.6%
Staff Costs*	(311.2)	(314.8)	-1.2%
General Administrative Costs	(179.1)	(218.7)	-18.1%
Depreciation in the year	(37.7)	(37.6)	+0.2%
Net operating Income	**619.7**	**625.9**	**-1.0%**
Impairment, net provisions and other results	(38.3)	(95.2)	-59.8%
Result from associates and other	9.3	17.1	-45.6%
Income before taxes and non-controlling interests	**590.8**	**547.8**	**+7.8%**
Taxes	(154.2)	(151.9)	+1.5%
Non-controlling interests	(0.2)	(0.2)	-3.8%
Consolidated net income attributable to the shareholders' of ST SGPS	**436.3**	**395.7**	**+10.3%**

*recurrent

At the end of 2017, net interest income amounted to 696.9 million, a 4.8% decrease relative to the 732.0 million obtained in the same period in 2016, resulting from the lesser weight of the portfolio of sovereign debt in the Bank's accounts, partly set-off by the reduction in financing costs, namely deposits' remuneration rates (averaging near to zero) and of the issued debt.

Net commissions amounted to 331.1 million euros, compared to the 305.7 million euros recorded in the homologous period, a 8.3% increase which was favourably influenced by the evolution shown in management commissions and maintenance of accounts, mutual funds and insurance. This positive development resulted from greater loyalty, digitalization and customer transactionality, from the favourable evolution of business dynamics, namely the volume of off balance sheet resources, and from the adaptation of the price Schedule to the value of the services provided by the Bank.

Other net operating income, amounting to -14.7 million euros, mainly comprised the Bank's obligatory contribution to the Resolution Fund.

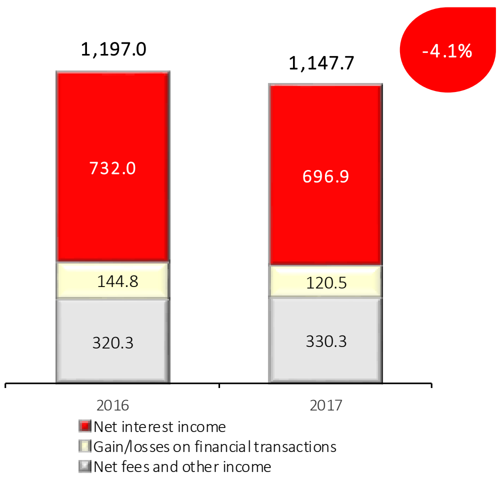
Commercial revenue amounted to 1,027.2 million euros, a 2.4% year on year decrease.

Results in financial operations amounted 120.5 million euros, a 16.8% decrease relative to those shown in the previous year, outcome of the decrease in revenue from the sale of the sovereign debt portfolio.

Operating income amounted to 1, 147,7 million euros, a 4.1% reduction as compared to the 1,197 million euros recorded in the homologous period, mainly reflecting the decrease in net interest income and in the results of financial operations, partially set-off by the positive contribution of net commissions.

NET INCOME FROM BANKING ACTIVITIES

Million euro



Recurring operational expenses amounted to 527.9 million euros, showing a 7.6% decrease compared to the 571.1 million euros obtained in the previous year. Recurring personnel expenses decreased by 1.2% and general expenses decreased 18.1%, due to the optimization of the organizational structure, which derived from the resizing of the distribution network, adapted to current business, and to the savings obtained in external supplies and services. Depreciation stabilised last year.

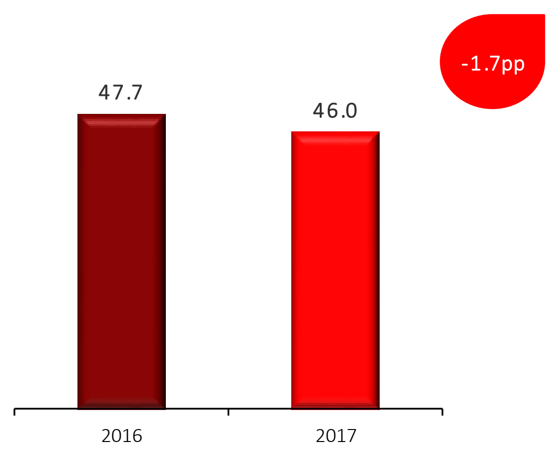
OPERATING COSTS* (million euro)	2017	2016	Var.
Staff costs*	(311.2)	(314.8)	-1.2%
Other administrative costs	(179.1)	(218.7)	-18.1%
Depreciation in the year	(37.7)	(37.6)	+0.2%
Operating costs	**(527.9)**	**(571.1)**	**-7.6%**
Efficiency ratio	**46.0%**	**47.7%**	**-1.7 p.p.**

*recurrent

The evolution in revenue and expenses resulted in a 46.0% efficiency ratio, compared to the 47.7% obtained in homologous period, positively influenced by cost containment.

EFFICIENCY RATIO

%



Net operating income amounted to 619.7million euros, a 0.1% year on year decrease.

Impairments, net provisions and other results amounted to 38.3 million euros, as compared with 95.2 million euros in the homologous period, with lower provisions related with credit and assets received in lieu of payment, following the improvement in the Country's economic conditions and the stabilization of entries into default, and due to the conservative criteria in the granting of loans.

Income before taxes and non-controlling interests amounted to 590.8 million euros, a 7.8% increase over the 547.8 million euros obtained in 2016.

Taxes amounted to 154.2 million euros (151.9 million euros in 2016), of which 21.6 million euros are in respect of the special tax on the banking industry.

Net income amounted to 436.3 million euros, a 10.3% year on year increase.

Accounts and Business Activity

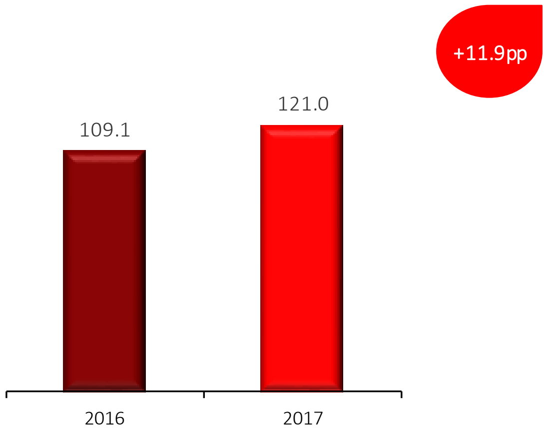
Business volume at end-December 2017 amounted to 78.1 thousand million euros (+20.2% as compared with the previous year). Loans granted to customers increased by 25.0% and customers' resources increased 15.2%.

BUSINESS VOLUME (million euro)	2017	2016	Var.
Business Volume	**78,085**	**64,972**	**+20.2%**
Loans and advances to customers (gross)	41,387	33,122	+25.0%
Customers' Resources	36,698	31,851	+15.2%

The loan-to-deposit ratio attained 121.0%, at end-2017, an 11.9 p.p. increase compared to the 109.8% shown one year earlier. This evolution derived from the increase in the portfolio of loans granted to customers to an amount in excess of customers' deposits.

LOAN-TO-DEPOSIT RATIO

%



The credit portfolio grew to 41.4 thousand millions at end-2017, an homologous variation of 25.0% relative to 2016. This evolution derived not just from the incorporation of the portfolio of the former Banco Popular Portugal amounting to 6.1 thousand million euros, as well as from the dynamics of commercial activity in the contracting of new loans to companies and private customers, which resulted in a continuous improvement in new production market shares.

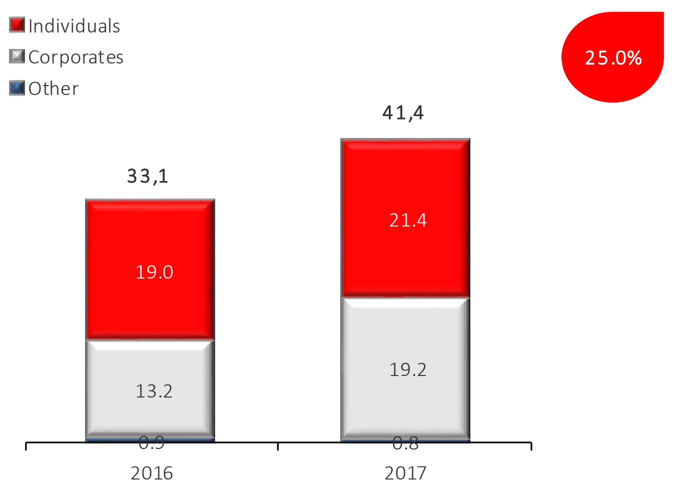
LOANS (million euro)	2017	2016	Var.
Loans and advances to customers (gross)	**41,387**	**33,122**	**+25.0%**
of which			
Loans to individuals	21,437	19,021	+12.7%
of which			
Mortgage	19,091	17,032	+12.1%
Consumer	1,619	1,496	+8.2%
Loans to corporates	19,195	13,215	+45.3%

At end- 2017, mortgage loans grew by 12.1% and consumer credit by 8.2%, as compared to the values shown one year earlier. In turn loans to companies registered a 45.3% variation relative to the homologous period

The incorporation of the loan portfolio of the former Banco Popular Portugal led to a more balanced credit structure, with an increase in the relative weight of the companies segment. Mortgage loans accounted for 46%, compared to 51% one year earlier, and loans to companies increased to 46% of total credit granted in 2017, as compared to 40%, in the homologous period.

GROSS LOANS

Thousand million euro



At end-2017, the quality of the loan portfolio, assessed by the weight of credit at risk on total credit granted, reckoned in line with the criteria defined by the Bank of Portugal, reached 5.1%, equivalent to an improvement of 0.5p.p., as compared to 5.6% obtained on the same date in 2016, with the corresponding coverage rate of credit at risk due to impairments standing at 82.1% (89.4% in the homologous period).

The ratio of *Non-Performing Exposure*, in line with the definition of the European Banking Authority (EBA), stood at 5.7%, a 0.6p.p. year on year increase, consequent to the incorporation of the portfolio of the former Banco Popular Portugal, whilst the respective coverage attained 55.4%.

Cost of credit, measured by the relation between provisions for credit and the average loan portfolio continued its descending pathway, standing at 0.11%, compared to 0.13% in 2016.

CREDIT RISK RATIOS	2017	2016	Var.
Non performing loans ratio (+90 days)	2.9%	3.7%	-0.8 p.p.
Non performing loans and doubtful loans ratio	3.7%	3.6%	+0.1 p.p.
Credit at risk ratio	5.1%	5.6%	-0.5 p.p.
Non-Performing Exposure Ratio	5.7%	5.1%	+0.6 p.p.
Restructured loans / Total loans	7.6%	8.6%	-1.0 p.p.
Restructured loans not included in credit at risk / Total loans	4.6%	6.5%	-1.9 p.p.
Cost of credit	0.11%	0.13%	-0.02 p.p.
Non Performing loans coverage ratio (+90 days)	146.6%	136.9%	+9.7 p.p.
NPL and doubtful loans coverage ratio	113.2%	139.7%	-26.5 p.p.
Credit at risk coverage ratio	82.1%	89.4%	-7.3 p.p.
Non-performing exposure coverage ratio	55.4%	65.3%	-9.9 p.p.

At end-2017, customers’ resources totalled 36.7 thousand million euros, showing a 15.2% year on year increase, boosted by the incorporation of the portfolio of former Banco Popular Portugal, as well as by commercial business activity and by the trust shown by customers

RESOURCES (million euro)	2017	2016	Var.
Customers' resources	**36,698**	**31,851**	**+15.2%**
On-balance sheet resources	31,458	27,673	+13.7%
Deposits	31,458	27,673	+13.7%
Off-balance sheet resources	5,240	4,178	+25.4%
Investment funds	1,944	1,435	+35.4%
Insurance and other resources	3,296	2,742	+20.2%

Deposits, amounting to 31.5 thousand million euros, showed a 13.7% increase, and off balance sheet resources, amounting to 5.2 thousand million euros, a significant increase of 25.4%, reflecting the diversification policy of customers' resources.

Solvency ratios

At end-2017, the Common Equity Tier 1 (CET 1) regulatory capital ratio stood at 14.2%, in excess of the minimum requisite required by the Central European Bank under SREP.

CAPITAL (million euro)	2017	2016	Var.
Common Equity Tier I	**3,106**	**2,904**	**+7.0%**
Tier I Capital	3,695	3,477	+6.3%
Total Capital	3,707	3,477	+6.6%
Risk weighted assets (RWA)	**21,935**	**18,331**	**+19.7%**
CET I ratio	14.2%	15.8%	-1.6 p.p.
Tier I ratio	16.8%	19.0%	-2.2 p.p.
Total Capital Ratio	16.9%	19.0%	-2.1 p.p.

Introduction

For Santander Totta, the quality of risk management is a fundamental basis of operation, within the corporate policy of the Group in which it is comprised. Prudence in risk management allied to the use of advanced management technologies continues being a decisive factor, particularly in a greatly demanding economic and financial environment

The setting up and implementation of the **Risk Pro** programme, made operational through the implementation of a corporately disseminated Risk Culture which is nowadays present in the whole business, strengthens such principles over all the Bank's structure, decisively influencing the form in which all processes are carried out, taking into account not just the environment but equally the attitudes, the deportments, the values and the principles which each of us demonstrates in relation to the different types of risks that we may face.

Risk Pro was implemented to involve all the Bank's employees in risk management, and Risk Pro culture covers a set of deportments and behaviours that each one must develop day-to-day for the proactive management of the diverse risks.

Santander Totta's management and risk control model is based on three lines of defence. Business and support functions are the **first line of defence** and are responsible to ensure that risks are within the previously defined and approved limits. The **second line of defence** is constituted by the Risk Management Function and by the Compliance and Conduct Function which independently supervise the activities carried out by the first line of defence. Lastly, the **third line of defence** is the internal Audit, which regularly assesses the policies, methods and procedures are adequate and have been effectively implemented in the management and control of all the risks.

Risk Management Function

The Risk Management Function (RMF) is transversal to the Santander Totta Group. The function is incorporated in the so named Risks Area, under the exclusive responsibility of the Chief Risk Officer.

Due to the major interconnection between Group companies, with a significant portion of risk measuring and control operations ensured by transversal central services, it was decided the RMF should adopt a transversal service feature common to all the Credit Institutions and Finance Companies directly or indirectly dominated by Santander Totta, SGPS, SA.

The general mission of this function is the effective application of the risk management system in line with art. 16 of the referred Instruction 5/2008 of the Bank of Portugal, aiming to assess the relevance of the risks incurred and the degree of effectiveness of the measures adopted for their control, mitigation and surmounting. The guiding lines of the European Banking Authority (EBA) Internal Governance (issued in September 2011 and reviewed in September 2017), in their turn, strengthen and deepen in detail the main attributes of RMF's role and of its responsible officer within its internal functions. Additionally, the Capital Risks Regulation (CRR) No. 575/2013 (EU) and the Capital Requisites Directive 2013/36/EU (CRDIV) comprise the new juridical framework required for the adjustment of the General Regime of Credit Institutions and Finance Companies (GRCIFC), approved by Decree-Law No 298/92. Clearly, article No. 115.-M of GRCIFC reinforced the role of the Risk Management Function by guaranteeing the adequate identification, assessment and reporting of all material risks, in participating in the strategy and decision on the management of material risks, and in the independence and exemption of conflicts of interest of the officer responsible for the RMF. With regard to CMVM (Securities Market Regulator), Decree-Law No. 63-A/2013 altered the Securities' Code and the demands from Risk Management through changes to article No. 305-B.

RMF was set up and performs its duties at the highest level of Independence, that is, without direct responsibility over any business function, execution or primary control of the activities to be assessed.

The Executive Committee (EC) conferred on this body the widest possible powers to apply its mission, basing its activity on the applicable legislation and on the following principles and duties:

- Full access to all the institution's activities as well as to all information considered relevant in the audit reports;
- Independence relative to the assessed areas;
- Impartiality, integrity and objectivity;
- Reserve in the use of the information and in the conclusions obtained which, without prejudice to the duties of information to the authorities or supervision, must be submitted to the Board;
- Promotion of an adequate and efficient level of internal control extensive to the whole organization considering the different risks involved, namely, Credit, Market, Liquidity, Exchange Rate, Interest Rate, Settlement, Operational, Technological, Compliance, Reputational and Strategic Risks, notwithstanding any others that, in the view of the institution, may become material;
- Liaise between the local team and the Corporate Areas in order to determine the best practices and requirements

with respect to the development of new tools and the estimate of the risk parameters;

- Prepare and submit to the Board of Directors and to the Audit Committee the Annual Report relative to the Risk Management Mission in the foreseen regulatory terms;
- Issue all the reports and carry out all the tasks that the Board may consider opportune.

In full agreement with these competences, the Chief Risk Officer has direct and independent access to the Risks Committee and to the Board of Directors, reporting to the Chairman of the Executive Committee (CEO) and functionally to the Chief Risk Officer of the Santander Group.

Within the competences of the RMF the Risks Area coordinates or takes part in the following processes whilst being second in line responsible to ensure effective questioning and the independent control of risk management in all its diverse features:

- Approval of products and services;
- Risk consolidation;
- Definition and control of risk appetite;
- Risk Identification and Assessment – RIA;
- Internal Control Model;
- Scenario analysis and stress test
- Risk systems and information (RDA/RRF);
- Contingency plans and business continuity;
- Risks culture;
- Risk governance and regulation.

For the purposes of identification and assessment of material risks, the Risks area coordinates the carrying out of periodical exercises (referred to above as RIA) which, in line with the methodology developed in the Santander Group and with the applicable rules, allow determining the risk profile based upon an assessment with three features:

- Risk Performance per risk and business type;
- Self-assessment of the control environment and action plans (mitigating);
- Identification of top risks.

The activity developed by the Risk Management Function is usually documented in a specific annual report, the "CMF Report", the last of which is dated May 2017. This document is intended to be used as a support to the Banco Santander Totta risk management system, with the main actions focused on the following up of controls and promotion of internal control, namely through several actions included in the referred report.

Credit Risk

In 2017, the activity of the Credit Risk area had the following main vectors:

- Maintenance of the principle of segmentation in the treatment of credit risks, varying the approach to risks in line with the features of both customers and products;
- Maintenance of the strictness in the admission criteria and consequently the quality of the risks accepted in each of the segments aiming to preserve the good quality of the credit portfolios;
- Concerning portfolio customers, proximity was maintained in order to anticipate their credit requirements, review their credit lines and prevent possible issues in their repayment capability;
- This action and the customers' level of credit capacity allowed the continued maintenance of ratios of non-performing loans and of credit at risk duly controlled and at acceptable levels. Support levels to the business were intensified in order to capture new operations and new customers and improvements were implemented in the procedures with the objective to swiftly and effectively provide answers to customers' requests;
- This year, the integration of new credit portfolios deriving from the acquisition of assets of the former Banif were consolidate; This process was defined by the assessment of all the customers in line with the Bank's methodology and by the strong support of the Credit Risks area to achieve the correct technological migration. Equally, with a relevant action in the identification, segmentation and credit decision taking regarding the new portfolio;
- As to the following up function of portfolios and customers, permanent focus was kept in the checking of lower rated segments and in sectors that are, or may eventually become, affected by the macroeconomic environment, with the objective of mitigating the non-performing loan ratios. The policy was maintained to undertake permanent reviews of the portfolio and impairments with adequate analysis criteria and that the estimated impairment levels are equally adequate;
- The Bank continues reviewing, developing and applying management measure in the process of granting new loans, always aiming to improve the quality of service to customers who submit new loan opportunities;
- With standardized (or non-portfolio) risks the Bank, aiming towards continuous improvement and efficiency in the admission procedures, and taking into account the objective of portfolio quality, maintained and updated the automatic decision models, namely *scorings* and behavioural systems used in the Private Customers and Business segments;
- Still considering standardized risks, focus was kept on maintaining the quality of the portfolio, acting upon the

deliquency and non-performing loans and continuing to provide a set of products and solutions for debt restructuring which allow adapting customers' expenditure to their current and future repayment capability and available income;

- With this in mind the already established admission strategies in the Bank's decision system as well as recourse to behavioural systems are used to identify prevention and reappointment measures to be offered to customers;
- With the objective to strengthen the commercial involvement and customer *cross selling* and simultaneously energize the capturing of new customers, several commercial campaigns were continued directed towards the Business segment, aiming for the production of new credit and the retaining of customers and ongoing operations, in order to compensate the natural erosion of this portfolio;
- In a currently less adverse macroeconomic environment, a strong focus was placed on the recoveries activity level, strengthening the swiftness of intervention. To be highlighted is the activity carried out in the management of massive recoveries whilst simultaneously keeping, a permanent follow up of special cases and judicial or extra judicial procedures;
- Also continued was the negotiation policy aiming to resolve the number of pledges in order that, when these occur, preference is given to obtain this type of payment in lieu of judicial court actions;
- The process of modernization of the Recoveries area also continued, in 2017, based on computer developments judiciously signalled by the users as necessary and that aim to control the total process from the entrance into recoveries, and cover relations with attorneys and executive actions;
- Surveillance continued on working methodologies aiming to optimize the several procedures with the objective to "stress" the model, increasing the efficiency of resources and the effectiveness of actions to allow anticipating credit recovery;
- With regard to corporate risk management, knowledge of and follow up of the credit portfolio was permanently focused to maintain strict risk control, aiming to provide adequate and timely management information, in order that measures are taken to enable a correct management of the Bank's risks;
- Attention was equally kept on the Bank's internal models, most of which already recognized (by the regulators) as advanced models (IRB) for the purpose of reckoning the requirement of own resources as well as their increasing integration in management;
- After assessment of the regulatory requisites, development of models and computer tools was carried out to apply the IFRS9 standards.

Risk model

Introduction

Credit risk arises from the possibility of losses derived from total or partial non-performance of the financial liabilities contracted with the Bank by its customers.

The organization of the credit risk function in Santander Totta is specialized in line with customer types and is differentiated, throughout all the risk management process, between portfolio customers (bespoke or personalized treatment) and standardized customers (not in portfolio):

Portfolio customers are those that, essentially due to assumed risk, have been attributed a risk analyst. This group comprises wholesale banking companies, financial institutions and part of retail banking companies. The assessment of these customers' risks is carried out by the analyst, supplemented with decision supporting tools based on internal valuation risk models.

Standardized customers are those that have not been assigned a specific analyst. Included in this group are risks with private customers, self-employed entrepreneurs, and the companies comprised in retail banking groups that are not included in the portfolio. Assessment of these risks is based on internal evaluation models and automatic decision, additionally complemented, when the model is not sufficiently precise, with teams of specialized risk analysts.

Metrics and tools for risk measurement

Santander Totta uses its own models for attributing solvency classification or internal ratings for the different customer segments, to measure the credit capacity of a customer or a transaction, each rating corresponding to a non performing probability.

Global classification tools are applied to country risk segments, financial institutions and Wholesale Banking Groups, both in determining their rating as in following up the risks assumed. These tools attribute a rating to each customer as a result of a quantitative, or automatic, module, based upon balance sheet data and/or ratios, or macroeconomic variables complemented by the analysis carried out by the risk analyst that follows up the customer.

In the case of companies and institutions comprised in retail banking groups, attributing a rating is based on the same modules as those referred above, in this case quantitative or automatic (analysing the credit behaviour of a sample of customers and its correlation with a set of accounting data and ratios), and qualitative, in line with the analysis of the risk analyst, whose duty is to carry out a final review of the rating attributed.

Attributed ratings are periodically reviewed, incorporating any new financial information that has meanwhile become available as well as, qualitatively, the experience deriving from the assessment of the existing credit relationship. This frequency increases in case of customers for which the internal alert systems and risk classification so demand.

For the portfolios of standardized risks, both in the case of private customers and in non-portfolio businesses, scoring tools are implemented that automatically attribute an evaluation/decision of the transactions submitted. These decision tools are complemented with a behavioural scoring model, a device that allows greater predictability of the assumed risks and which is used both in the pre-sale and in the sale period.

Credit risk parameters

The evaluation of a customer and/or operation, through rating or scoring, is an assessment of credit capacity, which is quantified through the probability of default (PD). In addition to the evaluation of the customer, the quantitative risk analysis carries other features such as the period of the operation, the type of product and the existing guarantees. What is thus taken into account is not just the probability that the customer may not comply with his contractual obligations (PD) but that the exposure at default (EAD) may be estimated as well as the percentage EAD that may not be recovered (loss given default or LGD).

These factors (PD, LGD and EAD) are the main credit risk parameters and, when taken jointly, allow an estimate of the expected loss or that of the unexpected loss. The expected (or probable) loss, is considered as a further activity cost (reflecting the risk premium), and this cost duly included in the price of the operations.

The estimate of the unexpected loss, which is the basis for establishing the regulatory capital in line with standards comprised in the Basle (BIS II) capital agreement, is related to a very high and thus improbable loss level which, considering its nature is taken as non-recurring and must thus be covered by the equity.

In small and medium sized companies, the information obtained from their accounts is used not just to attribute a rating, but also to obtain explanatory factors for the probability of default. In retail portfolios, PD is estimated by observing entries into non-performance, and correlating these with the scoring attributed to the transactions. Excepted are the portfolios in which, due to lesser internal default experience, such as financial institutions, country risk or wholesale banking groups, estimating these parameters is based upon alternative sources of information or assessments carried out by agencies with recognized experience and competence, with a portfolio containing a sufficient number of entities (these portfolios are known as low default portfolios).

LGD estimates are based on monitoring the recovery process of operations in default, taking into consideration not just revenues and expenses associated to this process, but also the moment when the same are produced and the indirect expenses that derive from the recovery activity.

EAD estimates are based on the comparison of the use of the committed lines at the time of default and in a normal situation, in order to identify the real use of the lines at the time of default.

Estimated parameters are immediately ascribed to operations that are normally under way and will be differentiated between low default portfolios and the remainder.

Credit risk cycle

The risk management process consists in identifying, measuring, analysing, controlling, negotiating and deciding the risks incurred in the Banks' operations.

This process is initiated in the business areas, which propose a given risk trend. These risks are analysed and decided in special committees, which act through remits delegated by the Executive Committee on the Higher Credit Council (HCC). The HCC establishes risk policies and procedures and 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.

With respect to the large corporate groups a pre-classification model is used based upon a measurement system and the sequence of economic capital.

With respect to portfolio risks, the more basic level is that of the customer and when certain features concur - generally at a level of relative importance – it is the object of an individual limitation, usually named as pre-classification, through a simpler system and usually for those customers that comply with determined requisites (know your customer, rating, etc.).

With respect to standardized risks, the process of planning and establishing limits is carried out through a joint preparation, by the Risks and Business areas, of strategic commercial plans (PEC) where the results of the business in terms of risk and profitability are considered, as well as the limits to which the activity and associated risk management must be subject.

Risk assessment, decision on transactions, follow up and control

Risk assessment is a requisite prior to authority being given for any credit transaction in Banco Santander Totta. This assessment consists in analysing the customer's capability to comply with the contractual commitments assumed with the Bank, which implies analysing the customer's credit quality, its credit transactions, solvency and profitability. Additionally, an assessment and revision of the attributed rating is also carried out whenever an alert or event appears that may affect the customer and/or the operation.

The decision process on operations is intended to analyse these and to take the respective decision, considering the risk profile and the relevant components of the operation in determining a balance between risk and profitability.

In order to keep adequate control of the portfolio's credit quality, apart from the actions developed by the Internal Audit, a specific follow up function, comprising teams and responsible officers, is established within the Risks area. This function is also specialized in line with customer segmentation and is fundamentally based upon a continuous monitoring process that allows the prior detection of incidences that may occur in the evolution of the risk, of the operations and of the customer, with the objective to previously carry out the actions intended to mitigate such incidences.

Recoveries

Recoveries management in Santander Totta is a strategic, comprehensive and business activity. The specific objectives of the recoveries process are as follows:

- Ensure the collection or regularize the amounts in irregular situations, preferring the negotiated solution, in order that the customer's credit situation returns to normal. Should the negotiated position not be possible, the Recoveries area will then endeavour to process recovery through the law courts.
- Maintain and strengthen the relations with the customer, safeguarding his deportment within the commitments contractually assumed with the Bank.

Recoveries activity is structured in line with customers' commercial segmentation: Private Customers, Business and Companies, with specific management models. The thus segmented recoveries management also respects the distinct management levels: preventive management, management of irregular situations and management of delays and bankruptcies. This whole activity is shared with the business areas.

Counterparty Risk

Counterparty risk, dormant in contracts carried out in financial markets – organized markets or over the counter (OTC) – corresponds to the possibility of default by the counterparties over the contractual terms and subsequent occurrence of financial losses for the institution.

Types of transactions comprised include the purchase and sale of securities, operations in the interbank monetary market, contracting of "repos", loans of securities and derivative instruments.

Control of such risks is carried out through an integrated system that allows recording the approved limits and provides information on their availability for different products and maturities. The same system also allows the transversal control of risk concentration for certain groups of customers and/or counterparties

Risks in derivative positions, known as Credit Risk Equivalent (CRE), is the sum total of the present value of each contract (or Current Replacement Cost) and the respective risk potential, a component that reflects an estimate of the maximum expected value until maturity, according to the underlying volatilities of the market factors and the contracted flow structure.

In 2017, the present value of transactions on interest rate indices (Euribor) recorded a substantial reduction, reflecting the evolution of the medium and long term market rates. With regard to exposure with financial groups, a reduction took place in the transactions to cover the interest rate structural risk, increasing the exposure to significant levels, due to 3 coverage operations of the loan to the Portuguese State jointly with BBVA, Natixis and Crédit Agricole.

Balance Sheet Risk

Control of Balance Sheet risk

The control of the balance sheet risk covers the risk deriving from changes in interest and foreign exchange rates, as well as the liquidity risk, resulting from maturity lags and repricing of assets and liabilities. The measurement and control of the balance sheet risk are ensured by a body which is independent from the management.

Methodologies

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

As a complement, other risk indicators are estimated, such as Value at Risk (VaR) and the stress test.

Liquidity risk is measured and controlled through the modelling of present and future flows of payments and receipts, as well as by carrying out exercises in scenario analysis which endeavour to identify the potential risk on external market conditions. In parallel, ratios are estimated on the current items in the accounts that are indicators of structural and short term liquidity requirements.

At end-2017, the LCR (*Liquidity Coverage Ratio*) ratio, reckoned in line with CRD IV standards, stood at 123.1%, thus complying with regulatory requirements on a *fully implemented* basis which will come into force in 2018.

The control of the balance sheet risks is guaranteed through the application of a structure of quantitative limits which aim to keep exposures within the authorized levels. Limits are focused on the following indicators:

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

Management of structural balance sheet risk

Framework

Relevant changes took place in 2017 regarding the composition of the balance sheet of Banco Santander Totta. The commercial business activity in the granting of loans and deposits taking was considered balanced, not placing any additional pressure in terms of liquidity requirements. On another hand, the agreement reached with the Portuguese State deriving from the pending legal dispute relative to derivative contracts with state enterprises, in which it was agreed that both a long term loan granted to the State, as well as the acquisition and merger of the former Banco Popular Portugal with Banco Santander Totta, had relevant repercussions in this issue.

The referred agreement reached with the Portuguese State established, in addition to the adjustment of pending past flows, a long term loan (15 years) to be granted to the Portuguese State amounting to 2.3 thousand million euros. This loan was formalized in July 2017. The deriving liquidity neds were set off by the sale of one thousand millions of Portuguese public debt in January 2017, with a new issue of coverage bonds amounting to one thousand million euros in July 2017 (7 years) and by the use of then available reserves.

The resolution measure applied to Banco Popular and its acquisition by Banco Santander S.A., led to the acquisition of Banco Popular Portugal by Banco Santander Totta and to the immediate merger of both entities. These two operations were approved by the competent authorities in December 2017 and materialized on the 27th of that month. Contrary to the principle of independence in force in the Santander Group, Banco Popular Portugal depended from Banco Popular Spain to ensure its liquidity needs deriving from its business. The acquisition and merger required a review of Banco Santander Totta's financial plan to ensure the acquisition and the replacement of Banco Popular Spain as the financing counterparty. In global terms this operation absorbed liquidity amounting to approximately 3.0 thousand million euros. To adjust these requirements, Banco Santander Totta carried out a further issue of covered bonds amounting to one thousand million euros (10 years) and used available reserves for the remaining needs through an active management of liquidity that allowed it to maintain this in very comfortable levels.

Liquidity reserve

The policy of Santander Totta is to maximize its liquidity cushion in order to face adverse liquidity events. In spite of the liquidity absorption of Banco Popular Portugal and of the granting of the loan to the Portuguese State, an available cushion was kept sufficient to accommodate immediate liquidity needs in excess of 6.0 thousand million euros.

Funding

Financing needs due to the acquisition of Banco Popular Portugal were met by the differential between credit granted and resources captured from customers, thus its integration in the perimeter of Santander in Portugal resulted inevitably in an increase in the loan/deposits ratio (approximately 120% at year-end).

All liquidity needs in 2017, were accommodated without recourse to additional financing with the ECB, and was kept exclusively by recurring to long term financing (TLTRO) amounting to 3.1 thousand million euros.

The policy is being maintained in diversification of sources, maturities and collateral used in short term finance with re-purchase agreement obtained with financial institutions.

Relative to long term financing, in addition to the 3.1 thousand million euros with the ECB (TLTRO), Santander Totta ends the year with approximately one thousand million euros in securitizations, approximately one thousand million euros of loans from the European Investment Bank and 3.5 thousand million euros in covered bonds.

No relevant maturities of long term financing will occur in 2018, just the regular repayments of the securitizations placed on the market. Santander Totta will continue its policy of reinforcing its liquidity cushion, and has already carried out a securitization issue to be kept in portfolio, at the beginning of 2018, which will guarantee the repositioning of the liquidity cushion to levels similar to those at the beginning of 2017, before the integration of the former Banco Popular Portugal and the granting of the 2.3 thousand million loan to the Portuguese State. Planned, for 2018, is the beginning of the preparation of the reimbursement of TLTROs in 2020 and 2021, simultaneously guaranteeing the future reduction of financing obtained with the ECB, of financing obtained with collateral and compliance with future MREL future requirements.

Market risk

The perimeter of measurement, control and follow up of financial risks comprises operations where equity risks are assumed. This risk derives from the variation in risk factors – interest rate, exchange rate, variable income and their respective volatility – as well as the solvency risk and the liquidity risk of the several products and markets in which Santander Totta operates.

As a function of the risk objectives, activities are segmented as follows:

- Negotiation: This heading includes the activity of financial service provided to customers;
- Balance Sheet Management: Risks deriving from the Group's business activity, namely the interest rate and liquidity risks resulting from the timing differentials existing in maturities and re-pricing of assets and liabilities.

Methodologies

Negotiation activity

The methodology applied in 2017, within the scope of Banco Santander Totta for negotiation activity, is the Value at Risk (VaR). Used as a basis is the methodology of historic simulation with a 99% level of confidence and a one day time horizon, with statistical adjustments applied that allow a swift and effective inclusion of the more recent events that condition the assumed risk levels.

Stress testing is used as a complement, consisting of the definition of behavioural scenarios of differing financial variables and obtaining the respective impact on results when applying these to the portfolios. These scenarios may replicate the behaviour of financial variables in the face of past factual events (such as crises) or, on the contrary, may determine plausible scenarios that do not correspond to past events. In short, the analysis of scenarios endeavours to identify the potential risk over extreme market conditions and in the fringes of occurrence probabilities not covered by VaR.

Also estimated are several sensibility measures (BPV and Greeks) and equivalent volumes.

In parallel, a daily follow-up of positions takes place, by carrying out an exhaustive control of the changes that occur in the portfolios, aiming to detect changes in profile or possible incidences for their correction. The daily preparation of the profit and loss account is a risk indicator, insofar as it allows identifying the impact of the operations on the financial variables or on the changes in the make-up of the portfolios.

Backtesting

The reliability of the VaR model is periodically checked through a backtesting analysis. Backtesting consists of a comparative analysis between the Value at Risk (VaR) estimates and the daily "clean" trial balances (*clean P&L* - result related to the reassessment of the closing portfolios of the previous day at the closing prices of the following day), where the one-off/sporadic variances of the recorded results compared to the estimated measures are analysed.

The backtesting analyses carried out in Banco Santander Totta comply with the BIS recommendations, as regards the comparison of the internal systems used in the measurement and management of financial risks. Additionally, backtesting includes hypothetical tests: excess tests, standard tests, measures of average excess, etc.

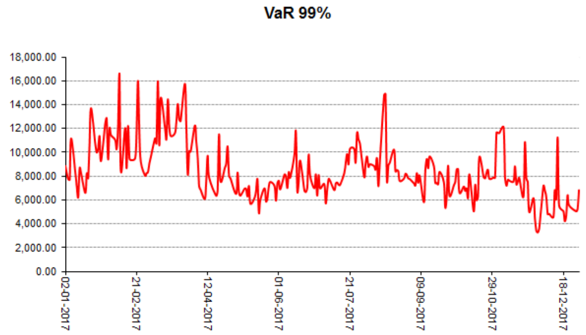
Limits

Quantitative limits for negotiation portfolios, which are classified in two groups, are established in line with the following objectives:

- Limits intended to protect the volume of potential future losses. Instances of such limits are the VaR limits over sensibility measures (BPV and Greeks) or other equivalent positions;
- Limits intended to protect/accommodate the volume of effective losses or to protect levels of results already achieved during the period. These types of limits aim to generate alerts on positions that are generating losses (*loss triggers*), allowing decisions to be taken before the limit of maximum loss is reached (*stop loss*), from which point it will be considered that losses will have reached unacceptable levels and the positions will be immediately closed.

Quantitative analysis of VaR throughout the year

The evolution of risk relative to negotiation activity in financial markets during 2017, quantified through VaR, is as shown below:



VaR was kept at reduced levels, with variations between 3,000 and 17,000 euros.

Operational Risk

Definition and objectives

Banco Santander Totta defines operational risk as "the risk of loss arising from deficiencies or failures in internal procedures, human resources or systems, or derived from external circumstances". It distinguishes it from other types of risks, since it is not associated to products or business, but is present in processes and/or assets, and is internally generated (people, systems, etc.) or as a consequence of external risks such as third party activities or natural catastrophes.

Operational risk is inherent to all products, activities, processes and systems, and is generated in all business and support areas. For this reason employees are responsible to manage and control operational risks generated in their areas of activity.

The objective in the case of control and management of operational risk is focused on the identification, measurement, assessment, control and mitigation and information concerning that risk.

The priority of the Bank is thus to identify and mitigate risk sources, independently from these having, or not, occasioned losses. Measurement may also contribute towards establishing priorities in the management of operational risk.

In order to reckon the requirements of own funds to cover operational risks, the Group opted, in a first stage, for the standard method foreseen in the BIS II regulations.

Management model

The organizational management and control model results from the adaptation of the Group's approach to Basle II.

Supervision and control of operational risk is practised through its governing bodies. As such, the Board of Directors and the Executive Committee periodically include in their agendas the treatment of relevant features in the management and mitigation of operational risk.

The operational risk function is structured in three lines of defence. The first line comprises all business and support areas and is, as such, responsible for identifying, assessing, monitoring and communicating this risk.

The second line of defence is responsible for supervising the effective control of the operational risk in its different variables and assess if the same is administered in line with the level of tolerance established by the Group's senior management. The second line of defence is an independent function and supplements the first line's management and control functions.

The third line of defence comprises the Internal Audit that must periodically assess that the policies, methods and procedures are adequate, guaranteeing that they are effectively implemented by management.

The different stages of the management model allow:

- To identify the operational risk (OR) inherent to all the Bank's activities, products, processes and systems;
- To define the objective profile of the operational risk by specifying unit strategies and time frame, through establishing the OR appetite and tolerance of the budget and its follow-up;
- To promote the involvement of all employees with the culture of operational risk adequate to all environments and organizational levels;
- To measure and assess the operational risk objectively, continually and coherently with the Basel II standards, define objectives and analyse the risk profile in line the respective limits;
- To continuously follow up exposures to operational risk with the objective to detect risk levels that have not been assumed;
- To establish mitigation measures which extinguish or minimize operational risk
- To prepare periodical reports on the exposure to operational risk and its level of control to be forwarded to the Board and Areas, as well as to inform the market and supervising bodies

The control model of the operational risk that was implemented has the following advantages:

- Promotes the development of an operational risk culture;
- Allows a comprehensive and effective management of the operational risk (identification, measurement/assessment, control/mitigation and information);
- Improves the knowledge of both real and potential operational risks, and their being attributed to business and support lines;
- Information on operational risk contributes towards improving processes and controls, reduce losses and revenue volatility;
- Eases establishing operational risk appetite limits.

To carry out the identification, measurement and assessment of operational risk, a set of quantitative and qualitative techniques/tools were defined, which combine to obtain a diagnosis based on the identified risks and an evaluation through the measurement/assessment of each area.

The quantitative analysis is fundamentally carried out via the tools that record and quantify the potential loss levels associated to operational risk events, namely:

- Internal data base, whose objective is to capture all operational risk events that may or not have impacts on the accounts. There are procedures of accounting reconciliation that guarantee the quality of information contained in the data base;
- External data base, which provides quantitative and qualitative information allowing a more detailed and structured analysis of relevant events occurred in the industry;
- Analysis of scenarios where opinions are obtained from the various lines of business, risks and control managers, with the objective to identify potential low probability events which could imply heavy losses to the institution. The possible impact is assessed and additional mitigation controls and/or measures identified which could reduce a possible heavy impact on the institution

Qualitative analysis allows assessing aspects linked to the risk profile. Tools used are, fundamentally:

- Self-assessment of operational risk, with the main objective to identify and assess the operational risks with regard to existing controls, and to identify mitigating measures should the risk levels not be acceptable;
- Indicators, which are statistics or parameters providing information on risk exposure. The indicators and respective limits are periodically reviewed, in order to be adjusted to reality;
- Recommendations arising from auditors or regulators provide relevant information concerning risk, thus allowing identification of weaknesses and controls.

As a complement several tools exist that ensure a sound control environment, through policies, processes and systems, adequate internal controls, means of mitigation and appropriate transfer strategies, as specified ahead:

- Corrective actions;
- Crises management and Business Continuity Plan;
- Risks and insurance transfer devices
- Agreements with third parties and supplier controls.

Additionally a new tool is being implemented for the management of operational risk which is common to several control areas, maximizing synergies and allowing the use of common methodologies for risk assessment.

Compliance and Reputational Risk

Compliance risk is defined as the probability of the occurrence of negative impacts for the institution, which may influence results or capital, deriving from the breach of legal standards, specific determinations, contractual responsibilities, rules of conduct and relationship with customers, ethical principles and established practices, relative to the practised activity, which may be materialized, for instance, in legal or regulatory sanctions, impairment of business opportunities, reduction of expansion potential or inability to demand contractual responsibilities by third parties.

In its turn, reputational risk is understood to be the probability of occurrence of negative financial impacts for the Institution affecting the results or even its equity, resulting from an unfavourable perception of its public image, whether proven or not, from customers, suppliers, analysts, employees, investors, media and any other bodies with which the Institution may be related, or even by public opinion in general.

The objective of the policy governing compliance and reputational risk is their management such as defined in the above paragraphs, determining the devices and procedures that allow: i) to minimize the probability that it becomes factual; ii) to identify, report to the Board and overcome the situations that may have arisen; iii) to ensure follow up and control; and iv) to provide evidence, if necessary, that the Bank has reputational risk amongst its main concerns and has available the organization and means required for its prevention and, should it be the case, to overcome it.

In line with the applicable legal and regulatory framework, the Bank has incorporated a compliance function in the Compliance and Conduct Division, comprised in the Bank's top hierarchy to which is specifically attributed the functional competence of the management of compliance and reputational risks.

Without prejudice to all the remaining features that derive from the above, the global policy with respect to compliance and reputational risks covers, specifically, the tools identified below that are referred due to their particular impact in the prevention and management of the risk:

- Corporate values;
- Compliance policy;
- Prevention of money laundering and of financing terrorism;
- Codes of conduct;
- Product marketing and policies and follow up policies;
- Risks policy;
- Policy covering identification and management of conflict of interests;
- Quality policy;
- Policy covering the treatment and protection of personal data;
- Monitoring and follow up of new regulations;
- Liaison with supervision authorities and follow up of actions developed by them;
- Employee training policy;
- Social responsibility and environmental defence policy;
- Corporate defence policies;
- Funding policies for sensitive sectors.

Proposal for Distribution of Results

Net Income for the Year, in individual terms and referring to 2017, amounted to €447.754.000,14 (four hundred forty seven million seven hundred fifty four thousand euro and fourteen cents) and the consolidated net income, in 2017, amounted to €436.336.597 (forty thirty six million three hundred thirty six thousand five hundred and ninety seven euro).

As such, the Board of Directors proposes to the General Meeting that the following application of the results:

- Legal Reserve: €44,775,400.10 (forty four million seven hundred seventy five thousand four hundred euro and ten cents);
- Dividends: €392.014.652 (three hundred ninety two million fourteen thousand six hundred and fifty two euro), of which €150.000.000 (one hundred and fifty million euro) have already been paid as an advance on profits for the year
- Retained Earnings: €10.963.948,04 € (ten million nine hundred sixty three thousand nine hundred forty eight euro and four cents)

Lisbon, 24 April 2018

THE BOARD OF DIRECTORS

Prevention of Money Laundering

Banco Santander Totta develops its business activity following policies and applying prevention of money laundering and financing terrorism criteria, in line with the legislation in force.

The Bank applies procedures in accordance with legislative provisions, complies with duties determined by Law, has available an organic structure exclusively assigned towards prevention and control of money laundering and financing terrorism which is comprised in the Compliance and Conduct Division, the teams are trained in these issues and regularly updated in order to identify and monitor possible risk situations, immediately carrying out the appropriate communications to the competent bodies.

Likewise, the Bank uses data processing tools to follow up customers' operations and undertake the respective potential risk segmentation, applying due diligence measures whenever these are justified and fulfilling the remaining legal requirements and pertinent regulations.

The system is submitted to an annual audit.

Meanwhile, a special programme was established for following up the activities of the business units of the former Banco Popular Portugal, addressed to the strengthening of previously practiced procedures and to the progressive homogenization of criteria and monitoring tools, follow-up and control, including the carrying out of training actions in the prevention of money laundering and financing terrorism in line with the Bank's standards.

Complying with the determinations in Bank of Portugal Instruction No. 9/2012, Banco Santander Totta prepared the corresponding Report on Prevention of Money Laundering and Financing Terrorism relative to the period from 1 June 2016 to 31 May 2017 which, once approved by the Board of Directors was submitted to the Bank of Portugal.

On another hand the Bank, complying with Bank of Portugal Instruction No. 46/2012, prepared a Self-Assessment Questionnaire covering the prevention of Money laundering and financing terrorism relative to the period from 1 November 2016 to 30 November 2017 and to its being forwarded to the Bank of Portugal after prior approval by the Executive Committee

Shareholder Structure

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

Movement in Own Shares

In line with the decision of the Annual General Meeting, held on 31 May 2017, Santander Totta SGPS, S.A., directly on its own behalf or through a dependent company, may acquire own shares as well as dispose of those acquired up to the limit and remaining conditions foreseen in law.

On 31 December 2016, Santander Totta SGPS held 98,260,898 own shares corresponding to 0.050% of its share capital. In 2017, Santander Totta SGPS carried out a purchase of 1,920,420 own shares, corresponding to 0.001% of its share capital, thus holding a total of 100,181,318 own shares at year end.

This acquisition is comprised in the general policy of Santander Totta SGPS, as to the purchase of shares from shareholders outside the Santander Group that wish to sell.

TRANSACTION WITH OWN SHARES - 2017

	Number of shares	Average unit price (€)	Book value (€)	% of share capital
31/12/2016	98,260,898	0.02	2,124,790	0.050%
Purchases	1,920,420	0.02	40,585	0.001%
Disposals	-	-	-	-
31/12/2017	100,181,318	0.02	2,165,375	0.051%

Movements in Shares and Bonds of the Members of the Governing and Supervising Bodies

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

	Entity	Number of shares at 31/Dec/2016	Transactions in 2017	Number of shares at 31/Dec/2017
António Basagoiti Garcia-Tuñón	Banco Santander, SA	410,668	8,657 shares received as dividends	419,325
António José Sacadura Vieira Monteiro	Banco Santander, SA	209,029	15/02/2017: corporate allocation: 16,909 shares - 5.039€/share 16/02/2017: stock deposit: 32,481 shares 31/07/2017: capital increase - preference rights: 25,842 shares- 4.85€/share 31/07/2017: purchase 1 right - 0.10 €, 25/10/2017: rights exercise in capital increase by incorporation of reserves: 2,002 shares - 0€ 25/10/2017: purchase 23 rights - 0.92 €,	286,263
José Carlos Brito Sítima	Banco Santander, SA	33,396	15/02/2017 - corporate allocation: 35,813 shares - 5.039€/share 21/02/2017 - sale in exchange: 33,316 shares - 5.20€/share 03/11/2017 - capital increase by incorporation of reserves: 252 shares	36,145
Luís Filipe Ferreira Bento dos Santos	Banco Santander, SA	28,519	15/02/2017 - corporate allocation: 9,697 shares - 5.039€/share 16/02/2017 - sale in exchange: 28,519 shares - 5.192€/share 16/02/2017 - corporate allocation: 20,050 shares - 5.039€/share 03/11/2017 - capital increase by incorporation of reserves: 209 shares	29,956
Manuel António Amaral Franco Preto	Banco Santander, SA	43,407	15/02/2017 - corporate allocation: 30,068 shares - 5.039€/share 27/07/2017 - capital increase - preference rights: 7.044 shares - 4.85€/share 28/07/2017 - capital increase - preference rights: 305 shares - 4.85€/share 03/11/2017 - capital increase by incorporation of reserves: 545 shares 14/11/2017 - capital increase by incorporation of reserves: 23 shares	81,392
	Totta Ireland	1		1
Pedro Aires Coruche Castro e Almeida	Banco Santander, SA	41,163	15/02/2017 - corporate allocation: 36,049 shares - 5.039€/share 17/05/2017 - sale in exchange: 5,000 shares - 6.065€/share 03/11/2017 - capital increase by incorporation of reserves: 508 shares	72,720
Ricardo Castro		0		0
Fernando Vieira		0		0
José Luís Areal Cunha		0		0
José Duarte Assunção Dias		0		0

Functions exercised by members of the Board of Directors of Santander Totta in other companies

Other Positions of Note		
	Within the consolidation perimeter	Outside the consolidation perimeter
António Basagoiti Garcia-Tuñón	**Banco Santander Totta, SA** Chairman of the Board of Directors	ATKearney (External Consultive Committee); Fujitsu (External Consultive Committee); Fund. Eugenio Rodriguez Pascual (Chairman); Real Club Nautico Calpe (Deputy Chairman); Fund. Princesa Asturias (Trustee); Fundación Santander (Trustee); Colegio Libre de Eméritos (Trustee); Fundación de estudios financieros (Trustee); Fundación Silos (Trustee)
António José Sacadura Vieira Monteiro	**Banco Santander Totta, SA** Deputy Chairman President Executive Committee (ExCo)	Universia (Non-Executive Chairman); Vieira Monteiro Lda (Manager); Câmara Comércio Luso Espanhola (Deputy Chairman)
Enrique Garcia Candelas	**Banco Santander Totta, SA** Deputy Chairman	Inversiones Y Gestiones Patrimoniales Tharsis SL (Executive Board member); Las Fagaceas SL (Executive Board member); Bondre Capital (Executive Board member); Iberus Capital Investment (Executive Board member); Estepona Top Villages (Executive Board member); Agropecuaria Del Odiel (Executive Board member); Cítricos Tharsis (Executive Board member); Edevir Investments (Executive Board member); Bondre Costa del Sol (Executive Board member)
José Carlos Brito Sítima	**Banco Santander Totta, SA** Member of Board and ExCo	Universia (Chairman General Meeting)
Luís Filipe Ferreira Bento dos Santos	**Banco Santander Totta, SA** Member of Board and ExCo	Universia (Non-Executive Board Member)
Manuel António Amaral Franco Preto	**Banco Santander Totta, SA** (Member of Board and ExCo) **Taxagest** (Chairman) **Totta Ireland** (Board member) **Gamma** (Chairman)	Banco Santander Consumer (Member Audit Board)
Pedro Aires Coruche Castro e Almeida	**Banco Santander Totta, SA** Member of Board and ExCo	ACEGE (NE Director) Centro Paroquial São Francisco de Paula (NE Director)
José Duarte Assunção Dias	**Santander Totta Seguros** (Alternate member of Audit Board) **Gamma** (Chairman Audit Board) **Aegon Santander Portugal Vida** (Chairman Audit Board) **Aegon Santander Portugal Não Vida** (Chairman Audit Board) **Popular Seguros** Alternate member of Audit Board) **Eurovida** (Alternate member of Audit Board)	Alves da Cunha, A.Dias & Associados SROC (partner)
Fernando Jorge Marques Vieira	**Gamma** (member Audit Board)	BBVA IFIC (Auditor) BPI Gestão de Activos (Auditor) Banco Brasil (Auditor) IMGA (auditor of mutual funds) Novo Banco (Auditor pension funds)
Ricardo Manuel Duarte Vidal de Castro	**Gamma** (member Audit Board)	Clube do Autor (Executive Board member) CFO&F SA (CFO) Rimaduvica Lda (manager) Kruda Material Edições Lda (manager)

Schedule of non-financial indicators

It is hereby advise that the Bank has prepared a Sustainability Report separate from the Management report which includes non-financial information, as provided in article No. 66-B of the Companies Act, and that the same was published on the Internet site of the Santander Totta Group on 30 April 2018.

I – Introduction

This report is prepared in accordance with the Commercial Companies Code (CSC).

1. The purpose of Santander Totta is the management of holdings in other companies, as an indirect form of economic activity, and is based in Portugal
2. The share capital of the company is held at 99.848% by the Spanish company Santusa Holding, SL.
3. The shares representing the capital are all of the same type and category, granting equal rights to the respective holders, including the right to vote and the right to participate in profits.

   Consequently, there are no privileged actions of any kind. Likewise, there are no restrictions of any kind on the transferability of shares, which is totally free.

   No system of employee participation in the Company's capital is enshrined.
4. Notwithstanding the foregoing paragraph, under the statutory terms, one vote is assigned to each hundred shares.

   In order for shareholders to be entitled to participate in the General Meeting, they must prove the registration or deposit of the shares in financial intermediaries by the third business day prior to the date of the meeting.
5. The Company is not aware of any shareholder agreement that has been entered into between shareholders.
6. The Company is organically structured in accordance with art. 278º, nº 1. al. a) of the CSC.

   The following are the corporate bodies: the General Meeting, the Board of Directors and the Audit Board, and there is a separate Statutory Auditor of the Audit Board, in compliance with the provisions of art. 413º, nº 1 b) of the CSC.

   The terms of office of the corporate bodies shall be of ordinary duration of three years.

   The Board of Directors includes an Executive Committee in which all the powers allowed by art. 407º, nº 4, of the CSC.

   The Board of Directors shall meet at least once every quarter and whenever called by its Chairman or by two Directors.

   The Board of Directors is not empowered to decide on increases in the company's capital stock.

   No special rules are also defined regarding the appointment and replacement of the Directors, as well as for statutory changes, applying the General Law in these matters.
7. The Executive Committee is the body responsible for the day-to-day management of the business and for the representation of the Company. It shall meet whenever it is convened by its Chairman or by two of its members, continuously following the evolution of its business, in particular by analyzing the projects under way or to be developed, as well as the results achieved.
8. There are no established by the company any agreements whose entry into force is dependent on the modification of the shareholder composition of the Company or that are amended or terminated as a result.

   On the other hand, there are no agreements that entitle management to compensation when the termination of the bond that binds them to the Company results from its own initiative, dismissal or dismissal with just cause or occurs following a takeover bid.

II – Remuneration policy

REMUNERATION POLICY FOR THE MEMBERS OF THE ADMINISTRATIVE AND SUPERVISORY BODIES

OF SANTANDER TOTTA, SGPS, S.A.

(The «Declaration»)

The following proposal for the remuneration policy of the members of the Board of Directors and Audit Board of Santander Totta, SGPS, SA (the "Company "), to be in force in 2017, is proposed to the annual meeting of the General Assembly for the approval of the accounts for the financial year 2016.

A. Framework

The remuneration Policy of the holding is framed within the directives established by the shareholder for all the Santander Group.

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

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

2. Remuneration of the Company's corporate bodies

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

a) **General Meeting**. Its members are not remunerated for the performance of their duties in the company.

b) **Audit Board.** Its members receive a fixed remuneration, paid in the following terms: annual value, paid 12 times a year.

c) **Board of Directors.** The members of the Board of Directors do not receive any remuneration, retirement pensions or any other benefits for the exercise of their functions, being remunerated only by other companies in a control or group relationship with the company, namely by its main subsidiary, Banco Santander Totta.

The sums paid to the directors and members of the supervisory board by other companies in a controlling or group relationship with the Company totaled, in 2016, a total value of 6 million euros.

3. Complementary features

All the subsidiaries of the company apply consistent remuneration practices among themselves, in particular the practices resulting from the remuneration policy in force at all times of the Santander Group. These subsidiaries are Banco Santander Totta, parent company of the banking subgroup of the Santander Group in Portugal, and insurance company Santander Totta Seguros, S.A.

Lisbon, 28 April 2017

Declaration referred to in item c) of § 1 of article no. 245 of the Securities Code

Item c) of §1 of article no. 245 of the Securities Code determines that each one of the persons responsible for the company issues a declaration the text of which is established therein.

The members of the Board of Directors of Santander Totta, SGPS, S.A., herein nominally identified individually subscribed the declaration transcribed below:

"I hereby declare, in the terms and for the purposes of item c) of §1 of article no. 245 of the Securities Code that, as far as I am aware, the Management Report, the annual Accounts, the Statutory Auditor's Report and remaining financial statements of Santander Totta, SGPS, S.A., all relative to the year ended on 31 December 2017, were prepared in accordance with the applicable accounting standards, and provide a true and accurate view of the assets and liabilities, of the financial situation and results of that Company and of the companies included in the perimeter of consolidation, containing an accurate description of the main risks and uncertainties with which all the above companies are being faced".

Board of Directors

António Basagoiti Garcia-Tuñón

Chairman

António José Sacadura Vieira Monteiro

Deputy Chairman

José Carlos Brito Sítima

Member

Luís Filipe Ferreira Bento dos Santos

Member

Manuel António Amaral Franco Preto

Member

Pedro Aires Coruche Castro e Almeida

Member

Declaration of the Audit Board on the Conformity of the Financial Information Presented

Item c) of §1 of article No. 245 of the Securities Code determines that each of the responsible officers in a company issues a declaration as defined therein.

The members of the Audit Board of Santander Totta, SGPS, S.A., hereunder individually identified subscribed the following declaration:

"I hereby declare, in the terms and for the purposes foreseen in item c) of §1 of article No. 245 of the Securities Code that, to the best of my knowledge, the management report, the annual accounts, the statutory auditor's report and remaining notes to the accounts of Santander Totta, SGPS, S.A., all relative to the year ended on 31 December 2017, were prepared in line with the applicable accounting standards, provide a true and accurate view of the assets and liabilities, of the financial situation and of the results of the above named company and of those companies comprised in the consolidation perimeter, and include a description of the main risks and uncertainties with which all the above companies are faced".

Audit Board

Chairman: José Duarte Assunção Dias

Members: Fernando Jorge Marques Vieira

Ricardo Manuel Duarte Vidal Castro

Glossary

Net interest income
"Interest and similar income" less "interest and similar charges"

Net fees
"Income from services and commissions" less "expenses with services and commissions"

Insurance activity
"Gross margin of life insurance in which the risk is borne by the policy holder" added to "Gross margin in insurance activity"

Commercial revenue
"Net interest income", added to "income from capital instruments", to "net fees", to "insurance activity" and to "other operating results"

Gain/Loss on Financial Transactions
"Results from assets and liabilities at fair value through profit or loss" added to "result of available for sale financial assets", to "results of foreign exchange revaluation" and to "results from the sale of other assets"

Net income from banking activities
Commercial revenue added to Gain/Loss on financial transactions

Operating costs
"Staff costs" added to "general administrative costs" and to "depreciation in the year"

Operating expenses (recurrent)
Operating expenses, adjusted by the impact of the 2016 ACTV review

Net operating income
Net income from banking activities less operating costs

Impairments, net provisions and other results
"Provisions net of reversals", added to "loan impairment net of reversions and recoveries", to "impairment of other financial assets net of reversions and recoveries", to "impairment of other assets net of reversals and recoveries"

Results from associates and other
"Result from associates" added to "negative consolidation differences"

Income before taxes and non-controlling interests
Net operating income less impairments, net provisions and other results added to "Results from associates and other"

Taxes
"Current" added to "deferred"

Consolidated net income attributable to shareholders' of ST SGPS
Income after taxes and before non-controlling interests less "non-controlling interests"

Net operating income
Net income from banking activities less operating costs

Impairments, net provisions and other results
"Provisions net of reversals", added to "loan impairment net of reversions and recoveries", to "impairment of other financial assets net of reversions and recoveries", to "impairment of other assets net of reversals and recoveries"

Results from associates and other
"Result from associates" added to "negative consolidation differences"

Income before taxes and non-controlling interests
Net operating income less impairments, net provisions and and other results added to "Results from associates and other"

Taxes
"Current" added to "deferred"

Consolidated net income attributable to BST shareholders
Income after taxes and before non-controlling interests less "non-controlling interests"

Efficiency Ratio
Ratio between operating costs and net income from banking activities

Loan-to-Deposit ratio
Measured in line with definitions deriving from the "Memorandum of Understanding"

Business volume
Loans and advances to customers (gross) added to customers' resources

Loans to individuals (mortgage and consumer) and corporates
Defined in line with management information segmentation (MIS)

Non-performing loans ratio (+90 days)
Ratio between overdue loans and interest (more than 90 days)" and loans and advances to customers (gross)

Non-performing loans ratio and doubtful loans ratio[1]
Ratio between non performing and doubtful loans and loans and advances to customers (gross)

Credit at risk ratio[2]
Ratio between credit at risk (gross) and total loans and advances to customers (gross)

Restructured credit / Total credit[3]
Ratio between restructured loans to customers and total loans and advances to customers

Non-performing exposure ratio
Non-performing exposure (NPE), defined in line with the document "Guiding lines concerning non-productive loans addressed to credit institutions" from the Central European Bank (March 2017), as a function of total exposure including off-balance sheet

Restructured loans not included in credit at risk / Total credit[2]
Ratio between restructured loans to customers not including loans to customers at risk and total loans to customers

Cost of credit
Ratio between "credit impairment net of reversions and recoveries" (from the P&L account) and the average of "gross loans to customers (from the balance sheet)

Non-performing loans coverage ratio (+90 days)
Ratio between impairment for loans and advances to customers (balance sheet value) and non-performing loans (+90 days)

Credit at risk coverage ratio
Ratio between impairment for loans and advances to customers (balance sheet value) and credit at risk

Non-performing exposure coverage ratio
Impairments of non-productive exposures relative to total non-productive exposures (NPE)

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[1] In line with Bank of Portugal Instruction No. 23/2012
[2] In line with Bank of Portugal Instruction No. 23/2012
[3] In line with Bank of Portugal Instruction No. 32/2013

Deposits
Corresponds to balance sheet heading “resources of customer and other debts”

Off balance sheet resources
Marketed investment funds added to insurance and other resources, as per information obtained from Santander Asset Management and/or management information system (MIS)

Liquidity Coverage Ratio (LCR)
LCR (liquidity coverage ratio), in line with the provisions of article No. 412, § 1 of Regulation (EU) No. 575/2013, must be equal to the ratio between the liquidity reserve of a credit institution and its liquidity outflows during a 30 calendar day stress period.

SANTANDER TOTTA, SGPS, S.A.

Consolidated Balance sheets as of December 31, 2017 and 2016

(Amounts expressed in thousands Euros)

		31-12-2017			31-12-2016
I' ASSETS	Notes	Amounts before impairment and depreciation	Impairment and depreciation	Net assets	Net assets
Cash and deposits at central banks	5	1,039,555	-	1,039,555	877,917
Balances due from other banks	6	658,155	-	658,155	658,892
Financing assets held for trading	7	1,509,744	-	1,509,744	1,758,692
Financial assets at fair value throug profit or loss	8	1,976,263	-	1,976,263	1,566,424
Available-for-sale financial assets	9	5,054,416	64,094	4,990,322	5,760,386
Loans and advances to credit institutions	10	826,367	-	826,367	563,925
Loans and advances to costumers	11	41,387,044	1,740,865	39,646,179	31,459,027
Held-to-maturity investments	12	108,808	-	108,808	243,954
Hedging derivatives	13	15,349	-	15,349	32,700
Non-current assets held for sale	14	130,125	42,856	87,269	90,814
Investment properties	15	353,957	-	353,957	378,374
Other tangible assets	16	867,101	513,581	353,520	305,244
Intangible Assets	16	453,627	417,041	36,586	36,149
Investments in associated companies	17	127,702	5,532	122,170	99,657
Current tax assets	18	19,783	-	19,783	12,833
Deferred tax assets	18	459,545	-	459,545	384,932
Technical reserves	19	22,941	-	22,941	22,317
Other assets	20	1,143,207	200,730	942,477	739,444
		56,153,689	2,984,699	53,168,990	44,991,681

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31-12-2017	31-12-2016
Liabilities			
Resources of central banks	21	3,080,538	2,450,694
Financial liabilities held for trading	7	1,527,098	1,763,952
Financial liabilities at fair value through profit or loss	22	2,430,798	2,148,103
Resources of other credit institutions	23	4,351,906	2,023,213
Resources of costumers and other debts	24	31,457,910	27,672,590
Debt securities	25	4,535,553	3,872,434
Hedging derivatives	13	39,275	81,655
Provisions	26	178,273	231,774
Technical reserves	19	411,816	300,005
Current tax liabilities	18	73,801	12,785
Defered tax liabilities	18	164,267	86,879
Equity representative instruments	27	69,026	69,220
Subordinated liabilities	25	7,735	7,735
Other liabilities	28	808,762	576,200
Total Liabilities		49,136,758	41,297,239
Shareholder's equity			
Share CAPITAL	29	1,972,962	1,972,962
(Own shares)	29	(2,166)	(2,125)
Other equity instruments	29	600,000	600,000
Revaluation reserves	29	(304,565)	(650,994)
Other reserves and retained earnings	29	1,477,498	1,405,915
Net income attributable to the shareholder's of ST SGPS	30	436,337	395,674
Prepaid dividends		(150,000)	(28,734)
Shareholders' equity attributable to the shareholders' of ST SGPS		4,030,066	3,692,698
Non-controlling interests	31	2,166	1,744
Total shareholders' equity		4,032,232	3,694,442
Total liabilities and shareholder's equity		53,168,990	44,991,681

The accompanying notes form an integral of the consolidated balance sheet for the year ended at December 31, 2017

SANTANDER TOTTA, SGPS, S.A.

Consolidated Statements of Income

for the year ended at December 31, 2017 and 2016

(Amounts expressed in thousand Euros)

	Notes	2017	2016
Interest and similar income	33	1,059,210	1,134,086
Interest and similar charges	34	(362,282)	(402,085)
Net interest income		696,928	732,001
Income from equity instruments	35	2,911	4,198
Income from services and comissions	36	398,254	376,872
Charges with services and comissions	37	(67,144)	(71,129)
Results of assets and liabilities at fair value through profit or loss	38	(11,942)	(38,428)
Results of available-for-sale financial assets	39	81,915	112,601
Result of foreign exchange revaluation	40	8,377	10,149
Result from sale of other assets	41	42,133	60,451
Gross margin of life insurance in which the risk is borne by the policy holder	42	7,150	7,354
Gross margin in insurance activity	42	3,817	3,020
Other operating results	43	(14,723)	(55)
Net income from banking activities		1,147,676	1,197,034
Staff costs	44	(311,214)	(286,870)
General administrative costs	45	(179,064)	(218,650)
Depreciation in the year	16	(37,659)	(37,592)
Provisions, net or reversals	26	(32,351)	(32,422)
Loan impairment net of reversals and recoveries	26	(38,760)	(44,284)
Impairment of other financial assets net of reversals and recoveries	26	(168)	(34,978)
Impairment of other assets net of reversals and recoveries	26	33,005	(11,538)
Negative consolidation diferences		-	599
Result from associates	46	9,292	16,478
Income before taxes and non-controling interests		590,757	547,777
Current Taxes	18	(139,733)	(53,703)
Deferred Taxes	18	(14,494)	(98,199)
Income after taxes and before non-controlling interests		436,530	395,875
Non-controlling interests	31	(193)	(201)
Consolidated net income attributable to the shareholders' of ST, SGPS		436,337	395,674
Avergae number of ordinary shares outsanding	30	197,197,631,117	197,207,252,108
Earnings per share (in Euros)	30	0.0022	0.0020

The accompanying notes form na integral part of consolidated statement of income
for the year ended at December 31, 2017

SANTANDER TOTTA, SGPS, S.A.

Consolidated Statements of other comprehensive income
for the years ended December 31, 2017 and 2016

(Amounts expressed in thousands Euros)

	2017		2016	
	Attributable to the Shareholders' of ST SGPS	**Attributable to non-controlling interests**	**Attributable to the Shareholders' of ST SGPS**	**Attributable to non-controlling interests**
Consolidated net income for the year	436,337	193	395,674	201
Items that will not be classified subsequently to the income statement:				
Acturial and financial deviations				
. Gross Value	36,767	71	(69,068)	19
. Tax effect	(11,420)	(19)	14,441	(7)
Revaluation reserves of associated companies valued by the equity method				
. Fair value	639	-	(1,712)	(1)
. Tax effect	(358)	-	440	-
Items that may be reclassified subsequently to the income statement:				
. Exchange differences in foreign subsidiaries	-	-	(2,172)	(6,406)
Revaluation reserves of associated companies valued by the equity method through changes in fair value of available-for-sale financial assets:				
. Fair value	1,020	1	(7,519)	-
. Tax effect	(258)	-	2,206	-
. Changes in fair value of financial assets available for sale				
. Fair value	535,965	238	(188,647)	(117)
. Tax effect	(160,624)	(72)	54,641	32
Tranfers to the income of the year from fair value of financial assets available for sale				
. Fair value	(81,879)	(36)	(112,542)	(58)
. Tax effect	23,745	10	32,637	17
. Changes in fair value of financial assets available for sale				
. Fair value	840	1	-	-
. Tax effect	(244)	-	-	-
Changes in fair value of cash flows hedging derivatives				
. Fair value	3,778	3	(17,217)	(9)
. Tax effect	(818)	(1)	4,993	3
. Changes in "shadow reserve"				
. Fair value	(1,159)	-	1,238	-
. Tax effect	273	-	(292)	-
	346,267	196	(288,573)	(6,527)
Consolidated comprehensive income for the year	782,604	389	107,101	(6,326)

The accompanying notes form an integral part of the consolidated statements of other comprehensive income for the years ended December 31, 2017.

SANTANDER TOTTA, SGPS, S.A.

Consolidated statements of changes in share holders' equity

for the years ended in December 31, 2017 and 2016

(Amounts expressed thousands Euros)

	Share capital	Own shares	Other equity instruments	Revaluation reserves				Other Reserves and retained earnings	Prepaid dividends	Net Income	Non-controlling Interests	Total
				Fair-value	Deferred taxes	Foreign exchange fluctuation	Sub-total					
Balances as at December 31, 2015	**1,972,962**	**(1,922)**	**300,000**	**(484,551)**	**119,764**	**2,563**	**(362,224)**	**988,657**	**-**	**574,675**	**322,547**	**3,794,695**
Appropriation of net income:												
. Distribution of dividends	-	-	-	-	-	-	-	-	-	(116,816)	-	(116,816)
. Transfer to reserves	-	-	-	-	194	-	194	457,665	-	(457,859)	-	-
Distribution of dividends - preference shares	-	-	-	-	-	(391)	(391)	(40,391)	-	-	10,002	(30,780)
Issue of "Aditional Tier 1 Instruments"	-	-	300,000	-	-	-	-	-	-	-	-	300,000
Reimbursement of preference shares	-	-	-	-	-	-	-	-	-	-	(324,266)	(324,266)
Distribution of prepaid dividends	-	-	-	-	-	-	-	-	(28,734)	-	-	(28,734)
Long-term incentives - shares	-	-	-	-	-	-	-	(171)	-	-	-	(171)
Purchase of own shares	-	(203)	-	-	-	-	-	-	-	-	-	(203)
Other	-	-	-	-	-	-	-	155	-	-	(213)	(58)
Comprehensive income for the year of 2016	-	-	-	(395,467)	109,066	(2,172)	(288,573)	-	-	395,674	(6,326)	100,775
Balances as at December 31, 2016	**1,972,962**	**(2,125)**	**600,000**	**(880,018)**	**229,024**	**-**	**(650,994)**	**1,405,915**	**(28,734)**	**395,674**	**1,744**	**3,694,442**
Appropriation of net income:												
. Distribution of dividends	-	-	-	-	-	-	-	(117,288)	28,734	(135,477)	-	(224,031)
. Transfer to reserves	-	-	-	-	162	-	162	260,035	-	(260,197)	-	-
Issue of "Aditional Tier 1 Instruments"	-	-	-	-	-	-	-	(62,665)	-	-	-	(62,665)
Distribution of prepaid dividends	-	-	-	-	-	-	-	-	(150,000)	-	-	(150,000)
Acquisition and merger of Banco Popular Portugal	-	-	-	-	-	-	-	(8,411)	-	-	-	(8,411)
Long-term incentives - shares	-	-	-	-	-	-	-	(24)	-	-	-	(24)
Purchase of own shares	-	(41)	-	-	-	-	-	-	-	-	-	(41)
Other	-	-	-	-	-	-	-	(64)	-	-	33	(31)
Comprehensive income for the year of 2017	-	-	-	495,971	(149,704)	-	346,267	-	-	436,337	389	782,993
Balances as at December 31, 2016	**1,972,962**	**(2,166)**	**600,000**	**(384,047)**	**79,482**	**-**	**(304,565)**	**1,477,498**	**(150,000)**	**436,337**	**2,166**	**4,032,232**

The acompanying notes for na integral part of the consolidated statements of changes in shareholders' equity for the year ended at December 31, 2017

SANTANDER TOTTA, SGPS, S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Amounts expressed in thousands of Euros - tEuros)

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES:		
Interest and comissions received	1,329,105	1,390,108
Payment of interest and comissions	(413,207)	(504,296)
Payments to staff and suppliers	(512,196)	(585,978)
Contribution to the Pension Fund	(59,329)	(37,707)
Foreign exchange and other operating results, including commissions from reinsurance fees	5,165	43,231
Recovery of uncollectable loans	12,890	2,446
Receipt / (payment) of insurance premiums	130,972	36,712
Cash flows before changes in operating assets and liabilities	493,400	344,516
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions	(200,867)	949,003
Financial assets held for trading	270,549	(7,985)
Loans and advances to costumers	(2,735,070)	328,765
Assets and liabilities at fair value through profit or loss	(311,384)	(456,610)
Non-Current assets held for sale	(22,960)	54,619
Investment properties	17,503	16,919
Other assets	152,680	(458,622)
	(2,829,549)	426,089
Increase / (decrease) in operating liabilities:		
Resources of financial institutions	415,182	(4,021,899)
Resources of costumers and other debts	(38,796)	1,724,018
Financial liabilities held for trading	(257,613)	89,128
Other liabilities	108,071	167,555
	226,844	(2,041,198)
Net cash flow from operating activities before income tax	(2,109,305)	(1,270,593)
Income tax paid	(39,735)	(51,074)
Net cash flow from operating activities	(2,149,040)	(1,321,667)
CASH FLOW FROM INVESTMENT ACTIVITIES:		
Dividends received	2,911	4,198
Purchase of available-for-sale financial assets	(607,441)	(2,349,851)
Sale of available-for-sale financial assets	2,757,033	2,822,973
Sale of investments held to maturity	135,093	27,069
Income from available-for-sale financial assets	150,625	156,915
Purchase of tangible and intangible assets	(40,394)	(50,383)
Sale of tangible assets	(3,100)	2,142
Acquisition of Banmco Popular Portugal	(554,000)	-
Net cash flow from investment activities	1,840,727	613,063
CASH FLOW FROM FINANCING ACTIVITIES:		
Dividends paid	(374,031)	(145,550)
Other equity instruments	-	300,000
Dividends distribution and redemption of preference shares	-	(353,310)
Issuance / (redemption) of cash bonds and other	678,388	(1,120,911)
Remuneration paid on cash bonds and other	(54,908)	(32,676)
Income Distribution - "Aditional Tier 1 Instruments"	(62,665)	-
Remuneration paid on subordinated liabilities	(634)	(70)
Net cash flow from financing activities	186,150	(1,352,517)
Net increase / (Decrease) in cash and cash equivalents	(122,163)	(2,061,121)
Cash and cash equivalents at the beginning of the year	1,536,809	3,597,930
Acquisition of Banif's activity	283,063	-
Cash and cash equivalents at the end of the year	1,697,710	1,536,809

INTRODUCTION

Santander Totta, SGPS, S.A. (hereinafter referred to as “Company”, “Santander Totta”, “ST SGPS” or ”Group”) was incorporated on December 16, 2004, in the scope of the demerger/merger operation of Banco Totta & Açores, S.A. (totta). In the scope of this operation, the financial shareholdings held by Totta in Foggia, SGPS, S.A. (Foggia) and in the then denominated Totta Seguros – Companhia de Seguros de Vida, S.A. (“Santander Totta Seguros” or “Company”) were demerged from totta’s net assets and used for the realization in kind of the share capital of Santander Totta. On the same date, the remaining assets and liabilities of totta, together with Banco Santander Portugal, S.A. (“BSP”), were merged into Companhia Geral de Crédito Predial Português, S.A. (CPP), which changed its name to Banco Santander Totta, S.A. (“Bank” or “BST”). Santander Totta has as its social object the management of shareholdings in other companies, as an indirect form of exercising economic activities, and is based in Portugal.

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

Following the decision of the Single Resolution Council with regard to the application of a resolution measure to Banco Popular Español, SA, taken on June 7, 2017, through the instrument for the sale of the whole of the business, with the transfer of the whole of the shares representing the share capital of Banco Popular Español, SA, to Banco Santander, SA, the latter came to hold indirectly the whole of the share capital and voting rights of Banco Popular Portugal, SA. In view of the restructuring of the business of Banco Popular in Portugal and its inclusion in the Santander Group, BST and Banco Santander, SA, have shown 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 (Note 1.4).

Santander Totta integrates the Santander Group. The main balances and transactions maintained with companies of the Santander Group during financial years 2017 and 2016 are detailed in Note 49.

The Group has a domestic network of 635 branches (608 branches as at December 31, 2016, of which 118 transferred from the former BaPop) and also has a branch in London, as well as an international financial branch in the Autonomous Region of Madeira. It also has subsidiaries and representation offices abroad as well as shareholdings in subsidiaries and associated companies (hereinafter, also associates).

The consolidated financial statements and the Management report as at December 31, 2017 were approved at the Board of Directors’ meeting of April 24, 2018.

1. BASIS OF PRESENTATION AND MAIN ACCOUNTING POLICIES

1.1. Basis of presentation of the accounts

Santander Totta’s consolidated financial statements were prepared on a going concern basis, from the accounting books and records maintained in accordance with the accounting principles set forth in the International Financial Reporting Standards (“IAS/IFRS”), as adopted by the European Union in accordance with Regulation (EC) 1606/2002, of July 19 of the European Parliament and Council, transposed into the Portuguese legislation through Decree-Law No. 35/2005, of February 17, and Notice No. 1/2005, of February 21, of the Bank of Portugal. When Group companies use different accounting principles, appropriate adjustments are made for their conversion to the IAS/IFRS.

The accounting policies used by the Group in the preparation of its consolidated financial statements at December 31, 2017 are consistent with those used in the preparation of the consolidated financial statements with reference to December 31, 2016.

The Group adopted in the preparation of the consolidated financial statements the accounting standards issued by the IASB and the IFRIC interpretations for mandatory application as from January 1, 2016. The accounting policies used by the Group in the preparation of the consolidated financial statements, described in this note, were accordingly adopted.

The consolidated financial statements are expressed in thousands of Euros, rounded to the nearest thousand. These were prepared in accordance with the historical cost principle, with the exception of assets and liabilities recorded at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets, investment properties and hedged assets and liabilities, in their hedged component.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates, implying, too, the exercise of judgment by Management, regarding the application of the accounting policies of the Group. The areas of the financial statements that involve a greater degree of judgment or complexity, or areas which assumptions and estimates are significant to the preparation of this set of financial statements, are presented in Note 2.

In financial year 2017, the Group adopted the following standards (new and revised) and interpretations endorsed by the European Union that became effective as of January 1, 2017:

- IAS 7 (amendment), “Review of disclosures”. This amendment introduces an additional disclosure about the variations of the financing liabilities, broken down between transactions that gave rise to cash movements and those that do not, and how this information reconciles with the cash flow from financing activities of the Cash Flow Statement.

-- IAS 12 (Amendment), “Income tax – Recognition of deferred tax assets on potential losses.” This amendment clarifies the manner of accounting deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when there are deductible temporary differences and how to assess the recoverability of the deferred income tax assets when there are restrictions in the tax law.

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, until the date of approval of the attached financial statements the following standards and improvements were also issued, not yet endorsed by the European Union:

a) Mandatory application for annual periods beginning on or after January 1, 2018:

- Improvements to the 2014 – 2016 standards. This cycle of improvement affects the following standards: IFRS 1, IFRS 12 and IAS 28.

- 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.

- 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.

- IFRIC 22 – “Foreign currencies 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 in advance the consideration of contracts denominated in foreign currency. The "transaction date" determines the exchange rate to be used to convert foreign-currency transactions.

b) Mandatory application for annual periods beginning on or after January 1, 2019:

- 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 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.

- IFRS 17 (new), 'Insurance contracts' (to be applied in annual periods beginning on or after 1 January 2021). This new standard replaces IFRS 4 and applies to all entities issuing insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics. IFRS 17 is based on the current measurement of technical liabilities, at each reporting date. The current measurement can be based on a complete "building block approach" or "premium allocation approach". The recognition of the technical margin is different depending on whether it is positive or negative. IFRS 17 is retrospective.

- 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.

These standards have not yet been endorsed by the European Union and, as such, have not been adopted by the Group in 2017.

Additionally, the European Union has already endorsed the following (new and amendment) standards published, whose application is mandatory for annual periods beginning on or after January 1, 2018.

- IFRS 4 (change), 'Insurance contracts (application of IFRS 4 with IFRS 9)'. This amendment gives the entities that negotiate insurance contracts the option to recognize in the Other comprehensive income, instead of recognizing in the Profit and Loss Account, the volatility that may result from the application of IFRS 9 before the new insurance contract standard is published. This amendment gives the entities that negotiate insurance contracts the option to recognize in the Other comprehensive income, instead of recognizing in the Profit and Loss Account, the volatility that may result from the application of IFRS 9 before the new insurance contract standard is published. In addition, a temporary exemption is granted to the application of IFRS 9 to 2021 to entities whose predominant activity is that of insurance company. This exemption is optional and does not apply to consolidated financial statements that include an insurance entity.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

- 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 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".

Except for the purposes of IFRS 16, which at this time still cannot be estimated, no material impacts resulting from the adoption of the above standards are to be expected.

International Financial Reporting Standard 9 – Financial Instruments (IFRS 9)

In July 2014, the IASB issued the final version of IFRS 9 which replaces IAS 39 – Financial instruments: Recognition and Measurement, which was endorsed by the European Union on November 3, 2017. 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.

IFRS 9 is of mandatory application in financial years beginning on or after January 1, 2018, and these new rules applicable retrospectively as from that date. However, the respective comparative balances will not be restated.

The impacts on the separate financial statements of the Bank arising from the adoption of this new standard were estimated with reference to January 1, 2018, based on the information available at the time and on a set of assumptions. Based on these estimates, it is expected that the adoption of IFRS 9 will result in a reduction of the Bank's equity as at January 1, 2018 of approximately €11,558 thousand. This impact results 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

	Balances 31-12-2017	Qualification and measurement	Impairment loans	Balances 01-01-2018
Share capital	1,972,962	-	-	1,972,962
Other capital instruments	600,000	-	-	600,000
Revaluation reserves	(304,565)	4,875	-	(299,690)
Other reserves and retained earnings	1,477,498	60	(16,493)	1,461,065
(Own shares)	(2,166)	-	-	(2,166)
Net income	436,337	-	-	436,337
Distribution of prepaid dividends	(150,000)	-	-	(150,000)
Total Equity	**4,030,066**	**4,935**	**(16,493)**	**4,018,508**

The tax treatment of the impacts that come to result from the adoption of IFRS 9 is dependent on the tax legislation that comes to be adopted during 2018.

In 2018 the Bank will continue to calibrate the models it developed to comply with the new requirements of IFRS 9 and will follow any guidelines of the national and international regulators regarding the application of the said standard.

a) *Classification and measurement of financial assets*

IFRS 9 provides for the classification of financial assets 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 context, the main categories of financial assets provided for in IFRS 9 can be summarised as follows:

- 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 Group.

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

b) Classification and measurement – Financial liabilities

With regard to the measurement of financial liabilities IFRS 9 does not introduce significant changes compared to the requirements set out in IAS 39, 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 by IAS 39, 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.

Financial liabilities previously classified under the fair value option provided for in IAS 39 were also analysed on the transition date in order to assess the accounting treatment of the credit-risk variations of the entity itself, but also to ensure that the reasons for the classification of liabilities in this option remain unchanged.

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.

c) **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. Also covered by the IFRS 9 concept of expected losses are financial assets at amortised cost, debt instruments measured at fair value through equity, off-balance sheet exposures, finance leasing, other receivables, financial guarantees and loan commitments not carried at fair value.

This conceptual change is introduced in conjunction with new criteria for classification and measurement of expected loan-impairment losses, which require that financial assets subject to impairment be classified by different stages depending on the evolution of their credit risk since the date of initial recognition and not in the light of the credit risk on the reporting date:

- Stage 1: financial assets are classified in stage 1 when there has been no significant increase of the credit risk since the date of their initial recognition. For these assets the expected credit impairment loss resulting from default events occurring during the 12 months after the reporting date shall be recognised in income statement for the financial year;

- Stage 2: includes financial assets for which there has been a significant increase of the credit risk since the date of their initial recognition. For these financial assets the expected credit impairment losses are recognised over the life of the assets ("lifetime"). However, interest will continue to be calculated on the gross amount of the asset;

- Stage 3: assets classified in this stage present objective evidence of impairment, on the reporting date, as a result of one or more events that have already occurred and that have resulted in a loss. In this case, the expected credit impairment loss for the expected residual life of the financial assets will be recognized in the income statement for the financial year. Interest is calculated on the net book value of the assets.

Generically, impairment losses determined in the assets classified in stages 1 and 2 largely replace the impairment recognised in a collective viewpoint for the financial assets as provided for within the scope of IAS 39. In turn, impairment losses identified in the assets classified in stage 3 replace to some extent the impairment recognised in an individual and collective viewpoint for impaired financial assets as provided for in IAS 39.

<u>Key assumptions considered in the calculation of expected losses</u>

The measurement of expected losses is the result of the product between (i) the probability of default (PD) of the financial instrument, (ii) the loss given default (LGD) and

(iii) the exposure on the date of default (EAD), discounted at the effective interest rate of the contract up to the reporting date.

As mentioned earlier, the main difference between the impairment losses measured for financial assets classified in stages 1 and 2 is the appropriate time horizon in the calculation of the PD. The expected losses for financial assets in stage 1 will be calculated using a PD at 12 months while the expected losses in stage 2 use a lifetime PD. The calculation of the expected loss for financial assets in stage 3 was leveraged in the existing processes for the estimate of impairment developed to comply with IAS 39, updated in order to reflect the new requirements of IFRS 9, particularly to consider point-in-time and forward-looking information.

Significant increase of the credit risk and definition of default

The passage of financial assets from stage 1 to stage 2 occurs at the time their credit risk increases significantly when compared to the credit risk on the date of their initial recognition. The significant increase of credit risk should be determined through analysis of the quantitative and/or qualitative internal indicators used by the Group in its normal credit-risk management, thus requiring greater articulation of the accounting requirements with the credit-risk management policies implemented by the Group.

Evaluation of the significant increase of the credit risk is a new concept introduced by IFRS 9, which requires application of a major judgement component. The existence of significant increase of the credit risk is evaluated for each financial asset, considering a set of quantitative and qualitative indicators, with emphasis on:

- Variation of lifetime PD compared to the time of acquisition or origination of the financial assets; for the purpose percentage and absolute variation intervals were established. The established intervals differ according to the product and/or business;

- Qualitative indicators.

IFRS 9 assumes as rebuttable assumption that financial assets past-due by at least 30 days should be classified in stage 2, that is, showing the occurrence of a significant increase of the credit risk from the date of initial recognition. The Bank did not refute this assumption. However, for the more significant exposures, the Bank conducted additional qualitative reviews and adjustments where necessary, to ensure that the credits that had a significant credit-risk increase are properly identified.

Generally speaking, transitions of financial assets from stage 2 to stage 3 occur when they are in default.

IFRS 9 does not provide an objective definition of default, though it has a rebuttable assumption that default occurs when an exposure is past-due by more than 90 days. The Group did not refute this assumption. This definition of default is consistent with the definition used in the Bank’s current credit-risk management policies.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of the significant increase of the credit risk must consider not only information about past events, but also the current conditions and reasoned and reasonable projections about future events and economic conditions (i.e., forward-looking information).

The estimate and application of forward-looking information requires a significant degree of judgement. The risk factors (that is, PD, LGD and EAD) used to estimate impairment losses were estimated so as to consider the expected evolution of the macroeconomic variables that are correlated with the evolution of the expected credit losses. The macroeconomic scenarios used in the calculation of the expected credit losses contain predictions for the behaviour of the more relevant macroeconomic variables – notably the unemployment rate, GDP, bond yields, CDS spreads, equity prices, market volatility, residential and commercial real estate prices and price of goods.

Since the new model of calculation of expected losses incorporates point-in-time and forward-looking information, it can be expected that the amounts of impairment recognised under IFRS 9 are more volatile when compared with the amounts recognised in IAS 39.

d) Governance

In addition to the implementation of IFRS 9, the Group has defined and implemented a set of new controls and governance procedures in several areas that contribute to effective monitoring of the risks underlying the IFRS 9 requirements.

These controls include, among others, the data used for the calculation of risk factors and expected loss, the computer systems, the concept of the expected-loss models themselves and the determination of the projections about the behaviour of the macroeconomic variables to be used to incorporate forward-looking information.

Additionally, and within the scope of credit-risk management, the Group has a Provisions Committee to monitor the expected losses calculation process under IFRS 9. This Committee comprises senior representatives of the (i) financial, (ii) risk-management, and (iii) economic departments, and is responsible for reviewing and approving the main inputs and assumptions used in the calculation of expected losses. The Committee also assesses the adequacy of the general results of expected losses included in the Group's financial statements.

e) Regulatory Capital

According to the Basel III prudential rules for the IRB portfolios, in the event that credit losses carried in the accounts are lower than the losses determined in accordance with the prudential requirements, this difference should be deducted from the Tier 1 capital. However, if the amounts of book losses exceeds the expected loss calculated in accordance with the Basel III requirements, this excess shall be added to the Tier 2 capital.

With the adoption of IFRS 9, expected-loss models will be used for accounting purposes, and for prudential purposes. In both models (prudential and accounting), the expected losses are calculated by the product of the PD, LGD and EAD.

There are, however, some differences between the prudential rules and those established by IFRS 9, which can give rise to differences in the impairment-losses estimate, in particular:

- PDs calculated in accordance with the prudential rules are based on long-term averages over complete business cycle. However, PDs calculated in accordance with the requirements of IFRS 9 are based on the current conditions and are adjusted with forward-looking information;

- PDs determined in accordance with the prudential requirements consider the probability of default over the next 12 months multiplied by the residual maturity of the contract. However PDs calculated under IFRS 9 consider the PDs over the next 12 months or for the life of the financial asset, depending on whether they are classified in stages 1 or 2, respectively;

- Calculation of prudential LGDs is based on a negative (but plausible) economic cycle. Consequently, LGDs calculated within the scope of IFRS 9 are based on the current conditions adjusted with forward-looking information.

On December 12, 2017, by Regulation (EU) nº 2017/2395 of the European Parliament amending Regulation (EU) nº 575/2013, the European Union established transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. The regulation allows financial institutions to derogate this transitional arrangement, and the Bank elected to apply the transitional arrangements only within the "Static" component, that is, the provisioning differential recorded in the first application of IFRS 9.

f) 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.

g) Disclosures

IFRS 9 requires a set quite extensive of additional disclosures, particularly with regard to credit risk and calculation of expected losses. The Group is analysing the information currently available in order to identify potential additional information requirements, and is simultaneously implementing a process of collection and control of the data needed to answer all these new requirements.

1.2. Consolidation principles and recording of associated companies

The consolidated financial statements now presented reflect the assets, liabilities, income, expenses, other comprehensive income and cash flows of the Company and those of the entities directly and indirectly controlled by same (Note 4), including special purpose entities.

Subsidiary companies are those in which the Group exercises effective control over their current management in order to obtain economic benefits from their activities. Control usually exists when more than 50% of the share capital or the voting rights are held, when the investor is exposed or has the right to variable returns through its relationship with the investee and has the ability to use its power over the investee's relevant activities to affect its results. Furthermore, as a result of the application of IFRS 10 – "Consolidated Financial Statements", the Group includes special purpose entities in its consolidation perimeter, namely vehicles and funds created under securitization operations, when it exercises effective financial and operating control over these and when it is exposed to the majority of the risks and rewards associated with their activity.

The financial statements of subsidiaries are consolidated by the full consolidation method from the date the Group assumes control over their activities to the date that that control ceases. Transactions and balances between the companies subject to consolidation were eliminated. In addition, when applicable, consolidation adjustments are made in order to ensure consistency in the application of accounting principles. Third party shareholders in subsidiary companies consolidated by the full consolidation method are accounted for under the heading "Non-controlling interests" (Note 31).

The acquisition cost is measured at the fair value of the assets given in exchange, the liabilities assumed and the equity interests issued for this purpose. The transaction costs incurred are recorded as costs in the periods in which incurred, except for the costs of issuing securities representing debt or equity, which must be recognized in accordance with

IAS 32 and IAS 39. The identifiable assets acquired and liabilities assumed in the acquisition are measured at fair value, determined at the date of acquisition.

On the application of the acquisition method, the non-controlling interests are measured at fair value or in proportion to the percentage held of the net assets of the acquired entity, when representing 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 through 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 against the income statement.

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 the participation 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 representative instruments”. The non-controlling interests of results relating to the consolidated investment fund are recognised as a deduction from “Other operating results” (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 the Bank 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 of shareholders’ equity and of the profit and loss of the associated companies attributable to the Group. Dividends paid by associates reduce the amount of the investment made by the Group. The Group performs impairment tests for its investments in associate companies 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 associated companies acquired, as well as any equity instruments issued by the Group. With a minimum annual frequency, the Group performs goodwill impairment tests in accordance with the requirements of IAS 36 – “Impairment of assets”. For this purpose, goodwill is allocated to cash generating units, never greater than the group of assets comprising each of the Group’s operational segments, and the 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 methodologies. Impairment losses related to goodwill are recorded in the income statement 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 previously held shareholding is revalued at fair value through 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. Previously recognized negative goodwill was recorded as an increase in shareholders’ equity, as permitted by IFRS 1.

Acquisitions of subsidiaries and associate companies after January 1, 2004, were recorded using the acquisition 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 set 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 bargain purchase), 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 pending 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 via phased acquisitions. In these cases, the shareholding 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 equity investment. Similarly, on application of the amendments to the standards referred to above the Group revalued in profit or loss the equity investments 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 associated companies expressed in functional currencies other than euro, through retained earnings. From then on, and in accordance with IAS 21, the financial statements of subsidiaries, joint ventures and associated companies expressed in foreign currency have been translated into 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 balance sheet 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 shareholders’’ equity under “Revaluation reserves – Exchange rate fluctuation”.

The accounting policies of subsidiaries and associates are altered, whenever 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 accompanying financial statements were as follows:

a) Accrual basis

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

b) Foreign currency transactions

The Group'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) Loans and accounts receivable

This category of financial assets includes loans and advances to customers and other accounts receivable and advances to credit institutions.

Loans and advances to customers include loans granted to customers and securitised loans (commercial paper and bonds) not intended to be sold in the short term, are not listed on an active market and whose cash flows are fixed or determinable, and they are initially recorded at fair value, net of any commissions and increased by all external costs directly attributable to the transactions.

The interest component, including that in respect of any premiums/discounts, is accounted for separately in the respective income statements. Revenues are recognised when obtained and distributed by monthly periods, according to the *pro rata temporis* rule, whenever it is a matter of transactions producing residual flows over a period greater than one month. Where applicable, commissions and external costs attributable to operations underlying the assets included in this category are also accrued over the term of the loans, in keeping with the effective interest-rate method.

The Group classifies as overdue loans instalments of principal or interest past due by 30 days. Loans with overdue instalments are reported as defined in the Credit Manual approved by the Bank, and the entire debt is considered overdue as from that moment.

On the other hand, the Group periodically analyses the loans and advances that should already have been paid in full but for which the efforts in their collection have not been effective. When the prospects recovering of those loans are minimal, the loans are considered to be uncollectible and impairment losses are recognized for the full amount. In these cases, the Bank writes them off. Loans subsequently recovered are recognized in the income statement under the heading "Loan impairment net of reversals and recoveries".

Impairment

The Group periodically analyses the loans and advances granted to customers and other accounts receivable with a view to identifying signs of impairment. A financial asset is considered to be impaired if, and only if, there is evidence that the occurrence of an event (or events) will have a measurable impact on the expected future cash flows of that asset or group of assets.

For the purposes of determination of the impairment of the loan granted, the Bank segmented its portfolio as follows:

- Credit extended to companies;
- Mortgage loans;
- Consumer loans;
- Loans granted through credit cards;
- Other loans to individual customers;
- Guarantees and sureties; and
- Derivatives.

With regard to the segment of credit extended to companies, the Bank performs an individual analysis of customers who have:

- Liabilities exceeding €10,000 thousand;
- Liabilities greater than €500 thousand classified under “doubtful not in litigation” in its monitoring system; and
- Liabilities exceeding €1,000 thousand if classified under its special surveillance system as VE1 – Extinguish, Substandard, as VE2 – Reinforce guarantees and as VE3 – Reduce.

To this end, these segments may include customers without overdue loans. From time to time, the Group also includes in its individual analysis some customers as a result of professional judgement, though they do not have the characteristics indicated above.

Customers analysed individually with impairment losses below 0.5% are subsequently assessed within the scope of a collective-impairment analysis, with differentiation between customers having liabilities greater or less than €300 thousand.

For the remaining segments of the loan portfolio, the Bank performs a collective analysis to determine impairment losses.

Evidence of impairment of an asset or group of assets defined by the Bank is related to the observation of several loss events, of which the following are underscored:

- Breach of contract situations, such as delays in the payment of principal and/or interest;
- Significant financial difficulties of the debtor;
- Significant change of the debtor's financial situation; and
- Occurrence of adverse changes, notably:
  - Of the conditions and/or ability to pay; and
  - The economic conditions of the business sector in which the debtor operates, with an impact on the debtor’s ability to comply with its obligations.

Impairment losses for customers without overdue loans correspond to the product between the probability of default (PD) and the amount corresponding to the difference between the carrying amount of the respective loans and the updated estimated cash-flow amounts of those transactions. PD is the probability of a transaction or customer defaulting during an emergency period. This period is equivalent to the time between the occurrence of an event giving rise to losses and the moment when the existence of this event is perceived by the Bank ("Incurred but not reported"). For all segments of the portfolio, the Bank considers an emergency period of 6 months.

If there is evidence that the Bank has incurred in an impairment loss on loans or other receivables, the amount of the loss is determined by the difference between the book value of these assets and the present value of their estimated future cash flows, discounted at the interest rate of the financial asset or assets. The book value of the financial asset or assets is deducted from the balance of the impairment losses account. For floating-rate loans, the discount rate used to determine any impairment loss is the current interest rate established in the respective contract. Impairment losses are recognised through the income statement.

According to the impairment model in force at the Bank for its customer loan portfolio, the existence of impairment losses is analysed in individual terms, on a sample basis, as well as in collective terms. When a group of financial assets is evaluated collectively, the future cash flows of that group are estimated on the basis of the contractual cash flows of those assets and the historical data relating to losses on assets of similar credit risk characteristics. Whenever the Bank believes necessary, the historical information is updated on the basis of current observable data, so that the latter reflects the effects of current conditions.

When subsequently there is a decrease in the amount of the impairment losses due to an event occurring after the determination of impairment, the amount previously recognised is reversed, the impairment loss account balance being adjusted. The amount of the reversal is recognised directly through the income statement.

Write-off of principal and interest

In accordance with the policies in effect at the Group, interest on overdue loans without collateral is cancelled three months after the due date of the transaction or of the first overdue instalment. Unrecorded interest on the above mentioned loans are only recognised in the year in which it comes to be collected.

Interest on overdue loans secured by mortgage or with other real guarantees is suspended as from the date of resolution of the contract.

Loan sales

Gains and losses obtained on the definitive sale of loans are carried in the income statement under “Results from the sale of other assets”. These gains or losses correspond to the difference between the selling price agreed and the book value of those assets, net of impairment losses.

Non derecognised securitised assets

The Group 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 rights to receive their cash slows expire, (ii) the Bank has substantially transferred all the risks and rewards associated with their possession; 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.

Factoring

Assets associated with factoring transactions contracted with recourse are recorded in the balance sheet as loans granted in the amount of the funds advanced on account of the respective contracts.

Assets associated with factoring transactions contracted without recourse are recorded in the balance sheet as loans extended in the amount of the credits taken, against the recognition of a liability under "Other liabilities". Funds delivered to the adherents give rise to a corresponding debit under "Other liabilities".

Commitments resulting from credit lines negotiated with adherents and not yet used are recorded as off-balance sheet items.

Financial leasing transactions

Lease transactions are classified as finance leases whenever their terms mean that substantially all the risks and rewards associated with holding the leased assets are transferred to the lessee. These transactions are recorded in accordance with the following criteria:

i) *As lessee*

Assets acquired under finance leases are carried at fair value under "Other tangible assets" and under liabilities, and the respective depreciation being recognised. Lease instalments in respect of finance lease contracts are split in accordance with the respective financial plan, reducing the liabilities in the proportion of the amortisation of the principal. Interest included in the instalments is recorded under "Interests and similar costs".

ii) *As lessor*

Lease assets under finance leases are recorded in the balance sheet as loans granted, which is repaid through the amortisation of principal set out in the financial plan of the contracts. Interest included in the instalments is recorded under "Interests and similar income".

Guarantees provided and irrevocable commitments

Liabilities for guarantees provided and irrevocable commitments are recorded under off-balance sheet items for the amount at risk, and interest flows, commissions or other income are recorded in income statement 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 Group has the right to reverse the guarantee, the amounts being recognised under "Loans and advances to customers" after the transfer of the compensation of losses to the beneficiary of the guarantee.

d) Recognition of income and expenses related to services and commissions

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

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

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

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

e) Held-to-maturity investments

These investments are non-derivative financial assets with fixed or determinable payments and defined maturities, which the Group has the intention and ability to hold to maturity. Any reclassification or significant sale of financial assets recognised in this category that is not made close to maturity or does not fall within the exceptions provided for by the standards, will oblige the Group to reclassify this portfolio, in full, to available-for-sale financial assets. Additionally, the Group will be unable to classify any asset in this category for a period of 2 years following the sale/reclassification ("portfolio contamination").

These investments are carried at amortised cost, based on effective interest rate method, and the existence of objective evidence of impairment is assessed on each balance sheet date. When there is evidence of impairment, the corresponding loss is recognised in the income statement through the use of an impairment heading. If, in a subsequent period, the amount of the impairment loss recognised decreases, and if this decrease can be directly related to an event that occurred after the initial recognition of the impairment, the reversal of the impairment amount initially recognised is undertaken using the "provisions heading previously constituted. The amount reversed is recognised directly in the income statement.

f) Financial instruments

Financial assets and liabilities are recognised in the Bank's balance sheet on the date of payment or receipt, unless there is an express contractual stipulation or statutory provision or regulation that the rights and obligations inherent in the securities traded are transferred on a different date, in which case the latter will be the relevant date.

In addition to the "Loans and advances to customers and other receivables" and the "Instruments held-to-maturity" categories, financial assets and liabilities are subsequently classified under one of four categories set out in IAS 39:

- Financial assets and liabilities held for trading;
- Financial assets and liabilities at fair value through profit or loss;
- Available-for-sale financial assets;
- Other financial liabilities.

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

Held for trading financial assets include floating and fixed 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 and liabilities 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 interest associated with financial derivative instruments held for trading is recorded under “Results of assets and liabilities measured at fair value through profit or loss”.

The fair value of financial assets held for trading and traded on active markets is their most representative bid-price, within the bid-ask interval, or their closing price on the balance sheet 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 active markets, 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.

ii) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt instruments not classified as financial assets held for trading, at fair value through profit or loss, such as held-to-maturity investments or as loans and accounts receivable.

Available-for-sale financial assets are carried at fair value, with the exception of equity instruments not listed on an active market, whose fair value cannot be measured reliably, which continue to be carried at their acquisition cost, net of impairment. Gains and losses related to subsequent variation of the fair value are reflected in a specific equity heading named “Revaluation reserve – Fair value”, up until their sale or up to the recognition of impairment losses, when they are transferred to the income statement. Foreign exchange gains or losses of monetary assets are recognised directly in the income statement.

The interest inherent in the available-for-sale financial assets is calculated in accordance with the effective interest rate method and recorded in the income statement under “Interest and similar income”.

Income from variable return 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.

iii) Reclassification of financial assets

In accordance with the amendment introduced on October 13, 2008, to IAS 39 – “Financial instruments: Recognition and measurement”, the Group may reclassify a financial asset that is no longer held for the purpose of sale or repurchase in the short term (though it may have been acquired or incurred mainly for the purpose of sale or repurchase in the short term), withdrawing it from the category of fair value through profit or loss, provided certain requirements are met. However, no reclassifications of other categories to the category of “Other financial assets at fair value through profit or loss" are permitted.

As from this date reclassification is also permitted of financial instruments of the of financial assets held for sale category to the Loans and accounts receivable and held-to-maturity investments categories, provided that the entity is able to prove the ability and intention to hold the asset to maturity. Reclassifications are accounted for at fair value on the reclassification date, which becomes the "new amortised cost" of the instrument. Any gain or loss of the reclassified asset recorded under equity is recycled to profit or loss throughout the maturity of the instrument at the effective interest rate of the instrument. If, subsequently, impairment is recognised in the reclassified asset, the amount recognised in equity, at the time, is recycled to the income statement of the period.

iv) Income Recognition

Interest inherent in financial assets and the recognition of the differences between their acquisition cost and their nominal value (premium or discount) are calculated in accordance with the effective interest-rate method and recorded under "Interest and similar income" of the income statement.

v) Sale operations with repurchase agreements

Securities sold with repurchase agreement are maintained 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.

vi) Impairment of financial instruments

When there is objective evidence of impairment of a financial asset or group of financial assets, impairment losses are recorded in the income statement.

For listed equity instruments, it is considered that there is objective evidence of impairment when there is a prolonged devaluation or one of significant value of the price of such securities. For the remaining securities, existence of negative impact on the estimated amount of future cash flows of the financial asset is considered objective evidence of impairment, provided it can be reliably estimated.

In this way, the Group considers the specific nature and characteristics of the assets under valuation in the periodic analyses that it performs as to the existence of impairment losses. With regard to objective impairment criteria, the Group considers appropriate a term of 24 months for the purposes of the criterion of prolonged devaluation in financial instruments and, as regards the criterion of significant devaluation, the existence of potential losses in excess of 50% of the acquisition cost of the financial instrument.

Except as described in the following paragraph, if in a subsequent period there is a decrease of the amount of the impairment losses attributed to an event occurring after the determination of the impairment, the amount previously recognised is reversed through adjustment to the impairment losses account. The amount of the reversal is recognised directly in the income statement.

With regard to available-for-sale financial assets, in the event of objective evidence of impairment as a result of a significant or prolonged decline of the fair value of the security or of the issuer's financial difficulties, the accumulated loss in the fair value revaluation reserve is removed from equity and transferred to the income statement. Impairment losses recorded in investments in debt instruments can be reversed through profit or loss in the event of a positive change to their fair value resulting from an event that occurred after the determination of the impairment. Impairment losses related to investments in equity instruments cannot be reversed through the income statement, and therefore any subsequent increases of value must be recorded in the fair value reserve. As for debt instruments for which an impairment has been recorded, subsequent negative variations of their fair value are always recognised in the income statement.

With regard to financial assets carried at cost, notably unlisted equity instruments whose fair value cannot be measured reliably, the Bank also performs periodic impairment tests. In this connection, the recoverable amount of those assets corresponds to the best estimate of their future cash flows, discounted at a rate that adequately reflects the risk associated with holding them.

vii) Other financial 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 recognized at their fair value, which normally corresponds to the amount received, net of transaction costs, and are subsequently carried at amortised cost in keeping with the effective interest-rate method.

Bond issues are carried under Liabilities represented by securities and Subordinated liabilities.

Derivatives embedded in bonds issued and in structured deposits issued are recorded separately under "Financial assets and liabilities held for trading", and are revalued at fair value through the income statement.

viii) Secondary market transactions

The Bank repurchases bonds issued on the secondary market. Purchases and sales of own bonds are proportionally included 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.

g) Valuation and recording of derivative financial instruments and hedge accounting

Derivative financial instruments traded by the Group are recognised in the balance sheet at fair value.

Derivatives embedded in other financial instruments (structured deposits) are separated from the host instrument whenever their risks and characteristics are not closely related to those of the host contract and the entirety of the instrument is not recorded at fair value with changes in fair value being recognized in profit or loss.

The Group uses derivative financial instruments in particular to hedge the interest-rate risk arising from financing and investment activities. Derivatives that do not qualify for hedge accounting are recorded as financial instruments held for trading, under financial assets or liabilities held for trading, and all changes of their fair value are reflected in profit or loss.

Derivatives that qualify for hedge accounting are carried at their fair value and capital gains or losses are recognised in accordance with the Group's hedge-accounting model.

Under the terms of IAS 39, application of hedge accounting is only possible when the following requirements are cumulatively 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 the income statement.

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 the income statement during their remaining term.

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

Cash flow hedge

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

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

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 hedged item instrument, relative to the risk, from the start of the hedge.

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

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

h) Other tangible assets

Tangible assets used by the Group 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, on a monthly basis, over the period of the estimated useful life of the assets, which corresponds to the period during which the assets are expected to be available for use, as detailed hereunder:

	Years of useful life
Property for own use	50
Equipment	4 to 10

Non-recoverable expenses incurred with construction works on buildings that are not owned by the Group (leased) are depreciated over a period of time compatible with their expected useful life or of the lease, if shorter, 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 net 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 index. 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.

i) Intangible assets

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

Amortisation of intangible assets is accrued, on a monthly basis, over their estimated period of useful life, which is three years on average.

In 2017 and 2016, the Group did not recognise any intangible assets generated internally.

j) Investment properties

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

Investment properties are recorded at their 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. Improvements that are expected to generate additional future economic benefits are capitalised.

k) Non-current assets held for sale

The Bank essentially recognises under Non-current assets held for sale real estate, equipment and other assets received in settlement of non-performing loans when they are available for immediate sale in their present condition and there is likelihood of their sale within a period of one year. If they do not meet these criteria, those assets are carried under Other assets (Note 20).

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 unrealized gains on these assets.

Their initial recognition is at the lower of their fair value less expected selling costs and the book value 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.

l) Provisions and contingent liabilities

A provision is set up 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 at the balance sheet date. If no future outflow of funds is probable, it is a contingent liability. Contingent liabilities are disclosed (unless their possibility is remote), except in respect of contingent liabilities associated with the acquisition of businesses, which are recognised in accordance with the provisions of IFRS 3.

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 contigencies, ongoing legal proceedings and other specific risks arising from its business, as well as other situations associated with the acquisition of a significant part of the business of the former Banif.

m) Employees' post-employment benefits

Banco Santander Totta S.A.

The Bank endorsed the Collective Labour Agreement (Acordo Colectivo de Trabalho – ACT) for the Portuguese banking sector, and therefore its employees or their families are entitled to retirement, disability and survival pensions.

For employees admitted to the Bank up until December 31, 2008, the existing pension plan corresponds to 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 ACT for personnel in service. For these employees, the Bank is liable for the full amount of the pensions provided for in the ACT. To cover the liabilities under this defined-benefit plan, the Bank has a Pension Fund.

As from January 1, 2009, employees hired 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 ACT, published in the Boletim de Trabalho e Emprego (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 Regime of Social Security. 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 Regime of Social Security, as regards r 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 Regime of Social Security for the events included and for those laid down under the terms of the Collective Labour Agreement.

Liabilities for past services recognised as at December 31, 2010, were not altered with the publication of the aforesaid Decree-Law, since the reduction of the amount of the pensions payable by the Bank related with workers in active service was applicable to the future services of the employees, beginning on January 1, 2011.

In this way, the cost of the current service cost fell as from that date, but the Bank came to bear the Single Social Charge (TSU) of 23.6%. On the other hand, the Bank is still liable for the payment of invalidity and survivors' pensions and of the sickness benefits. This understanding was also confirmed by the National Council of Financial

Supervisors.

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 substitutive Social Security regime set out in the ACT.

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 pension established under the terms and conditions laid down in the applicable collective labour regulation instruments of the banking sector, as at December 31, 2011, 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 the healthcare system (Serviços de Assistência Médica Social – SAMS) managed by the respective unions, levied on the retirement and survivors' pensions as 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) of the survival 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, in 2017, and Towers Watson (Portugal) Unipessoal Limitada, in 2016), 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 a similar maturity to the plan's liabilities. The post-employment benefits of employees also include medical care (SAMS), and the death benefit and the bonus on retirement.

The former Banco Santander de Negócios Portugal, SA (BSN) did not sign the Collective Labour Agreement (ACT) in force for the banking sector. Thus, in 2006, BSN constituted a defined-contribution pension fund to which employees could make voluntary contributions. BSN's contribution to that Fund depended on its results and corresponded to a percentage of the employees' remuneration, with an annual minimum 1,000 euros per participant. Following the merger by incorporation of BSN into BST, BSN employees were included in the ACT and in the BST defined-benefit pension plan as from May 2010, with the recognition of the service period of employees hired before July 1, 1997. In 2014, the former BSN Fund was wound up after authorisation by the Insurance and Pension Funds Supervisory Authority.

Totta IFIC did not have a pension fund. Following the merger by incorporation of Totta IFIC into BST, its employees were included in the ACT and in the BST defined-benefit pension plan as from April 2011. Additionally, the service period of employees hired before July 1, 1997 has been recognized.

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 group of workers of the former Banif.

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

i) Change in the formula for determining the employer's contribution to SAMS, which is no longer a percentage of the retirement 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 designated award on retirement – end of career award. This benefit, because it is attributed 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, BST assumed the pension liabilities of all this entity's workers.

Santander Totta Seguros ("Company")

In accordance with the collective labour agreement (CCT) then in force for the insurance sector, the Company had undertaken to grant cash benefits to supplement the pensions granted by Social Security to its employees admitted to the sector until June 22, 1995, effective date of the CCT, including those transferred from Seguros Génesis under the agreement concluded between that company and the Company on June 29, 2001. These benefits consisted of a percentage, increasing with the number of years of service of the employee, applied to the salary table in force at the date of retirement.

Under the new collective labour agreement for the insurance activity, signed on December 23, 2011, the previous defined benefit pension plan was replaced, as regards active employees, with reference to January 1, 2012, by a defined contribution plan, with the current value of the liabilities for past services as of December 31, 2011 being transferred to the individual account of each participant. This amendment did not apply to pension liabilities in respect of retired or pre-retired employees as of December 31, 2011. However, on that date, the Company had no employees in that situation.

In July 2002, the Company adhered to Fundo de Pensões Aberto Reforma Empresa, managed by Santander Pensões – Sociedade Gestora de Fundos de Pensões, S.A. (an entity integrating the Santander Group).

Application of IAS 19

On January 1, 2005, the Bank opted not to apply IAS 19 retrospectively, not 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 annulled/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:

- Current service cost;

- Net interest with the pension plan;

- Early retirement cost, corresponding to the increase of liabilities due to early 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 with 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 pension liabilities.

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

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

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

As at December 2017 and 2016, the coverage rate of the whole of BST’s liabilities (excluding those related to its London Branch, with the former Banif and with BAPOP) for employee benefits, including SAMS, amounted to 103.90% and 100.02%, respectively.

As at December 2017 and 2016, the coverage rate of the liabilities transferred from former Banif stood at 77.58% and 82.79%, respectively.

As at December 2017 and 2016, the coverage rate of the liabilities transferred from BAPOP stood 101.45%.

n) <u>Income tax</u>

The Company and Group companies located in Portugal are subject to the tax regime established in the Corporate Income Tax Code (CIRC).

In accordance with the State Budget Law for 2011 (Law No. 55–A/2010, of December 3) and Article 92 of the Corporate Income Tax Code, tax paid under the terms of paragraph 1, Article 90, net of international double taxation and any tax benefits, cannot be lower than 90% of the amount that would have been determined if the taxpayer did not have the tax benefits established in paragraph 13, Article 43 of the Corporate Income Tax Code.

Following the enactment of Law 2/2014, of January 16 (IRC Reform) and of the wording provided by the 2016 State Budget Act (Law 7-A/2016 of March 30), the taxation of corporate earnings for 2017 and 2016 came to be the following:

- Corporate income tax rate of 21% on taxable income;
- Municipal surcharge at a rate between 0% and 1.5% on taxable income;
- State surcharge at a variable rate on taxable income in accordance with the following tiers:
  - Up to €1,500 thousand 0%
  - between €1,500 thousand and €7,500 thousand 3%
  - between €7,500 thousand and €35,000 thousand 5%
  - over €35,000 thousand 7%

In this way, the changes mentioned above imply that the tax rate used by the Bank in determining and recording deferred taxes in 2017 was 29%.

The 2018 State Budget increase the last tier previously set for the State surcharge, increasing it from 7% to 9%. In this way, the tax rate used by the Bank in determining and recording deferred taxes in 2017 came to be 31%.

Tax losses generated as from 2014, inclusive, may be used during the twelve 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 tax utilization 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 came to be subject to recording impairment losses calculated in accordance with the requirements IAS 39 – Financial instruments: Recognition and measurement, instead of recording provisions for specific risk, for general credit risks and for country risk, under the terms previously laid down in Bank of Portugal Notice nº 3/95.

Regulatory Decree 5/2016, of November 18 (Regulatory Decree) 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 financial year 2016. This methodology was also applied to the treatment of the transitional adjustments related to the credit impairments of entities that had previously submitted their financial statements under the 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 income 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 taxable profit/loss of the Group corresponds to the sum of the taxable profit/loss that had been determined by the parent company through the algebraic sum of tax results determined in the periodic separate statements of each company. The companies covered by this scheme are: Santander Totta, SGPS - the controlling company, and Taxagest, 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 in the amount of €272,955 thousand, generated by the former Banif and included in the perimeter defined by the Bank of Portugal, within the scope of the resolution measure, include €250,000 thousand relating to tax losses.

The Bank has submitted a request to the Minister of Finance for the deferred tax assets transferred within the scope of the acquisition of the former Banif relating to tax losses carried forward to be used to offset BST's future taxable profits, under the terms of article 145-AU(4) of the General Credit Institutions and Financial Companies Regime. In the meantime, the Bank was notified of the acceptance of its intention, use of which is subject to the application of the limit provided for in article 75(4) of the IRC code; clarification is in progress of the criteria for application and confirmation of the adequacy of the assumptions underlying its recognition. Given the degree of uncertainty, the Bank decided that that conditions required at the time to record the corresponding deferred tax assets in the financial statements as at December 31, 2017, had not been assured in full.

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 the income statement, with the exception of taxes relating to transactions directly recorded in equity, in particular, potential gains and losses on available-for-sale financial assets and 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:

- Balances that in accordance with the applicable accounting standards are recognised under shareholders' equity;
- Liabilities associated with the recognition of liabilities with defined-benefit plans;
- Provisions;
- Liabilities arising from revaluation of derivative financial instruments;
- Deferred income revenues, excluding those arising from liability 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 derivatives with mutually offsetting exposures.

The rates applicable to the incidence bases defined in subparagraphs a) and b) above are 0.110% and 0.0003%, respectively, as provided for in the amendment introduced by Ordinance 165-A/2016, of June 14, to article 5 of Ordinance 121/2011 of March 30.

o) Technical reserves

Santander Totta Seguros – Companhia de Seguros de Vida, S.A., sells life insurance having, until December 2014, also sold non-life insurance.

Insurance contracts and investment contracts with a discretionary profit sharing component sold by Santander Totta Seguros are accounted for in the consolidated financial statements of Santander Totta in accordance with IFRS 4. Hence, the technical reserves presented in the consolidated financial statements correspond to the technical reserves recoded in Santander Totta Seguros for said contracts:

- Reserve for unearned premiums and deferred acquisition costs

  The reserve for unearned premiums corresponds to the deferral of the written premiums, being calculated on a policy-by policy basis, from the balance sheet date up to the end of the premium period.

  This reserve is applicable to life and non-life business risk products. Santander Totta Seguros defers the acquisition costs related to the intermediary's commissions incurred with the raising of the respective insurance policies.

- Mathematical reserve for the life business

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

- Reserve for interest rate commitments

  The reserve for interest rate commitments is recorded when the effective rate of return on financial instruments that represent the mathematical reserves of the life sector and the financial liabilities arising from the investment contracts without discretionary profit sharing is lower than the technical interest rate used to determine these mathematical reserves and financial liabilities.

- Claims reserve

  The claims reserve is intended to cover the indemnities payable in respect of claims that have occurred but have not been settled, and are determined as follows:

i) Based on the analysis of outstanding claims at the end of the financial year and the consequent estimate of the liability existing as at that date;

ii) From the estimate of the amounts necessary to cover liabilities with claims incurred but not reported (IBNR); and

iii) From the estimate of the administrative costs to be incurred in the future settlement of claims that are currently in the process of being settled.

- Reserves for profit sharing attributable

Corresponds to the net value of the fair value adjustments of investments allocated to life insurance with profit sharing, on the estimated portion corresponding to the policyholder or beneficiary of the contract.

The determination of the profit sharing attributable to the policyholders is based on the statutory financial statements of Santander Totta Seguros prepared in accordance with accounting principles generally accepted in Portugal for the insurance sector. Accordingly, for the purpose of preparing the consolidated financial statements, these financial assets are classified as available-for-sale financial assets, and the respective potential capital gains or losses, net of taxes, are recorded under the heading "Revaluation reserves" of the consolidated equity. In addition, the policyholders portion is recognized under the heading "Technical reserves for liabilities (reserve for profit sharing attributable - "shadow reserve")" with the counter-entry under "Revaluation reserves" of the consolidated equity, in order to avoid distortions at the consolidated income statement and equity account levels ("shadow accounting" foreseen under IFRS 4).

- Reserve for profit sharing attributed

The reserve for profit sharing attributed corresponds to the amounts attributed and not yet distributed to the beneficiaries of the insurance contracts, and their calculation is determined according to the technical bases of each product. The profit sharing is paid to the beneficiaries of the contracts or distributed to the insurance policies under the terms established in the respective policies' general conditions.

- Technical reserves of reinsurance ceded

Correspond to the reinsurers' share of Santander Totta Seguros' total liabilities, being calculated in accordance with the reinsurance treaties in force, based on the cession percentages and other clauses.

- Reserve for outstanding risks

The reserve for outstanding risks corresponds to the amount necessary to cover probable indemnities and charges payable after the year-end and which exceed the amount of unearned premiums and the premiums receivable under non-life insurance contracts in force at year-end. This provision is calculated based on the claims, expenses, cession and income ratios calculated in the year, as defined by the Insurance and Pension Funds Supervisory Authority.

- Liability adequacy tests

Under IFRS 4, Santander Totta Seguros evaluates at each reporting date whether its liabilities for insurance contracts recognized are adequate using present value estimates of the future cash flows in accordance with the terms of the contracts. If this evaluation, known as liability adequacy tests, reveals that the book value of its liabilities for insurance contracts is inadequate in light of the estimated future cash flows, the total shortfall is recognized as a loss in the income statement.

p) Adjustments to outstanding premiums

Their purpose is to adjust the amount of outstanding premiums to their estimated realizable value in accordance with Circular No. 9/2008, of November 27, of the Insurance and Pension Funds Supervisory Authority.

q) Recognition of income and costs - insurance

Premiums of life insurance contracts and investment contracts with discretionary participating features are recorded when they are issued, under the heading "Gross margin on insurance activity - Gross premiums written, net of reinsurance", of the income statement.

Investment contracts without discretionary participation, sold by Santander Totta Seguros, are recorded in the consolidated financial statements under IAS 39, as "Resources of customers and other debts".

The securities allocated to the insurance activity are all those that represent the liabilities for insurance contracts and financial liabilities for investment contracts with and without discretionary participation and are recorded in the consolidated financial statements under "Available-for-sale financial assets", except for the securities allocated to contracts in which the investment risk is borne by the policyholder (unit-linked contracts), which are recorded under "Other financial assets at fair value through profit or loss".

r) Long-term incentive plans

The Group has long-term incentive plans for stocks of 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, hedging and implementation of these long-term incentive plans is ensured directly by Banco Santander SA. The Group annually pays Banco Santander, SA, the amount related to these plans.

The recording these plans consists of recognising the rights of the Bank's employees to these instruments under “Other reserves”, against an 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 50.

s) Own shares

Own shares are recorded in equity at acquisition cost and are not subject to revaluation. Gains and losses realised on sale of own shares, as well as the respective taxes are recorded directly in equity and do not affect the year’s net income.

t) Cash and cash equivalents

In the preparation of the cash flow statement, the Bank considers “Cash and cash equivalents” to be the total of the headings “Cash and deposits at central banks” and “Balances due from other banks”, given that the items accounted for under this heading have a maturity of under 3 months, and their risk of change in value is immaterial.

1.4. Acquisition and Merger of Banco Popular Portugal

Background

Following the decision of the Single Resolution Council with regard to the application of a resolution measure to Banco Popular Español, SA, taken on June 7, 2017, through the instrument for the sale of the whole of the business, with the transfer of the whole of the shares representing the share capital of Banco Popular Español, SA, to Banco Santander, SA, the latter came to hold indirectly the whole of the share capital and voting rights of BAPOP.

In view of the restructuring of the business of Banco Popular in Portugal and its inclusion in the Santander Group, BST and Banco Santander, SA, have shown the intention to transfer all the shares representing the share capital and voting rights of BAPOP to BST.

For the purpose, on September 22, 2017, BST submitted to the Bank of Portugal and to the ECB a request of non-opposition to the acquisition of a qualifying holding of 100% of the share capital and voting rights of BAPOP.

The acquisition by BST is justified in the light of the strategic project of the Santander Group, based on a financial group segmented into autonomous subsidiaries in each of the major geographies in which it carries on its business, the aim being that this acquisition be seen to be an instrumental step to allow an immediate and subsequent merger by incorporation of BAPOP into BST.

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 acquired from BAPOP the 513,000,000 shares representing the whole of the share capital for a consideration of €554,000 thousand.

Impact of the Acquisition and Merger

The result determined on the acquisition of BAPOP was negative in the amount of €8,411 thousand, determined on the basis of the estimated fair value of the assets acquired and liabilities assumed or in accordance with international financial reporting standards when, for some assets and liabilities, the measurement principle is not that provided for in IFRS 3 – "Business Combinations".

The Group applied IAS 19 – Employee benefits to the assets acquired and liabilities assumed related with employee benefits and IAS 12 – Income taxes to the assets acquired and liabilities assumed related with taxes.

Under the terms of IFRS 3, the Bank has a maximum period of one year from the date of acquisition to obtain missing information and possibly correct retrospectively the value of the assets acquired and liabilities assumed and, therefore, the result determined at the time of the purchase.

The methodology used by the Bank in determining the fair value of the main assets and liabilities acquired by BST can be summarised as follows:

- With regard to "Cash and deposits at central banks" and "Balances due from other banks", taking their nature into account, the estimated fair value corresponds to the carrying amount of the assets acquired.

- With regard "Loans and advances to credit institutions" and "Resources of other credit institutions", taking their nature into account, the estimated fair value corresponds to the carrying amount of the assets acquired.

- For “Loans and advances to customers” the fair value was determined based on the gross amount less the estimated impairment, as a fair approximation to the fair value, given that in the determination of the impairment the current value of the estimated cash flows is calculated.

- Regarding “Resources of customers and other debts” it was considered for the customers’ demand deposits that the fair value was equal to the carrying amount. For the remaining customer deposits, the average rates of deposits contracted by BST customers were used.

- With regard to public debt securities carried under “Available-for-sale financial assets” the prices available in active markets were considered.

- With regard to public debt securities carried under “Held to maturity Investments” they were reclassified to the “Available-for-sale financial assets portfolio” and valued at the prices available in active markets.

- With regard to properties received as payment in kind, the available valuations were reviewed and BST’s criteria for hard to sell properties were applied.

Subsequent to the acquisition of BAPOP BST implemented the merger operation through the total transfer of BAPOP’s assets and liabilities in keeping with the amounts detailed in its accounting records as of the date of acquisition on December 27, 2017.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

We present below the reconciliation between the balance sheet on the date of acquisition and subsequent merger and the fair value of assets and liabilities acquired by BST:

	Balance before acquisition and subsequent merger				
	before provisions impairment depreciation	Provisions impairment depreciation	Net value	Fair value	Adjusted value
Assets					
Cash and deposits at central banks	212,193	-	212,193	-	212,193
Balances due from other banks	70,870	-	70,870	-	70,870
Financial assets held for trading	21,506	-	21,506	-	21,506
Available-for-sale financial assets	281,749	-	281,749	558,852	840,601
Loans and advances to credit institutions	60,497	-	60,497	-	60,497
Loans and advances to customers	6,107,711	398,320	5,709,391	(263,417)	5,445,974
Held to maturity investments	519,495	-	519,495	(519,495)	-
Other tangible assets	112,987	55,598	57,389	-	57,389
Intangible assets	6,328	4,692	1,636	-	1,636
Investments in associated companies	31,081	3,680	27,401	(6,615)	20,786
Current tax assets	10,425	-	10,425	47,088	57,513
Deferred tax assets	87,499	-	87,499	64,951	152,450
Other assets					
Assets received by credit recoverieas	224,707	33,574	191,133	(72,000)	119,133
Other assets	134,449	423	134,026		134,026
Total Assets	**7,881,497**	**496,287**	**7,385,210**	**(190,636)**	**7,194,574**
Liabilities					
Financial liabilities held for trading	20,758	-	20,758	-	20,758
Resources of other credit institutions	2,542,713	-	2,542,713	-	2,542,713
Resources of customers	3,954,233	-	3,954,233	-	3,954,233
Debt securities	1,832	-	1,832	-	1,832
Hedging derivatives	3,536	-	3,536	-	3,536
Provisions	9,706	-	9,706	-	9,706
Current tax liabilities	2,999	-	2,999	-	2,999
Other liabilities	87,208	-	87,208	26,000	113,208
Total Liabilities	**6,622,985**	**-**	**6,622,985**	**26,000**	**6,648,985**
Capital					
Share capital	513,000	-	513,000	-	513,000
Share premium account	10,109	-	10,109	-	10,109
Revaluation reserves	(43,285)	-	(43,285)	-	(43,285)
Other reserves and retained earnings	305,052	-	305,052	-	305,052
Net income	(22,651)	-	(22,651)	-	(22,651)
Popular integration	-	-	-	(216,636)	(216,636)
Total capital	**762,225**	**-**	**762,225**	**(216,636)**	**545,589**
Total Liabilities + Capital	**7,385,210**	**-**	**7,385,210**	**(190,636)**	**7,194,574**
Purchase value					**(554,000)**
Merger impact					**(8,411)**

1.5. Comparability of information

The information contained in these financial statements is, in its entirety, comparable to that of the previous financial year.

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

The estimates and judgments with an impact on the consolidated financial statements of the Santander Totta Group are continuously evaluated, representing at each reporting date the best estimate of the Board of Directors, considering the historical performance, accumulated experience and expectations as to future events which, in the circumstances, are considered to be reasonable.

The intrinsic nature of the estimates may lead to the actual amounts of the situations, which had been estimated for financial reporting purposes, being different from the estimated amounts.

Employees' post-employment benefits

The liabilities with retirement and survival pensions have been estimated using actuarial valuations performed by external experts certified by the Insurance and Pension Funds Supervisory Authority (ASF). These estimates incorporate a set of financial and actuarial assumptions, including discount rate, mortality and disability tables, and pension and salary growth, amongst others.

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

Valuation of financial instruments not traded on active markets

Models and valuation techniques, such as those described in Note 1.3 f) above, are used to value financial instruments not traded on active markets. Consequently, the valuations correspond to the best estimate of the fair value of these instruments as of the balance sheet date. As mentioned in Note 1.3. f), to ensure an adequate segregation of duties, the valuation of these financial instruments is determined by a body independent of the trading function.

Fair value

The financial assets and liabilities recorded in the categories "Financial assets held for trading", "Financial liabilities held for trading", "Other financial assets at fair value through profit or loss" and "Available-for-sale financial assets" are measured at fair value.

The fair value of a financial instrument corresponds to the amount for which a financial asset or liability can be sold or settled (in other words, an exit price) between parties that are independent, knowledgeable and interested in the closing of the transaction under normal market conditions. The fair value of financial assets and liabilities is determined by a Group body independent of the trading function, based on:

- For financial instruments traded on active markets, the closing price on the balance sheet date;

- For debt instruments not traded on active markets (including unlisted securities or securities with limited liquidity) valuation methods and techniques are used, including:

  i) Bid prices obtained through financial information providers, namely Bloomberg and Reuters, including market prices available for recent transactions;

  ii) Indicative bid prices obtained from financial institutions that operate as market-makers; and

  iii) Valuation models, which take into account market input that would be used to determine the price for the financial instrument, reflecting market interest rates and volatility, as well as the liquidity and the credit risk associated with the instrument.

Amortized cost

Financial instruments measured at amortized cost are initially recorded at their fair value increased or decreased by the income or expenses directly attributable to the transaction. The interest is recognized through the effective interest rate method.

Whenever the estimate of payments or collections associated with financial instruments measured at amortized cost is revised (and provided this does not imply the derecognition and recognition of new financial instruments), the book value is adjusted to reflect the revised expected cash flows. The new amortized cost results from the present value of the revised future cash flows discounted at the original effective interest rate of the financial instrument. The adjustment in the amortized cost is recognized in the income statement.

Determination of loan impairment losses

Loans impairment losses have been determined as explained in Note 1.3. c) above. Consequently, the impairment assessment performed on an individual basis corresponds to the Group’s judgment as to the financial situation of its customers and its estimate of the value of the collateral received, with the corresponding impact on the expected future cash flows. Impairment losses determined on a collective basis are estimated based on historical parameters for comparable types of operations, considering estimates of default and recoverability.

Determination of impairment losses on available-for-sale financial assets

As described in Note 1.3. f), the unrealized capital losses resulting from the valuation of these assets are recognized under the heading “Revaluation reserve - Fair value”. Nevertheless, whenever there is objective evidence of impairment, the accumulated capital losses recorded in that reserve are transferred to the income statement.

In case of equity instruments, the determination of impairment losses may involve a certain degree of subjectivity. The Group determines whether or not impairment of these assets exists through a specific analysis at each balance sheet date, taking into account the existence of any of the events foreseen in IAS 39.

In case of debt instruments recorded in this category, unrealized capital losses are transferred from the heading “Revaluation reserve – Fair value” to the income statement whenever there are indications that default might occur, namely, due to financial difficulties of the issuer, failure to comply with other financial liabilities, or a significant deterioration in the rating of the issuer. The amount of the impairment of available-for-sale financial assets based on the above criteria is indicated in Note 26.

Taxes

Deferred tax assets are recognized based on the assumption of the existence of future taxable income. Furthermore, current and deferred taxes have been determined based on the interpretation of the tax legislation currently in force. Therefore, changes in tax legislation or in its interpretation by the competent authorities may have an impact on the amount of current and deferred taxes.

In order to adapt the Corporate Income Tax Code to the International Accounting Standards as adopted by the European Union and to the new accounting system (Sistema de Normalização Contabilística (“SNC”)), approved by Decree-Law No. 158/2009, of July 13, Decree-Law No. 159/2009, of July 13, was approved.

The above referred Decree-Law amended some articles of the Corporate Income Tax Code and also revoked Article 57, paragraph 2 of the State Budget Law of 2007. These changes came into force on January 1, 2010.

Hence, these new rules were observed in the computation of the taxable income for financial years 2017 and 2016, in accordance with the Group´s interpretation of same.

Determination of the outcome of the legal proceedings underway

The outcome of the legal proceedings in progress, as well as the need for provisioning are estimated based on the opinion of the lawyers/legal advisors of the Bank and the court decisions to date, which may, however, not be upheld.

Determination of the liabilities for insurance contracts

The Company's liabilities for insurance contracts are determined based on the methodologies and assumptions described in Note 1.3. p) above.

Due to its nature, the determination of provisions for claims and other liabilities for insurance contracts has a certain level of subjectivity, and the amounts actually incurred may differ from the estimates recognized in the balance sheet.

However, the Company considers that the liabilities determined based on the methodologies applied adequately reflect the best estimate as at December 31, 2016 of the liabilities to which it is obligated.

Reinsurance ceded

The unearned premiums reserve for reinsurance ceded, the mathematical reserve for reinsurance ceded and the claims reserves for reinsurance ceded correspond to the reinsurers' share of the Group's total liabilities and are calculated under the reinsurance treaties in force at the balance sheet date. The reserve for profit sharing on reinsurance ceded is also estimated at the balance sheet date, based on the contractual conditions established in said reinsurance treaties.

3. SEGMENT REPORTING

In accordance with the requirements of IFRS 8, the disclosures per operating segments are presented below, in accordance with the information that is analysed by the Company's management bodies:

Global Banking & Markets:

This area essentially includes the Group's activity in financial markets and with large companies, providing financial advisory services, namely Corporate and Project Finance, as well as brokerage, custodial and settlement services.

Retail Banking:

This area essentially corresponds to credit granting operations and the attracting of funds from private customers and businesses with a turnover under Euros 10 million, through the branch network and services made available through supplementary banking channels.

Commercial Banking:

This area comprises businesses with turnover of more than €10 million and less than €125 million. This business is supported by the branch network, business centres and specialised services, and includes a variety of products, including loan and project, trade, exports and real estate financing.

Insurance Management:

This area includes life insurance which, in the cross selling strategy, is sold through the Group's branch network.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Corporate Activities:

This area covers all the activities that provide support to the Group's main activities but which are not directly related to its core business, including liquidity management, balance sheet hedging and Group structural funding.

The income statement by business segment as of December 31, 2017 is made up as follows:

	31-12-2017					
	Global Corporate Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Financial margin (narrow sense)	85,134	419,453	94,598	1,311	96,432	696,928
Income from equity instruments	-	-	-	-	2,911	2,911
Financial margin	**85,134**	**419,453**	**94,598**	**1,311**	**99,343**	**699,839**
Net commissions	39,744	285,753	18,329	(3,113)	(9,603)	331,110
Other results from banking activity	-	5,923	-	(349)	(20,297)	(14,723)
Insurance activity	-	-	-	10,967	-	10,967
Commercial margin	**124,878**	**711,129**	**112,927**	**8,816**	**69,443**	**1,027,193**
Results from financial operations	12,166	3,961	1,860	(128)	102,624	120,483
Net income from banking activities	**137,044**	**715,090**	**114,787**	**8,688**	**172,067**	**1,147,676**
Operating costs	(22,936)	(423,024)	(32,564)	(9,203)	(2,551)	(490,278)
Depreciation and amortization	(2,853)	(33,001)	(1,069)	(735)	(1)	(37,659)
Net operating income	**111,255**	**259,065**	**81,154**	**(1,250)**	**169,515**	**619,739**
Impairment and provisions, net of reversals	1,103	5,641	26,387	-	(71,405)	(38,274)
Result from associates	-	-	-	3,015	6,277	9,292
Income before taxes	**112,358**	**264,706**	**107,541**	**1,765**	**104,387**	**590,757**
Taxes	(33,708)	(78,606)	(31,115)	518	(11,316)	(154,227)
Non-controlling interest	-	-	-	-	(193)	(193)
Net income for the period	**78,650**	**186,100**	**76,426**	**2,283**	**92,878**	**436,337**

At December 31, 2017, the assets and liabilities under the management of each business segment, in accordance with the information used by the Group's Management for decision making, are as follows:

	31-12-2017					
	Global Corporate Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities [1]	Total
Assets						
Loans and advances to customers						
Mortgage loans	-	17,214,078	-	-	1,877,051	19,091,129
Consumer loans	-	1,573,175	-	-	45,829	1,619,004
Other loans	3,531,993	4,298,173	7,582,786	-	3,523,094	18,936,046
Total allocated assets	**3,531,993**	**23,085,426**	**7,582,786**	**-**	**5,445,974**	**39,646,179**
Total non-allocated assets						13,522,811
Total Assets						**53,168,990**
Liabilities						
Resources of customers and other debts	1,105,786	22,810,854	3,587,036	-	3,954,234	31,457,910
Debt securities	-	-	-	-	4,535,553	4,535,553
	1,105,786	**22,810,854**	**3,587,036**	**-**	**8,489,787**	**35,993,463**
Total non-allocated Liabilities						13,143,295
Total Liabilities						**49,136,758**
Guarantees and sureties given (Note 32)	**205,506**	**425,552**	**718,156**	**-**	**368,389**	**1,717,603**

(1) includes BAPOP assets and liabilities

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The income statement by business segment as of December 31, 2016 was made up as follows:

	31-12-2016					
	Global Corporate Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Financial margin (narrow sense)	102,653	472,314	136,371	2,117	18,546	732,001
Income from equity instruments	-	-	-	-	4,198	4,198
Financial margin	**102,653**	**472,314**	**136,371**	**2,117**	**22,744**	**736,199**
Net commissions	41,764	267,478	21,488	(2,900)	(22,087)	305,743
Other results from banking activity	(14)	5,873	(1)	(266)	(5,647)	(55)
Insurance activity	-	-	-	10,374	-	10,374
Commercial margin	**144,403**	**745,665**	**157,858**	**9,325**	**(4,990)**	**1,052,261**
Results from financial operations	12,236	2,804	714	13,942	115,077	144,773
Net income from banking activities	**156,639**	**748,469**	**158,572**	**23,267**	**110,087**	**1,197,034**
Operating costs	(19,160)	(427,799)	(48,299)	(7,633)	(2,629)	(505,520)
Depreciation and amortization	(3,128)	(31,290)	(1,630)	(1,544)	-	(37,592)
Net operating income	**134,351**	**289,380**	**108,643**	**14,090**	**107,458**	**653,922**
Impairment and provisions, net of reversals	(11,967)	(75,221)	(43,585)	(295)	7,846	(123,222)
Result from associates	-	-	-	3,252	13,226	16,478
Negative consolidation difference	-	-	-	-	599	599
Income before taxes	**122,384**	**214,159**	**65,058**	**17,047**	**129,129**	**547,777**
Taxes	(36,715)	(64,690)	(19,518)	(2,175)	(28,804)	(151,902)
Non-controlling interest	-	(3)	-	-	(198)	(201)
Net income for the period	**85,669**	**149,466**	**45,540**	**14,872**	**100,127**	**395,674**

At December 31, 2016 the assets and liabilities under management for each business segment in accordance with the information used by the Group's Management for decision making, were as follows:

	31-12-2016					
	Global Corporate Banking	Retail Banking	Commercial Banking	Insurance Management	Corporate Activities	Total
Assets						
Loans and advances to customers						
Mortgage loans	-	17,029,555	-	-	-	17,029,555
Consumer loans	-	1,495,029	-	-	-	1,495,029
Other loans	3,545,844	4,213,310	5,175,289	-	-	12,934,443
Total allocated assets	**3,545,844**	**22,737,894**	**5,175,289**	**-**	**-**	**31,459,027**
Total non-allocated assets						13,532,654
Total Assets						**44,991,681**
Liabilities						
Resources of customers and other debts	637,478	23,704,286	3,330,826	-	-	27,672,590
Debt securities	-	-	-	-	3,872,434	3,872,434
	637,478	**23,704,286**	**3,330,826**	**-**	**3,872,434**	**31,545,024**
Total non-allocated Liabilities						9,752,215
Total Liabilities						**41,297,239**
Guarantees and sureties given (Note 32)	**189,111**	**412,616**	**785,270**	**-**	**-**	**1,386,997**

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The consolidated activity's geographical information, namely the balance sheet and the income statement, is presented below. The balance sheet as at December 31, 2017 and 2016, by geographical segments, was as follows:

	31-12-2017		
	Domestic Activity	International Activity	Total consolidated
Assets			
Cash and deposits at central banks	1,039,555	-	1,039,555
Balances due from other banks	658,153	2	658,155
Financial assets held for trading	1,509,744	-	1,509,744
Other financial assets held at fair value	1,976,263	-	1,976,263
Available-for-sale financial assets	4,990,322	-	4,990,322
Loans and advances to credit institutions	826,367	-	826,367
Loans and advances to customers	39,646,179	-	39,646,179
Held to maturity investments	108,808	-	108,808
Hedging derivatives	15,349	-	15,349
Non-current assets held for sale	87,269	-	87,269
Investment properties	353,957	-	353,957
Other tangible assets	353,520	-	353,520
Intangible assets	36,586	-	36,586
Investments in associated companies	122,170	-	122,170
Current tax assets	19,783	-	19,783
Deferred tax assets	459,545	-	459,545
Technical reserves on reinsurance ceded	22,941	-	22,941
Other assets	942,472	5	942,477
Total assets	**53,168,983**	**7**	**53,168,990**
Liabilities			
Resources of central banks	3,080,538	-	3,080,538
Financial liabilities held for trading	1,527,098	-	1,527,098
Resources of other credit institutions	2,430,798	-	2,430,798
Resources of customers and other debts	4,351,906	-	4,351,906
Debt securities	31,457,483	427	31,457,910
Hedging derivatives	4,535,553	-	4,535,553
Provisions	39,275	-	39,275
Current tax liabilities	178,106	167	178,273
Technical reserves	411,816	-	411,816
Current tax liabilities	73,801	-	73,801
Deferred tax liabilities	164,267	-	164,267
Equity representative instruments	69,026	-	69,026
Subordinated liabilities	7,735	-	7,735
Other liabilities	808,760	2	808,762
Total liabilities	**49,136,162**	**596**	**49,136,758**
Shareholders' equity			
Shareholders' equity attributable to shareholders of ST SGPS	4,065,959	(35,893)	4,030,066
Non-controlling interests	2,183	(17)	2,166
Total shareholders' equity	**4,068,142**	**(35,910)**	**4,032,232**
Total liabilities and shareholders' equity	**53,204,304**	**(35,314)**	**53,168,990**

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	31-12-2016		
	Domestic Activity	International Activity	Total consolidated
Assets			
Cash and deposits at central banks	877,917	-	877,917
Balances due from other banks	658,873	19	658,892
Financial assets held for trading	1,758,692	-	1,758,692
Other financial assets held at fair value	1,566,424	-	1,566,424
Available-for-sale financial assets	5,760,386	-	5,760,386
Loans and advances to credit institutions	563,925	-	563,925
Loans and advances to customers	31,455,208	3,819	31,459,027
Held to maturity investments	243,954	-	243,954
Hedging derivatives	32,700	-	32,700
Non-current assets held for sale	89,825	989	90,814
Investment properties	378,374	-	378,374
Other tangible assets	304,391	853	305,244
Intangible assets	36,149	-	36,149
Investments in associated companies	99,657	-	99,657
Current tax assets	12,833	-	12,833
Deferred tax assets	384,932	-	384,932
Technical reserves on reinsurance ceded	22,317	-	22,317
Other assets	739,442	2	739,444
Total assets	**44,985,999**	**5,682**	**44,991,681**
Liabilities			
Resources of central banks	2,450,694	-	2,450,694
Financial liabilities held for trading	1,763,952	-	1,763,952
Resources of other credit institutions	2,148,103	-	2,148,103
Resources of customers and other debts	2,023,213	-	2,023,213
Debt securities	27,669,157	3,433	27,672,590
Hedging derivatives	3,872,434	-	3,872,434
Provisions	81,655	-	81,655
Current tax liabilities	231,774	-	231,774
Technical reserves	300,005	-	300,005
Current tax liabilities	12,196	-	12,785
Deferred tax liabilities	63,836	-	86,879
Equity representative instruments	69,220	-	69,220
Subordinated liabilities	7,735	-	7,735
Other liabilities	576,187	474	576,200
Total liabilities	**41,270,161**	**3,907**	**41,297,239**
Shareholders' equity			
Shareholders' equity attributable to shareholders of ST SGPS	3,690,827	(38,269)	3,692,698
Non-controlling interests	1,539	(17)	1,744
Total shareholders' equity	**3,692,366**	**(38,286)**	**3,694,442**
Total liabilities and shareholders' equity	**44,962,526**	**(34,379)**	**44,991,681**

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

For the financial years ended December 31, 2017 and 2016, the income statement, by geographical segments, was as follows:

	31/12/2017		
	Domestic Activity	International Activity	Total consolidated
Interest and similar income	1,058,383	827	1,059,210
Interest and similar charges	(362,282)	-	(362,282)
Net interest income	**696,101**	**827**	**696,928**
Income from equity instruments	2,911	-	2,911
Income from services and comissions	398,219	35	398,254
Charges with services and comissions	(67,138)	(6)	(67,144)
Results of assets and liabilities at fair value through profit or loss	(11,942)	-	(11,942)
Results of available-for-sale financial assets	81,915	-	81,915
Result of foreign exchange revaluation	8,295	82	8,377
Result from sale of other assets	42,133	-	42,133
Gross margin of life insurance in which the risk is borne by the policy holder	7,150	-	7,150
Gross margin in insurance activity	3,817	-	3,817
Other operating results	(14,445)	(278)	(14,723)
Net income from banking activities	**1,147,016**	**660**	**1,147,676**
Staff costs	(311,141)	(73)	(311,214)
General administrative costs	(178,954)	(110)	(179,064)
Depreciation in the year	(37,656)	(3)	(37,659)
Provisions, net or reversals	(31,343)	(1,008)	(32,351)
Loan impairment net of reversals and recoveries	(41,941)	3,181	(38,760)
Impairment of other financial assets net of reversals and recoveries	(168)	-	(168)
Impairment of other assets net of reversals and recoveries	33,385	(380)	33,005
Result from associates	9,292	-	9,292
Income before taxes and non-controling interests	**588,490**	**2,267**	**590,757**
Current Taxes	(139,733)	-	(139,733)
Deferred Taxes	(14,494)	-	(14,494)
Income after taxes and before non-controlling interests	**434,263**	**2,267**	**436,530**
Non-controlling interests	(192)	(1)	(193)
Consolidated net income attributable to the shareholders' of ST, SGPS	**434,071**	**2,266**	**436,337**

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	31/12/2016		
	Domestic Activity	International Activity	Total consolidated
Interest and similar income	1,132,621	1,465	1,134,086
Interest and similar charges	(401,809)	(276)	(402,085)
Net interest income	**730,812**	**1,189**	**732,001**
Income from equity instruments	4,198	-	4,198
Income from services and comissions	376,553	319	376,872
Charges with services and comissions	(71,074)	(55)	(71,129)
Results of assets and liabilities at fair value through profit or loss	(38,428)	-	(38,428)
Results of available-for-sale financial assets	112,601	-	112,601
Result of foreign exchange revaluation	11,486	(1,337)	10,149
Result from sale of other assets	60,491	(40)	60,451
Gross margin of life insurance in which the risk is borne by the policy holder	7,354	-	7,354
Gross margin in insurance activity	3,020	-	3,020
Other operating results	563	(618)	(55)
Net income from banking activities	**1,197,576**	**(542)**	**1,197,034**
Staff costs	(284,836)	(2,034)	(286,870)
General administrative costs	(217,693)	(957)	(218,650)
Depreciation in the year	(37,572)	(20)	(37,592)
Provisions, net or reversals	(32,422)	-	(32,422)
Loan impairment net of reversals and recoveries	(41,355)	(2,929)	(44,284)
Impairment of other financial assets net of reversals and recoveries	(34,978)	-	(34,978)
Impairment of other assets net of reversals and recoveries	(11,538)	-	(11,538)
Negative consolidation differences	599	-	599
Result from associates	16,478	-	16,478
Income before taxes and non-controling interests	**554,259**	**(6,482)**	**547,777**
Current Taxes	(53,700)	(3)	(53,703)
Deferred Taxes	(98,199)	-	(98,199)
Income after taxes and before non-controlling interests	**402,360**	**(6,485)**	**395,875**
Non-controlling interests	(204)	3	(201)
Consolidated net income attributable to the shareholders' of ST, SGPS	**402,156**	**(6,482)**	**395,674**

The accounting policies used in the preparation of the financial information by segments were consistent with those described in Note 1.3. of these Notes to the Consolidated Financial Statements.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

4. GROUP COMPANIES AND TRANSACTIONS OCCURRING DURING THE YEAR

At December 31, 2017 and 2016, the subsidiaries and associated companies and their most significant financial data, extracted from their respective separate financial statements, excluding conversion adjustments to IAS/IFRS, may be summarized as follows:

	Direct (%) participation		Effective (%) participation		Total assets (net)		Shareholders' equity		Net income of the year	
Company	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016	31-12-2017	31-12-2016
SANTANDER TOTTA, SGPS,S.A.	Matriz	Matriz	100.00	100.00	3,730,898	3,647,548	3,659,916	3,647,331	447,754	150,530
BANCO SANTANDER TOTTA, S.A.	99.96	99.95	99.96	99.90	52,850,084	45,801,324	3,510,488	2,834,839	695,630	336,500
TOTTA IRELAND, PLC (3)	-	-	99.96	99.90	449,882	944,147	449,743	430,106	812	3,251
SANTOTTA-INTERNACIONAL, SGPS, Sociedade Unipessoal, Lda	-	-	-	99.90	-	180,244	-	180,210	-	(621)
TOTTAURBE - EMP.ADMIN. E CONSTRUÇÕES, S.A. (1)	-	-	99.96	99.90	122,175	122,350	116,184	116,989	1,819	2,258
TAXAGEST,SGPS,SA	1.00	1.00	99.96	99.90	55,745	55,755	55,742	55,747	(4)	(1)
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	-	-	79.48	79.04	367,737	393,423	336,915	330,892	7,840	7,752
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	-	-	99.96	99.90	7,049	6,917	6,870	6,774	96	333
HIPOTOTTA NO. 1 PLC	-	-	-	-	142	142	38	38	-	-
HIPOTOTTA NO. 4 PLC	-	-	-	-	786,999	855,338	(4,492)	(12,429)	1,294	(6,590)
HIPOTOTTA NO. 5 PLC	-	-	-	-	755,365	776,282	(4,329)	(9,538)	361	(5,978)
HIPOTOTTA NO. 4 FTC	-	-	-	-	720,237	806,271	721,331	796,623	1,615	(8,031)
HIPOTOTTA NO. 5 FTC	-	-	-	-	685,863	749,211	684,664	740,895	3,395	(7,378)
ATLANTES MORTGAGE NO 1 PLC(2)	-	-	-	-	97,900	106,032	40	(11,276)	-	-
ATLANTES MORTGAGE NO 1 FTC(2)	-	-	-	-	75,393	85,950	73,008	84,105	304	-
ATLANTES FINANCE 6 (2)	-	-	-	22.01	-	58,939	-	453	-	-
Operações de Securitização geridas pela GAMMA, STC (2)	-	-	99.96	99.90	1,800,914	2,717,179	-	-	-	-
BENIM - SOCIEDADE IMOBILIÁRIA, S.A.	-	-	25.80	25.80	n.d.	11,218	n.d.	7,179	n.d.	(8)
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	-	-	21.85	21.50	347,928	339,037	102,658	83,418	24,309	60,548
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	-	-	25.76	25.76	143,683	145,123	98,294	94,407	3,887	1,949
BANIF INTERNACIONAL BANK, LTD	-	-	99.96	99.90	656	44,705	60	3,514	2,218	(4,487)
PRIMESTAR SERVICING, S.A. (4)	-	-	80.00	-	17,075	-	2,480	-	(1,392)	-
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	100.00	100.00	100.00	100.00	3,054,308	2,705,083	89,632	163,206	5,100	11,873
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	91,633	87,714	24,967	23,934	6,239	4,942
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	-	-	49.00	49.00	21,304	18,657	13,895	13,889	(87)	1,696
EUROVIDA - COMPANHIA DE SEGUROS VIDA, S.A. (4)	-	-	15.93	-	984,565	-	108,669	-	7,963	-

The financial statements of some subsidiaries, associated companies and joint ventures are pending the approval of their respective Corporate Bodies. However, it is the conviction of the Board of Directors of the Group that there will be no material adjustments to the shareholders' equity and consolidated net income of the Group.

n.a. – not available

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2017 and 2016, the activity, location of the headquarters and consolidation method used for the companies included in the consolidation was as follows:

Company	Business	Headquarters	Consolidation Method
Santander Totta, SGPS, S.A.	Holding Company	Portugal	Holding Company
BANCO SANTANDER TOTTA, S.A.	Banking	Portugal	Full
TOTTA IRELAND, PLC (4)	Investment management	Ireland	Full
SANTOTTA-INTERNACIONAL, SGPS, S.A.	Holding company	Portugal	Full
TOTTA URBE - Emp.Admin. e Construções, S.A. (1)	Real estate management	Portugal	Full
BENIM - Sociedade Imobiliária, S.A.	Real estate	Portugal	Equity Method
BANIF INTERNATIONAL BANK	Banking	Bahamas	Full
TAXAGEST, SGPS, S.A.	Holding company	Portugal	Full
UNICRE - INSTITUIÇÃO FINANCEIRA DE CRÉDITO, S.A.	Issuance and management of credit cards	Portugal	Equity Method
HIPOTOTTA nº 1 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 5 PLC	Investment management	Ireland	Full
HIPOTOTTA nº 4 FTC	Securitized loans fund	Portugal	Full
HIPOTOTTA nº 5 FTC	Securitized loans fund	Portugal	Full
Operações de Securitização geridas pela GAMMA, STC (2)	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 PLC (2)	Securitized loans fund	Portugal	Full
ATLANTES MORTGAGE 1 FTC (2)	Securitized loans fund	Portugal	Full
ATLANTES FINANCE 6 (2)	Securitized loans fund	Portugal	Equity Method
NOVIMOVEST - Fundo de Investimento Imobiliário Aberto	Fund management	Portugal	Full
GAMMA, Sociedade Financeira de Titularização de Créditos, S.A.	Securitized loans	Portugal	Full
LUSIMOVEST - FUNDO DE INVESTIMENTO IMOBILIÁRIO	Fund management	Portugal	Equity Method
PRIMESTAR SERVICING, S.A. (4)	Investment management	Portugal	Full
SANTANDER TOTTA SEGUROS - COMPANHIA DE SEGUROS VIDA, S.A.	Insurance	Portugal	Full
AEGON SANTANDER PORTUGAL VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity Method
AEGON SANTANDER PORTUGAL NÃO VIDA - COMPANHIA DE SEGUROS, S.A.	Insurance	Portugal	Equity Method
EUROVIDA - COMPANHIA DE SEGUROS VIDA, S.A. (4)	Insurance	Portugal	-

(1) The shareholders' equity of this subsidiary includes supplementary capital contributions totalling €99,760 thousand.

(2) These companies were consolidated for the first time in 2015. Gamma - Sociedade de Titularização de Créditos, S.A. ("Gamma") is a securitization company acquired by the Bank on December 31, 2016, previously held by Oitante. Under the acquisition of a significant part of Banif's activity, BST acquired eleven securitization operations which loans were originated by Banif and ceded to Gamma, which financed itself through the issuance of bonds with different levels of subordination and rating for each securitization operation. For simplification purposes, the Bank considered these securitizations as a whole, denominating them "Gamma STC", having recorded these vehicles in accordance with the ongoing involvement of the Group in these operations, determined based on the percentage of the equity piece held. Additionally, there is a securitization named "Atlantes Mortgages PLC 1" which loans were sold to a securitization fund called "Atlantes Mortgages No. 1 FTC" which issued participation units subscribed by the Irish company "Atlantes Mortgages No. 1 PLC". The financial statements considered for consolidation purposes relate to the sub-consolidation of the fund and the existing company in Ireland, and the Group made adjustments to the statutory accounts. Finally, "Atlantes Finance 6" refers to a securitization for which the loans were also ceded to Gamma, and for which the BST Group does not own the totality of the equity piece.

(3) By virtue of this subsidiary closing its financial year on November 30, the amounts reflected in the columns of "Net income for the year" correspond to the net income determined in the month of December of each financial year. In the periods January 1 through November 30 of 2017 and 2016, the net income of Totta Ireland, PLC amounted to €104,383 thousand and €15,334 thousand, respectively.

(4) 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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In compliance with IFRS 10, which replaced IAS 27 and SIC 12, the Group's consolidated financial statements include special purpose entities (SPEs) created for securitization operations that the Bank controls, that is, it holds the majority of the risks and rewards associated with their activity, namely the bonds issued by those entities with a higher level of subordination – equity pieces.

At December 31, 2017 and 2016, the balance sheet of the companies Aegon Santander Portugal Vida and Aegon Santander Portugal Não Vida was made up as follows:

	31-12-2017			31-12-2016		
	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total	Aegon Santander Portugal Vida - Companhia de Seguros de Vida, S.A.	Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Total
Cash and deposits	2,415	1,461	3,876	3,385	307	3,692
Available-for-sale financial assets	65,562	12,518	78,080	58,140	9,818	67,958
Other tangible assets	88	-	88	126	-	126
Other intangible assets	7,614	4,636	12,250	9,699	7,065	16,764
Technical reserves for reinsurance ceded	14,256	288	14,544	15,145	53	15,198
Other debtors for insurance and other transactions	1,680	1,761	3,441	1,189	1,386	2,575
Assets - taxes and levies	-	465	465	-	1	1
Accruals and deferrals	8	175	183	25	27	52
Other assets	10	-	10	5	-	5
	91,633	21,304	112,937	87,714	18,657	106,371
Technical reserves	48,748	4,895	53,643	45,497	3,038	48,535
Other financial liabilities	9,713	-	9,713	11,192	-	11,192
Other creditors for insurance and other transactions	5,439	1,344	6,783	4,404	688	5,092
Liabilities - taxes and levies	1,180	132	1,312	1,208	471	1,679
Accruals and deferrals	1,585	1,037	2,622	1,482	571	2,053
Share capital	7,500	7,500	15,000	7,500	7,500	15,000
Revaluation reserves	1,133	121	1,254	738	-	738
Deferred tax reserves	(283)	(27)	(310)	(183)	-	(183)
Other reserves	10,098	5,070	15,168	9,601	4,900	14,501
Retained earnings	281	1,319	1,600	1,333	(207)	1,126
Net income for the year	6,239	(87)	6,152	4,942	1,696	6,638
	91,633	21,304	112,937	87,714	18,657	106,371

During financial year 2017, the Group closed down Santotta-International, SGPS.

During financial year 2016, the Group closed down the following companies:

- Serfin International Bank & Trust;
- BST International Banc Inc – Puerto Rico;
- Totta & Açores, Inc. – Newark; and
- Totta & Açores Financing.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

As at December 31, 2017 & 2016, the composition of the Novimovest Fund balance sheet was as follows:

	31-12-2017	31-12-2016
Securities portfolio	3,210	3,175
Real estate portfolio	353,957	378,374
Accounts receivable	9,759	10,443
Cash and banks	479	489
Accruals and deferrals	332	942
	367,737	393,423
Fund capital	336,915	330,892
Adjustments and provisions	5,208	5,407
Accounts payable	23,186	54,862
Accruals and deferrals	2,428	2,262
	367,737	393,423

At December 31, 2017 and 2016, the consolidated net income includes a profit of €6,231 thousand and €6,127 thousand, respectively, attributable to the Novimovest Fund.

5. CASH AND DEPOSITS AT CENTRAL BANKS

This heading is made up as follows:

	31-12-2017	31-12-2016
Cash	288,203	224,159
Demand deposits at Central Banks:		
Bank of Portugal	751,352	653,758
	1,039,555	877,917

In accordance with European Central Bank Regulation No. 2818/98, of December 1, as from January 1, 1999 credit institutions established in Member States shall maintain minimum cash reserves with the participating National Central Banks. The incidence base for determining the amount of the reserves includes all deposits placed with central banks and financial and monetary entities outside the Eurozone and all customer deposits repayable in less than two years. This base is multiplied by 1% and, from the amount so determined, €100,000 is deducted. The minimum required reserves earn interest at the average of the rates for the main refinancing the ECB (on these dates this rate is zero), the excess has a penalty of 0.4%.

The compliance with the minimum requirements for a given observation period is carried out taking into account the average amount of the balances of deposits with the Bank of Portugal during said period.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

6. BALANCES DUE FROM OTHER BANKS

This heading is made up as follows:

	31-12-2017	31-12-2016
Balances due from domestic banks		
Demand deposits	6,548	12,191
Cheques for collection	106,065	66,420
Balances due from foreign banks		
Demand deposits	543,038	578,819
Cheques for collection	2,504	1,462
	658,155	658,892

At December 31, 2017 and 2016, the balances of "Cheques for collection" correspond to cheques drawn by third parties over other credit institutions which, in general, are compensated in the following business days.

At December 31, 2017 and 2016, the heading “Balances due from foreign banks – Demand deposits” included a deposit in the amount of €78,870 thousand and €79,066 thousand, respectively, which is being mobilized in tandem with the fulfilment of certain obligations to third parties.

7. FINANCIAL ASSETS HELD FOR TRADING

This heading is made up as follows:

	31-12-2017	31-12-2016
Financial assets held for trading		
Derivatives with positive fair value	1,505,691	1,755,517
Securities – Participating units	3,525	3,175
Securities – Shares	528	-
	1,509,744	1,758,692
Financial liabilities held for trading		
Derivatives with negative fair value	1,527,098	1,763,952

At December 31, 2017 and 2016, the headings of derivative financial instruments were made up as follows:

	31-12-2017			31-12-2016		
	Assets	Liabilities	Net (Note 13)	Assets	Liabilities	Net (Note 13)
Forwards	7,344	7,254	90	13,162	13,611	(449)
Swaps						
Currency swaps	161	4,988	(4,827)	8,128	9,049	(921)
Interest rate swaps	1,379,148	1,398,396	(19,248)	1,573,217	1,572,470	747
Equity swaps	7,792	4,584	3,208	1,786	268	1,518
Options						
Foreign exchange options	2,405	2,362	43	2,384	2,368	16
Interest rate options	154	154	-			
Equity options	10,950	12,247	(1,297)	28,719	28,292	427
Caps & Floors	97,737	97,113	624	128,121	137,894	(9,773)
	1,505,691	1,527,098	(21,407)	1,755,517	1,763,952	(8,435)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2017, the headings of assets and liabilities relating to “Derivative financial instruments” are net of the amounts of approximately €25,000 thousand and €30,594 thousand, respectively, of "Credit Value Adjustments" and "Debit Value Adjustments" (€126,669 thousand and €129,288 thousand at December 31, 2016, respectively), in accordance with the methodology described in Note 51.

At December 31, 2017 and 2016, the majority of the derivative financial instruments held for trading celebrated with customers were hedged "back-to-back" with Banco Santander, S.A.

At December 31, 2017 and 2016, the heading "Securities – Participation units" corresponds to the participation units held in Fundo de Investimento Imobiliário Fechado Maxirent (Real Estate Investment Fund).

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

This heading is made up as follows:

	31-12-2017	31-12-2016
Debt instruments		
Issued by residents		
Treasury Bonds	935,358	667,341
Unsubordinated debt	77,152	80,286
Issued by non-residents		
Foreign public issuers	81,777	83,495
Other residents	665,775	706,709
Equity instruments		
Issued by residents	2,530	5,136
Issued by non-residents	213,671	23,457
	1,976,263	1,566,424

The interest and the results of the valuation of these financial assets at their fair value were reflected in the income statement heading "Results of assets and liabilities measured at fair value through profit or loss" (Note 38).

Securities included under "Other financial assets at fair value through profit or loss" at December 31, 2017 and 2016 can be detailed as follows:

	31-12-2017					31-12-2016				
	"Unit link" products		Other products			"Unit link" products		Other products		
Description	Capital	Interest receivable	Capital	Interest receivable	Fair value	Capital	Interest receivable	Capital	Interest receivable	Fair value
Debt Instruments										
Issued by residents										
Treasury Bonds	917,012	18,346	-	-	935,358	649,894	17,447	-	-	667,341
Unsubordinated debt	75,491	1,661	-	-	77,152	78,483	1,802	-	-	80,286
Issued by non-residents										
Foreign public issuers	80,884	893	-	-	81,777	82,595	900	-	-	83,495
Unsubordinated debt	652,809	12,966	-	-	665,775	691,679	15,030	-	-	706,709
Equity Instruments										
Issued by residents	1,957	-	573	-	2,530	2,734	-	2,402	-	5,136
Issued by non-residents	213,671	-	-	-	213,671	23,457	-	-	-	23,457
	1,941,824	33,866	573	-	1,976,263	1,528,842	35,179	2,402	-	1,566,424

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading is made up as follows:

	31-12-2017							
				Fair Value Reserve				
	Acquisition cost	Interest receivable	Hedge adjustments	Positive Reserve	Negative Reserve	Total	Impairment	Book Value
Debt instruments							(Note 26)	
Issued by residents								
Treasury Bonds	3,351,464	81,841	-	324,950	-	324,950	(90)	3,758,165
Other residents								
Unsubordinated debt	250,048	8,586	-	1,906	-	1,906	(230)	260,310
Subordinated debt	63,138	14	-	-	(10,116)	(10,116)	(2,827)	50,209
Issued by non-residents								
Foreign public issuers	761,893	5,777	-	20,775	(104)	20,671	-	788,341
Other non-residents	2,598	74	-	27		27	-	2,699
	4,429,141	96,292	-	347,658	(10,220)	337,438	(3,147)	4,859,724
Equity instruments								
Issued by residents								
Measured at fair value	102,715	-	-	807	(127)	680	(24,523)	78,872
Measured at cost	85,061	-	-	-	-	-	(35,026)	50,035
Issued by non-residents								
Measured at fair value	1,429	-	-	-	-	-		1,429
Measured at cost	1,660	-	-	-	-	-	(1,398)	262
	190,865	-	-	807	(127)	680	(60,947)	130,598
	4,620,006	96,292	-	348,465	(10,347)	338,118	(64,094)	4,990,322

	31-12-2016							
				Fair value reserve				
	Acquisition cost	Interest receivable	Hedge adjustments	Positive reserve	Negative reserve	Total	Impairment	Book value
Debt instruments							(Note 26)	
Issued by residents								
Treasury Bonds	4,996,261	106,087	30,573	38,806	(161,297)	(122,491)	(119)	5,010,311
Other residents								
Securitization operations	3,513	-	-	-	-	-	-	3,513
Unsubordinated debt	351,635	11,099	-	10,900	-	10,900	(230)	373,404
Subordinated debt	63,296	1	-	-	(28,656)	(28,656)	(2,983)	31,658
Issued by non-residents								
Foreign public issuers	206,683	3,013	-	23,801	(24)	23,777	-	233,473
Other non-residents	21,393	482	-	146	-	146	-	22,021
	5,642,781	**120,682**	**30,573**	**73,653**	**(189,977)**	**(116,324)**	**(3,332)**	**5,674,380**
Equity instruments								
Issued by residents								
Measured at fair value	57,487	-	-	897	(741)	156	(24,617)	33,026
Measured at cost	84,319	-	-	-	-	-	(32,967)	51,352
Issued by non-residents								
Measured at fair value	1,382	-	-	1	-	1	-	1,383
Measured at cost	1,644	-	-	-	-	-	(1,399)	245
	144,832	**-**	**-**	**898**	**(741)**	**157**	**(58,983)**	**86,006**
	5,787,613	**120,682**	**30,573**	**74,551**	**(190,718)**	**(116,167)**	**(62,315)**	**5,760,386**

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

As at December 31, 2016, “Treasury Bonds” included gains recognised in the income statement in the amounts of €30,573 thousand, related to value adjustments for interest-rate risk hedging operations. These securities have the following characteristics:

	31-12-2017						31-12-2016					
Description	Acquisition cost	Interest receivable	Gains/losses on hedging operations	Gains/losses recorded in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Gains/losses on hedging operations	Gains/losses recorded in reserves	Impairment	Book value
Treasury bonds - Portugal												
Maturing in one year	1,650	40	-	6	-	1,695	13,152	117	-	50	-	13,319
Maturing between one and three years	8,036	197	-	207	-	8,440	1,081,901	26,653	-	38,097	-	1,146,651
Maturing between three and five years	6,338	134	-	591	-	7,063	690,980	17,335	27,244	(10,288)	-	725,271
Maturing between five and ten years	3,101,044	74,596	-	323,073	-	3,498,713	3,204,298	61,796	3,329	(150,248)	-	3,119,175
Maturing over ten years	233,912	6,870	-	1,073	-	241,855	5,446	181	-	(102)	-	5,525
Other	484	4	-	-	(90)	398	484	5	-	-	(119)	370
	3,351,464	81,841	-	324,950	(90)	3,758,165	4,996,261	106,087	30,573	(122,491)	(119)	5,010,311
Treasury bonds - Spain												
Maturing in one year	16,426	366	-	228	-	17,020	12,545	318	-	116	-	12,979
Maturing between three and five years	32,057	535	-	1,956	-	34,548	34,593	606	-	1,852	-	37,051
Maturing between three and five years	45,670	970	-	1,086	-	47,726	28,413	639	-	2,149	-	31,201
Maturing between five and ten years	378,268	2,047	-	2,044	-	382,359	52,595	1,117	-	1,856	-	55,568
Maturing over ten years	43,446	420	-	179	-	44,045	10,182	205	-	325	-	10,712
	515,867	4,338	-	5,493	-	525,698	138,328	2,885	-	6,298	-	147,511
Treasury bonds - other countries												
Maturing in one year	644	2	-	3	-	649	133	1	-	-	-	134
Maturing between one and three years	34,975	4	-	3,275	-	38,254	29,371	2	-	4,199	-	33,572
Maturing between three and five years	18,287	163	-	269	-	18,719	7,034	43	-	821	-	7,898
Maturing between five and ten years	50,675	187	-	5,862	-	56,724	19,287	70	-	5,669	-	25,026
Maturing over ten years	141,445	1,083	-	5,769	-	148,297	12,530	12	-	6,790	-	19,332
	246,026	1,439	-	15,178	-	262,643	68,355	128	-	17,479	-	85,962
	4,113,357	87,618	-	345,621	(90)	4,546,506	5,202,944	109,100	30,573	(98,714)	(119)	5,243,784

At December 31, 2017 and 2016, the Group held in its portfolio Portuguese Treasury Bonds, in the amounts of €94,669 thousand and Euros 877,472 thousand, respectively, which were used as collateral in financing operations (Note 23).

At December 31, 2017 and 2016, the heading “Debt instruments – Issued by other residents” included, amongst others, the following securities:

	31-12-2017					31-12-2016				
Description	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book Value	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book Value
Acquired in securitization operations										
ATLANTES FINANCE 6 S 03/20/33	-	-	-	-	-	3,513	-	-	-	3,513
	-	-	-	-	-	3,513	-	-	-	3,513
Unsubordinated debt										
CAIXA GERAL DEPOSITOS 3.75% JAN/2018	199,827	7,144	295	-	207,265	200,402	7,144	7,009	-	214,555
Banco Comercial Português 22/06/2017	-	-	-	-	-	101,021	2,512	1,009	-	104,542
CGD 3% 2014/2019	49,991	1,442	1,611	-	53,044	49,982	1,443	2,882	-	54,307
Other	230	-	-	(230)	-	230	-	-	(230)	-
	250,048	8,586	1,906	(230)	260,310	351,635	11,099	10,900	(230)	373,404
Subordinated debt										
CXGD Float 06/49	45,780	9	(8,520)	-	37,269	45,780	-	(22,560)	-	23,220
CXGD Float 49-15	14,533	2	(1,596)	-	12,940	14,533	-	(6,096)	-	8,437
BPSM/97 - TOPS - OB. PERP. SUB	2,825	3	-	(2,827)	-	2,983	1	-	(2,983)	1
	63,138	14	(10,116)	(2,827)	50,209	63,296	1	(28,656)	(2,983)	31,658

At December 31, 2017 and 2016, the heading "Equity instruments – Other non-resident issuers" included the following securities:

	31-12-2017					31-12-2016				
Description	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book value	Acquisition cost	Interest receivable	Gains/losses recorded in reserves	Impairment	Book value
ISPIM 4% 9/11/17	-	-	-	-	-	2,007	11	59	-	2,077
BBVA 3.75% 17/1/18	1,302	47	-	-	1,349	1,343	47	7	-	1,397
Bac 4.625% 7/8/17	-	-	-	-	-	2,871	52	7	-	2,930
INTNED 4,75% 31/5/17	-	-	-	-	-	2,852	78	5	-	2,935
CABK 2,5% 18/4/17	-	-	-	-	-	2,917	51	3	-	2,971
ISP 4.75% 15/6/17	-	-	-	-	-	2,851	73	7	-	2,931
GS 4.375% 16/3/17	-	-	-	-	-	2,823	98	2	-	2,923
Telefo 5.81% 2017	-	-	-	-	-	2,695	49	6	-	2,750
Other	1,296	27	27	-	1,351	1,034	23	50	-	1,107
	2,598	74	27	-	2,699	21,393	482	146	-	22,021

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2017 and 2016, the heading "Equity instruments" included the following securities:

	31-12-2017				31-12-2016			
	Acquisition cost	Gains/losses recorded in reserves	Impairment	Book Value	Acquisition cost	Gains/losses recorded in reserves	Impairment	Book Value
Recorded at fair value								
FUNDO SOLUCAO ARRENDAMENTO	40,366	(105)	-	40,261	28,925	(718)	-	28,207
AQUARIUS, FCR	19,753	-	-	19,753	-	-	-	-
ARRENDAMENTO MAIS -FIIFAH	14,431	-	-	14,431	-	-	-	-
UNICAMPUS-FEI IMOBILIARIO FECHAD	1,500	14	-	1,514	1,500	14	-	1,514
VISA INC series C	1,429	-	-	1,429	1,375	-	-	1,375
FCR PORTUGAL VENTURES VALOR 2	3,836	171	(3,099)	909	3,836	297	(3,099)	1,034
FUNFRAP-FUNDICAO PORTUGUESA, S.A	274	491	-	765	274	468	-	742
GARVAL - SOC.DE GARANTIA MUTUA S	201	19	-	220	518	32	-	550
FII FECHADO GEF II	391	16	-	406	391	(11)	-	380
Other	20,800	-	(20,800)	-	20,894	-	(20,894)	-
Securities with 100% impairment	1,163	74	(624)	613	1,156	75	(624)	607
	104,144	680	(24,523)	80,301	58,869	157	(24,617)	34,409
Recorded at cost								
SIBS - SGPS, S.A.	3,985	-	-	3,985	3,461	-	-	3,461
FUNDO RECUPERACAO FCR	30,086	-	(12,715)	17,371	32,603	-	(12,715)	19,888
LUSIMOVEST - F.I. IMOBILIARIO	-	-	-	-	-	-	-	-
ASCENDI NORTE - AUTO ESTRADAS DO NORTE	3,749	-	(531)	3,218	3,749	-	(531)	3,218
ASCENDI NORTE - AUTO ESTRADAS DO NORTE - PS	3,749	-	(531)	3,218	3,749	-	(531)	3,218
Fundo Fechado de Investimento Imobiliário - Imorent	18,850	-	(4,000)	14,850	18,663	-	(4,000)	14,663
BANIF PROPERTY	15,350	-	(10,000)	5,350	15,350	-	(10,000)	5,350
PORTUGAL CAPITAL VENTURES - SOCIEDADE DE CAPITAL DE RISCO, SA	1,065	-	(214)	851	1,065	-	(214)	851
Securities with 100% impairment	7,591	-	(7,591)	-	5,635	-	(5,635)	-
Other	2,296	-	(842)	1,454	1,688	-	(740)	948
	86,721	-	(36,424)	50,297	85,963	-	(34,366)	51,597
	190,865	680	(60,947)	130,598	144,832	157	(58,983)	86,006

At December 31, 2017 and 2016, the negative fair value revaluation reserves arising from the measurement at fair value of the available-for-sale financial assets presented the following devaluating percentages on their acquisition cost:

	31-12-2017					31-12-2016				
	Acquisition cost	Interest receivable	Negative reserve	Gain/loss on hedging ops.	Book value	Acquisition cost	Interest receivable	Negative reserve	Gain/loss on hedging ops.	Book value
Debt instruments										
. Between 0% and 25%	83,736	142	(10,220)	-	73,658	3,890,715	79,017	(161,304)	30,573	3,839,001
. Between 25% and 50%	-	-	-	-	-	61,425	5	(28,673)	-	32,757
	83,736	142	(10,220)	-	73,658	3,952,140	79,022	(189,977)	30,573	3,871,758
Equity instruments										
. Between 0% and 25%	40,463	-	(118)	-	40,345	29,432	-	(733)	-	28,699
. Between 25% and 50%	19	-	(9)	-	10	19	-	(8)	-	11
	40,482	-	(127)	-	40,355	29,451	-	(741)	-	28,710
	124,218	142	(10,347)	-	114,013	3,981,591	79,022	(190,718)	30,573	3,900,468

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

This heading is made up as follows:

	31-12-2017	31-12-2016
Loans and advances to other domestic banks		
Deposits	200,100	200,000
Loans	121,627	55,216
Other applications	260	-
Interest receivable	3,219	2,220
	325,206	257,436
Loans and advances to other foreign banks		
Very short-term loans and advances	78,897	44,930
Deposits	275,006	223,368
Loans	748	-
Other applications	146,395	38,156
Interest receivable	115	35
	501,161	306,489
	826,367	563,925

At December 31, 2017 and 2016, the heading "Loans and advances to other foreign banks - Other applications" includes margin accounts of €145,501 thousand and €37,734 thousand, respectively.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

11. LOANS AND ADVANCES TO CUSTOMERS

This heading is made up as follows:

LOANS AND ADVANCES TO CUSTOMERS

	31-12-2017	31-12-2016
Unsecuritized loans		
Domestic loans		
To corporate clients		
Discount and other credit securities	253,651	146,417
Loans	9,599,810	4,416,723
Current account loans	1,337,239	905,215
Overdrafts	147,793	104,013
Factoring	1,528,015	1,133,408
Finance leasing	1,158,310	1,394,442
Other credits	90,151	33,859
To individuals		
Mortgage loans	15,636,395	13,180,788
Consumer credit and other loans	2,305,899	1,864,890
Foreign loans		
To corporate clients		
Loans	112	199
Current account loans	273,386	208,265
Overdrafts	8,366	7,406
Factoring	78	189
Finance leasing	50,832	46,687
Other credits	4,650	5,095
To individuals	55,705	10,753
Mortgage loans		
Consumer credit and other loans	469,823	411,741
	45,685	37,131
	32,965,900	23,907,221
Loans represented by securities		
Non-subordinated debt securities	4,280,415	4,201,242
Non-derecognized securitized assets		
To corporate clients - loans - Gamma STC	-	483,100
To individuals		
Mortgage loans		
.Hipototta No. 4 PLC	711,848	795,196
.Hipototta No. 5 PLC	674,136	738,289
.Gamma STC	1,449,644	1,631,395
Mortgage loans - Gamma STC	-	7,783
	2,835,628	3,655,763
Overdue loans and interest		
Up to 90 days	45,451	77,790
More than 90 days	1,187,846	1,214,694
	1,233,297	1,292,484
	41,315,240	33,056,710
Accrued interest		
Loans and advances	87,805	71,458
Loans represented by securities	15,263	16,911
Non-derecognized securitized assets	1,462	5,015
Hedge adjustments	18,408	(1,971)
Deferred expenses	73,742	73,752
Commissions associated with amortized cost (net)	(124,876)	(100,045)
	71,804	65,120
	41,387,044	33,121,830
Impairment of loans and advances to customers (Note 26)	(1,740,865)	(1,662,803)
	39,646,179	31,459,027

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In financial years 2017 and 2016, the Bank sold individual and company loan portfolios. As a result of these transactions, net gains were recorded in financial years 2017 and 2016, amounting to €31,512 thousand and €29,038 thousand, respectively (Note 41).

At December 31, 2017 and 2016, the heading “Domestic loans - To individuals – Mortgage loans” included loans allocated to the autonomous pool of covered bonds issued by the Group and ex-BAPOP totalling €9,980,181 thousand and €8,051,500 thousand, respectively (Note 25).

Changes in impairment of loans and advances to customers during financial years 2017 and 2016 are presented in Note 26.

At December 31, 2017 and 2016, overdue loans and interest are made up as follows:

	31-12-2017	31-12-2016
Up to three months	45,451	77,790
Between three and six months	26,243	43,252
Between six months and one year	220,723	273,034
Between one year and three years	381,315	398,178
More than three years	559,565	500,230
	1,233,297	1,292,484

As at December 31, 2017, (excluding the BAPOP portfolio) and 2016, the breakdown of overdue and outstanding loans with and without evidence of impairment, considering the segmentation for the purpose of determination of the Group’s impairment losses, was as follows:

	31-12-2017			31-12-2016		
	Overdue loans	Performing loans	Total loans	Overdue loans	Performing loans	Total loans
Corporate loans						
Without objective evidence of impairment	-	14,697,656	14,697,656	-	11,190,966	11,190,966
With objective evidence of impairment	472,049	412,933	884,982	772,228	629,694	1,401,922
	472,049	15,110,589	15,582,638	772,228	11,820,660	12,592,888
Mortgage loans						
Without objective evidence of impairment	-	16,349,325	16,349,325	-	15,979,705	15,979,705
With objective evidence of impairment	255,488	561,759	817,247	391,851	691,870	1,083,721
	255,488	16,911,084	17,166,572	391,851	16,671,575	17,063,426
Consumer loans						
Without objective evidence of impairment	-	1,188,851	1,188,851	-	1,114,600	1,114,600
With objective evidence of impairment	15,603	52,039	67,642	18,709	52,436	71,145
	15,603	1,240,890	1,256,493	18,709	1,167,036	1,185,745
Loans granted through credit cards						
Without objective evidence of impairment	-	340,447	340,447	-	295,498	295,498
With objective evidence of impairment	12,552	5,831	18,383	16,181	4,772	20,953
	12,552	346,278	358,830	16,181	300,270	316,451
Other loans to individuals						
Without objective evidence of impairment	-	824,728	824,728	-	1,733,945	1,733,945
With objective evidence of impairment	42,787	47,284	90,071	93,515	70,740	164,255
	42,787	872,012	914,799	93,515	1,804,685	1,898,200
	798,479	34,480,853	35,279,332	1,292,484	31,764,226	33,056,710

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

12. HELD-TO-MATURITY INVESTMENTS

This heading is made up as follows:

	31-12-2017			31-12-2016		
Description	Acquisition cost	Interest receivable	Book value	Acquisition cost	Interest receivable	Book value
Other national public entities						
OB.CML-CAMARA MUNICIPAL LISBOA-9	2,844	-	2,844	4,240	-	4,240
Other national entities						
Unsubordinated Debt						
EDIA 2010/2030	17,407	169	17,576	18,745	188	18,934
IBERWIND II P- CONSULTORIA SENIO	19,165	18	19,183	21,210	20	21,230
IBERWIND II P-CONSULTORIA SENIOR	5,777	11	5,788	6,398	13	6,410
REN REDES ENERGETICAS 4.125% 2018	9,023	341	9,364	9,305	341	9,646
TAGUS CLASSE A-VARIAVEL-12/05	53,980	39	54,019	60,991	44	61,035
ENERGYON NO.2 CLASS B NOTES MAY	34	-	34	32	-	32
	105,386	578	105,964	116,681	606	117,287
Subordinated Debt						
CAIXA GERAL DE DEPOSITOS 2017	-	-	-	122,403	24	122,427
	108,230	578	108,808	243,324	630	243,954

In financial year 2016, the Bank reclassified non-derivative financial assets from the available-for-sale financial assets portfolio to the held-to-maturity financial investments portfolio:

	31-12-2016		31-12-2015		at reclassification date		
	Book value	Fair value	Book value	Fair value	Book value	Fair value	Fair value reserve
From Available-for-sale financial assets held to Held-to-maturity investments	243,954	238,428	252,269	252,269	264,404	252,269	(8,836)
	243,954	238,428	252,269	252,269	264,404	252,269	(8,836)

The amounts recognized during financial year 2017 and 2016 in the income statement and in fair value reserve, relating to the reclassified financial assets, are as follows:

	31-12-2017			31-12-2016		
	P&L for the year		Equity	P&L for the year		Equity
	Effective Interest	Impairment	Fair value reserve	Effective Interest	Impairment	Fair value reserve
Financial assets held for sale to held to maturity	6,468	-	7,151	6,938	-	7,992
	6,468	-	7,151	6,938	-	7,992

Had the previously described reclassifications not occurred, the additional amounts recognized in the income statement and in equity would be as follows:

	31-12-2017		31-12-2016	
	P&L for the year	Fair value reserve	P&L for the year	Fair value reserve
Financial assets held for sale to held to maturity	6,468	5,155	6,938	6,609
	6,468	5,155	6,938	6,609

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

13. HEDGING DERIVATIVES

This heading is made up as follows:

	31-12-2017			31-12-2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Fair value hedge						
Interest rate swaps	14,620	(34,412)	(19,792)	22,218	(69,870)	(47,652)
Equity swaps	636	(2,184)	(1,548)	6,741	(5,676)	1,065
Options	93	(492)	(399)	-	(863)	(863)
Cash-flows hedge						
Interest rate swaps	-	(2,187)	(2,187)	3,741	(5,246)	(1,505)
	15,349	(39,275)	(23,926)	32,700	(81,655)	(48,955)

At December 31, 2017 and 20165, the breakdown of the derivative financial instruments was as follows:

	31-12-2017								
		Notional amounts							
Type of financial instrument	Book Value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	Notional amounts EUR	Other
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	90	180,229	15,725	8,686	355	-	204,996	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	-	-	703,967	10,681	693,286
Sold		704,179	4,290	284	-	-	708,753	698,094	10,659
Interest rate swaps	(19,248)	30,006	58,895	33,119	4,201,883	21,507,196	25,831,099	25,791,355	39,744
Equity swaps	3,208	-	-	298,077	138,295	259,126	695,497	695,497	-
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	(1,297)	-	-	-	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	3,428,399	3,428,399	-
	(21,407)	1,923,715	178,095	1,303,903	6,418,778	22,724,359	32,548,850	31,349,403	1,199,447
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	(16,256)	641	-	23,063	297,653	2,774,714	3,096,070	2,929,306	166,764
Auto Callable options	(399)	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
	(45,333)	2,312,610	574,184	1,594,754	7,137,497	25,499,073	37,118,119	35,622,162	1,495,956

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	31-12-2016								
		Notional amount						Notional amount	
Type of financial instrument	Book value	Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	Between 1 and 3 years	Over 3 years	Total	EUR	Other currencies
1. Derivatives held for trading (Note 7)									
Forwards									
Purchased	(449)	67,749	38,592	18,852	953	-	126,146	62,032	64,114
Sold		67,720	38,575	18,838	952	-	126,085	62,026	64,059
Currency swaps									
Purchased	(921)	975,230	-	-	-	-	975,230	-	975,230
Sold		970,553	-	-	-	-	970,553	970,553	-
Interest rate swaps	747	4,401,381	2,205,417	280,277	2,844,331	16,634,115	26,365,521	26,365,521	-
Equity swaps	1,518	519	-	-	436,066	137,709	574,294	574,294	-
Currency options									
Purchased	16	182,703	32,278	47,934	272	-	263,187	-	263,187
Sold		182,703	32,278	47,934	272	-	263,187	-	263,187
Equity options									
Purchased	427	-	1,654	-	-	-	1,654	1,654	-
Sold		-	1,654	-	-	-	1,654	1,654	-
Caps & Floors	(9,773)	43	1,311,620	31,068	4,117,974	1,334,959	6,795,664	6,795,664	-
	(8,435)	6,848,601	3,662,068	444,903	7,400,820	18,106,783	36,463,175	34,833,398	1,629,777
2. Hedging derivatives									
Fair value hedges									
Interest rate swaps									
Available-for-sale financial assets	(61,692)	-	-	-	-	600,000	600,000	600,000	-
Liabilities and loans	14,040	17,530	12,199	10,561	107,588	696,800	844,678	654,943	189,735
Autocallable options	(863)	-	-	-	196,516	-	196,516	196,516	-
Equity swaps	1,065	244,483	178,976	287,227	645,101	-	1,355,787	1,216,414	139,374
Cash flow hedges									
Interest rate swaps	(1,505)	125,000	100,000	-	521,671	-	746,671	746,671	-
	(48,955)	387,013	291,175	297,788	1,470,876	1,296,800	3,743,652	3,414,544	329,109
	(57,390)	7,235,614	3,953,243	742,691	8,871,696	19,403,583	40,206,827	38,247,942	1,958,886

The Group carries out derivative operations in the scope of its activity, managing its own positions based on expectations regarding the market's evolution, satisfying customers' needs, or covering positions of a structural nature (hedging). The interest rate risk implicit in the scope of the securitization operations and the mortgage bond issues is likewise managed by the Bank through the contracting of derivative financial instruments.

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

The negotiation of derivatives on over-the-counter (OTC) markets is usually based on a standard bilateral contract, which encompasses all the derivative operations between the parties. In the case of inter-professional relationships, an ISDA - International Swaps and Derivatives Association Master Agreement is used. In the case of relationships with customers, an own Bank contract is used.

In these type of contracts, the compensation of liabilities in the event of default is foreseen (the scope of such compensation is provided for in the contract and is regulated by Portuguese law and, for contracts executed with foreign counterparties or under foreign law, by the law applicable in the relevant jurisdiction).

The derivative contract may also include an agreement for the collateralization of the credit risk that arises from the operations covered by same. Generally, the derivative contract established between two parties normally includes all the OTC derivative operations carried out, whether they are for hedging or not.

According to IAS 39, embedded derivatives are also separated and recorded as derivatives, in order to recognize in profit or loss the fair value of those operations.

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

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

The fair value corresponds to the estimated price of the derivatives if these were traded on the market as at the reference date. The evolution of the fair value of the derivatives is recognized in the appropriate balance sheet accounts and has an immediate impact on the income statement.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

14. NON-CURRENT ASSETS HELD FOR SALE

This heading is made up as follows:

	31-12-2017	31-12-2016
Property received as settlement of defaulting loans	128,551	138,310
Own property for sale	-	4,109
Equipment	1,574	1,992
Other properties	-	100
	130,125	144,511
Impairment (Note 26)	(42,856)	(53,697)
	87,269	90,814

The changes occurring under the heading "Non-current assets held for sale" during financial years ended December 31, 2017 and 2016 were as follows:

	2017										
	31-12-2016				Transfers	Impairment (Note 26)			31-12-2017		
	Gross amount	Accumulated impairment	Acquisitions	Sales	Gross amount	Increases	Reversals	Utilization	Gross amount	Impairment	Net amount
Property:											
Received as settlement of defaulting loans	138,310	(49,667)	54,268	(92,781)	28,754	(23,493)	17,302	14,283	128,551	(41,575)	86,976
Own property for sale	4,109	(2,439)	-	-	(4,109)	-	2,439	-	-	-	-
Equipment	1,992	(1,591)	388	(806)	-	(525)	314	521	1,574	(1,281)	293
Other properties	100	-	-	-	(100)	-	-	-	-	-	-
	144,511	(53,697)	54,656	(93,587)	24,545	(24,018)	20,055	14,804	130,125	(42,856)	87,269

	2016											
	31-12-2015				Transfers		Impairment (Note 26)			31-12-2016		
	Gross amount	Accumulated impairment	Acquisitions	Sales	Gross amount	Impairment (Note 26)	Increases	Reversals	Utilization	Gross amount	Accumulated impairment	Net amount
Property:												
Received as settlement of defaulted loans	253.626	(89.821)	77.537	(138.623)	(54.230)	25.330	(18.122)	8.596	24.350	138.310	(49.667)	88.643
Own use property for sale	37.238	(25.813)	32	(8.414)	(24.747)	21.407	(3.262)	133	5.096	4.109	(2.439)	1.670
Equipment	2.254	(1.643)	1.081	(1.343)	-	-	(1.291)	484	859	1.992	(1.591)	401
Participation units	18.663	(4.000)	-	-	(18.663)	4.000	-	-	-	-	-	-
Other properties	100	-	-	-	-	-	-	-	-	100	-	100
	311.881	(121.277)	78.650	(148.380)	(97.640)	50.737	(22.675)	9.213	30.305	144.511	(53.697)	90.814

These assets are recorded 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 recorded for the amount of principal outstanding on the date of termination of the contract.

Real estate is subject to periodic valuations performed by independent entities. Whenever the amount arising from these valuations (net of selling costs) is lower than the amount at which the properties are recorded, 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) Comparative Market method

The comparative market method uses as a reference transaction values of similar and comparable properties, obtained from market research, in the same location of the asset.

b) Income method

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

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

c) Cost method
The cost method consists of determining the replacement value of the property taking into account the cost of building another property of identical functionality, less the amount of functional, physical and economic depreciation/obsolescence verified.

The valuations performed on the properties referred to above are performed by independent, specialised entities accredited by the Securities Markets Commission (Comissão dos Mercados dos Valores Mobiliários – CMVM).

15. INVESTMENT PROPERTIES

This heading is made up as follows:

	31-12-2017	31-12-2016
Properties held by Novimovest Fund	353,957	378,374

During 2013, following the subscription of several participation units, the Bank started to consolidate through the full consolidation method the Novimovest Fund, which main assets are properties held for rental.

At December 31, 2017 and 2016, the properties held by the Novimovest Fund had the following characteristics:

	31-12-2017	31-12-2016
Land		
Urbanized	15,023	14,876
Non-urbanized	1,109	1,123
Finished constructions		
Rented	260,872	260,836
Not rented	60,198	64,656
Other construction projects	16,755	36,883
	353,957	378,374

On the other hand, during financial years 2017 and 2016, the properties held by the Novimovest Fund generated, amongst others, the following annual income and charges:

	31-12-2017	31-12-2016
Rents (Note 43)	15,586	17,916
Condominium expenses	(1,219)	(1,255)
Maintenance and repair expenses	(878)	(813)
Insurances	(231)	(255)
	13,259	15,593

The changes occurring under the heading "Investment properties" during financial years 2017 and 2016, were as follows:

	2017				
	Balances at 31-12-2016	Increases	Fair value valuation	Sales	Balances at 31-12-2017
Properties held by Novimovest Fund	378,374	-	(6,914)	(17,503)	353,957

	2016				
	Balances at 31-12-2016	Increases	Fair value valuation	Sales	Balances at 31-12-2017
Properties held by Novimovest Fund	387,193	-	8,100	(16,919)	378,374

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The impact of the fair value valuation of the properties held by the Novimovest Fund was recognized under the income statement heading "Other operating results - Unrealized gains/losses on investment properties" (Note 43).

Investment properties held by the Group are valued on a biannual basis, or whenever an event occurs which raises doubts as to the value of the last valuation carried out, using specialized independent entities, in accordance with the valuation methodologies described in Note 14.

At December 31, 2017 and 2016, the determination of the fair value of the investment properties in accordance with the levels defined in IFRS 13 was as follows:

	Level 3	
	2017	2016
Investment properties	353,957	378,374
	======	======

According to the requirements of IFRS 13, the main features of the higher valued investment properties in the Bank's portfolio at December 31, 2017 and 2016, should be summarized showing the valuation techniques adopted and the relevant inputs used in the estimation of their fair value, being presented below:

Description of the property	Use	Value on 31-12-2017	Value on 31-12-2016	Valuation technique	Relevant inputs
Hotel Delfim - Alvor Hotel in Portimão	Leased out	34,398	34,614	Income method	Lease value per m2 Capitalization rate
Stª Cruz do Bispo - Lots 1, 2 and 3 Plots in Matosinhos	Urbanized	41,063	40,601	Comparative market method / Residual value method	Capitalization rate Land value and cost of construction and marketing per m2
Galerias Saldanha Residence Shopping Center in Lisbon	Leased out	26,050	25,265	Income method / Comparative market method	Lease value per m2
Warehouse in Perafita Warehouse in Matosinhos	Leased out	15,916	15,850	Income method / Comparative market method	Lease value per m2 Capitalization rate
Av. Antero de Quental, 9 Offices and store in Ponta Delgada	Leased out	11,941	12,173	Income method / Comparative market method	Lease value per m2 Capitalization rate
Estrada da Outurela, 119, Carnaxide Offices in Oeiras	Leased out	12,262	12,263	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	12,033	Income method / Cost method	Lease value per m2 Capitalization rate
Parque Logistico SPC Armazéns 1 e 4	Leased outo (SPC 1)	10,312	10,296	Income method / Comparative market method	Lease value per m2 Capitalization rate
Alfena - Valongo Plots Plots in Valongo	Non-urbanized	9,661	8,732	Comparative market method / Cost method / Residual value method	Land value and cost of construction and marketing per m2
		173,843	171,827		

If an increase in the lease value per square meter occurs, or an increase in the occupation rate, or a decrease in the capitalization rate occurs, the fair value of the investment properties will increase. On the other hand, if an increase in the construction or marketing cost occurs, or an increase in the capitalization rate, or a decrease in the lease value per square meter or a decrease in the occupation rate occurs, the fair value of the investment properties will decrease.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

16. OTHER TANGIBLE AND INTANGIBLE ASSETS

The changes in these headings in the financial years ended December 31, 2017 and 2016 were as follows:

	31-12-2017																			
										Transfers										
	31-12-2016			BAPOP merger				Write-offs and sales		From/to non-current assets held for sale		Between tangible and intangible assets		Amortization/ depreciation	Impairment (Note 26)		31-12-2017			
	Gross amount	Accumulated depreciation	Impairment	Gross amount	Accumulated depreciation	Impairment	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Losses	Reversals	Gross amount	Accumulated depreciation	Impairment (Note 26)	Net amount
Tangible assets																				
Property																				
Property for own use	402,251	145,610	3,871	79,645	21,816	2,411	6,779	282	152	(16,786)	(5,767)	89	-	7,399	380	(381)	471,696	168,906	6,281	296,509
Leasehold expenditure	148,941	141,295	-	11,985	11,114	-	807	151	154	59	40	-	-	2,551	-	-	161,641	154,846	-	6,795
Other property	1,307	148	20	-	-	-	-	999	141	-	-	-	-	4	-	-	308	11	20	277
Unfinished tangible assets																				
Property for own use	88	-	-	-	-	-	1	-	-	-	-	(89)	-	-	-	-	-	-	-	-
	552,587	287,053	3,891	91,630	32,930	2,411	7,587	1,432	447	(16,727)	(5,727)	-	-	9,954	380	(381)	633,645	323,763	6,301	303,581
Equipment																				
Furniture and fixtures	23,944	20,164	-	2,303	2,183	-	2,522	83	82	-	-	-	-	924	-	-	28,686	23,189	-	5,497
Machinery and tools	6,068	5,499	-	309	261	-	603	3	3	-	-	(4)	-	164	-	-	6,973	5,921	-	1,052
Computer hardware	96,891	85,071	-	9,170	8,841	-	2,727	923	906	-	-	-	-	4,155	-	-	107,865	97,161	-	10,704
Indoor facilities	28,698	15,644	-	2,365	2,036	-	6,177	21	15	(390)	(193)	-	-	2,321	-	-	36,829	19,793	-	17,036
Vehicles	20,739	9,923	-	35	35	-	3,089	3,634	2,792	-	(1)	-	-	1,986	-	-	20,229	9,151	-	11,078
Security equipment	13,264	12,369	-	5,598	5,483	-	652	-	-	-	-	-	-	336	-	-	19,514	18,188	-	1,326
Other equipment	5,546	4,707	-	1,419	1,418	-	592	1	1	-	-	4	-	246	-	-	7,560	6,370	-	1,190
Unfinished tangible assets	-	-	-	9	-	-	-	-	-	-	-	-	-	-	-	-	9	-	-	9
	195,150	153,377	-	21,208	20,257	-	16,362	4,665	3,799	(390)	(194)	-	-	10,132	-	-	227,665	179,773	-	47,892
Other tangible assets																				
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1,826	-	-	149	-	-	72	-	-	-	-	-	-	-	-	-	2,047	-	-	2,047
Other	3,464	3,464	-	-	-	-	-	1	1	-	-	-	-	-	-	-	3,463	3,463	-	-
	5,571	3,745	-	149	-	-	72	1	1	-	-	-	-	-	-	-	5,791	3,744	-	2,047
	753,308	444,175	3,891	112,987	53,187	2,411	24,021	6,098	4,247	(17,117)	(5,921)	-	-	20,086	380	(381)	867,101	507,280	6,301	353,520
Intangible assets																				
Software purchased	422,034	391,430	-	5,288	4,217	-	16,153	-	-	-	-	2,903	1	17,573	-	-	446,378	413,221	-	33,157
Unfinished intangible assets	2,894	-	-	-	-	-	222	-	-	-	-	(2,903)	-	-	-	-	213	-	-	213
Business transfers	3,345	3,345	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,345	3,345	-	-
Other	-	-	-	1,040	475	-	-	-	-	-	-	-	-	-	-	-	1,040	475	-	565
Negative consolidation differences	2,651	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,651	-	-	2,651
	430,924	394,775	-	6,328	4,692	-	16,375	-	-	-	-	-	1	17,573	-	-	453,627	417,041	-	36,586

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

31-12-2016

	31-12-2015				Entries / exitsof entities to / from consolidation perimeter			Write-offs and sales		Transfers: From / to assets held for sale		Transfers: between tangible and intangible assets		Depreciation			Other and foreign exchange differences		31-12-2016			
	Gross amount	Accumulated depreciation	Impairment (Note 26)	Net amount	Gross amount	Accumulated depreciation	Acquisitions	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	in the period	Impairment losses (Note 26)	Impairment reversals (Note 26)	Gross amount	Accumulated depreciation	Gross amount	Accumulated depreciation	Impairment (Note 26)	Net amount
Tangible assets																						
Property																						
Property for own use	387,846	141,275	3,843	242,728	(376)	(292)	8,442	(3)	-	(7,767)	(2,610)	14,103	(295)	7,533	226	(198)	-	-	402,251	145,610	3,871	252,770
Leasehold expenditure	148,784	138,518	-	10,265	-	-	622	598	476	(159)	(158)	295	446	2,968	-	-	(3)	(3)	148,941	141,295	-	7,646
Other property	1,293	287	20	987	-	-	14	-	-	-	-	-	(151)	12	-	-	-	-	1,307	148	20	1,140
Unfinished tangible assets																						
Property for own use	9,034	-	-	9,034	-	-	5,453	-	-	-	-	(14,399)	-	-	-	-	-	-	89	-	-	89
	546,957	280,080	3,863	263,014	(376)	(292)	14,531	595	476	(7,927)	(2,768)	-	-	10,513	226	(198)	(3)	(3)	552,587	287,053	3,891	261,645
Equipment																						
Furniture and fixtures	21,162	19,451	-	1,711	-	-	2,846	63	63	-	-	-	-	777	-	-	(1)	(1)	23,944	20,164	-	3,780
Machinery and tools	5,596	5,498	-	98	-	-	520	47	47	-	-	-	-	49	-	-	(1)	(1)	6,068	5,499	-	569
Computer hardware	100,541	91,184	-	9,357	-	-	6,657	10,307	10,306	-	-	-	-	4,193	-	-	-	-	96,891	85,071	-	11,820
Indoor facilities	24,980	13,791	-	11,189	-	-	3,853	40	21	(94)	(52)	-	-	1,927	-	-	-	-	28,698	15,644	-	13,054
Vehicles	22,082	11,853	-	10,229	-	-	2,640	3,981	3,887	-	-	-	-	1,960	-	-	(2)	(2)	20,739	9,923	-	10,816
Security equipment	12,669	12,172	-	496	-	-	418	-	-	-	-	178	-	196	-	-	-	-	13,264	12,369	-	895
Other equipment	5,320	4,472	-	848	-	-	227	-	-	-	-	-	-	235	-	-	-	-	5,546	4,707	-	840
Unfinished tangible assets	14	-	-	14	-	-	164	-	-	-	-	(178)	-	-	-	-	-	-	-	-	-	-
	192,362	158,420	-	33,942	-	-	17,324	14,438	14,325	(94)	(52)	-	-	9,337	-	-	(4)	(4)	195,150	153,377	-	41,773
Other tangible assets																						
Leased equipment	281	281	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	281	281	-	-
Work of Art	1,829	-	-	1,829	-	-	-	2	-	-	-	-	-	-	-	-	-	-	1,826	-	-	1,826
Other	3,464	3,464	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,464	3,464	-	-
	5,573	3,744	-	1,829	-	-	-	2	-	-	-	-	-	-	-	-	-	-	5,571	3,744	-	1,826
	744,892	442,244	3,863	298,785	(376)	(292)	31,855	15,035	14,801	(8,021)	(2,820)	-	-	19,850	226	(198)	(8)	(7)	753,308	444,174	3,891	305,244
Software purchased	400,628	373,689	-	26,939	-	-	18,199	19	1	-	-	3,226	-	17,742	-	-	-	-	422,034	391,430	-	30,604
Unfinished intangible assets	5,792	-	-	5,792	-	-	328	-	-	-	-	(3,226)	-	-	-	-	-	-	2,894	-	-	2,894
Other																						
Business transfers	3,345	3,345	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,345	3,345	-	-
Negative consolidation differences	-	-	-	-	-	-	2,651	-	-	-	-	-	-	-	-	-	-	-	2,651	-	-	2,651
	409,765	377,034	-	32,731	-	-	21,178	19	1	-	-	-	-	17,742	-	-	-	-	430,924	394,775	-	36,149

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

17. INVESTMENTS IN ASSOCIATED COMPANIES

This heading is made up as follows:

	31-12-2017		31-12-2016	
	Effective participation (%)	Book value	Effective participation (%)	Book value
Investments in associates				
Unicre - Instituição Financeira de Crédito, S.A.	21.85	32,373	21.49	29,916
AEGON Santander Portugal Vida	49.00	30,616	49.00	30,109
AEGON Santander Portugal Não Vida	49.00	14,952	49.00	14,949
Benim - Sociedade Imobiliária, S.A.	25.80	1,853	25.80	1,855
Fundo de Investimento Imobiliário Lusimovest	25.76	25,329	25.76	24,328
EUROVIDA - Companhia de Seguros de Vida	15.93	22,579	-	-
		127,702		101,157
Impairment of investments in associates (Note 26)				
EUROVIDA - Companhia de Seguros de Vida		(3,679)		-
Benim - Sociedade Imobiliária, S.A.		(1,853)		(1,500)
		(5,532)		(1,500)
		122,170		99,657

The shareholding in Benim – Sociedade Imobiliária, S.A. is held indirectly by the Bank through Totta Urbe – Empresa de Administração e Construções, S.A. (Totta Urbe).

At December 31, 2017 and 2016, the financial investments held in Unicre included goodwill. The impairment test performed on the goodwill of Unicre did not evidence any impairment loss in this financial investment.

At the present date there are neither responsibilities to be complied with before the associated companies nor contingent liabilities to be recognized by the Bank as a result of the shareholdings in same.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

18. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

These headings are made up as follows:

	31-12-2017	31-12-2016
Current tax assets:		
Corporate income tax receivable	19,053	12,720
Other	730	113
	19,783	12,833
Current tax liabilities:		
Corporate income tax receivable	432	10,597
Other	73,369	2,188
	73,801	12,785
Deferred tax assets:		
Relating to timing differences	458,097	381,245
Tax losses carried forward	1,448	3,687
	459,545	384,932
Deferred tax liabilities:		
Relating to timing differences	161,076	83,731
Relating to revaluation of tangible assets	3,191	3,148
	164,267	86,879

At December 31, 2017 and 2016, corporate income tax in the income statement was made up as follows:

	31-12-2017	31-12-2016
Current tax		
Current tax for the year	(129,727)	(46,875)
Banking sector contribution	(21,580)	(19,633)
Consortiums ("ACE's")	(3,514)	(564)
Corrections of prior years	15,088	13,369
	(139,733)	(53,703)
Deferred tax		
Charges with timing differences	(39,448)	(101,769)
Income associated with timing differences	24,954	3,570
	(14,494)	(98,199)
	(154,227)	(151,902)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Changes in deferred tax assets and liabilities in the financial years ended December 31, 2017 and 2016 were as follows:

	Balances at 31-12-2015	Other Comprehensive Income	Income statement	Balances at 31-12-2016	Other Comprehensive Income	Income statement	Merger BAPOP	Balances at 31-12-2017
Provisions/Impairment temporarily not accepted for tax purposes:								
. Deferred tax assets	222,887	-	(50,703)	172,184	-	(16,010)	133,919	290,093
. Deferred tax liabilities	(1,975)	-	(3,113)	(5,088)	-	(310)	-	(5,398)
Revaluation of tangible assets:								
. Deferred tax assets	-	-	2,140	2,140	-	148	-	2,288
. Deferred tax liabilities	(3,311)	-	163	(3,148)	-	2	(45)	(3,191)
Tax losses carried forward	3,687	-	(1)	3,686	-	(2,238)	-	1,448
Pensions:								
. Actuarial deviations	101,629	-	(18,051)	83,578	-	(11,615)	-	71,963
. Early retirement pensions	23,096	-	(2,018)	21,078	-	6,746	-	27,824
. Long service bonuses	10,861	-	(10,861)	-	-	-	516	516
. Transfer of pension liabilities to the Social Security	4,838	-	(302)	4,536	-	(11)	188	4,713
Insurance activity:								
. Fair value of insurance liabilities - Shadow reserve	4,970	(292)	-	4,678	273	-	-	4,951
. Fair value of insurance liabilities - Other	(175)	-	19	(156)	-	18	-	(138)
Available-for-sale financial assets:								
. Deferred tax liabilities	(76,134)	55,695	-	(20,439)	(89,391)	-	(2,953)	(112,783)
. Deferred tax assets	24,689	29,314	-	54,003	(47,550)	-	9,765	16,218
Financial assets reclassified from available for sale into held to maturity								
. Deferred tax assets	-	2,318	-	2,318	(244)	-	-	2,074
Cash flow hedges	132	4,996	-	5,128	(819)	-	-	4,309
Securitization operations:								
. Premium/discount on debt issued	(185)	-	24	(161)	-	15	-	(146)
. Recognition of an interest accrual on the notes with a higher subordination	(4,271)	-	(3,875)	(8,146)	-	(483)	-	(8,629)
. Results on intra-group securities purchases	(21,642)	-	(3,103)	(24,745)	-	11,266	-	(13,479)
Incorporation and digital restructuring costs	15,370	-	(8,053)	7,317	-	(1,839)	8,060	13,538
Other	(245)	-	(465)	(710)	-	(183)	-	(893)
	304,221	92,031	(98,199)	298,053	(137,731)	(14,494)	149,450	295,278

The dividends distributed to the Group by its subsidiaries and associated companies located in Portugal or in a European Union member state are not taxed at the level of the Group as a result of the regime laid down in Article 51 of the Corporate Income Tax Code, which provides for the elimination of the double taxation of distributed profits.

The Tax Authorities may review the Group's tax situation during a period of four years (five years for Social Security), except in the cases where tax losses carried forward, as well as any other tax benefits or credits exist. In those cases, the statutory limitation period corresponds to that of the year that right is exercised.

The Bank was subject to tax inspections up to 2014, inclusive. As a result of the tax inspection of the accounts for 2014, the Bank was subject to an additional assessment of Corporate Income Tax relating to autonomous taxation and several corrections to the tax losses reported in that year. In terms of Stamp Duty, the Bank was also subject to an additional assessment. The corrections made to the Corporate Income Tax base covered several matters, including, amongst others, adjustments relating to the fiscal recognition of actuarial deviations and to the use of the provisions for overdue loans. Parts of these corrections are merely temporary.

The Bank has paid the amount regarding the additional tax assessments. However, the Bank has challenged the majority of those additional tax assessments through administrative and/or judicial appeals.

The Bank records under the heading "Provisions" an amount it considers necessary to cover the risks arising from the additional tax assessments as well as the contingencies relating to the years not yet reviewed by the Tax Authorities (Note 26).

In 2015, the Bank applied the tax neutrality regime to the result arising from the purchase of a significant part of the former Banif's activity. The Board of Directors of the Bank trusts that the request made to the Minister of Finance will be approved (Note 1.4), and in any case the Board of Directors is convinced that the result in question is not subject to taxation under the Corporate Income Tax Code.

The Santander Totta Group decided to apply the Special Taxation of Groups of Companies Regime (RETGS) in 2017. 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).

Deferred taxes were constituted for the temporary differences determined between the carrying amount of the BAPOP assets and liabilities and the respective purchase price.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

19. TECHNICAL RESERVES

These headings are made up as follows:

	31-12-2017		
	Amount determined	Deferred acquisition costs	Book value
Mathematical reserve for direct insurance:			
- PPR/E Guaranteed	332,548	-	332,548
- PPR/E Maxinveste	12,298	-	12,298
- Temporary Individual	560	(77)	483
- Social Security System	7,994	-	7,994
- Génesis Plan	2,570	-	2,570
- Other products	4,184	-	4,184
	360,154	(77)	360,077
Unearned premiums reserve for direct insurance:			
- Temporary Individual/Group	3,468	-	3,468
Claims reserve for direct insurance - life	26,863	-	26,863
Reserve for profit sharing attributed for direct insurance:			
- Temporary Individual/Group	191	-	191
- Social Security System	101	-	101
- Génesis Plan	48	-	48
- PPR/E Maxinveste	-	-	-
- PPR/E Guaranteed	1	-	1
	341	-	341
Reserve for profit sharing attributable for direct insurance:			
- PPR/E Guaranteed	15,675	-	15,675
- PPR/E Maxinveste	2,430	-	2,430
- Génesis Plan	354	-	354
- Other products	2,608	-	2,608
	21,067	-	21,067
Total reserves for profit sharing	21,408	-	21,408
Total technical reserves for direct insurance	411,893	(77)	411,816
Mathematical reserve for reinsurance ceded	(446)	-	(446)
Unearned premiums reserve for reinsurance ceded	(3,431)	-	(3,431)
Claims reserve for reinsurance ceded	(19,064)	-	(19,064)
Total technical reserves for reinsurance ceded	(22,941)	-	(22,941)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2016		
	Amount determined	Deferred acquisition costs	Book value
Mathematical reserve for direct insurance:			
- PPR/E Guaranteed	220,230	-	220,230
- PPR/E Maxinveste	13,659	-	13,659
- Temporary Individual	1,454	(234)	1,220
- Social Security System	8,083	-	8,083
- Génesis Plan	3,121	-	3,121
- Other products	4,216	-	4,216
	250,763	(234)	250,529
Unearned premiums reserve for direct insurance:			
- Temporary Individual/Group	3,705	-	3,705
Claims reserve for direct insurance - life	25,355	-	25,355
Reserve for profit sharing attributed for direct insurance:			
- Temporary Individual/Group	458	-	458
- Social Security System	37	-	37
- Génesis Plan	11	-	11
- PPR/E Maxinveste	1	-	1
- PPR/E Guaranteed	1	-	1
	508	-	508
Reserve for profit sharing attributable for direct insurance:			
- PPR/E Guaranteed	14,589	-	14,589
- PPR/E Maxinveste	2,702	-	2,702
- Génesis Plan	238	-	238
- Other products	2,379	-	2,379
	19,908	-	19,908
Total reserves for profit sharing	20,416	-	20,416
Total technical reserves for direct insurance	300,239	(234)	300,005
Mathematical reserve for reinsurance ceded	(1,128)	-	(1,128)
Unearned premiums reserve for reinsurance ceded	(3,674)	-	(3,674)
Claims reserve for reinsurance ceded	(17,515)	-	(17,515)
Total technical reserves for reinsurance ceded	(22,317)	-	(22,317)

The mathematical reserves established for life insurance contracts represent, as a whole, the commitments entered into with policyholders, which include those related to the profit sharing that these have already acquired the right to. These reserves were calculated using the mortality tables PF60/64, GKF80, GRF95 and GRM95 for life insurance in case of life and PM60/64, GKM80 and GKM95 for life insurance in case of death. The technical interest rates (discount rates) were 3% and 4%, respectively.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

20. OTHER ASSETS

This heading is made up as follows:

	31-12-2017	31-12-2016
Debtors and other applications		
Debtors for loan interest subsidies receivable	8,064	12,993
Debtors resulting from operations with futures and options	4,227	6,612
Debtors with overdue capital and interest	8,579	8,846
VAT recoverable	18,695	6,315
Escrow accounts	694	2
Other applications	48	73
Other debtors		
. Subsidies receivable	6,201	18,349
. Property transfer tax to recover	29,199	-
. Banif Rent	10,743	10,743
. Other	31,674	8,833
Debtors for direct insurance and reinsurance	4,222	5,362
Shareholders' loans		
Propaço Sociedade Imobiliária de Paço de Arcos, Lda (Propaço)	-	2,068
Fafer Empreendimentos Urbanisticos Construção, S.A. (Fafer)	273	273
Gestinsua Aquisições e Alienações de Património Imobiliário e Mobiliário, S.A.	126	126
Shareholder's loans granted by the former Banif	-	23,069
Shareholder's loans granted by the former Bapop	335	-
Promises and other assets received as settlement of defaulting assets received as settlement of defaulting	397,886	136,349
Liabilities with pensions and other benefits		
Responsabilities-BST	(959,369)	
Fair value of BST Pension Fund	996,786	-
Responsabilities-London branch	(47,440)	-
Fair value of London branch Pension Fund	40,711	-
Responsabilities-ex-Banif	(142,441)	-
Fair value of ex-Banif Pension Fund	110,505	
Responsabilities-BAPOP	(163,975)	-
Fair value of BAPOP Pension Fund	166,358	-
Gold, other precious metals, coins and medals	3,236	3,062
Other available funds	269	355
Other income receivable	16,450	26,026
Deferred costs	7,519	3,377
	593,632	606,712
	1,143,207	879,545
Impairment losses (Note 26):		
Debtors and other applications	(7,783)	(7,973)
Assets received as settlement of defaulted loans	(128,159)	(39,440)
Own properties for sale	(29,282)	(21,407)
Shareholders' loans	(693)	(25,965)
Other assets and regularization accounts	(34,813)	(45,316)
	(200,730)	(140,101)
	942,477	739,444

The heading “Debtors and other applications - Debtors resulting from operations with futures and options” corresponds to the current accounts maintained by the Bank with international financial institutions related to the trading of futures. Customers’ futures margin accounts are recorded under the heading "Creditors and other resources - Creditors resulting from operations with futures and options” (Note 28).

At December 31, 2017 and 2016, the heading “Debtors with overdue capital and interest” included €6,003 thousand and €6,268 thousand, respectively, related to overdue rents of properties leased by the Novimovest Fund.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2017 and 2016, the heading "Other" includes operations pending settlement in accordance with the following detail:

	31-12-2017		31-12-2016	
	Other assets	Other liabilities	Other assets	Other liabilities
		(Note 28)		(Note 28)
Interest receivable from swap contracts established with Portuguese public sector entities	394,152	-	533,487	-
Cheques, values in transit and other transactions to be settled	35,229	(73,354)	-	(38,694)
Accounts receivable from insurance operations	16,103	-	23,412	-
Balances to be settled in ATM's	2,967	-	-	(50,356)
Transfers within SEPA	83,994	(211,271)	-	(81,556)
Other	61,187	(50,385)	49,813	(15,366)
	593,632	(335,010)	606,712	(185,972)

Amounts from swaps contracted with entities from the Portuguese public sector were received in January 2018

Movement under payment in kind, auctions and other assets received as payment in kind during 2017 was as follows:

	31 December 2016						Transfers between non current assets and other		Transfers of fixed tangible assets				BAPOP merger		31 December 2017		
	Gross amount	Provisions	Net amount	Increases	Sales	Utilization	Capital	Provision	Capital	Provision	Allocation to provisions	Reversal of provisões	Capital	Provision	Gross amount	Provision	Net amount
Assets received as settlement of defaulting																	
Properties received as settlement of defaulting	*72,893*	*(29,330)*	*43,563*	-	-	-	*(28,754)*	*15,350*	-	-	-	-	*217,727*	*(102,129)*	*261,866*	*(116,109)*	*145,757*
Promises	3,254	(224)	*3,030*	2,399	(4,589)	-	-	-	-	-	(18)	205	11,251	-	*12,315*	*(37)*	*12,278*
Public sales	19,593	(3,976)	*15,617*	35,508	(41,629)	-	3,772	-	-	-	(663)	504	39,926	-	*57,170*	*(4,135)*	*53,035*
Other property	8,393	(3,642)	*4,751*	9,390	(9,476)	51	(944)	-	-	-	(3,625)	2,932	13,328	(1,811)	*20,691*	*(6,095)*	*14,596*
Liquidation assets	2,268	(2,268)	-	3,124	(781)	30	(2,828)	-	-	-	(933)	1,388	-	-	*1,783*	*(1,783)*	-
Own properties for sale	29,948	(21,407)	*8,541*	871	(1,831)	972	-	-	11,196	381	(7,820)	455	3,877	(1,863)	*44,061*	*(29,282)*	*14,779*
	136,349	(60,847)	75,502	51,292	(58,306)	1,053	(28,754)	15,350	11,196	381	(13,059)	5,484	286,109	(105,803)	397,886	(157,441)	240,445

21. RESOURCES OF CENTRAL BANKS

This heading is made up as follows:

	31-12-2017	31-12-2016
Deposits from Bank of Portugal	3,076,000	2,446,000
Deposits from other central banks	4,538	4,694
	3,080,538	2,450,694

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

The total amount recorded under this caption relates to life insurance liabilities in which the risk is the risk of the policyholder.

The heading "Liabilities for life insurance where the risk rests with the policyholder" corresponds to amounts received from customers for the subscription of Unit Link products of the Group's Insurer and the subsequent valuations and devaluations resulting from the financial investments in which the amounts received were invested.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

23. RESOURCES OF OTHER CREDIT INSTITUTIONS

This heading is made up as follows:

	31-12-2017	31-12-2016
Resources of domestic credit institutions		
Deposits	271,047	115,446
Other resources	23	3,301
Interest payable	22	3
	271,092	118,750
Resources of foreign credit institutions		
Sale operations with repurchase agreement	2,710,621	1,078,940
Consigned resources	950,000	600,063
Deposits	378,798	89,899
Other resources	40,686	131,387
Very short-term resources	-	4,088
Interest payable	709	86
	4,080,814	1,904,463
	4,351,906	2,023,213

At December 31, 2017 and 2016, the heading "Resources of foreign credit institutions – Sale operations with repurchase agreement", is made up as follows, by type of asset underlying the reportable operations:

	31-12-2017			
Tipe of underlying	Capital	Interest	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
	2,710,598	4	19	2,710,621

	31-12-2016			
Tipe of underlying	Capital	Interest	Deferred costs	Total
Treasury Bonds - Portugal	877,472	(120)	80	877,432
Bonds issued by the group in the context of securitization operations and repurchased by BST	201,508	-	-	201,508
	1,078,980	(120)	80	1,078,940

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

24. RESOURCES OF CUSTOMERS AND OTHER DEBTS

This heading is made up as follows:

	31-12-2017	31-12-2016
Demand deposits	15,351,255	12,314,691
Term deposits	12,829,663	11,026,929
Structured deposits	1,935,634	2,400,247
Savings deposits	1,180,229	1,730,071
Advance notice deposits	20,612	38,987
	31,317,393	27,510,925
Cheques and orders payable	104,246	108,994
Interest payable	18,131	41,157
Financial insurance products without profit sharing	21,053	19,145
Hedge Adjustments	(2,913)	(7,631)
	140,517	161,665
	31,457,910	27,672,590

25. DEBT SECURITIES AND OTHER SUBORDINATED LIABILITIES

This heading is made up as follows:

	31-12-2017	31-12-2016
Debt securities		
Covered bonds		
Issued	7,700,000	6,950,000
Repurchased	(4,200,000)	(4,450,100)
Interest payable and other costs	(14,137)	11,694
Bonds issued in securitization operations		
Issued	3,249,292	4,509,231
Repurchased	(2,155,135)	(3,098,684)
Interest payable and other costs	(71,536)	(80,489)
Cash Bonds		
Issued	1,072	25,006
Repurchased	-	(23,160)
Interest payable and other costs	29	63
	4,509,585	3,843,561
EMTN Programme and others - Issued		
Repurchased	25,744	28,460
Interest payable	224	253
	25,968	28,713
Value adjustments of hedging operations	-	160
	4,535,553	3,872,434
Other subordinated liabilities		
Issued	296,139	296,139
Repurchased	(288,540)	(288,540)
Interest payable and other costs	136	136
	7,735	7,735

Under law, the holders of covered bonds have a special credit privilege over the autonomous pool of assets, which constitutes a guarantee of the debt to which the bondholders will have access in case of insolvency of the issuer.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The conditions of the covered bonds, of the bonds issued in the scope of securitization operations, cash bonds and other subordinated liabilities are presented in Appendices I and II, respectively.

Between May 2008 and December 2017, BST issued twenty three tranches of covered bonds under the "€ 12,500,000,000 Covered Bonds Programme". At December 31, 2017 and 2016, the covered bonds had an autonomous pool of assets comprising:

	31-12-2017	31-12-2016
Loans and advances to customers (Note 11)	9,980,181	8,051,500
Interest on loans	8,151	6,593
Commissions	(45,258)	(38,367)
Deferred expenses	2,130	5,847
Derivatives	(105,205)	(143,368)
	9,839,999	7,882,205

Changes in the covered and cash bonds and other debt issued by the Group during financial years 2017 and 2016 were as follows:

	Deposit Certificates	Bonds in circulation		EMTN Programme and Other	
		Issued	Repurchased	Issued	Repurchased
Balances at December 31, 2015	52,392	6,810,189	(4,310,041)	200,167	(3,047)
Issues made	-	2,950,000	-	-	-
Issues repaid	(51,141)	(2,785,000)	2,785,000	(172,612)	3,047
Issues repurchased	-	-	(2,948,219)	-	-
Exchange rate movements	(1,251)	(183)	-	905	-
Balances at December 31, 2016	-	6,975,006	(4,473,260)	28,460	-
Issues from former BAPOP	-	1,072	-	729	-
Issues made		2,750,000		-	
Issues repaid	-	(2,024,800)	273,233	-	-
Issues repurchased	-		27	-	-
Exchange rate movements	-	(206)	-	(3,445)	-
Balances at December 31, 2017	-	7,701,072	(4,200,000)	25,744	-

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Changes in bond issues associated with securitization operations during financial years 2017 and 2016 were as follows:

	Bonds	
	Issued	Repurchased
Balances at December 31, 2015	5,758,635	(3,446,631)
. Repurchased	(1,249,404)	606,583
. Reacquired		
. Hipototta 4 - Class A	-	(28,165)
. Hipototta 5 - Class A2	-	(137,539)
. Atlantes Mortgage 3 - Class A	-	(91,932)
. Azor Mortgage 1 - Class C		(500)
. Azor Mortgage 1 - Class B	-	(500)
	-	(258,636)
Balances at December 31, 2016	4,509,231	(3,098,684)
. Repurchased	(1,259,939)	974,005
. Reacquired		
. Hipototta 4 - Class A	-	(30,456)
	-	(30,456)
Balances at December 31, 2017	3,249,292	(2,155,135)

In financial years 2017 and 2016, the Group repurchased bond issues associated with securitization operations, having recorded gains of €411 thousand and €17,020 thousand, respectively (Note 41).

26. CHANGES IN PROVISIONS AND IMPAIRMENT

Changes in provisions and impairment during the financial years ended December 31, 2017 and 2016, were as follows:

	2017					
	Balance at 31-12-2016	BAPOP Merger	Increases	Reversals	Utilization	Balance at 31-12-2017
Provision for tax contingencies	18,304	-	-	(779)	-	17,525
Provision for pensions and other charges	85,982	-	33,453	-	(79,504)	39,931
Impairment and provisions for guarantees and other sureties given	21,549	2,242	5,596	(5,365)	-	24,022
Other provisions	105,939	7,464	64,982	(65,536)	(16,054)	96,795
	231,774	9,706	104,031	(71,680)	(95,558)	178,273

	2016					
	Balance at 31-12-2015	Input and / or output entities in the perimeter consolidation	Increases	Reversals	Utilization	Balance at 31-12-2016
Provision for tax contingencies	18,563	-	600	-	(859)	18,304
Provision for pensions and other charges	99,444	-	28,991	(2)	(42,451)	85,982
Impairment and provisions for guarantees and other sureties given	11,187	-	13,236	(2,874)	-	21,549
Other provisions	208,029	51	111,403	(118,932)	(94,612)	105,939
	337,223	51	154,230	(121,808)	(137,922)	231,774

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2017						
	Balance at 31-12-2016	BAPOP merger	Impairment losses	Reversals of impairment losses	Utilization	Balance at 31-12-2017	Recovery of past due loans
Impairment of loans and advances to customers (Note 11)							
Domestic loans	696,236	265,178	532,945	(709,986)	(18,457)	765,916	-
Foreign loans	28,761	142	-	-	(28,761)	142	-
Non-derecognized securitized loans	10,719	-	405	(2,206)	-	8,918	-
Other securitized loans and receivables	4,053	913	-	(2,790)	-	2,176	-
Impairment of overdue loans and interest							
Loans and advances to customers							
. Domestic loans	713,228	385,624	468,366	(138,924)	(543,405)	884,889	11,098
. Foreign loans	59,244	9,879	16,131	(10,993)	(44,333)	29,928	1,793
. Non-derecognized securitized loans	147,560	5,279	19,013	(120,310)	(2,648)	48,894	-
Other securitized loans and receivables	3,002	-	-	-	(3,000)	2	-
	1,662,803	667,015	1,036,860	(985,209)	(640,604)	1,740,865	12,891
Impairment of available-for-sale financial assets (Note 9)	62,315	2,454	62	(247)	(490)	64,094	-
Impairment of investments in associates (Note 17)	1,500	3,679	353	-	-	5,532	-
	63,815	6,133	415	(247)	(490)	69,626	-
Impairment of non-financial assets:							
Non-current assets held for sale (Note 14)	53,697	-	24,018	(20,055)	(14,804)	42,856	-
Tangible assets (Note 16)	3,891	2,411	380	-	(381)	6,301	-
Other assets (Note 20)	140,101	105,997	24,459	(61,807)	(8,020)	200,730	-
	197,689	108,408	48,857	(81,862)	(23,205)	249,887	-
	1,924,307	781,556	1,086,132	(1,067,318)	(664,299)	2,060,378	12,891

	2016							
	31-12-2015	Changes in the Consolidation Perimeter (Banif)	Impairment losses	Reversal of impairment losses	Transfers	Utilizations	31-12-2016	Impairment recovery
Impairment of loans and advances to customers (Note 11)								
Domestic loans	1,061,142	(2,041)	773,112	(1,064,965)	-	(71,012)	696,236	-
Foreign loans	2,420	-	28,761	(2,420)	-	-	28,761	-
Non-derecognized securitized loans	9,382	-	2,173	(836)	-	-	10,719	-
Other securitized loans and receivables	5,891	-	-	(1,838)	-	-	4,053	-
Impairment of overdue loans and interest								
Loans and advances to customers								
. Domestic loans	984,626	1,615	702,489	(364,607)	-	(610,895)	713,228	2,418
. Foreign loans	90,169	-	11,463	(37,575)	-	(4,813)	59,244	28
. Non-derecognized securitized loans	190,746	(32,222)	150,990	(151,913)	-	(10,041)	147,560	-
Other securitized loans and receivables	1,110	-	3,000	(1,104)	-	(4)	3,002	-
	2,345,486	(32,648)	1,671,988	(1,625,258)	-	(696,765)	1,662,803	2,446
Impairment of available-for-sale financial assets (Note 9)	83,106	-	7,449	(48)	-	(28,192)	62,315	-
Impairment in held-to-maturity investments	-	-	27,578	-	-	(27,578)	-	-
Impairment of investments in associates (Note 17)	1,500	-	-	-	-	-	1,500	-
	84,606	-	35,026	(48)	-	(55,770)	63,815	-
Impairment of non-financial assets:								
Non-current assets held for sale (Note 14)	121,277	-	22,675	(9,213)	(50,737)	(30,305)	53,697	-
Tangible assets (Note 16)	3,863	-	226	(198)	-	-	3,891	-
Other assets (Note 20)	76,999	21,430	88,397	(90,349)	50,737	(7,113)	140,101	-
	202,139	21,430	111,298	(99,760)	-	(37,418)	197,689	-
	2,632,231	(11,218)	1,818,312	(1,725,066)	-	(789,953)	1,924,307	2,446

At December 31, 2017 and 2016, the provision for pensions and other charges is made up as follows:

	31-12-2017	31-12-2016
Restructuring plans	15,811	62,315
Supplementary pension plan of the Board of Directors (Note 49)	24,120	23,667
	---------	---------
	39,931	85,982
	=====	=====

At December 31, 2017, the heading "Other provisions" included:

- Provisions for contingencies associated with the integration of the former Banif amounting to €41,735 thousand;

- Provisions for legal proceedings lodged against the Group by its customers and by its employees in the total amount of €23,183 thousand. The Legal Department of the Group estimates the expected loss for each process based on the developments reported by each lawyer;

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

- Other provisions allocated, essentially, to cover several contingencies, including fraud, operations pending confirmation, open items and fines.

27. EQUITY REPRESENTATIVE INSTRUMENTS

At December 31, 2017 and 2016, this heading represented the participation units in Novimovest Fund not held by the Group.

28. OTHER LIABILITIES

This heading is made up as follows:

	31-12-2017	31-12-2016
Creditors and other resources		
Creditors resulting from operations with futures		
Secured account resources	76,663	81,314
Collateral account resources	1,395	807
Other resources	1,345	1,497
Public sector		
Withholding taxes	17,032	18,666
Social Security contributions	5,065	5,304
VAT payable	15,186	3,553
Remaining taxes	791	728
Other	487	465
Creditors under factoring contracts	45,579	27,934
Creditors for the supply of goods	30,805	5,429
Creditors resulting from operations with futures	3,980	6,553
Contributions to other health systems	1,781	1,685
Advances for the sale of real estate received as settlement of defaulting	3,380	1,102
Creditors under securities values	183	-
Collections on behalf of third parties	262	178
Other creditors	49,662	31,516
Accounts Payable		
Relating to personnel		
Vacation and Christmas subsidies	38,507	34,118
Other variable remuneration	28,350	29,384
ACTV and social charges	178	27
Other personnel costs	8,519	741
Incoming and conference invoices	93,129	69,614
Other	45,559	20,285
Liabilities with pensions		
Total responsabilities		
BST pension fund	-	932,276
Former Banif pension fund	-	139,906
London branch liabilities	-	49,894
Pension Fund Value		
Fair value of BST pension fund	-	(932,465)
Fair value of London branch	-	(115,823)
Fair value of Former Banif pension fund	-	(37,501)
Other deferred income	5,914	13,041
Liability operations to be settled (Note 20)	335,010	185,972
	808,762	576,200

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

29. SHAREHOLDERS' EQUITY

At December 31, 2017 and 2016, the share capital of Santander Totta, SGPS, S.A. was represented by 197,296,207,958 shares, with a nominal value of 1 Cent each, fully subscribed and paid up by the following shareholders:

	31-12-2017		
	Number of shares held	Participation %	Amount (k€)
Santander Group	196,996,017,344	99.85%	1,969,960
Other	200,009,296	0.10%	2,000
Own shares	100,181,318	0.05%	1,002
	197,296,207,958	100.00%	1,972,962

	31-12-2016		
	Number of shares held	Participation %	Amount (k€)
Santander Group	196,996,017,344	99.85%	1,969,960
Other	201,929,716	0.10%	2,019
Own shares	98,260,898	0.05%	983
	197,296,207,958	100.00%	1,972,962

During financial years 2017 and 2016, the Company acquired 1,920,420 and 9,407,866 own shares, for the amounts of €41 thousand and €203 thousand, respectively.

During financial year 2016, the Company paid dividends in the amount of €116,816 thousand (net of the dividends allocated to own shares), equivalent to a dividend of approximately €0.0006 per share.

Additionally, in December 2016, the Company paid an interim dividend in the amount of €28,734 thousand.

During financial year 2017, the Company paid dividends in the amount of €224,031 thousand (net of the dividends allocated to own shares) which corresponded to a dividend of approximately Euros 0.0011 per share.

Additionally, in December 2017, the Company paid an interim dividend in the amount of €150,000 thousand.

Other equity instruments

On December 30, 2015, the Company issued "€ 300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments", perpetual subordinated bonds qualifying for the Tier 1 capital ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV - Capital Requirements Directive). The issuance of this instrument was made following the repayment of the preference shares of TAF and following the approval by the European Central Bank.

On June 20, 2016, the Company realized a second issue of "€ 300,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier I Resettable Instruments", perpetual subordinated bonds qualifying for the Tier 1 capital ratio, as Additional Tier 1 Capital, under the terms of Directive 2013/36/EU (or CRD IV - Capital Requirements Directive). The issuance of this instrument was made following the repayment of the preference shares of BST Puerto Rico and following the approval by the European Central Bank.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Revaluation reserves

At December 31, 2017 and 2016, the revaluation reserves were made up as follows:

	31-12-2017	31-12-2016
Revaluation reserves		
Reserves resulting from the fair value valuation:		
Available-for-sale financial assets (Note 8)	337,974	(116,112)
Investments held to maturity (Note 11)	(7,148)	(7,988)
Available-for-sale financial assets of companies under the equity method	1,583	563
Cash-flow hedging instruments	(13,895)	(17,673)
Of insurance liabilities (shadow reserve)	(21,067)	(19,908)
Actuarial gains and losses		
Pension Fund of BST	(658,042)	(695,226)
Pension Fund of the Lond branch of BST	(13,400)	(16,164)
Pension fund of Former Banif	(8,004)	(4,823)
Actuarial gains and losses of companies under the equity method	(2,048)	(2,687)
	(384,047)	(880,018)
Deferred tax reserves		
For temporary differences:		
Reserves resulting from the fair value valuation of:		
Available-for-sale financial assets	(103,332)	33,547
Financial assets held to maturity	2,073	2,317
Available-for-sale financial assets of companies under the equity method	(399)	(141)
Cash-flow hedging instruments	4,307	5,125
Of insurance liabilities (shadow reserve)	4,951	4,678
Tax impact of actuarial gains and losses	174,662	186,082
Tax impact from the change in accounting policies of companies under the equity method	367	725
Relating to the revaluation of tangible assets	(3,147)	(3,309)
	79,482	229,024
	(304,565)	(650,994)

Deferred taxes were calculated based on current legislation and reflect the best estimate of the impact of the realization of potential capital gains or losses included in the revaluation reserves.

The revaluation reserves cannot be used to pay dividends or to increase share capital.

Other reserves and Retained earnings

At December 31, 2017 and 2016, the heading “Other reserves and retained earnings” was made up as follows:

	31-12-2017	31-12-2016
Legal reserve	212,312	197,258
Merger reserve	640,575	640,575
Consolidated reserves		
Companies consolidated under the full method	703,484	447,531
Companies consolidated under the equity method	7,289	11,405
Retained earnings	(86,162)	109,146
	1,477,498	1,405,915

Legal reserve

In accordance with the provisions of Decree-Law No. 298/92, of December 31, amended by Decree-Law No. 201/2002, of September 26, the Company set up a legal reserve fund that shall attain the higher of the amount of the share capital or of the sum of the free reserves and retained earnings. For this purpose, a portion of the annual not inferior to 10% of net income on a stand-alone basis is transferred to this reserve each year, until the aforementioned amount is attained.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

This reserve may only be used to offset accumulated losses or increase share capital.

Merger reserve

Under current legislation, the merger reserve is equivalent to a legal reserve and may only be used to offset accumulated losses or increase share capital.

30. CONSOLIDATED NET INCOME FOR THE FINANCIAL YEAR

The consolidated net income for financial years 2017 and 2016 may be summarized as follows:

	2017		2016	
	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 ST SGPS (individual basis)	447,754	447,754	150,530	150,530
Net income of other Group companies:				
Banco Santander Totta, S.A.	695,630	695,352	336,500	336,325
Santotta - Internacional, SGPS, S.A.	-	-	(621)	(621)
BST International Bank, Inc - Porto Rico	-	-	10,400	10,395
Totta Ireland, Plc.	105,195	105,148	18,585	18,575
Unicre, Instituição Financeira de Crédito, S.A.	24,309	5,224	60,548	13,011
Santander Totta Seguros, S.A.	5,100	5,100	11,873	11,873
Totta Urbe, Empresa de Administração e Construções, S.A.	1,819	1,818	2,258	2,256
Aegon Santander Portugal Vida - Companhia de Seguros, S.A.	6,239	3,057	4,942	2,421
Novimovest - Fundo de Investimento Imobiliário Aberto	7,840	6,231	7,752	6,127
Aegon Santander Portugal Não Vida - Comapnhia de Seguros, S.A.	(87)	(43)	1,696	831
Totta & Açores, Inc. - Newark	-	-	(754)	(754)
Taxagest, S.A.	(4)	(4)	(1)	(1)
Banif International Bank, LTD	2,218	2,217	(4,487)	(4,485)
Lusimovest Fundo de Investimento Imobiliário	3,887	1,001	1,949	1,030
Gamma, Sociedade Financeira de Titularização de Créditos, S.A.	96	96	333	-
		825,197		396,983
Elimination of dividends:				
Banco Santander Totta, S.A.		(348,486)		(178,192)
Totta Ireland PLC		(107,586)		(19,757)
Santander Totta Seguros, S.A.		(79,000)		(3,941)
Unicre, Instituição Financeira de Crédito, S.A.		(4,169)		(17,733)
Aegon Santander Portugal Vida - Companhia de Seguros, S.A.		(2,695)		(686)
		(541,936)		(220,309)
Adjustments related with securitization operations		(118,084)		38,774
Dissolution of BST International Bank, Inc. - Puerto Rico		-		(1,593)
Dissolution of Totta & Açores Inc. - Newark		-		325
Dissolution of Santotta-Internacional, SGPS		(167,728)		-
Annulment of provisions for securities and intragroup sherholdings		(14,890)		31,332
Annulment of time differences in the recognition of income in intragroup operations		6,719		1,807
Other		(695)		(2,175)
		(294,678)		68,470
		436,337		395,674

Basic earnings per share are computed by dividing the net income attributable to the shareholders of the Group by the weighted average number of ordinary shares outstanding during the financial year.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	31-12-2017	31-12-2016
Consolidated net income attributable to the shareholders of ST, SGPS	436,337	395,674
Weighted average number of ordinary shares issued	197,296,207,958	197,296,207,958
Weighted average number of own shares	98,576,841	88,955,850
Weighted average number of ordinary shares outstanding	197,197,631,117	197,207,252,108
Basic earnings per share attributable to the shareholders of ST, SGPS (In Euros)	0.0022	0.0020

The basic earnings per share coincide with the diluted earnings per share since no contingently issuable ordinary shares, namely through options, warrants or other equivalent financial instruments exist at the balance sheet date.

31. NON-CONTROLLING INTERESTS

In 2017 and 2016, the value of non-controlling interests in the balance sheet and results corresponds to the proportion of third-party interests in BST's capital

32. OFF-BALANCE SHEET ITEMS

Off-balance sheet items are made up as follows:

	31-12-2017	31-12-2016
Guarantees given and other contingent liabilities		
Guarantees and sureties	1,717,603	1,386,997
Documentary credits	347,498	265,987
Other contingent liabilities		
Bank of Portugal	176,242	140,412
Deposit Guarantee Fund	85,814	71,443
Investor Indemnity System	6,601	5,496
Assets pledged as guarantees	7,810,863	10,485,995
	10 144 621	12 356 330
Commitments		
Credit lines		
Revocable	5,077,633	4,466,264
Irrevocable	1,352,174	536,938
Deposit Guarantee Fund	68,969	63,655
Investor Indemnity System	9,401	4,586
Other revocable commitments	87,221	-
Credit lines	215	215
	6 595 613	5 071 658
Liabilities for services rendered		
Deposit and custodial services	27,857,381	19,155,477
Amounts received for collection	220,568	107,175
Other values	136,972	4
	28 214 921	19 262 656

Deposits Guarantee Fund (Fundo de Garantia de Depósitos)

The Deposits Guarantee Fund was created in November 1994 as provided for in Decree-Law No. 298/92, of December 31, to guarantee customers' deposits in accordance with the limits established in the General Regime for Credit Institutions. The initial contribution to the Fund, set by a Ministry of Finance Ordinance, was made through the delivery of cash and deposit securities, having been amortized over 60 months as from January 1995. Except for the situation referred in the following paragraph, regular annual contributions to the Fund are recorded as an expense in the year to which they relate.

Until 2011, as allowed by the Bank of Portugal, the Bank paid 90% of the annual contribution to the Fund, having also accepted an irrevocable commitment to the Deposits Guarantee Fund to pay the remaining 10% of the annual contribution if, and when, required to do so. The total accumulated unpaid amount of this commitment at December 31, 2017 and 2016 amounted to €68,969 thousand and €63,655 thousand, respectively. Assets pledged as a guarantee to the Bank of Portugal are recorded under off-balance sheet headings at market value. In financial years 2017 and 2016, the Bank paid and recorded the full amount of the annual contribution amounting to €21 thousand and €12 thousand, respectively (Note 43).

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Investor Indemnity System (Sistema de Indemnização aos Investidores (SII))

The liabilities in respect of the Investor Indemnity System are not recorded as a cost but are guaranteed through the acceptance of an irrevocable commitment to pay said liabilities, if required to do so, with part (50%) of the commitment being guaranteed by a pledge of Portuguese Treasury securities. At December 31, 2017 and 2016, such liabilities amounted to €9,401 thousand and €4,586 thousand, respectively.

33. INTEREST AND SIMILAR INCOME

This heading is made up as follows:

	2017	2016
Interest on cash and deposits		
In the Bank of Portugal	-	27
In credit institutions	101	17
Interest on applications		
In domestic credit institutions	2,931	3,128
In foreign credit institutions	8,778	17,666
Interest on loans and advances to customers		
Domestic loans	518,955	518,562
Foreign loans	12,856	13,758
Other loans and receivables (commercial paper)	77,610	87,079
Securitized assets not derecognized	25,470	75,140
Income from comissions received associated to amortized cost	42,490	39,269
Interest on overdue loans and advances	10,909	9,014
Interest and similar income on other financial assets		
Financial assets held for trading	-	1,256
Available-for-sale financial assets	116,186	147,232
Held-to-maturity investments	6,468	8,591
Other financial assets at fair value through profit or loss	1,156	242
Hedging Derivatives	231,282	192,873
Commissions received associated with amortized cost	4,018	20,232
	1,059,210	1,134,086

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

34. INTEREST AND SIMILAR CHARGES

This heading is made up as follows:

	2017	2016
Interest on resources of the Bank of Portugal	4,740	5,041
Interest on resources of other Central Banks	4	-
Interest on resources of other credit institutions		
Domestic	297	2,421
Foreign	2,030	5,260
Interest on customers' deposits		
Deposits		
Residents	56,401	108,510
Non-residents	5,010	5,662
Other resources	220	970
Interest on debt securities issued		
Deposit certificates	-	1,036
Bonds	37,968	44,661
Other debt securities	660	1,152
Interest on subordinated liabilities	634	206
Interest on financial liabilities held for trading	-	599
Interest on hedging derivatives		
Coverage of fair value	226,530	121,478
Coverage of cash flows	15,132	69,958
Other interest and similar charges	3,582	23,009
Commissions paid associated with amortized cost		
Loans and advances to customers	28	-
Debt securities issued	9,046	10,816
Other operations	-	1,306
	362,282	402,085

35. INCOME FROM EQUITY INSTRUMENTS

This heading refers to dividends and income received and is made up as follows:

	2017	2016
Available-for-sale financial assets:		
SIBS – Sociedade Interbancária de Serviços, S.A.	2,799	3,827
BANIF Property	-	320
Unicampos	92	43
Others	20	8
	2,911	4,198

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

36. INCOME FROM SERVICES AND COMMISSIONS

This heading is made up as follows:

	2017	2016
On guarantees given		
Guarantees and sureties	15,792	16,451
Documentary credits	2,734	3,470
On commitments to third parties		
Irrevocable credit lines	1,810	616
Revocable credit lines	42	133
For banking services provided		
Card transactions	82,173	71,705
Demand deposits	52,069	35,073
Credit operations	46,574	36,713
Annuities	23,602	20,682
Real estate and mutual fund management	20,858	17,244
Asset management and collection	11,192	12,161
Cheques	10,633	8,543
Deposit and custody services	3,948	3,923
Other banking services rendered	1,800	3,449
On operations carried out on behalf of third parties		
On securities	16,488	16,768
Other	254	206
Other commission received		
Insurance	96,974	93,640
Other	11,311	36,095
	398,254	376,872

37. CHARGES WITH SERVICES AND COMMISSIONS

This heading is made up as follows:

	2017	2016
On guarantees received		
Guarantees and secureties	3,785	2,038
On banking services rendered by third parties		
Customer transactions	45,063	48,048
Credit operations	9,101	10,812
Asset management and collection	3,032	4,349
Other banking services rendered	2,001	1,976
On operations carried out by third parties		
On securities	1,912	1,784
Other	1,772	1,466
Other commissions paid	478	656
	67,144	71,129

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

38. RESULT FROM ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This heading is made up as follows:

	2017	2016
Financial assets held for trading:		
Equity instruments	94	137
Derivative instruments:		
Swaps:		
Currency swaps	(279)	1,210
Interest rate swaps	(31,486)	(40,624)
Equity swaps	(8,417)	(18,561)
Options:		
Currency swaps	193	329
Equity swaps	13,291	38,701
Other	14,867	(19,482)
	(11,737)	(38,290)
Financial assets at fair value through profit or loss	(128)	49
Hedging instruments		
Swaps		
Interest rate swaps	5,291	(8,910)
Equity swaps	2,990	12,644
Autocallable options	463	756
Value adjustments of hedged assets and liabilities	(8,821)	(4,677)
	(77)	(187)
	(11,942)	(38,428)

39. RESULT FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading is made up as follows:

	2017			2016		
	Gains	Losses	Net	Gains	Losses	Net
Debt instruments						
Issued by residents						
National public issuers	81,800	-	81,800	103,340	(1,721)	101,619
Other resident issuers	-	(19)	(19)	2,478	-	2,478
Issued by non-residents						
Other non-residents	-	(7)	(7)	-	(53)	(53)
Equity instruments						
Measured at fair value	108	(21)	87	8,181	(101)	8,080
Measured at historical cost	56	(2)	54	478	(1)	477
	81,964	(49)	81,915	114,477	(1,876)	112,601

In financial years 2017 and 2016, the gains recorded under the heading "Result of available-for-sale financial assets" were mainly justified by the sale of Portuguese Treasury Bonds.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

40. RESULT FROM FOREIGN EXCHANGE REVALUATION

This heading is made up as follows:

	2017	2016
Gains on the revaluation of the foreign exchange position	393,257	270,306
Exchange gains on investments in foreign operations	-	1,969
Losses on the revaluation of the foreign exchange position	(384,880)	(262,126)
	8,377	10,149

41. RESULT FROM SALE OF OTHER ASSETS

This heading is made up as follows:

	2017	2016
Gains on the sale of loans and advances to customers (Note 11)	33,524	29,746
Gains on non-current assets held for sale	10,286	8,195
Gains on other tangible assets	3,240	4,033
Gains on the repurchase of bonds issued associated with securitization operations (Note 25)	411	17,020
Gains on the sale of investments in subsidiaries and associates	-	12,250
Gains on assets associated with insurance liabilities	-	518
Other gains on non-financial operations	16	436
	47,477	72,198
Losses on the sale of loans and advances to customers (Note 11)	(2,012)	(708)
Losses on non-current assets held for sale	(1,456)	(1,435)
Losses on tangible assets	(1,155)	(2,225)
Losses on the sale of investments in subsidiaries and associates	-	(87)
Other losses on non-financial operations	-	(70)
Other losses on financial operations	(721)	(7,222)
	(5,344)	(11,747)
	42,133	60,451

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

42. GROSS MARGIN ON INSURANCE ACTIVITY

The gross margin on the insurance activity is made up as follows:

	2017	2016
Commissions and profit sharing on reinsurance ceded	28,124	29,451
Gross written premiums net of reinsurance	101,190	5,843
Costs with claims net of reinsurance	(21,960)	(22,772)
Change in technical reserves net of reinsurance	(110,529)	(16,309)
Interest and net income of assets allocated to technical reserves	7,059	6,526
Net gains of assets allocated to technical reserves	-	352
Charges for services and commissions associated with technical reserves	(67)	(71)
	3,817	3,020
Gross margin on life insurance where the risk rests with the policyholder	7,150	7,354

The technical reserves comprise liabilities for insurance contracts and financial liabilities for investment contracts with discretionary participating features.

Financial liabilities for investment contracts without discretionary participating features are not considered in the calculation of the gross margin of the insurance activity.

In financial years 2017 and 2016, the heading "Gross written premiums net of reinsurance" was made up as follows:

	2017	2016
Temporary Individual/Group	54,910	57,605
Retirement Savings Plan/Education (PPR/E)	126,043	31,624
Deferred capital insurances	-	536
Traditional products	219	261
	181,172	90,026
Reinsurance ceded	(79,982)	(84,183)
	101,190	5,843

In financial years 2017 and 2016, the heading "Costs with claims net of reinsurance" was as follows:

	2017		
	Amounts paid	Change in the claims reserves	Total
Temporary Individual/Group	20,146	1,150	21,296
PPR/E Guaranteed	17,394	402	17,796
PPR/E Maxinveste	2,199	(6)	2,193
Génesis Plan	765	(2)	763
Other products	345	(37)	308
	40,849	1,507	42,356
Reinsurance ceded	(18,847)	(1,549)	(20,396)
	22,002	(42)	21,960

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2016		
	Amounts paid	Change in the claims reserves	Total
Temporary Individual/Group	22,144	-3,399	18,745
PPR/E Guaranteed	18,382	(98)	18,284
PPR/E Maxinveste	2,189	(39)	2,150
Génesis Plan	619	(9)	610
Other products	279	35	314
	43,613	-3,510	40,103
Reinsurance ceded	(20,842)	3,511	(17,331)
	22,771	1	22,772

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In financial years 2017 and 2016, the change in "Change in technical reserves net of reinsurance" was as follows:

Change in the unearned premiums reserve	
Balance at December 31, 2015	18
Change in the unearned premiums reserve, net of reinsurance in 2016	13
Balance at December 31, 2016 (Note 19)	31
Change in the unearned premiums reserve, net of reinsurance in 2017	6
Balance at December 31, 2017 (Note 19)	37
Change in the mathematical reserve	
Balance at December 31, 2015	231,879
Change in the mathematical reserve, net of reinsurance in 2016	15,513
Transfer to reserve for profit sharing attributed	29
Reconversion of financial liabilities for investment contracts with discretionary participating features into financial liabilities for investment contracts without discretionary participating features	1,687
Deferred acquisition costs	293
Balance at December 31, 2016 (Note 19)	249,401
Change in the mathematical reserve, net of reinsurance in 2017	110,111
Transfer to reserve for profit sharing attributed	37
Deferred acquisition costs	82
Balance at December 31, 2017 (Note 19)	359,631
Change in the reserve for profit sharing attributed	
Balance at December 31, 2015	485
Profit sharing paid out in 2016	(397)
Transfer to the mathematical reserve	(29)
Profit sharing attributed in 2016	490
Other	(41)
Balance at December 31, 2016 (Note 19)	508
Profit sharing paid out in 2017	(460)
Transfer to the mathematical reserve	(37)
Profit sharing attributed in 2017	330
Balance at December 31, 2017 (Note 19)	341
Change in the reserve for profit sharing attributable	
Balance at December 31, 2015	21,146
6Change in shareholders' equity in 2015	(1,238)
Balance at December 31, 2016 (Notes 19 and 29)	19,908
Change in shareholders' equity in 2017	1,159
Balance at December 31, 2017 (Notes 19 and 29)	21,067

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

43. OTHER OPERATING RESULTS

This heading is made up as follows:

	2017	2016
Other operating income		
Rental of APT	20,109	16,585
Rents earned	15,660	18,167
Unrealized gains on investment properties	3,452	46,203
Income from rendering of services	3,108	7,331
Reimbursement of expenses	2,729	6,653
Other	2,959	6,627
	48,017	101,566
Other operating expenses		
Contributions to the Resolution Fund	(19,352)	(15,090)
Subscriptions and donations	(7,734)	(7,165)
Charges related to transactions made by customers	(7,234)	(6,343)
Charges related to cards	(12,732)	(10,746)
Charges related to clients	(4,202)	(3,595)
Unrealized losses on investment properties	(5,163)	(49,008)
Other taxation		
Direct	(1,433)	(1,995)
Indirect	(1,890)	(2,446)
Contributions to the Deposit Guarantee Fund (Note 32)	(21)	(12)
Other charges and operating expenses	(2,979)	(5,221)
	(62,740)	(101,621)
	(14,723)	(55)

For the financial years ended December 31, 2017 and 2016, the heading "Rents earned" includes the amounts of €15,586 thousand and €17,916 thousand, respectively, related to the rents earned by the Novimovest Fund (Note 15).

Decree-Law No. 24/2013, of February 19, established the Banks’ contributory regime to the new Resolution Fund created for the purpose of preventing, mitigating and containing systemic risk. According to Notice No. 1/2013 and the Instructions No. 6/2013 and No. 7/2013 of the Bank of Portugal, the Bank is to pay an initial and a regular contribution to the Resolution Fund. BST’s periodic contribution for the years 2017 and 2016 amounted to €4,556 thousand and €2,850 thousand, respectively.

In accordance with the single Resolution mechanism these contributions will be transferred to the Single Resolution Fund, in accordance with Article 3, paragraph 3 of the agreement on the transfer and mutualization of contributions to the Single Resolution Fund, signed in Brussels on May 21, 2014.

The Bank of Portugal, as resolution authority, determines the value of the contribution of each institution based on the risk profile of each entity. In December 2015, the Bank paid an additional contribution to the Resolution Fund in the amount of Euros 13,318 thousand, based on the letter received from the Bank of Portugal in November 2015. In financial year 2017 and as foreseen in a letter from the Bank of Portugal, the Single Resolution Board (Conselho Único de Resolução (“CUR”)) permitted that for the year 2016, banks could opt for the use of an irrevocable commitment to pay, in respect of 15% of the annual contribution amount. The annual contribution amounted to €17,406 thousand and the irrevocable commitment in cash amounted to €14,400 thousand.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

44. STAFF COSTS

This heading is made up as follows:

	2017	2016
Remuneration		
Management and supervisory boards	9,231	9,062
Employees	207,320	188,991
Stock plan (Note 50)	299	294
Other variable remuneration	24,043	24,260
	240,893	222,607
Mandatory social charges		
Charges on remuneration	57,163	61,546
Pensions and other benefits (Note 47)	6,222	5,534
Other mandatory social charges	931	(7,983)
	64,316	59,097
Other staff costs		
Staff assignments	569	547
Supplementary pension plan (Note 47)	583	580
Other	4,853	4,039
	6,005	5,166
	311,214	286,870

45. GENERAL ADMINISTRATIVE COSTS

This heading is made up as follows:

	2017	2016
External supplies:		
Water, electricity and fuel	8,508	9,193
Consumable materials	1,981	2,079
Other	363	257
External services:		
Specialized services	67,400	83,303
Maintenance of software and hardware	40,787	59,126
Communications	11,997	14,422
Maintenance and repairs	4,165	4,278
Advertising and publishing	11,507	11,027
Rents and hires	13,631	16,820
Travel, lodging and entertainment expenses	5,692	5,272
Transportation	3,665	3,553
Staff training	2,145	1,457
Insurance	1,292	1,487
Other	5,931	6,376
	179,064	218,650

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

46. RESULTS FROM ASSOCIATED COMPANIES

This heading is made up as follows:

	2017	2016
Unicre - Instituição Financeira de Crédito	5,226	13,018
AEGON Santander Portugal Vida	3,015	2,421
AEGON Santander Portugal Não Vida	-	831
Lusimovest - Fundo de Investimento Imobiliário	1,002	431
Atlantes Finance 6	51	-
Benim - Sociedade Imobiliária, S.A	(2)	(223)
	9,292	16,478

47. EMPLOYEES' 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, in 2017 and by Towers Watson (Portugal) Unipessoal Limitada in 2016). 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 December 31, 2017, and in the four preceding years, as well as the respective coverage, are detailed as follows:

	2017	2016	2015	2014	2013
Estimate of responsibilities for past services:					
- Pensions					
.Current employees	289,518	314,119	303,523	308,223	282,028
.Pensioners	34,059	31,526	26,928	26,343	22,891
.Retired staff and early retired staff	475,916	424,970	399,942	415,679	399,434
	799,493	770,615	730,393	750,245	704,353
- Healthcare systems (SAMS)	147,942	147,207	151,544	151,903	137,970
- Death subsidy	5,132	6,372	5,759	5,543	4,562
- Retirement bonus	6,802	8,082	-	-	-
	959,369	932,276	887,696	907,691	846,885
Coverage of responsibilities:					
- Net assets of the Fund	996,786	932,465	914,204	910,580	840,543
Excess / insufficient funding	37,417	189	26,508	2,889	(6,342)
Actuarial and financial deviations generated in the period/year					
- Change in assumptions	-	30,579	-	37,912	42,565
- Experience adjustments:					
.Other actuarial (gains) / losses	(4,319)	23,815	(9,857)	6,580	(1,775)
.Financial (gains) / losses	(32,933)	2,050	(17,675)	1,111	(3,115)
	(37,252)	25,865	(27,532)	7,691	(4,890)
	(37,252)	56,444	(27,532)	45,603	37,675

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%

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The amount of the liabilities transferred to Social Security determined on the basis of the above assumptions was €456,111 thousand.

The main assumptions used by the Bank to determine its liabilities for retirement pensions as at December 31, 2017 and 2016, 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%

For the purposes of determination of the value of the Social Security pension that, under the terms of the banking sector CBA must be deducted from the pension provided for in the said CBA, the following assumptions were used on December 31, 2017 and 2016:

Salary growth rate for calculation of the deductible pension	0.75%
Inflation (Article 27(1))	0.45%
Inflation (Article 27(2))	0.55%
Age of access to retirement pension	66 years
Evolution of the future sustainability factor	0.5% per year

Decree-Law 167-E/2013, of December 31, changed the normal age of access to retirement under the general Social Security regime to 66 years, though the sustainability factor was no longer applicable to beneficiaries who retire at that age.

The discount rate used to determine the liabilities was calculated by reference to the market rates of low-risk corporate bonds of a term similar to that of the settlement of the liabilities.

Movement under liabilities for past services during the years ended December 31, 2017 and 2016, can be detailed as follows with regard to the BST pension plan:

	31-12-2017	31-12-2016
Liabilities at the beginning of the period	932,276	887,696
Cost of current services	4,536	4,247
Interest cost	17,912	21,282
Actuarial (Gains)/losses	(4,319)	54,394
Early retirement	51,367	14,554
Amounts paid	(44,873)	(41,026)
CBA alteration	-	(11,220)
Employee contributions	2,470	2,349
	-----------	-----------
Liabilities at the end of the period	959,369	932,276
	======	=======

The cost for the year relating to pensions includes the cost of current service and the interest costs, deducted from the expected return of the assets of the Pension Fund. In the years ended

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

December 31, 2017 and 2016, the breakdown of pension costs is as follows (Note 44):

	2017	2016
Cost of current services	4,536	4,247
Interest cost	17,912	21,282
Return on assets calculated with the discount rate	(17,912)	(21,282)
Defined-benefit plan	4,536	4,247
Defined-contribution plan	1,132	979
London Branch plan	554	308
	6,222	5,534

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

Movement under actuarial deviations during 2017 and 2016 was as follows:

Balance at December 31, 2015	639,140
Actuarial losses on pensions generated in 2016	47,036
Financial losses on pensions generated in 2016	1,459
Actuarial losses on healthcare and death benefit in 2016	7,358
Financial losses on healthcare and death benefit in 2016	591
Balance as at December 31, 2016 (Note 27)	695,584
Actuarial losses on pensions generated in 2017	(1,437)
Financial losses on pensions generated in 2017	(27,281)
Actuarial losses on healthcare and death benefit in 2017	(2,882)
Financial losses on healthcare and death benefit in 2017	(5,652)
Balance as at December 31, 2017 (Note 27)	658,332

Actuarial deviations with pensions in 2017 and 2016 are detailed as follows:

	2017	2016
Change of actuarial assumptions	-	24,928
Change of the salary scale		
with impact on pensions and salaries	8,922	17,099
Changes in the population	(8,156)	5,296
Mortality deviations		
. For departures	(5,111)	(5,523)
. For permanence	2,432	4,184
For survivors' and orphans' pensions	2,489	3,454
Shift of early retirees to pensioners	(2,013)	(2,402)
	(1,437)	47,036

In 2016, the change of actuarial assumptions included the effect of the reduction of the discount rate from 2.5% to 2.0%.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Estimated salary and pension growths take into account the country's current situation and the consequent perspectives of smaller increases in the future, or even maintenance of current values.

Actuarial deviations with health care and death benefit in 2017 and 2016 can be detailed as follows:

	2017	2016
Change in assumptions	-	5,651
Salary and level changes	612	1,362
Other	(3,494)	345
	(2,882)	7,358

In 2018 BST expects make a contribution of €8,824 thousand to its defined-benefit plan.

The average duration of pension liabilities of BST employees is 15 years, including those in active service and pensioners.

Santander Pensões - Sociedade Gestora de Fundos de Pensões, SA, is the entity that manages the BST Pension Fund. As at December 31, 2017 and 2016, the number of participants of the Fund was as follows:

	2017	2016
Employees in service(1)	4,789	5,103
Pensioners	1,123	1,092
Retirees and early retirees	5,561	5,358
	11,473	11,553

(1) Of whom 274 and 265 employees belong to the defined-contribution plan on December 31, 2017 and 2016, respectively.

The main demographic changes during 2017 and 2016 were as follows:

	Assets			
	Defined contribution plan	Defined benefit plan	Retired staff and early retired staff	Pensioners
Total number at December 31, 2015	236	5,002	5,325	1,052
Leavers:				
Current employees	(16)	(37)	-	(28)
Due to mortality	-	-	(106)	-
Transfers	-	(127)	127	-
Joiners	45	-	12	68
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

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Movement under the BST Pension Fund during 2017 and 2016 was as follows:

Asset value as at December 31, 2015	914,204

Bank's contributions (cash)	37,706
Employee contributions	2,349
Net income of the Fund:	
. Return on assets calculated with the discount rate	21,282
. Income of the Fund below the discount rate	(2,050)
Amounts paid	(41,026)

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
	======

The rates of return of the Pension Fund in 2017 and 2016 amounted to 5.45%percent and 2.18%, respectively.

The investments and allocation policy of the BST Pension Fund determines that the asset portfolio be constituted in compliance with security, profitability and liquidity criteria, through a diverse set of investments, namely shares, bonds, other debt securities, holdings in collective-investment institutions, bank deposits, other monetary assets and land and buildings included in the land registry.

On the other hand, that policy is guided by risk-diversification and profitability criteria and the Fund's Management Company may opt for a more or less conservative policy by increasing or decreasing the exposure to equities or bonds, according to its expectations as to the evolution of the markets and in accordance with the defined investment limits.

The investment policy of the BST Pension Fund in force provides for the following limits:

Asset Class	Intervals foreseen
Bonds	40% to 95%
Real estate	0% to 25%
Equities	0% to 20%
Liquidity	0% to 15%
Alternatives	0% to 10%
Commodities	0% to 5%

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

As at December 31, 2017 and 2016, the composition of the BST Pension Fund was as follows:

	31-12-2017	31-12-2016
Debt instruments:		
. Rating A	22,113	21,014
. Rating BBB	313,459	235,590
. Rating BB	58,132	148,349
. Without rating to the issuance and issuer	104,686	10,496
Real estate funds	160,019	173,265
Mutual funds	186,024	173,956
Deposits	55,016	58,459
Real estate funds		
. Commercial spaces	22,059	51,239
. Land	863	863
Equity instruments:		
. Portuguese shares – listed	366	1,178
. Portuguese shares – not listed	-	112
. Foreign shares – listed	51,642	38,951
Derivative financial instruments		
. Options listed	771	(645)
Other	21,636	19,638
	996,786	932,465

As at December 31, 2017 & 2016, 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 51), was as follows:

	31-12-2017				31-12-2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Debt instruments	393,704	-	104,686	498,390	404,953	-	10,496	415,449
Investment Funds	155,688	-	190,355	346,043	147,217	-	200,004	347,221
Equity instruments	52,008	-	-	52,008	40,129	-	112	40,241
Derivative financial instruments	771	-	-	771	(645)	-	-	(645)
Real estate	-	-	22,922	22,922	-	-	52,102	52,102
	602,171	-	317,963	920,134	591,654	-	262,714	854,368

As at December 31, 2017 and 2016, the Pension Fund's portfolio included the following assets related with companies of the Santander Group in Portugal:

	31-12-2017	31-12-2016
Rented properties	14,948	14,936
Securities (including units in funds managed)	151,199	160,779
	-----------	-----------
	166,147	175,715
	======	======

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 €4,430 thousand. In 2017 and 2016 the premium paid by the Bank amounted to €583 thousand and €580 thousand respectively (Note 44).

This plan covers the contingencies of retirement, death and permanent absolute disability for customary work or invalidity.

For all these contingencies, the benefits to be received by the beneficiaries will equal the accumulated balance in the supplementary plan on the date on which the benefits are realised. In the case of the beneficiary's death this amount will be further increased by €6,000.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

As at December 31, 2017 and 2016, 95 and 105 employees, respectively, were covered by this plan.

Defined benefit pension plan – London Branch

As at December 31, 2017 and 2016, the main assumptions used in the calculation of retirement pension liabilities covering the employees of BST's London Branch were as follows:

	31-12-2017	31-12-2016
Mortality table	AMC00/AFC00	AMC00/AFC00
Technical actuarial rate (discount rate)	2.40%	2.60%
Salary growth rate	2.40%	3.60%
Pension growth rate	2.00%	2.10%
Inflation rate	2.40%	2.60%

As at December 31, 2017 and 2016, the liabilities for the defined-benefit pension plan of the London Branch and their coverage were as follows:

	31-12-2017	31-12-2016
Estimated liabilities for past-services	47,440	49,894
Coverage - Pension Fund asset value	40 711	37 501
	--------	-------
Amount not funded – London Branch	(6,729)	(12,393)
	=====	=====

With regard to the pension plan of the London Branch, the breakdown of the movement under liabilities for past services in 2017 and 2016 is as follows:

Liabilities as at December 31, 2015	44,559
Cost of current services	165
Interest cost	1,439
Actuarial losses	4,490
Amounts paid	(759)

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
	=====

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Movement in the Pension Fund of the London Branch in 2017 and 2016 was as follows:

Book value as at December 31, 2015	40,125
Net income of the Fund:	
. Return on assets calculated with the discount rate	1,296
. Income of the Fund below the discount rate	(3,285)
Contribution of the Branch	124
Amounts paid	(759)

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
	=====

The breakdown of the costs of the defined-benefit plan of the London Branch in 2017 and 2016 is as follows:

	2017	2016
Cost of current services	240	165
Interest cost	1,245	1,439
Return on assets calculated with the discount rate	(931)	(1,296)
	-----	-----
	554	308
	===	===

Movement under actuarial deviations of the London Branch in 2017 and 2016 was as follows:

Balance at December 31, 2015	8,399

Actuarial losses with pensions	4,490
Financial losses with pensions	3,285

Balance as at December 31, 2016 (Note 27)	16,174
Actuarial gains with pensions	(3,182)
Financial losses with pensions	414

Balance as at December 31, 2017 (Note 27)	13,406

As at December 31, 2017 and 2016, the portfolio of the Pension Fund of the London Branch include the following assets:

	31-12-2017	31-12-2016
Debt instruments	22,332	31,868
Equity instruments	5,900	5,568
Other instruments	9,102	
Deposits	3,377	65
	---------	----------
Value of the Fund	40,711	37,501
	=====	=====

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Liabilities for defined-benefit pension plans expose the Bank to the following risks:

- Investment risk – the updated value of the liabilities is calculated on the basis of a discount rate determined with reference, in terms of credit risk, to high-quality bonds denominated in euros; if the return of the Pension Fund is below that discount rate, it will create a shortfall in the funding of the liabilities.

- Interest-rate risk - a decrease of the interest rate of the bonds will increase the pension liabilities.

- Longevity risk – the updated amount of the liabilities is calculated on the basis of the best estimate at the time of the expected mortality of the participants before and after the retirement date. An increase of the life expectancy of the plan's participants will increase the pension liabilities.

- Salary risk – the updated amount of the liabilities is calculated on the basis of an estimate of the future salary of the participants. So, an increase of the participants' salary will increase the pension liabilities.

On December 31, 2017 and 2016, a sensitivity analysis performed on a variation of the main financial assumptions referred to those dates led to the following impacts on the current value of the Bank's past-service liabilities (excluding those associated with the London Branch):

	2017		2016	
	(Decrease) / Increase		(Decrease) / Increase	
	%	Amount	%	Amount
Change in discount rate:				
Increase of 0.5%	(6.9%)	(54,871)	(7,5%)	(69,209)
Decrease of 0.5%	7.7%	61,806	7.6%	69,750
Change in salary growth rate:				
Increase of 0.5%	5.9%	47,411	1.5%	13,755
Decrease of 0.5%	(4.8%)	(38,419)	(3,5%)	(31,857)
Change of pension growth rate:				
Increase of 0.5%	8.9%	71,401	7.7%	70,734
Decrease of 0.5%	(8.1%)	(64,842)	(7,9%)	(73,060)
Change in mortality rate table				
Over two years	(6.4%)	(51,438)	(7,1%)	(64,664)
Less than two years	6.5%	51,639	6.2%	56,856

The sensitivity analyses presented above may not be representative of the changes that may occur in the future in the defined-benefit plan as a result of being considered in isolation and some of them are correlated.

Pension Fund – 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. In the first quarter of 2017 the parties involved reached agreement and legal procedures were in progress for the transfer of the liabilities with retired employees, retirees, pensioners and former participants with vested rights and the share of the Fund's assets.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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 BBCA subpopulation (closed to new subscribers): (i) payment of retirement, disability, presumable disability and survivors' pensions, in accordance with the CBA and the regimes introduced by Decree-Law 1-A/2011 of January 3 and Decree-Law 127/2011 of December 31; (ii) future payment of mandatory contributions relating to post-employment medical care (SAMS) and (iii) death benefits, both under the terms of the CBA.

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 BBCA, who are not covered by the Company Agreement. The initial contribution was calculated in the light of: (i) supplementary old-age pensions estimated in the evaluation of liabilities performed by the Responsible Actuary of the Pension Plan on December 31, 2006; and (ii) the current value of the future contributions.

d) Pension plan III - 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 and 2016, the population covered is as follows:

	31-12-2017			31-12-2016		
	Subpopulation former Banif	Subpopulation former BBCA	Total	Subpopulation former Banif	Subpopulation former BBCA	Total
Current employees	752	185	937	795	211	1,006
Retired staff and pensioners	94	156	250	91	128	219
Early retired staff	13	175	188	13	178	191
Former participants with vested rigths	-	81	81	-	87	87
Retired of the defined contribution plan	162	-	162	153	-	153
Total	1,021	597	1,618	1,052	604	1,656

Defined contribution pension plan - employees covered

	31-12-2017	31-12-2016
Plan II	500	537
Plan III	272	289
Total	772	826

The breakdown of the estimated liabilities for past services as at December 31, 2017 and 2016, using the BST assumptions, is as follows for the defined-benefit pension plan (considering both the former Banif and the former BBCA subpopulations):

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	31-12-2017				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	26,301	7,966	154	1,193	35,614
Retired staff and pensioners	75,104	7,187	183	-	82,474
Early retired staff	15,963	3,832	179	-	19,974
Former participants with vested rigths	3,178	1,201	-	-	4,379
Total liabilities for past services	120,546	20,186	516	1,193	142,441
Book value of the pension fund					110,505
Insufficient fund					(31,936)

	31-12-2016				
	Liabilities				
	Pensions	Healthcare systems (SAMS)	Death Subsidy	Prize in retirement	Total
Current Employees	31,375	9,346	177	1,173	42,071
Retired staff and pensioners	66,529	5,279	333	-	72,141
Early retired staff	16,556	4,064	-	-	20,620
Former participants with vested rigths	4,453	621	-	-	5,074
Total liabilities for past services	118,913	19,310	510	1,173	139,906
Book value of the pension fund					115,823
Insufficient fund					(24,083)

As at December 31, 2017 and 2016, the portfolio of the former Banif Pension Fund associated with the defined-benefit pension plan by asset type is as follows:

	31-12-2017		31-12-2016	
Type of Asset	Total	Relative weight	Total	Relative weight
Debt instruments	63,879	53.94%	53,481	45.16%
Securities investment fund	22,015	18.59%	32,974	27.84%
Real estate fund	3,010	2.54%	3,189	2.69%
Real estate properties	14,680	12.40%	18,407	15.54%
Equity instruments	2,605	2.20%	851	0.72%
Deposits	5,426	4.58%	2,582	2.18%
Other	1,422	1.20%	6,948	5.87%
	113,037		118,432	
Assets to be transferred	(2,532)		(2,609)	
	110,505		115,823	

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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

As at December 31, 2017, the population covered is as follows:

Current employees	847
Retired staff and pensioners	133
Former employees (management)	2
Former employees	1,167
Total	2,149

The directors' plan does not have participants at this time, the 2 existing directors having left (one without vested rights and the other who became part of the population of former participants (Directors).

The breakdown of the estimated liabilities for past services as at December 31, 2017, based on the BST assumptions, is as follows

	Pensions	Healthcare systems (SAMS) and Death Subsidy	Total
Current employees	74,492	1,183	75,675
Retired staff and pensioners	54,728	186	54,914
Former employees (management)	2,720	5	2,725
Former employees	30,661	-	30,661
Total liabilities for past services	162,601	1,374	163,975
Book value of the pension fund			166,358
Over financing			2,383

As at December 31, 2017, the breakdown of the BAPOP Pension Fund's portfolio by asset type is as follows:

Assets	Total	Peso relativo
Debt instruments	87,653	52.69%
Participation units	65,178	39.18%
Deposits	13,527	8.13%
	166,358	

48. SECURITISATION OPERATIONS

Description of the operations

Between July 2003 and February 2011, BST securitised part of its mortgage-loan portfolio through twelve operations, the initial amount of which was €23,250,000 thousand. The loans were sold for their nominal (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.

The Hipototta Funds are managed by Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, SA. (Navegator). BST continues to manage the loan contracts, delivering to Hipototta funds all amounts received thereunder. The Santander Group has no direct or indirect holding in Navegator.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

As a form of funding, Hipototta Funds issued securitisation units of an amount identical to the loan portfolios acquired, which were fully subscribed by Fundos Hipototta PLC, having its registered office in Ireland.

On the other hand, Fundos Hipototta PLC delivered all amounts received from BST and from the Directorate General of the Treasury to Fundos Hipototta PLC, separating the instalments into principal and interest.

In December 2016, as contractually provided for, the clean-up call of the Hipototta nº 1 FTC was exercised, the Bank having acquired the respective residual assets. In accordance with the accounting policy described in Note 1.3, in the event of purchases of securities representing the Bank's liabilities, they cancelled in the consolidated liabilities and the difference between the purchase price and the respective carrying amount is recognised in profit or loss.

As a form of funding, Fundos Hipototta PLC issued bonds with different levels of subordination and rating and, consequently, of remuneration.

As at December 31, 2017, the bonds issued that are still alive have the following characteristics:

Hipototta nº 4 PLC

Issue debt	Amount		Rating	Redemption date	Early redemption date	Remuneration	
	Inicial	Current	S&P			Up to early redemption date	After early redemption date
Class A	2,616,040	629,550	A	September 2048	December 2014	Euribor 3 months + 0.12%	Euribor 3 months + 0.24%
Class B	44,240	22,903	A	September 2048	December 2014	Euribor 3 months + 0.19%	Euribor 3 months + 0.40%
Class C	139,720	72,334	CCC	September 2048	December 2014	Euribor 3 months + 0.29%	Euribor 3 months + 0.58%
	2,800,000	724,787					
Class D	14,000	14,000	NR	September 2048	December 2014	Residual income of the securitized portfolio	
	2,814,000	738,787					

Hipototta nº 5 PLC

Issued debt	Amount		Rating		Redemption date	Early redemption date	Remuneration	
	Inicial	Current	S&P	Moody´s			Up to early redemption date	After early redemption date
Class A1	200,000	-			February 2060	February 2014	Euribor 3 months + 0.05%	Euribor 3 months + 0.10%
Class A2	1,693,000	578,638	A-	A1	February 2060	February 2014	Euribor 3 months + 0.13%	Euribor 3 months + 0.26%
Class B	26,000	26,000	A-	Baa1	February 2060	February 2014	Euribor 3 months + 0.17%	Euribor 3 months + 0.34%
Class C	24,000	24,000	BB+	Baa3	February 2060	February 2014	Euribor 3 months + 0.24%	Euribor 3 months + 0.48%
Class D	26,000	26,000	BB+	Ba3	February 2060	February 2014	Euribor 3 months + 0.50%	Euribor 3 months + 1.00%
Class E	31,000	31,000	BB-	B3	February 2060	February 2014	Euribor 3 months + 1.75%	Euribor 3 months + 3.50%
	2,000,000	685,638						
Class F	10,000	6,856	CCC-	Ca	February 2060	February 2014	Residual income of the securitized portfolio	
	2,010,000	692,494						

The bonds issued by Hipototta nº 4 PLC pay 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 the option to early redeem the bonds, on the dates indicated above. For all Hipototta, BST has the possibility of repurchasing the loan portfolio at their nominal value when the outstanding loan portfolio is equal to or lower than 10% of the initial amount of the operations.

Additionally, up to 5 days before each quarterly payment sate, the Hipototta have the option to make partial repayments of classes A, B and C, as well as of classes D and E in the case of Hipototta nº 5 PLC, in order to adjust the amount of the liabilities to that of the assets (loan portfolio).

The Hipototta nº 4 class D bonds and the Hipototta n° 5 class F bonds constitute the last liability to be paid.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

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 computed over the amount of the portfolios (custodian fees and services fees charged by BST, and management fees, charged by the Funds);
- Interest on the other classes of bonds;
- Impairment losses.

On the date on which the securitisations were contracted, the estimated yield of the securitised loan portfolios included in the calculation of the remuneration of the Hipototta nº 4 PLC Class D bonds corresponded to an annual average rate of 0.9%. In the Hipototta n° 5 PLC class F bonds it corresponded to an average annual rate of 0.9% on the total value of the loan portfolio.

On the date on which the securitisations were contracted, subordinated loans were concluded between BST and Hipototta, which correspond to credit facilities/lines in case of a need for liquidity on the part of Hipototta. Swap Agreements were also concluded between the Santander Group and BST securitisation vehicles intended to cover the interest-rate risk.

Former Banif securitisation operations

Following 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 implemented 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

	Amount		Rating		Early redemption date	Remuneration
Issue debt	Inicial	Current	S&P	Moody´s		Up to early redemption date
Class A	462,500	28,602	A+	A1	January 2036	Euribor 3 months + 0,054%
Class B	22,500	22,500	B	A1	January 2036	Euribor 3 months + 1,3%
Class C	12,500	12,500	B-	Ba2	January 2036	Euribor 3 months + 2,6%
Class D	2,500	2,500	B-	B3	January 2036	Euribor 3 months + 4,75%
	500,000	66,102				
Class E	15,400	15,400	NR	NR	January 2036	Residual income of the securitized portfolio
	515,400	81,502				

Azor Mortgage nº 1

Operation implemented 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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Azor Mortgage nº 1

Issue debt	Amount		Rating		Early redemption date	Remuneration
	Inicial	Current	S&P	Moody´s		Up to early redemption date
Class A	253,000	6,747	A+	A1	September 2047	Euribor 3 months + 0,3%
Class B	19,000	19,000	BBB	A1	September 2047	Euribor 3 monthss + 0,76%
Class C	9,000	9,000	B-	A3	September 2047	Euribor 3 monthss + 1,75%
	281,000	34,747				
Class D	10,000	10,000	NR	NR	September 2047	Residual income of the securitized portfolio
	291,000	44,747				

Atlantes Mortgage nº 2

Operation implemented 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

Issue debt	Amount		Rating		Early redemption date	Remuneration
	Inicial	Current	S&P	Moody´s		Up to early redemption date
Class A	349,100	144,679	BBB+	A	September 2060	Euribor 3 months + 0,33%
Class B	18,400	13,817	BB+	BBB	September 2060	Euribor 3 months + 0,95%
Class C	7,500	5,632	B-	BB	September 2060	Euribor 3 months + 1,65%
	375,000	164,128				
Class D	16,125	16,125	NR	NR	September 2060	Residual income of the securitized portfolio
	391,125	180,253				

Azor Mortgage nº 2

Operation implemented in July 2008, when the mortgage loans originated at the former BBCA were ceded to Gamma STC . To finance itself, Gamma STC issued Azor Mortgages nº 2 Class A, B and C bonds with different levels of subordination and rating and, consequently, of remuneration.

Azor Mortgage nº 2

Issue debt	Amount		Rating		Early redemption date	Remuneration
	Inicial	Current	S&P	Moody´s		Up to early redemption date
Class A	253,500	114,870	A+	A	December 2065	Euribor 3 m + 0,3%
Class B	46,500	43,080	NR	NR	December 2065	Euribor 3 m + 0,8%
	300,000	157,950				
Class D	6,750	6,750	NR	NR	December 2065	Residual income of the securitized portfolio
	306,750	164,700				

Atlantes Mortgage nº 3

Operation implemented 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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Atlantes Mortgage nº 3

	Amount		Rating		Early redemption date	Remuneration
Issue debt	Inicial	Current	S&P	Moody´s		Up to early redemption date
Class A	558,600	247,747	A	A+	August 2061	Euribor 3 months + 0,2%
Class B	41,400	34,221	NR	NR	August 2061	Euribor 3 months + 0,5%
	600,000	281,968				
Class C	57,668	57,668	NR	NR	August 2061	Residual income of the securitized portfolio
	657,668	339,636				

Atlantes Mortgage nº 4

Operation implemented in February 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 4, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 4

	Amount		Rating		Early redemption date	Remuneration
Issue debt	Inicial	Current	S&P	Moody´s		Up to early redemption date
Class A	514,250	282,811	A+	A+	December 2064	Euribor 3 months + 0,2%
Class B	35,750	31,145	NR	NR	December 2064	Euribor 3 months + 0,5%
	550,000	313,956				
Class C	74,250	74,250	NR	NR	December 2064	Residual income of the securitized portfolio
	624,250	388,206				

Atlantes Mortgage nº 5

Operation implemented in December 2009, in which mortgage loans were ceded. The loans were ceded to Gamma STC, which financed the operation through the issue of the Atlantes Mortgage nº 5, classes A, B and C, with different levels of subordination and rating, and consequently, remuneration.

Atlantes Mortgage nº 5

	Amount		Rating		Early redemption date	Remuneration
Issue debt	Inicial	Current	S&P	Moody´s		Up to early redemption date
Classe A	455,000	232,370	A+	A+	November 2068	Euribor 3 months + 0,15%
Classe B	45,000	41,174	NR	NR	November 2068	Euribor 3 months + 0,3%
	500,000	273,544				
Classe C	66,250	66,250	NR	NR	November 2068	Residual income of the securitized portfolio
	566,250	339,794				

Atlantes Mortgage nº 7

Operation implemented 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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Atlantes Mortgage nº 7

	Montante		Rating		Data de reembolso	Remuneração
Dívida emitida	Inicial	Atual	S&P	Moody´s	antecipado	Até ao reembolso antecipado
Classe A	357.300	181.834	A+	A+	agosto de 2066	Euribor 3 meses + 0,15%
Classe B	39.700	33.790	NR	NR	agosto de 2066	Euribor 3 meses + 0,3%
	397.000	215.624				
Classe C	63.550	63.550	NR	NR	agosto de 2066	Rendimento residual gerado pela carteira titularizada
	460.550	279.174				

During 2016 the Atlantes NPL nº 1 and Atlantes Mortgages nº 6 operations were wound up.
During 2017 the Atlantes Finance nº 6, Atlantes SME nº 4 and Atlantes SME nº 5 operations were wound up.

49. RELATED ENTITIES

The related entities of the Company with which it had balances or transactions in financial year 2017 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
Entities under the direct or indirect control of the Group	
Banco Santander Totta	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Totta Ireland, PLC	Ireland
Taxagest,SGPS,SA	Portugal
Santander Totta Seguros - Compª de Seguros De Vida, SA	Portugal
Santotta Internacional - S.G.P.S.	Portugal
Gamma - Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Banif International Bank, Ltd	Bahamas
Primestar Servicing, S.A.	Portugal
Fundo de Investimento Imobiliário Novimovest	Portugal
Entities significantly influenced by the Group	
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Benim - Sociedade Imobiliária, SA	Portugal
Eurovida - Companhia de Seguros de Vida	Portugal
Fundo de Investimento Imobiliário Lusimovest	Portugal
Unicre-Instituição Financeira de Crédito	Portugal
Special purpose entities that, directly or indirectly, are controlled by the Group	
Hipototta NO. 1 PLC	Irlanda
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
Securitization operations managed by GAMMA, STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities that, directly or indirectly, are under common control with the Group	
Abbey National Treasury Services plc	United Kingdom
All Funda Bank, SA	Spain
Allfunds Bank International S.A.	Luxembourg
Banco Santander (México), S.A., Institución de Banca Múltiple, Grupo Financiero Santander	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, SA SGECR	Spain
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Grupo Banco Popular	Spain
Ibérica de Compras Corporativas	Spain
Inbond Inversiones 2014, S.L.	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management, SGFIM, S.A.	Portugal
Santander Asset Management, S.A. SGIIC.	Spain
Santander Back-Office Globales Mayorista	Spain
Santander BackofficesGlobalesEspec. S.A.	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Generales Seguros y Reaseguros, S.A.	Spain
Santander Gestao de Activos SFIM, SA	Portugal
Santander Global Facilities	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Issuances, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Securities Services, S.A.	Spain
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Sovereign Bank	USA
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

The related entities of the Company with which it had balances or transactions in financial year 2016 were the following:

Name of the related entity	Head office
Entities that directly or indirectly control the Group	
Banco Santander, S.A.	Spain
Santusa Holding SL	Spain
Entities under the direct or indirect control of the Group	
Banco Santander Totta	Portugal
Tottaurbe - Emp.Admin. e Construções, S.A.	Portugal
Totta & Açores Financing	Cayman Island:
Totta Ireland, PLC	Ireland
Totta & Açores, Inc. - New ark	USA
Taxagest,SGPS,SA	Portugal
Santander Totta Seguros - Compª de Seguros De Vida, SA	Portugal
Santotta Internacional - S.G.P.S.	Portugal
Serfim International Bank & Trust	Cayman Island:
BST International Bank, Inc. - Porto Rico	Puerto Rico
Gamma - Sociedade Financeira de Titularização de Créditos, S.A.	Portugal
Banif International Bank, Ltd	Bahamas
Fundo de Investimento Imobiliário Novimovest	Portugal
Entities significantly influenced by the Group	
Unicre-Instituição Financeira de Crédito, S.A.	Portugal
Aegon Santander Portugal Vida - Companhia de Seguros Vida, S.A.	Portugal
Aegon Santander Portugal Não Vida - Companhia de Seguros, S.A.	Portugal
Fundo de Investimento Imobiliário Lusimovest	Portugal
Benim - Sociedade Imobiliária, S.A.	Portugal
Special purpose entities that, directly or indirectly, are controlled by the Group	
Hipototta Nº. 1 PLC	Ireland
Hipototta Nº. 4 PLC	Ireland
Hipototta Nº. 5 PLC	Ireland
Hipototta Nº. 1 FTC	Portugal
Hipototta Nº. 4 FTC	Portugal
Hipototta Nº. 5 FTC	Portugal
Securitization operations managed by GAMMA, STC	Portugal
Atlantes Mortgage 1 PLC	Ireland
Atlantes Mortgage 1 FTC	Portugal

Name of the related entity	Head office
Entities that, directly or indirectly, are under common control with the Group	
Abbey National Treasury Services plc	United Kingdom
All Funds Bank, SA	Spain
Allfunds Bank International S.A.	Luxembourg
Banco Santander (México), S.A.	Mexico
Banco Santander (Suisse), S.A.	Switzerland
Banco Santander Brasil, S.A.	Brazil
Banco Santander Consumer Portugal S.A.	Portugal
Banco Santander Puerto Rico	Puerto Rico
Capital Grupo Santander, SA SGECR	Spain
Financeira El Corte Inglés, Portugal, S.F.C., S.A.	Portugal
Financiera El Corte Inglés, E.F.C., S.A.	Spain
Geoban, S.A.	Spain
Gesban Servicios Administrativos Globais	Spain
Ibérica de Compras Corporativas	Spain
Ingeniería de Software Bancário, S.L.	Spain
Konecta Portugal, Lda.	Portugal
Open Bank Santander Consumer S.A.	Spain
Portal Universia Portugal, Prestaçao de Serviços de Informática, S.A.	Portugal
Produban Servicios Informáticos Generales, S.L.	Spain
PSA Gestao Comercio&Aluguer Veiculos,SA	Portugal
Retama Real Estate, S.L.	Spain
Santander AM Holding, S.L.	Spain
Santander Asset Management, S.A. SGIIC.	Spain
Santander Asset Management, SGFIM, S.A.	Portugal
Santander Back-Office Globales Mayorista	Spain
Santander BackofficesGlobalesEspec. S.A.	Spain
Santander Bank & Trust Ltd.	Bahamas
Santander Consumer Finance S.A.	Spain
Santander Consumer, EFC, S.A.	Spain
Santander Global Facilities	Spain
Santander International Debt, S.A.	Spain
Santander Investment Securities,Inc	USA
Santander Investment, S.A.	Spain
Santander Issuances, S.A.	Spain
Santander Pensões - Sociedade Gestora de Fundos de Pensões, S.A.	Portugal
Santander Seguros y Reaseguros, Compañía Aseguradora, S.A.	Spain
Santander Tecnologia y Operaciones AEIE	Spain
Sovereign Bank	USA
UCI Mediação de Seguros, Unipessoal Lda.	Portugal
Union de Créditos Inmobiliários,SA	Spain

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2017 and 2016, the balances and off-balance sheet items maintained with related entities were as follows:

	2017		
	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities directly or indirectly under common with the Group
Assets:			
Balances due from banks	29,109	-	43,726
Financial assets held for trading	209,479	-	218
Other financial assets at fair value through profit or loss	5,139	-	4,810
Available-for-sale financial assets	563	-	836
Loans and advances to credit institutions	312,676	50,025	276,225
Loans and advances to customers	-	67,054	51,087
Hedging derivatives	14,755	-	-
Investments in associates and subsidiaries excluded from the consolidation	-	122,170	-
Other assets	4,227	6,766	8,793
Liabilities:			
Financial liabilities held for trading	1,583,203	-	-
Resources of other credit institutions	17,598	6,448	2,362
Resources of customers and other debts	-	4,633	51,380
Debt securities	58,125	-	-
Hedging derivatives	66,918	-	-
Other liabilities	29	9	7,533
Costs:			
Interest and similar charges	125,708	-	9
Charges with services and commissions	1,932	-	1,590
Result from assets and liabilities at fair value through profit or loss	730,591	-	-
Result from foreign exchange revaluation	1,500	-	817
General administrative costs	-	-	22,989
Income:			
Interest and similar income	120,971	274	1,249
Income from services and commissions	228	16,676	9,368
Result from assets and liabilities at fair value through profit or loss	774,095	-	-
Result from available-for-sale financial assets	952	-	-
Gross margin of life insurance where risk rests with the policyholder	1,568	-	838
Gross margin of insurance activity	2	-	-
Result from associates and joint ventures	-	4,815	-
Other operating results	-	53	-
Off-balance sheet items:			
Guarantees provided and other contingent liabilities	54,318	22	11,183
Guarantees received	1	-	1,162
Commitments to third parties	152,406	53,004	10,184
Currency operations and derivatives	20,952,955	-	-
Responsibilities for services rendered	2,014,971	72,825	108,112

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2016		
Assets:	Entities that directly or indirectly control the Group	Entities that are significantly influenced by the Group	Entities directly or indirectly under common with the Group
Balances due from banks	43,983	-	2
Financial assets held for trading	317,457	-	1
Other financial assets at fair value through profit or loss	-	-	44,327
Available-for-sale financial assets	579		836
Loans and advances to credit institutions	246,750	1	233,310
Loans and advances to customers	-	40,145	1,029
Hedging derivatives	30,649	-	-
Investments in associates and subsidiaries excluded from the consolidation	-	98,806	-
Other assets	6,621	19,219	1,647
Liabilities:			
Financial liabilities held for trading	1,710,300	-	-
Resources of other credit institutions	175,636	9,676	982
Resources of customers and other debts	4	4,750	40,449
Debt securities	23,888	-	1,517
Hedging derivatives	81,644	-	-
Other liabilities	364	8	775
Costs:			
Interest and similar charges	107,985	2	56
Charges with services and commissions	2,198	-	3,183
Result from assets and liabilities at fair value through profit or loss	996,042	-	392
Result from foreign exchange revaluation	872	-	-
Gross margin of life insurance where risk rests with the policyholder	5	-	1,609
General administrative costs	-	-	45,411
Income:			
Interest and similar income	142,480	2	2,803
Income from services and commissions	422	29,545	17,368
Result from assets and liabilities at fair value through profit or loss	783,569	-	319
Result from available-for-sale financial assets	473	-	-
Gross margin of life insurance where risk rests with the policyholder	6	-	2,323
Gross margin of insurance activity	10	-	-
Result from associates and joint ventures	-	15,789	-
Other operating results	-	117	-
Off-balance sheet items:			
Guarantees provided and other contingent liabilities	25,710	-	9,314
Guarantees received	1	-	1,122
Commitments to third parties	134,045	2,003	9,040
Currency operations and derivatives	29,333,418	-	-
Responsibilities for services rendered	1,970,550	69,949	124,439

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

MANAGEMENT AND SUPERVISORY BOARDS

Board of Directors

At December 31, 2017 and 2016, loans and advances granted to members of the management body, considered key management personnel of the Bank, amounted to Euros 481 thousand and Euros 560 thousand, respectively. At December 31, 2017 and 2016, fixed and variable remuneration amounted to €9,231 thousand and €9,062 thousand, respectively (Note 44).

In the 2015 financial year the Bank approved a new Individual Long-term Incentive Plan, to be a part of the multiannual variable remuneration, which is described in Note 48. For the members of the Board of Directors, the amount recorded under the heading "Staff costs" in financial years 2017 and 2016 is presented below:

	2017	2016
Individual Long-term Incentive Plan	131	131
	===	===

With regard to post-employment benefits, the members of the Board of Directors with a labour contract with BST are included in the pension plan of the Collective Labour Agreement (Acordo Colectivo de Trabalho - ACT) for the banking sector subscribed by the Bank. The general conditions of this plan are described in Note 1.3. m).

At the General Meeting held on May 30, 2007, BST's shareholders approved the "Regulation for the attribution of supplementary retirement pensions for age or disability" in respect of the executive members of the Board of Directors of the former Totta who transitioned to become executive members of BST's Board of Directors (Executive Committee) in line with that previously defined in the former Totta's regulation. Members of the Board of Directors whose time in office is at least fifteen years, whether consecutive or interpolated, will be entitled to a pension supplement equivalent to 80% of their gross annual salary. The amount of the supplementary retirement pension shall be determined by the Remuneration Committee when their time in office is less than fifteen years. For these situations, it is currently defined that the pension supplement shall be 65% of the gross annual salary, when the time in office is equal to or greater than ten years, and 75% of the gross annual salary, when the time in office is equal to or greater than twelve years. This defined benefit plan is a supplementary plan that is dependent on the general Social Security regime.

At December 31, 2017 and 2016, the liabilities for this plan amounted to Euros 24,120 thousand and Euros 23,676 thousand, respectively, and were covered by a provision in the same amount recorded under the heading "Provision for pensions and other charges" (Note 26).

With regard to employment termination benefits, in accordance with Company Law (Código das Sociedades Comerciais), whenever the term of a member of the management body is early terminated by BST, the latter shall pay the member the future remuneration that he/she would be entitled to up to the end of the respective term-of-office.

Statutory Audit Firm

In compliance with the provisions of item b), no. 1, of article 66-A of the Portuguese Companies Act, we hereby inform that fees billed or to be invoiced by the company of statutory auditors and respective companies of the same network in the 2017 and 2016, excluding value added tax, were as follows:

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	2017			2016		
	Company	Group	Total	Company	Group	Total
Audit and statutory audit services [(a)]	124	1,869	1,993	85	1,377	1,462
Other assurance services [(a)]	21	713	734	26	575	601
Other Services [(b)]	-	111	111	-	95	95
	145	2,693	2,838	111	2,047	2,158

(a) Corresponds to the amounts contracted for the year, regardless of their billing date.

(b) Corresponds to the amounts billed for the year

Other reliability assurance services include fees for the following services:

(i) Assessment of the impairment of the loan portfolio, as required by Bank of Portugal Instruction nº 5/2013;
(ii) Review of the internal control system, as required by Bank of Portugal Notice nº 5/2008;
(iii) Limited review of the quarterly financial information (1st and 3rd quarters of 2017) prepared for the purpose of consolidation of Banco Santander, SA;
(iv) Review of procedures for the safeguard of customer assets, as required under article 304-C of the Securities Code;
(v) Verification of the covered bonds, as required by article 34 of Decree-Law 59/2006 of March 20;
(vi) Verification of the information on monetary policy operations, as required Bank of Portugal Instruction nº 3/2015;
(vii) Verification of legal and regulatory requirements relating to the issue of the covered bonds programme;
(viii) Agreed procedures on the information of the loan portfolios included in a securitisation operation; and
(ix) assurance services required by law on prudential reporting

Other services includes fees related to the following services:

(i) Issuance of comfort letter for the update of the prospects regarding the covered bonds and EMTN programme;
(ii) Revision of the materiality matrix and of the contents of the 2017 sustainability report; and
(iii) Access to the Inforfisco database containing information on tax law, doctrines and court decisions.

50. LONG-TERM INCENTIVE PLANS - SHARES

The Group has an Individual Long-term Incentive Plan, in the context of the multi-annual variable remuneration, for a restricted number of employees. The materialization of this plan is subject to compliance with the following objectives:

i) Growth of the consolidated earnings per share (“EPS”) of Banco Santander in 2019 as compared with 2016;
ii) Relative behaviour of the Total Shareholder Return (“TSR”) of the Bank in the period 2017-2019 as compared with the weighted TSRs of a reference group of 17 credit entities (the “Reference Group”), with the TSR coefficient attributed being that of the Bank’s TSR ranking within the Group of Reference;
iii) Compliance with the fully loaded common equity tier 1 or CET1 index objective set for financial year 2018, such objective being that, as at December 31, 2019, the fully loaded consolidated CET1 index of the Santander Group exceeds 11,3%;

As described in Note 1.3. s), the accounting of the share incentive plans consists in recognizing the right of the Group’s employees to such instruments in the income statement for the year, under the heading “Staff costs”, given that these correspond to a remuneration for services rendered. The management, hedging and implementation of the plans are provided by Banco Santander S.A. for all employees, on a worldwide basis, covered by the Plan.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2017 and 2016, the total cost of the Share Plan Incentive for all the employees of the Bank covered by same was as follows:

	2017	2016
Individual Long-term Incentive Plan (Note 44)	299	294
	===	===

The employees are entitled to the shares provided they remain in the Santander Group.

51. DISCLOSURES IN ACCORDANCE WITH IFRS 7 AND IFRS 13

BALANCE SHEET

Categories of financial instruments

At December 31, 2017 and 2016, financial instruments had the following book value:

	31-12-2017				
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	751,352	288,203	-	1,039,555
Balances due from other banks	-	549,586	108,569	-	658,155
Financial assets held for trading	1,509,744	-	-	-	1,509,744
Other financial assets at fair value through profit or loss	1,976,263	-	-	-	1,976,263
Available-for-sale financial assets	4,967,694	-	86,722	(64,094)	4,990,322
Loans and advances to credit institutions	-	826,367	-	-	826,367
Loans and advances to customers	2,985,884	38,401,160	-	(1,740,865)	39,646,179
Held-to-maturity investments	-	-	108,808	-	108,808
Hedging derivatives	15,349	-	-	-	15,349
	11,454,934	40,528,465	592,302	(1,804,959)	50,770,742
Liabilities					
Resources of central banks	-	3,080,538	-	-	3,080,538
Financial liabilities held for trading	1,527,098	-	-	-	1,527,098
Other financial liabilities at fair value through profit or loss	2,430,798	-	-	-	2,430,798
Resources of other credit institutions	-	4,351,906	-	-	4,351,906
Resources of customers and other debts	1,219,587	30,134,077	104,246	-	31,457,910
Debt securities	-	4,535,553	-	-	4,535,553
Hedging derivatives	39,275	-	-	-	39,275
Technical reserves	-	380,017	-	-	380,017
Subordinated liabilities	-	7,735	-	-	7,735
	5,216,758	42,489,826	104,246	-	47,810,830

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	31-12-2016				
	Measured at fair value	Measured at amortized cost	Measured at historical cost	Impairment	Net Value
Assets					
Cash and deposits at central banks	-	653,758	224,159	-	877,917
Balances due from other banks	-	591,010	67,882	-	658,892
Financial assets held for trading	1,758,692	-	-	-	1,758,692
Other financial assets at fair value through profit or loss	1,566,424	-	-	-	1,566,424
Available-for-sale financial assets	5,736,738	-	85,963	(62,315)	5,760,386
Loans and advances to credit institutions	-	563,925	-	-	563,925
Loans and advances to customers	664,358	32,457,472	-	(1,662,803)	31,459,027
Held-to-maturity investments	-	-	243,954	-	243,954
Hedging derivatives	32,700	-	-	-	32,700
	9,758,912	34,266,165	621,958	(1,725,118)	42,921,917
Liabilities					
Resources of central banks	-	2,450,694	-	-	2,450,694
Financial liabilities held for trading	1,763,952	-	-	-	1,763,952
Other financial liabilities at fair value through profit or loss	2,148,103	-	-	-	2,148,103
Resources of other credit institutions	-	2,023,213	-	-	2,023,213
Resources of customers and other debts	1,918,804	25,644,792	108,994	-	27,672,590
Debt securities	975	3,871,459	-	-	3,872,434
Hedging derivatives	81,655	-	-	-	81,655
Technical reserves	-	267,815	-	-	267,815
Subordinated liabilities	-	7,735	-	-	7,735
	5,913,489	34,265,708	108,994	-	40,288,191

In financial year 2016 a set of securities was reclassified from the “Available-for-sale financial assets” portfolio to the “Held-to-maturity investments” portfolio. In financial year 2015 there were no reclassifications of financial assets.

The financial assets and liabilities for which fair value hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustments.

The amount presented in this Note as "Technical reserves" corresponds to technical reserves associated with life products with profit sharing.

At December 31, 2017 and 2016, the heading "Other financial liabilities at fair value through profit or loss" corresponds to the valuation of life insurance products marketed by the Group in which the risk rests with the policyholder (Note 22).

Life insurances which risk rests with the policyholder are collective investment funds composed of securities or baskets of securities and are subscribed through the acquisition of participation units. The securities comprising the collective investment funds are recorded under the heading "Other financial assets at fair value through profit or loss", which valuation at December 31, 2017 and 2016 amounts to €1,975,690 thousand and €1,564,022 thousand, respectively (Note 8).

The Group's liabilities vis-à-vis the participation unit-holders on product maturity are covered by the income from the securities in the portfolio allocated to those products.

At December 31, 2017 and 2016, the heading "Resources of customers and other debts" includes €21,053 thousand and €19,145 thousand, respectively, of financial products without profit sharing (Note 24).

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

INCOME STATEMENT

In financial years ended December 31, 2016 and 2015, the net gains or losses on financial instruments were as follows:

	31-12-2017					
	By corresponding entry to profit or loss			By corresponding entry to equity		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets and liabilities held for trading	1,703,508	(1,715,243)	(11,735)	-	-	-
Other financial assets at fair value through profit or loss	178,890	(48,974)	129,916	-	-	-
Available-for-sale financial assets	177,794	(464)	177,330	454,086	-	454,086
Balances in central banks and other credit institutions	11,810	-	11,810	-	-	-
Loans and advances to customers	1,828,819	(1,080,346)	748,473	-	-	-
Hedging derivatives	266,509	(268,148)	(1,639)	3,778	-	3,778
Other financial liabilities at fair value through profit or loss	577,577	(699,302)	(121,725)	-	-	-
Resources in central banks and other credit institutions	-	(7,071)	(7,071)	-	-	-
Resources of customers and other debts	82,429	(65,621)	16,808	-	-	-
Debt securities	587	(47,674)	(47,087)	-	-	-
Subordinated liabilities	-	(634)	(634)	-	-	-
Technical reserves	129,862	(133,117)	(3,255)	-	-	-
	4,957,785	(4,066,594)	891,191	457,864	-	457,864
Guarantees given	23,892	(5,366)	18,526			
Credit lines	1,852	-	1,852			

	2016					
	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	1,476,993	(1,514,624)	(37,631)	-	-	-
Other financial assets at fair value through profit or loss	110,509	(85,417)	25,092	-	-	-
Available-for-sale financial assets	282,644	(9,323)	273,321	-	(301,189)	(301,189)
Balances in central banks and other credit institutions	20,838	-	20,838	-	-	-
Loans and advances to customers	2,454,435	(1,700,347)	754,088	-	-	-
Hedging derivatives	214,929	(209,003)	5,926	-	(17,217)	(17,217)
Other financial liabilities at fair value through profit or loss	315,302	(332,720)	(17,418)	-	-	-
Resources in central banks and other credit institutions	-	(12,722)	(12,722)	-	-	-
Resources of customers and other debts	64,600	(132,453)	(67,853)	-	-	-
Debt securities	17,658	(57,665)	(40,007)	-	-	-
Subordinated liabilities	-	(206)	(206)	-	-	-
Technical reserves	28,895	(32,783)	(3,888)			
	4,986,803	(4,087,263)	899,540	-	(318,406)	(318,406)
Guarantees given	22,796	(2,875)	19,921			
Credit lines	749	-	749			

The above mentioned amounts do not include gains or losses resulting from the foreign exchange revaluation of financial instruments, which at December 31, 2017 and 2016, corresponded to net gains of €8,377 thousand and €10,149 thousand, respectively (Note 40).

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In the financial years ended on December 31, 2017 and 2016, the interest income and expenses, determined in accordance with the effective interest rate method, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	31-12-2017			31-12-2016		
	Income	Expense	Net	Income	Expense	Net
Assets						
Cash and deposits at central banks	-	-	-	27	-	27
Balances due from other banks	101	-	101	17	-	17
Available-for-sale financial assets	116,645	-	116,645	147,710	-	147,710
Loans and advances to credit institutions	11,709	-	11,709	20,794	-	20,794
Loans and advances to customers	688,290	(28)	688,262	740,291	-	740,291
Held-to-maturity investments	6,468	-	6,468	8,591	-	8,591
	823,213	(28)	823,185	917,430	-	917,430
Liabilities						
Resources of central banks	-	(4,744)	(4,744)	-	(5,041)	(5,041)
Resources of other credit institutions	-	(2,327)	(2,327)	-	(7,681)	(7,681)
Resources of customers and other debts	-	(61,931)	(61,931)	-	(115,507)	(115,507)
Debt securities	-	(47,674)	(47,674)	-	(57,665)	(57,665)
Subordinated liabilities	-	(634)	(634)	-	(206)	(206)
	-	(117,310)	(117,310)	-	(186,100)	(186,100)
Guarantees given	18,526	-	18,527	19,921	-	19,921
Credit Lines	1,852	-	1,851	749	-	749

In the financial years ended on December 31, 2016 and 2015, commission income and expenses, not included in the calculation of the effective interest rate, for financial assets and liabilities not recorded at fair value through profit or loss, were as follows:

	31-12-2017			31-12-2016		
	Income	Expense	Net	Income	Expense	Net
Assets						
Loans and advances to customers	55,351	(10,873)	44,478	43,727	(12,278)	31,449
Liabilities						
Resources of customers and other debts	77,527	(90)	77,437	57,284	(158)	57,126

During financial years 2017 and 2016, the Group recognized financial income relating to "Interest and similar income" on overdue or impaired credit operations amounting to €10,909 thousand and €9,014 thousand, respectively (Note 33).

OTHER DISCLOSURES

Hedge accounting

At December 31, 2017 and 2016, hedging derivatives and financial instruments designated as hedged items were as follows:

	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	(1,220,094)	(1,222,500)	2,913	(1,219,587)	1,003,563	7,913
Cash flow hedge:						
Resources of customers	523,771	523,771	-	523,771	523,771	(2,187)
	2,345,635	2,361,181	21,321	2,382,502	4,569,268	(23,926)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	31-12-2016					
	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	661,254	666,095	(1,971)	664,124	661,254	(3,453)
Available-for-sale financial assets	600,000	607,718	30,573	638,291	600,000	(61,690)
Resources of customers and other debts	(1,916,635)	(1,926,435)	7,631	(1,918,804)	1,720,797	16,293
Debt securities	(753)	(815)	(160)	(975)	14,930	1,400
Cash flow hedge:						
Loans and advances to customers	307,373	307,373	-	307,373	225,000	3,740
Resources of customers and other debts	521,671	521,671	-	521,671	521,671	(5,245)
	172,910	175,607	36,073	211,680	3,743,652	(48,955)

Cash flow hedges

The expected periods for the occurrence of cash flows that will affect the profit or loss of the period/financial year are as follows:

	31-12-2017					
	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 to 3 years	Over 3 years	Total
Interest rate swaps	-	-	(761)	(1,426)	-	(2,187)

	31-12-2016					
	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	2,077	1,417	(251)	(4,748)	-	(1,505)

The gains or losses recognized in the income statement for the financial years ended December 31, 2017 and 2016, arising from fair value hedging operations, are as follows:

	2017			2016		
	Hedged item	Hedging instrument	Net	Hedged item	Hedging instrument	Net
Loans and advances to customers	20,379	(20,379)	-	(5,498)	5,498	-
Available-for-sale financial assets	(30,573)	30,573	-	9,812	(9,812)	-
Resources of customers and other debts	1,213	(1,290)	(77)	(9,629)	9,442	(187)
Debt securities	160	(160)	-	638	(638)	-
	(8,821)	8,744	(77)	(4,677)	4,490	(187)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Fair value of financial instruments

At December 31, 2017 and 2016, financial instruments were made up as follows:

	31-12-2017		
	Measured at fair value	Not measured at fair value	Total
Assets			
Cash and deposits at central banks	-	1,039,555	1,039,555
Balances due from other banks	-	658,155	658,155
Financial assets held for trading	1,509,744	-	1,509,744
Other financial assets at fair value through profit or loss	1,976,263	-	1,976,263
Available-for-sale financial assets	4,940,025	50,297	4,990,322
Loans and advances to credit institutions	-	826,367	826,367
Loans and advances to customers	2,985,596	36,660,583	39,646,179
Held-to-maturity investments	-	108,808	108,808
Hedging derivatives	15,349	-	15,349
	11,426,977	39,343,765	50,770,742
Liabilities			
Resources of central banks	-	3,080,538	3,080,538
Financial liabilities held for trading	1,527,098	-	1,527,098
Other financial liabilities at fair value through profit or loss	2,430,798		2,430,798
Resources of other credit institutions	-	4,351,906	4,351,906
Resources of customers and other debts	1,219,587	30,238,323	31,457,910
Debt securities	-	4,535,553	4,535,553
Hedging derivatives	39,275	-	39,275
Technical reserves	-	380,017	380,017
Subordinated liabilities	-	7,735	7,735
	5,216,758	42,594,072	47,810,830

	31-12-2016		
	Measured at fair value	Not measured at fair value	Total
Assets			
Cash and deposits at central banks	-	877,917	877,917
Balances due from other banks	-	658,892	658,892
Financial assets held for trading	1,758,692	-	1,758,692
Other financial assets at fair value through profit or loss	1,566,424	-	1,566,424
Available-for-sale financial assets	5,708,789	51,597	5,760,386
Loans and advances to credit institutions	-	563,925	563,925
Loans and advances to customers	664,124	30,794,903	31,459,027
Held-to-maturity investments	-	243,954	243,954
Hedging derivatives	32,700	-	32,700
	9,730,729	33,191,188	42,921,917
Liabilities			
Resources of central banks	-	2,450,694	2,450,694
Financial liabilities held for trading	1,763,952	-	1,763,952
Other financial liabilities at fair value through profit or loss	2,148,103		2,148,103
Resources of other credit institutions	-	2,023,213	2,023,213
Resources of customers and other debts	1,918,804	25,753,786	27,672,590
Debt securities	975	3,871,459	3,872,434
Hedging derivatives	81,655	-	81,655
Technical reserves	-	267,815	267,815
Subordinated liabilities	-	7,735	7,735
	5,913,489	34,374,702	40,288,191

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The financial assets and liabilities to which hedge accounting was applied are classified as valued at fair value, although only the amounts relating to the hedged risk were subject to fair value adjustments.

At December 31, 2017 and 2016, the fair value of financial assets and liabilities valued at fair value, or subject to fair value adjustments in accordance with the application of hedge accounting, was as follows:

	31-12-2017					
	Acquisition cost	Interest accruals	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	3,342	-	1,506,402	-	-	1,509,744
Other financial assets at fair value through profit or loss	1,942,397	33,866	-	-	-	1,976,263
Available-for-sale financial assets	4,533,283	96,293	338,118	-	(27,669)	4,940,025
Loans and advances to customers	2,961,958	5,517	-	18,408	(287)	2,985,596
Hedging derivatives	-	-	15,349	-	-	15,349
	9,440,980	135,676	1,859,869	18,408	(27,956)	11,426,977
Liabilities						
Financial liabilities held for trading	-	-	1,527,098	-	-	1,527,098
Other financial liabilities at fair value through profit or loss	2,430,798	-	-	-	-	2,430,798
Resources of customers and other debts	1,220,094	2,406	-	(2,913)	-	1,219,587
Hedging derivatives	-	-	39,275	-	-	39,275
	3,650,892	2,406	1,566,373	(2,913)	-	5,216,758

	31-12-2016					
	Acquisition cost	Interest accruals	Valuation	Value adjustments due to hedging operations	Impairment	Net book value
Assets						
Financial assets held for trading	4,212	-	1,754,480	-	-	1,758,692
Other financial assets at fair value through profit or loss	1,531,244	35,180	-	-	-	1,566,424
Available-for-sale financial assets	5,701,653	120,681	(116,169)	30,573	(27,949)	5,708,789
Loans and advances to customers	661,254	5,075	-	(1,971)	(234)	664,124
Hedging derivatives	-	-	32,700	-	-	32,700
	7,898,363	160,936	1,671,011	28,602	(28,183)	9,730,729
Liabilities						
Financial liabilities held for trading	-	-	1,763,952	-	-	1,763,952
Other financial liabilities at fair value through profit or loss	2,148,103	-	-	-	-	2,148,103
Resources of customers and other debts	1,916,635	9,800	-	(7,631)	-	1,918,804
Debt securities	753	62	-	160	-	975
Hedging derivatives	-	-	81,655	-	-	81,655
	4,065,491	9,862	1,845,607	(7,471)	-	5,913,489

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

The valuation methods used to determine fair value consisted of listed prices on active markets or other valuation techniques, such as discounted cash flows.

At December 31, 2017 and 2016, the book value of the financial instruments valued at fair value or subject to value adjustments due to hedge accounting, by valuation methodology, was made up as follows:

	31-12-2017			
	Methodology of determining fair value			
	Listed on active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	313	1,505,691	3,740	1,509,744
Other financial assets at fair value through profit or loss	1,974,665	-	1,598	1,976,263
Available-for-sale financial assets	2,767,728	2,093,879	78,418	4,940,025
Loans and advances to customers	-	2,985,596	-	2,985,596
Hedging derivatives	-	15,349	-	15,349
	4,742,706	6,600,515	83,756	11,426,977
Liabilities				
Financial liabilities held for trading	-	1,527,098	-	1,527,098
Other financial liabilities at fair value through profit or loss	-	2,430,798	-	2,430,798
Resources of customers and other debts	-	1,219,587	-	1,219,587
Hedging derivatives	-	39,275	-	39,275
	-	5,216,758	-	5,216,758

	31-12-2016			
	Methodology of determining fair value			
	Listed on active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Financial assets held for trading	-	1,755,517	3,175	1,758,692
Other financial assets at fair value through profit or loss	1,551,059	10,333	5,032	1,566,424
Available-for-sale financial assets	3,864,931	1,811,260	32,598	5,708,789
Loans and advances to customers	-	664,124	-	664,124
Hedging derivatives	-	32,700	-	32,700
	5,415,990	4,273,934	40,805	9,730,729
Liabilities				
Financial liabilities held for trading	-	1,763,952	-	1,763,952
Other financial liabilities at fair value through profit or loss	-	2,148,103	-	2,148,103
Resources of customers and other debts	-	1,918,804	-	1,918,804
Debt securities	-	975	-	975
Hedging derivatives	-	81,655	-	81,655
	-	5,913,489	-	5,913,489

In accordance with IFRS 7 and IFRS 13, the Group’s financial assets and liabilities valued at fair value are classified into three levels:

- Level 1 – Financial instruments recorded at fair value based on listed prices published on active markets, comprising mainly government debt, some private debt, open securities investment funds and shares.

- Level 2 – Financial instruments recorded at fair value based on internal valuation models using observable market data as significant inputs. This category comprises some securities included in the portfolio of available-for-sale financial assets, valued using indicative bids provided by external counterparties, and the majority of the derivative financial instruments used for hedging and trading purposes. It should be highlighted that the internal valuation models used correspond mainly to discounted cash flow models and "Black-Scholes" based models for options and structured products. The discounted cash flow models use the interest rate curves applicable to each currency observable in the market ("present value method"), increased by the credit spread of the issuer or an entity with a similar rating.

  For derivative financial instruments, the main valuation techniques are as follows:

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 options	Black-Scholes model, Heath-Jarrow-Morton model
Options - other	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model
Caps/Floors	Black-Scholes model, Monte Carlo model, Heath-Jarrow-Morton model

  The Group calculated 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 an aggregate counterparty perspective. From this perspective, the evolution of the aggregate exposure of all derivatives with a given counterparty is simulated using stochastic processes. This evolution is grouped into time frames representing Positive and Negative Expected Future Exposures. To these exposures is applied an expected loss factor and the discount factor of the respective term. The CVA and DVA calculated for each counterparty therefore result from the sum of the expected losses in each term.

  Additionally, in the calculation of Credit Value Adjustments and Debit Value Adjustments to derivative financial instruments, the following inputs were used:

  - Counterparties with listed credit default swaps – published price quotations on active markets;

  - Counterparties without listed credit default swaps:
    – Published prices quotations on active markets for counterparties with similar risk; or
    – Probability of default estimated taking into consideration the internal rating assigned to the customer (see Credit Risk section of these Notes to the Consolidated Financial Statements) x loss given default (specific for project finance customers and 60% for other customers).

  When the inputs used in the valuation of derivative financial instruments resulted from market observable data, the Group classified the derivative financial instruments as Level 2. When such valuation resulted from internal information prepared by the Group, the financial instruments were classified as Level 3.

- Level 3 – In this level, the Group classifies the financial instruments that are measured using internal models, with some inputs that do not correspond to market observable data. Some unlisted securities for which the Group uses market data extrapolations were classified in this category.

In financial years 2017 and 2016, changes in financial instruments classified as "Level 3" were as follows:

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	Financial assets held for trading		Other financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
	Securities	Derivatives			
Financial instruments classified under Level 3 at December 31, 2015	3,096	115,388	4,857	154,990	278,331
Acquisitions	-	-	-	63	63
Sales	-	-	-	-	-
Liquidations	-	-	(123)	(1,028)	(1,151)
Reclassifications	-	(115,388)	-	(122,556)	(237,944)
Changes in fair value	79	-	298	1,129	1,506
Financial instruments classified as Level 3 at December 31, 2016	3,175	-	5,032	32,598	40,805
Acquisitions	530	-	-	46,282	46,812
Sales	-	-	-	-	-
Liquidations	-	-	(3,434)	(354)	(3,788)
Changes in fair value	35	-	-	(108)	(73)
Financial instruments classified as Level 3 at December 31, 2017	3,740	-	1,598	78,418	83,756

The most representative interest rate curves used in the valuation of financial instruments, by maturity and currency, were the following:

	31-12-2017		31-12-2016	
	EUR	USD	EUR	USD
Overnight	-0.28%	1.77%	-0.22%	1.00%
1 month	-0.28%	1.77%	-0.22%	1.00%
3 months	-0.27%	1.69%	-0.23%	1.00%
6 months	-0.27%	1.74%	-0.22%	1.03%
9 months	-0.26%	1.82%	-0.21%	1.10%
1 year	-0.25%	1.88%	-0.20%	1.17%
3 years	0.01%	2.15%	-0.10%	1.66%
5 years	0.32%	2.23%	0.08%	1.96%
7 years	0.57%	2.30%	0.32%	2.15%
10 years	0.89%	2.38%	0.67%	2.32%

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2017 and 2016, the book value and the fair value of the financial instruments measured at amortized cost or historical cost was as follows:

	31-12-2017		
	Book value	Fair value	Difference
Assets			
Cash and deposits at central banks	1,039,555	1,027,787	(11,768)
Balances due from other banks	658,155	658,155	-
Available-for-sale financial assets	50,297	50,297	-
Loans and advances to credit institutions	826,367	829,678	3,311
Loans and advances to customers	36,660,583	36,999,851	339,268
Held-to-maturity investments	108,808	115,514	6,706
	39,343,765	39,681,282	337,517
Liabilities			
Resources of central banks	(3,080,538)	(3,083,784)	(3,246)
Resources of other credit institutions	(4,351,906)	(4,364,370)	(12,464)
Resources of customers and other debts	(30,238,323)	(30,246,911)	(8,588)
Debt securities	(4,535,553)	(4,823,910)	(288,357)
Technical reserves	(380,017)	(380,017)	-
Subordinated liabilities	(7,735)	(9,844)	(2,109)
	(42,594,072)	(42,908,836)	(314,764)

	31-12-2016		
	Valor de Balanço	Justo Valor	Diferença
Assets			
Cash and deposits at central banks	877,917	875,591	(2,326)
Balances due from other banks	658,892	658,892	-
Available-for-sale financial assets	51,597	51,597	-
Loans and advances to credit institutions	563,925	569,868	5,943
Loans and advances to customers	30,794,903	30,248,952	(545,951)
Held-to-maturity investments	243,954	238,428	(5,526)
	33,191,188	32,643,328	(547,860)
Liabilities			
Resources of central banks	(2,450,694)	(2,456,188)	(5,494)
Resources of other credit institutions	(2,023,213)	(2,031,897)	(8,684)
Resources of customers and other debts	(25,753,786)	(25,795,326)	(41,540)
Debt securities	(3,871,459)	(3,837,839)	33,620
Technical reserves	(267,815)	(267,815)	-
Subordinated liabilities	(7,735)	(7,735)	-
	(34,374,702)	(34,396,800)	(22,098)

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

To determine the fair value of financial instruments measured at amortized cost or historical cost, the valuation methods used consisted of valuation techniques, namely discounted cash flows.

At December 31, 2017 and 2016, the financial instruments recorded at amortized cost or historical cost presented the following detail, by valuation methodology:

	31-12-2017			
	Methodology for determining fair value			
	Listed on active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	1,027,787	-	1,027,787
Balances due from other banks	-	658,155	-	658,155
Available-for-sale financial assets	-	-	50,297	50,297
Loans and advances to credit institutions	-	829,678	-	829,678
Loans and advances to customers	-	478,345	36,521,506	36,999,851
Held-to-maturity investments	9,364	-	106,150	115,514
	9,364	2,993,965	36,677,953	39,681,282
Liabilities				
Resources of central banks	-	(3,083,784)	-	(3,083,784)
Resources of other credit institutions	-	(4,364,370)	-	(4,364,370)
Resources of customers and other debts	-	-	(30,246,911)	(30,246,911)
Debt securities	-	(4,823,910)	-	(4,823,910)
Technical reserves	-	-	(380,017)	(380,017)
Subordinated liabilities	-	(9,844)	-	(9,844)
	-	(12,281,908)	(30,626,928)	(42,908,836)

	31-12-2016			
	Methodology for determining fair value			
	Listed on active markets	Other valuation techniques		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets				
Cash and deposits at central banks	-	875,591	-	875,591
Balances due from other banks	-	658,892	-	658,892
Available-for-sale financial assets	-	-	51,597	51,597
Loans and advances to credit institutions	-	569,868	-	569,868
Loans and advances to customers	-	-	30,248,952	30,248,952
Held-to-maturity investments	9,646	122,426	106,356	238,428
	9,646	2,226,777	30,406,905	32,643,328
Liabilities				
Resources of central banks	-	(2,456,188)	-	(2,456,188)
Resources of other credit institutions	-	(2,031,897)	-	(2,031,897)
Resources of customers and other debts	-	-	(25,795,326)	(25,795,326)
Debt securities	-	(3,837,839)	-	(3,837,839)
Technical reserves	-	-	(267,815)	(267,815)
Subordinated liabilities	-	(7,735)	-	(7,735)
	-	(8,333,659)	(26,063,141)	(34,396,800)

The main assumptions used in the assessment of fair value, by type of financial instrument, were as follows:

- Future cash flows of applications and resources in credit institutions were discounted using the interest rate curves of the money market;

- For the purpose of determining the future cash flows of the portfolio, the fair value of variable rate loans was determined considering the average spread of the effective production of the last quarter of the financial year. Regarding the fixed rate loans, the future cash flows were discounted at the average rates applied by the Group in the last quarter of the financial year;

- The fair value of demand deposits from customers was considered to be equal to their book value. For term deposits the Bank used the average rates for deposits contracted in the last month of the financial year for each type of deposit;

- The fair value of debt securities issued was determined by discounting the future cash flows considering the market conditions of similar issues at the end of the financial year; and

- The fair value of subordinated liabilities was determined by discounting the future cash flows at market rates of similar issues.

According to IFRS 4, Santander Totta Seguros performed tests on the adequacy of the insurance contract liabilities, with and without profit sharing, where it assumes the investment risk and where the coverage exceeds one year, in order to assess the adequacy of the technical reserves constituted.

RISK MANAGEMENT

CREDIT RISK

Banking and other activities

Credit risk management by the Group includes the identification, measurement, integration and evaluation of the different credit risk exposures and the analysis of their return adjusted for their risk, on an overall basis, as well as within each area of activity.

Credit risk management is provided by an independent area, the Group's Risk Area, which is responsible for managing the special customer vigilance system, the credit risk segmentation based on customer and product characteristics and the scoring (applicable to mortgage loans, consumer loans and credit cards) and rating systems used by the Group.

Counterparty risk consists of the potential credit risk in transactions on financial markets, corresponding to the possibility of non-compliance by the counterparty with the contracted terms and the subsequent financial loss for the Group. Such transactions include the purchase and sale of securities, the contracting of sale transactions with repurchase agreements, the loan of securities and derivative instruments. Considering the complexity and volume of the transactions, as well as the requirements of an adequate control of the consolidated risks of certain customer segments, the control perimeter is defined in accordance with the segments involved.

The control over these risks is carried out on a daily basis using an integrated system that records the limits approved, updates the positions in real time, and provides information on the limits available and aggregate exposure, also in real time, for the different products and maturities. The system also permits the control over risk concentrations by groups of customers/counterparties on a transversal basis (at several levels).

Derivative position risk (denominated Equivalent Credit Risk) is determined as the sum of the present value of each contract (or current replacement cost) with its Potential Risk, a component that reflects the estimate of the maximum expected value until maturity, in accordance with the volatility of the underlying market and the contracted cash flow structure.

For specific customer segments (namely global corporate customers) the Bank has implemented credit limits that consider economic capital, incorporating into the quantitative control the variables relating to the credit quality of each counterparty.

Insurance activity

Credit risk arises mainly in debt securities where the risk of the issuer is represented in the credit spread.

Generally speaking, limits are set depending on the rating of the issue/issuer, the existing liabilities and the maturities in Euros, and for the set of portfolios managed by Santander Asset Management, in compliance with regulatory standards No. 11/2010 and No. 3/2011, issued by the Insurance and Pension Funds Supervisory Authority. It should be noted that for insurance contracts with a guaranteed or indicative rate in respect of non-sovereign debt, securities purchases (Senior, Lower Tier 2 and Corporate) with minimum ratings of BBB-, with a stable outlook, as per Fitch Ratings (or as per S&P or Moody’s if the prior is not available) are tendentially authorized.

On the other hand, a maximum limit is set for a given issuer. This limit is defined according to the level of knowledge and other conditions related to the issuer and the market, as well as the investment policy of the portfolios allocated to the products.

Limits may be revised whenever events so warrant (e.g. change in rating). If there are no events that justify a change of the limits during the year, these are only revised annually.

The definitive approval of the global limits and/or those related to the new issuers is made in the Corporate Risk Committee and obeys criteria of diversification and prudential dispersion, this being a process that is periodically monitored.

In the control of credit risk, it is important that all assets have a rating, and that in the absence of same, a rating level can be associated within the approved standards.

The rating consists of classifying a bond issue or other debt securities on a credit rating scale, which is intended to reflect a value judgment on the timely repayment capacity of the principal and of the interest payment.

The rating assigned by a Rating Agency expresses only the opinion of same that the higher the rating, the lower the probability of default attributed, with this not consubstantiating any type of guarantee. For no rating attribution should the probability of default be understood as being zero, with the rating being an ex-ante risk measure that serves to qualify, in relative terms, the credit quality of an issuer.

The rating used is that of the issue, and, whenever an issue is not rated, the following criteria are used:

- For bonds and other debt securities, the rating, by default, is that of senior debt.
- In the case of vehicles or credit linked notes, the rating of the collateral or issuer(s), referenced via CDS (credit default swap) for the type of debt in question, shall be taken into account. The rating obtained shall take into account the structure of the asset (pro-rata distribution, the lowest reference rating in the case of first-to-default, the collateral’s rating if it is lower than that of the assets referenced via CDS).
- In the case of deposits, the implicit rating is considered to be that of the senior debt of the entities that take same.
- If it is not possible to attribute a rating, then the issue is considered as unrated.

In addition, the levels of the Senior Credit Default Spreads of the different issuers are periodically monitored, for the 5-years period, in order to monitor the credit risk of the counterparties.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

As regards the reinsurers, Santander Totta Seguros works fundamentally with six: Abbey Life, Genworth, General Cologne Re, Munich Re, RGA Re, and Axa Re.

The ratings of the largest reinsurers can be consulted in the following table:

Ratings of the Reinsurance Groups

Abbey Life Insurance Company Limited	A+
General Cologne Re	AA+
Genworth	A-
Munich Reinsurance Co.	AA-
RGA Insurance Company	AA-
AXA France Vie / Axa France IARD	A+

Risk analyses for customers or economic groups where the Bank has an exposure of more than €500,000 are performed by risk analysts who monitor the customers and are supported by rating models developed by the Bank and approved by the regulatory entities. Preparation of these models is mandatory. The assignment of various internal rating levels, ranging from 1 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;
. 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%	
Generation of funds	25%	55%
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.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

At December 31, 2017 and 2016, the maximum exposure to credit risk and the corresponding book value of the financial instruments was as follows:

	31-12-2017		31-12-2016	
	Book value	Maximum exposure	Book value	Maximum exposure
Cash and deposits at central banks	1,039,555	1,039,555	877,917	877,917
Balances due from other banks	658,155	658,155	658,892	658,892
Financial assets held for trading	1,509,744	1,509,744	1,758,692	1,758,692
Other financial assets at fair value through profit or loss	1,976,263	1,976,263	1,566,424	1,566,424
Available-for-sale financial assets	4,990,322	4,990,322	5,760,386	5,760,386
Loans and advances to credit institutions	826,367	826,367	563,925	563,925
Loans and advances to customers	39,646,179	46,075,986	31,459,027	36,462,229
Hedging derivatives	15,349	15,349	32,700	32,700
Investments in associates	122,170	122,170	99,657	99,657
	50,784,104	57,213,911	42,777,620	47,780,822
Guarantees given	2,065,101	2,065,101	1,652,984	1,652,984

The maximum exposure in “Loans and advances to customers” at December 31, 2017 includes €1,352,174 thousand and €5,077,633 thousand relating to irrevocable and revocable credit lines, respectively (€536,938 thousand and 4,466,264 thousand at December 31, 2016, 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.

In this sense, as at December 31, 2017 and 2016, the breakdown of performing and non-performing exposures was as follows:

	31-12-2017			31-12-2016		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	38,388,823	(246,286)	0.6%	30,602,288	(310,692)	1.0%
Non-performing exposures						
. Loans represented by securities	1,613	(318)	19.7%	11,415	(5,581)	48.9%
. Households	825,187	(310,259)	37.6%	800,877	(330,705)	41.3%
. Corporates	2,171,421	(1,184,002)	54.5%	1,707,250	(1,015,826)	59.5%
	2,998,221	(1,494,579)		2,519,542	(1,352,111)	
	41,387,044	(1,740,865)		33,121,830	(1,662,803)	

As at December 31, 2017 and 2016, the degree of cover of the non-performing exposures by real guarantees was as follows:

	31-12-2017			31-12-2016		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Non-performing exposures						
. Loans represented by securities	1,613	-	-	11,415	-	-
. Households	825,187	462,708	56.1%	800,877	424,282	53.0%
. Corporates	2,171,421	546,194	25.2%	1,707,250	384,822	22.5%
	2,998,221	1,008,902		2,519,542	809,105	

As at December 31, 2017, non-performing exposures include €1,032,910 thousand of the BAPOP portfolio.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Forborne exposures

In accordance with Bank of Portugal Instruction nº 04/2018, institutions must identify and mark, in their information systems, loan contracts of a customer in financial difficulties, whenever there are changes to the terms and conditions such contracts (including extension of the repayment term, introduction of grace periods, capitalisation of interest, reduction of interest rates, pardon of interest or principal) or the institution contracts new credit facilities for the (total or partial) settlement of the service of the existing debt.

As at December 31, 2017 and 2016, the breakdown of forborne exposures was as follows:

	31-12-2017			31-12-2016		
	Book value	Impairment	Coverage	Book value	Impairment	Coverage
Performing exposures	1,321,740	(83,046)	6.3%	1,665,813	(127,124)	7.6%
Non-performing exposures						
. Households	469,715	(143,945)	30.6%	383,151	(128,300)	33.5%
. Corporates	1,347,323	(771,626)	57.3%	932,546	(485,005)	52.0%
	1,817,037	(915,571)		1,315,697	(613,305)	
	3,138,777	(998,617)		2,981,510	(740,429)	

As at December 31, 2017, forborne exposures include €1,032,910 thousand of the BAPOP portfolio.

Encumbered assets

An encumbered asset is considered to be an asset explicitly or implicitly constituted as collateral or subject to an agreement to guarantee, collateralise or improve credit quality in any transaction that cannot be freely withdrawn.

In accordance with the requirements set out in Banco de Portugal Instruction nº 28/2014, the Bank now provides information on the encumbered assets.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

As at December 31, 2017 and 2016, the breakdown of encumbered and unencumbered assets is as follows:

	Carrying amount of the encumbered assets	Fair value of encumbered asset	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Balances due at central banks and other credit institutions	-	-	1,697,710	-
Equity instruments	-	-	134,651	148,908
Debt securities	2,015,002	2,015,002	7,233,945	7,565,718
Loans and advances to customers and credit institutions	13,537,188	-	22,654,943	-
Other assets	-	-	5,895,551	-
	15,552,190	2,015,002	37,616,800	7,714,626

	2016			
	Carrying amount of the encumbered assets	Fair value of encumbered asset	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Balances due at central banks and other credit institutions	-	-	1,536,809	-
Equity instruments	-	-	89,181	96,697
Debt securities	4,709,344	4,709,344	5,410,232	5,304,669
Loans and advances to customers and credit institutions	12,444,643	-	15,377,067	-
Other assets	-	-	5,424,405	-
	17,153,987	4,709,344	27,837,694	5,401,366

As at December 31, 2017 and 2016, liabilities associated with encumbered assets and with collateral received are as follows:

	2017	
	Associated liabilities, contingent liabilities and securities lent	Assets, collateral received and own debt securities issued excluding covered bonds or ABS
Carryng amount of financial liabilities	7,709,673	4,001,027
Other	685,000	215,860
	8,394,673	4,216,887

	2016	
	Associated liabilities, contingent liabilities and securities lent	Assets, collateral received and own debt securities issued excluding covered bonds or ABS
Carryng amount of financial liabilities	9,743,799	4,307,924
Other	665,563	296,753
	10,409,361	4,604,676

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

As at December 31, 2017, the main headings of assets had the following breakdown by external rating (internal rating for credit extended), in keeping with the rating assigned by Standard & Poor's:

Cash and deposits in Central Banks	
Rating S&P	
AAA+ /AAA /AAA-	751,352
No subject	288,203
	1,039,555
Balances due from other banks	
Rating S&P	
AA+ /AA /AA-	246,901
A+ /A /A-	245,829
BBB+ / BBB / BBB-	32,574
Without external rating	24,353
No subject	108,498
	658,155
Other financial assets at fair value through profit or loss	
Rating S&P	
AA+ / AA / AA-	4,729
A+ / A / A-	74,914
BBB+ / BBB / BBB-	1,469,303
BB+ / BB / BB-	137,143
D+ / D / D-	41,709
No subject	32,264
	1,760,062
Available-for-sale financial assets	
Rating S&P	
AAA+ /AAA /AAA-	4,868
BBB+ / BBB / BBB-	4,754,831
B+ / B / B-	50,209
Without external rating	790
	4,810,698
Loans and advances to credit institutions	
Rating S&P	
A+ /A /A-	708,419
BBB+ / BBB / BBB-	40,073
BB+ / BB / BB-	5,710
Without external rating	72,165
	826,367
Loans and advances to customers	
Internal Rating	
Reduced credit risk	19,716,867
Average credit risk	9,340,858
High credit risk	3,358,527
Loans - BAPOP	6,107,712
Without rating	2,863,080
	41,387,044
Held to maturity investments	
Rating S&P	
BBB+ / BBB / BBB-	9,364
Without external rating	99,444
	108,808
	50,590,689

Whenever Standard & Poor's rating was not available, the ratings of the agencies Moody's or Fitch were used.

LIQUIDITY RISK

Banking and other activities

The balance sheet liquidity-management policy is decided by the 1st level body of the organisational structure responsible for Asset and Liability Management (ALM), the Asset-Liability Committee (ALCO), chaired by the chair of the Executive Committee, which includes the directors responsible for the Financial, Treasury, Commercial Marketing and International areas. Committee meetings are held monthly and at them the balance-sheet risks are analysed and strategic options decided.

For the ALM area the following balance-sheet management limits are defined:

- Limits intended to control the interest-rate risk, in particular, the sensitivity of the net interest margin (NIM) and the sensitivity of market value of equities (MVE) to unexpected interest-rate variations; and
- Limits intended to control the liquidity risk through the net accumulated liquidity and illiquidity coefficient indicators.

The Group's funding policy considers the evolution of the balance-sheet aggregates, the structural situation of the maturities of assets and liabilities, the net interbank debt level in the light of the available lines, maturity dispersal and minimisation of the costs associated with the funding activity.

It should be noted that the Bank does not perform any liquidity-risk analysis for trading financial instruments.

Insurance activity

The liquidity risk corresponds to the risk of the Company experiencing difficulties in obtaining funds in order to fulfil its commitments. Liquidity risk may be reflected, for example, in the inability to dispose of a financial asset on a timely manner at a value close to its fair value.

Liquidity risk is monitored on a monthly basis, and balance sheet management limits are defined as regards the sensitivity to parallel changes in the interest rate for the entire portfolio of financial assets and technical liabilities.

In addition, in order to mitigate liquidity risk, maximum concentration ratios of non-liquid assets were established according to the type of portfolio/product, and these are monitored on a monthly basis.

The main assumptions used in calculating expected cash flows, were as follows:

- The estimated cash flows of financial assets and technical liabilities with fixed income associated with the interest rate curve are calculated considering the forward interest rate curve;

- The financial assets and technical liabilities associated with unit-linked products are recognized as demandable at sight at the respective fair value of these assets and liabilities at each reporting date.

The projected cash flows of the financial instruments (not discounted) at December 31, 2017 and 2016, in accordance with their contractual maturity, were as follows:

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

	31-12-2017							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	288,203	-	-	-	750,711	-	-	1,038,914
Balances due from other banks	658,155	-	-	-	-	-	-	658,155
Financial assets held for trading	248,949	-	-	-	-	-	-	248,949
Other financial assets at fair value through profit or loss	1,976,263	-	-	-	-	-	-	1,976,263
Available-for-sale financial assets	2	277,022	51,327	358,408	301,526	4,427,793	190,865	5,606,943
Loans and advances to credit institutions	121,812	20,166	171,647	477,281	-	-	-	790,906
Loans and advances to customers	290,673	2,929,297	4,626,212	8,740,195	6,557,776	22,344,748	-	45,488,901
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	-	-	-	-	-	-	127,700	127,700
	3,599,406	3,238,106	4,857,620	9,595,753	7,628,379	26,842,923	318,565	56,080,752
Liabilities								
Resources of central banks	4,538	-	-	2,446,000	630,000	-	-	3,080,538
Financial liabilities held for trading	1,527,098	-	-	-	-	-	-	1,527,098
Other financial liabilities at fair value through profit or loss	2,430,798	-	-	-	-	-	-	2,430,798
Resources of other credit institutions	432,518	1,494,882	1,274,615	1,478	550,751	600,000	-	4,354,244
Resources of customers and other debts	13,205,287	6,185,754	6,913,328	5,084,754	136,356	17,940	-	31,543,419
Debt securities	-	58,531	140,838	1,823,523	297,490	2,548,565	-	4,868,947
Hedging derivatives	39,275	-	-	-	-	-	-	39,275
Technical reserves	41,021	171,178	6,908	12,883	10,170	45,575	-	287,735
Subordinated liabilities	-	-	570	1,141	1,140	9,880	-	12,731
	17,680,535	7,910,345	8,336,259	9,369,779	1,625,907	3,221,960	-	48,144,785

	31-12-2016							
	On demand	Up to 3 months	From 3 months to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years	Undetermined	Total
Assets								
Cash and deposits at central banks	224,159	-	-	-	634,321	-	-	858,480
Balances due from other banks	658,892	-	-	-	-	-	-	658,892
Financial assets held for trading	1,758,692	-	-	-	-	-	-	1,758,692
Other financial assets at fair value through profit or loss	1,566,424	-	-	-	-	-	-	1,566,424
Available-for-sale financial assets	2	74,852	233,124	1,642,973	866,864	3,995,161	144,833	6,957,809
Loans and advances to credit institutions	66,792	4,583	31,969	440,202	2,033	22,734	-	568,314
Loans and advances to customers	313,396	2,002,320	3,325,944	6,778,775	5,874,672	17,206,129	-	35,501,237
Held-to-maturity investments	-	3,082	134,874	31,032	18,664	84,776	-	272,428
Hedging derivatives	32,700	-	-	-	-	-	-	32,700
Investments in associates	-	-	-	-	-	-	101,157	101,157
	4,621,059	2,084,838	3,725,912	8,892,981	7,396,554	21,308,802	245,990	48,276,135
Liabilities								
Resources of central banks	4,694	-	-	-	2,446,000	-	-	2,450,694
Financial liabilities held for trading	1,763,952	-	-	-	-	-	-	1,763,952
Other financial liabilities at fair value through profit or loss	2,148,103	-	-	-	-	-	-	2,148,103
Resources of other credit institutions	694,292	728,902	579	1,537	201,539	400,000	-	2,026,849
Resources of customers and other debts	11,640,355	4,309,866	5,613,229	5,976,692	233,287	24,281	-	27,797,709
Debt securities	160	16,740	1,081,326	935,454	869,804	1,157,122	-	4,060,607
Hedging derivatives	81,655	-	-	-	-	-	-	81,655
Technical reserves	41,021	171,178	6,908	12,883	10,170	45,575	-	287,735
Subordinated liabilities	-	-	570	1,140	1,141	10,450	-	13,301
	16,374,231	5,226,685	6,702,612	6,927,706	3,761,942	1,637,429	-	40,630,605

The projected cash flows of the financial instruments were determined based on the principles and assumptions used by the Group to manage and control the liquidity resulting from its operations, namely:

- The projected cash flows of assets and liabilities with variable remuneration associated with the interest rate curve were calculated considering the forward interest rate curve;

- Financial instruments classified as “non-structural” were considered as maturing on demand, except for equity instruments recorded as available-for-sale financial assets, which were considered as having an undetermined maturity. Non-structural assets and liabilities correspond to assets not subject to changes in interest rates (cash, balances due from banks, and equity instruments classified as available-for-sale financial assets) and assets and liabilities held for trading, the management of which is based on the control of the exposure to market risk. In this regard, the Group considers the fair value of assets and liabilities held for trading as being their market value on demand;

- Credit line operations without defined maturity or periodically renewable, such as bank overdrafts and current account credit lines, were considered to have an average maturity of 25 months;

- The projected cash flows of demand deposits were considered as being payable on demand;

- The assets and liabilities associated with the unit link products of the Group's insurance activity were considered as liabilities demandable at sight at the amount of the respective fair value of the assets and liabilities.

MARKET RISK

Market risk generally consists in the potential fluctuation of a financial instrument value due to unanticipated changes in the market variables, such as interest rates, exchange rates, credit spreads, and prices of equity instruments, precious metals and commodities.

The standard methodology applied for the Group's trading activity is Value at Risk ("VaR"). The Historical Simulation with a 99% confidence level and a time horizon of one day is used as the standard, with statistical adjustments having been applied to include the more recent occurrences that affect the level of risk assumed.

The reckoned VaR represents a daily estimate of the maximum potential risk under normal market conditions (individually by portfolio/business sector and for the overall positions), within the underlying assumptions of the model.

Other measures are simultaneously implemented that permit an additional control of market risk. For abnormal market conditions stress testing is carried out. This consists of defining extreme behavioural scenarios for different financial variables, in order to obtain the corresponding potential impact on results. In short, the analysis of the scenarios seeks to identify the potential risk under extreme market conditions and on the fringes of the probability of occurrence not covered by the VaR.

In parallel with this, daily positions are also monitored, with an exhaustive control being realized over the changes in the portfolios so as to detect the existence of possible situations that require immediate correction. A daily income statement is prepared in order to identify the impact of changes in variables or in the composition of the portfolios.

The Group uses sensitivity measurements and equivalent positions. In the case of interest rates it uses the BPV – estimated impact on results due to parallel changes in the interest rate curves. For the control of the derivative activities, due to the unusual nature of same, specific sensitivity measurements are performed daily, namely estimating the sensitivity to changes in the underlying prices (*delta* and *gamma*), volatility (*vega*) and time (*theta*).

Quantitative limits, classified into two groups, are used for the trading portfolio, based on the following objectives:

- Limits aimed at protecting the volume of potential losses (VaR, Equivalent positions and sensitivity); and

- Limits aimed at controlling the volume of effective losses or protecting the results already achieved during the period (Loss Triggers and Stop Losses).

As for the interest rate structural risk, the model used in the analysis permits the measurement and control of all the factors associated with the balance sheet market risk, namely the risk resulting directly from the change in the yield curve, given the existing indexing and repricing structure, which determines the sensitivity of the financial margin and the sensitivity of the net asset value of the balance sheet instruments.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Interest rate risk

At December 31, 2017 and 2016, financial instruments, by exposure to interest rate risk, were as follows:

	31-12-2017				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	751,352	288,203	-	1,039,555
Balances due from other banks	-	-	658,155	-	658,155
Financial assets held for trading	-	-	4,053	1,505,691	1,509,744
Other financial assets at fair value through profit or loss	1,675,000	267,397	33,866	-	1,976,263
Available-for-sale financial assets	4,365,772	254,233	370,317	-	4,990,322
Loans and advances to credit institutions	288,704	497,129	40,534	-	826,367
Loans and advances to customers	8,094,066	31,975,972	(423,859)	-	39,646,179
Held-to-maturity investments	9,057	99,173	578	-	108,808
Hedging derivatives	-	-	-	15,349	15,349
	14,432,599	33,845,256	971,847	1,521,040	50,770,742
Liabilities					
Resources of central banks	3,080,538 -	-	-	-	3,080,538
Financial liabilities held for trading	-	-	-	1,527,098	1,527,098
Other financial liabilities at fair value through profit or loss	2,430,798	-	-	-	2,430,798
Resources of other credit institutions	124,560	4,226,615	731	-	4,351,906
Resources of customers and other debts	18,476,928	12,861,518	119,464	-	31,457,910
Debt securities	3,526,087	1,094,921	(85,455)	-	4,535,553
Hedging derivatives	-	-	-	39,275	39,275
Technical reserves	408,348	-	136	-	408,484
	28,047,259	18,183,054	34,876	1,566,373	47,831,562

	31-12-2016				
	Exposure to		Non		
	Fixed rate	Floating rate	remunerated	Derivatives	Total
Assets					
Cash and deposits at central banks	-	653,758	224,159	-	877,917
Balances due from other banks	-	-	658,892	-	658,892
Financial assets held for trading	-	-	3,174	1,755,518	1,758,692
Other financial assets at fair value through profit or loss	1,488,908	42,336	35,180	-	1,566,424
Available-for-sale financial assets	5,424,742	362,874	(27,230)	-	5,760,386
Loans and advances to credit institutions	206,791	353,935	3,199	-	563,925
Loans and advances to customers	4,300,838	27,286,967	(128,778)	-	31,459,027
Held-to-maturity investments	9,678	234,276	-	-	243,954
Hedging derivatives	-	-	-	32,700	32,700
	11,430,957	28,934,146	768,596	1,788,218	42,921,917
Liabilities					
Resources of central banks	2,446,000 -	-	4,694	-	2,450,694
Financial liabilities held for trading	-	-	-	1,763,952	1,763,952
Other financial liabilities at fair value through profit or loss	2,148,103	-	-	-	2,148,103
Resources of other credit institutions	1,092,754	930,370	89	-	2,023,213
Resources of customers and other debts	16,443,972	11,086,098	142,520	-	27,672,590
Debt securities	2,530,206	1,410,554	(68,326)	-	3,872,434
Hedging derivatives	-	-	-	81,655	81,655
Technical reserves	267,815	-	-	-	267,815
	24,928,850	13,427,022	78,977	1,845,607	40,280,456

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

As at December 31, 2017, the breakdown of the financial instruments by exposure to the interest-rate risk, by rate intervals, was as follows:

	Range of interest rates					Non		
	[<1%]	[1%-3%]	[3%-5%]	[5%-10%]	[>10%]	remunerated	Derivatives	Total
Assets								
Cash and deposits at central banks	751,352	-	-	-	-	288,203	-	1,039,555
Balances due from other banks	-	-	-	-	-	658,155	-	658,155
Financial assets held for trading	-	-	-	-	-	4,053	1,505,691	1,509,744
Other financial assets at fair value through profit or loss	97,641	512,461	883,919	266,613	-	215,629	-	1,976,263
Available-for-sale financial assets	140,074	1,436,783	3,074,292	115,430	-	223,743	-	4,990,322
Loans and advances to credit institutions	639,570	145,015	-	1,247	1	40,535	-	826,367
Loans and advances to customers	13,815,396	18,049,948	6,168,519	1,438,036	610,046	1,233,297	-	41,315,240
Held-to-maturity investments	2,879	90,552	14,799	-	-	578	-	108,808
Hedging derivatives	-	-	-	-	-	-	15,349	15,349
	15,446,912	20,234,758	10,141,528	1,821,326	610,047	2,664,193	1,521,040	52,439,803
Liabilities								
Resources of central banks	3,076,000	-	-	-	-	4,538	-	3,080,538
Financial liabilities held for trading	-	-	-	-	-	-	1,527,098	1,527,098
Other financial liabilities at fair value through profit or loss	120,098	630,326	1,352,441	327,933				2,430,798
Resources of other credit institutions	4,303,647	47,528	-	-	-	731	-	4,351,906
Resources of customers and other debts	28,707,895	2,170,685	264,254	185,618	16	129,442	-	31,457,910
Debt securities	1,858,144	2,760,363	2,500	-	-	(85,454)	-	4,535,553
Hedging derivatives	-	-	-	-	-	-	39,275	39,275
Subordinated liabilities	-	-	-	7,599	-	136	-	7,735
	38,065,784	5,608,902	1,619,195	521,150	16	49,393	1,566,373	47,430,813

Banking and other activities

Financial instruments – structural balance sheet (excluding trading assets and liabilities)

The methodology used to estimate the sensitivity of the net asset value simulates the changes in the market value of assets and liabilities based on changes of 100 basis points (“bps”) in the forward interest rate curve. This methodology uses the following parameters and assumptions:

- All assets and liabilities that are sensitive to changes in interest rates are identified, that is, which value and corresponding contribution to financial margin undergo changes as a result of changes in market rates;

- The assets and liabilities are grouped in accordance with their exposure to interest rate risk;

- Future cash flows, duly distributed by repricing dates (variable rate) or maturity dates (fixed rate), are estimated for each sensitive operation (contract);

- Operations are sub-grouped by repricing/maturity date for each previously defined group;

- The intended time ranges for measurement of the interest rate gaps are defined;

- For each group, the cash flows are re-grouped based on the ranges created;

- For each product considered to be sensitive, but without a defined maturity date, the distribution parameters are estimated based on previously studied behavioural models;

- For each interval is calculated the total of the active and passive flows and by difference between them the interest rate risk gap of each interval.

The interest rate gap permits the obtaining of an approximate value of the sensitivity of the net asset value and the financial margin to variations in market rates. This approximate value uses the following assumptions:

- Volumes remain constant in the balance sheet and are automatically renewed;

- The movements in the interest rates are assumed to be parallel, whilst the possibility of actual changes for different periods of the interest rate curve is not considered;

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

- Different elasticities between the various products are not considered.

Regarding the change in the net asset value, an increase in the interest rates originates a decrease in the value of the ranges with positive gaps and an increase in the value of the negative gaps. A decrease in interest rates has the opposite effect.

General assumptions of this interest rate sensitivity analysis

- Evolution of the balance sheet – a static balance sheet is assumed, under which the amounts of the contracts that mature are replaced by new operations of the same amount, so that the balance sheet balances remain unchanged during the period under analysis;

- Maturities and repricing – the actual maturity and repricing dates of the operations are considered. The value of the assets and liabilities that do not change with changes in interest rates are not considered to be sensitive;

- Indexing factors – the indexing factors defined contractually are considered, and for simulation purposes a spot curve as at the valuation date with a forward underlying curve is used;

- Characteristics of new operations "New business" (term, repricing, volumes, spread, indexing factor, etc.) – the conditions inscribed in the budget for each product are used. When these characteristics cease to fall within market conditions for certain products, the average conditions practised in the last month or the new commercial directives for each product under review are used.

At December 31, 2017 and 2016, the sensitivity of the Group's financial instruments to positive and negative changes of 100 basis points (bps) in the interest rates, over a time frame of one year, corresponded to:

	31-12-2017		31-12-2016	
	+ 100 bp's variation	- 100 bp's variation	+ 100 bp's variation	- 100 bp's variation
Assets				
Cash and deposits at central banks	395	30,772	188	15,473
Available-for-sale financial assets	(332,156)	355,694	(375,220)	342,242
Loans and advances to credit institutions	(1,430)	409	(2,352)	5,666
Loans and advances to customers	(627,247)	578,901	(219,757)	106,788
	(960,438)	965,776	(597,141)	470,169
Hedging derivatives	169,730	(199,210)	50,534	(52,175)
Liabilities				
Resources of central banks	(80,016)	37,533	(83,865)	28,801
Resources of other credit institutions	(14,387)	24,449	(3,158)	12,467
Resources of customers and other debts	(745,179)	648,659	(674,696)	374,728
Debt securities	(187,966)	184,242	(52,218)	24,317
Other subordinated liabilities	(826)	859	(946)	936
	(1,028,374)	895,742	(814,883)	441,249

Financial instruments - held for trading

Besides the Bank's own calculation methodology, the basic parameters for the calculation of the VaR are as follows:

- Time horizon: The period of time used to estimate the potential losses on a portfolio, for purposes of measuring the (daily) VaR is 1 day;

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

- Confidence level: both the VaR (potential loss) and VaE (potential gain) are determined with a confidence level of 99% (1% and 99%, respectively, for the distribution of losses and gains);

- Exponential deterioration factor: Permits the amount of the changes in market factors to be exponentially weighted over time, by giving less weight to observations that are more distant in time. The exponential deterioration factor applied is calculated periodically using the Market Risk methodology;

  The VaR values used are the higher of those arising from the estimate made with the deterioration factor in force and the calculation made using uniform weights.

- Calculation currency: VaR calculations are made in Euros, which ensures that the local currency is the risk-free currency. VaR results are reported in US Dollars in order to allow for the accumulation of different units; and

- Timeframe of market data: A 2 year timeframe or at least 520 items of data obtained from the VaR calculation reference date, going back in time, is used.

The reckoning of the VaR Percentile assumes that the set of 520 observations considered have all the same weight. The VaR Weighted Percentile assumes a significantly higher weight for the more recent observations in relation to the reference date of the analysis.

Historical simulation consists of using historical changes as a distribution model of the possible changes in risk factors. Therefore, the period chosen must be sufficiently long and significant, so that all the interactions between the market factors, including the volatilities and correlations between these, are well reflected in the historical period selected.

In addition, a complete revaluation of the portfolio requires the valuation of each of the instruments, using the respective mathematical expression in order to obtain the market value of each individual position. On using revaluation methods, the implicit non-linear effects on certain financial products as a result of market factor changes are calculated and retained in the VaR amounts.

At December 31, 2017 and 2016, the VaR associated with the interest rate risk corresponds to:

	31-12-2017	31-12-2016
VaR Percentil 99%	(1)	(7)
VaR Weighted Percentil 99%	(1)	(3)

Insurance activity

At December 31, 2017 and 2016, the sensitivity of the book value of the financial instruments associated with insurance products (except for Unit Links products) to positive and negative variations of 100 basis points (bps) corresponds to:

	31-12-2017	31-12-2016
+ 100 bp's	97	(78)
- 100 bp's	(97)	78

The sensitivity of the net asset value associated with insurance products which investment risk is borne by the policyholder is considered immaterial, as a result of the symmetrical behaviour of the assets and liabilities associated with these products.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Currency risk

The profile defined for currency risk is very conservative and is based on the hedging policy adopted. The implementation of such policy is the responsibility of the Treasury area so that the risks involved are maintained at a low level, this being achieved mainly through the use of currency swaps. Currency risk limits are established and monitored by the Market Risk Area.

At December 31, 2017 and 2016, financial instruments, by currency, were as follows:

	31-12-2017				31-12-2016			
	Euros	US Dollars	Other currencies	Total	Euros	US Dollars	Other currencies	Total
Assets								
Cash and deposits at central banks	1,033,619	1,960	3,976	1,039,555	867,703	3,834	6,380	877,917
Balances due from other banks	373,489	163,024	121,642	658,155	547,730	83,967	27,195	658,892
Financial assets held for trading	1,507,438	2,103	203	1,509,744	1,754,372	4,245	75	1,758,692
Other financial assets at fair value through profit or loss	1,976,263	-	-	1,976,263	1,566,424	-	-	1,566,424
Available-for-sale financial assets	4,990,322	-	-	4,990,322	5,760,386	-	-	5,760,386
Loans and advances to credit institutions	726,613	78,897	20,857	826,367	518,611	6,964	38,350	563,925
Loans and advances to customers	39,197,851	41,745	406,583	39,646,179	30,948,465	469,867	40,695	31,459,027
Held-to-maturity investments	108,808	-	-	108,808	243,954	-	-	243,954
Hedging derivatives	10,995	4,354	-	15,349	27,800	4,900	-	32,700
	49,925,398	292,083	553,261	50,770,742	42,235,445	573,777	112,695	42,921,917
Liabilities								
Resources of central banks	3,080,538	-	-	3,080,538	2,450,694	-	-	2,450,694
Financial liabilities held for trading	1,524,814	2,094	190	1,527,098	1,759,668	4,211	73	1,763,952
Other financial liabilities at fair value through profit or loss	2,430,798	-	-	2,430,798	2,148,103	-	-	2,148,103
Resources of other credit institutions	4,272,653	29,603	49,650	4,351,906	1,993,532	23,538	6,143	2,023,213
Resources of customers and other debts	30,005,892	419,792	1,032,226	31,457,910	25,967,891	1,467,246	237,453	27,672,590
Debt securities	4,510,538	-	25,015	4,535,553	3,842,881	28,460	1,093	3,872,434
Hedging derivatives	37,495	1,765	15	39,275	79,551	2,104	-	81,655
Technical reserves	408,348	-	-	408,348	296,301	-	-	296,301
Subordinated liabilities	7,735	-	-	7,735	7,735	-	-	7,735
	46,278,811	453,254	1,107,096	47,839,161	38,546,356	1,525,559	244,762	40,316,677

At December 31, 2017 and 2016, the VaR associated with currency risk relating to the Group's banking activity corresponded to:

	31-12-2017	31-12-2016
VaR Percentil 99%	(7)	(6)
VaR Weighted Percentil 99%	(4)	(3)

The financial assets and liabilities associated with the Insurance activity are mainly denominated in Euros, with an immaterial currency risk.

Equity risk of asset

At December 31, 2017 and 2016, the Group had no equity risk associated with financial instruments held for trading and, therefore, the VaR related to this risk is zero.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

Offsetting of financial assets and liabilities

At December 31, 2017 and 2016, the amounts of the derivative financial instruments, negotiated over the counter, offset against related financial derivatives, by type of counterparty, is as follows:

		2017			
		Financial assets / liabilities presented in the financial statements	Related amounts not offset in the financial statements		
Contraparte	Counterparty		Financial instruments	Cash collateral received as guarantee	Net Value
Instituições Financeiras	Financial Insitituions	600	-	(620)	(20)
Empresas do Grupo	Group Companies	(1,279,832)	-	296,570	(983,262)
		(1,279,232)	-	295,950	(983,282)

		2016			
		Financial assets / liabilities presented in the financial statements	Related amounts not offset in the financial statements		
Contraparte	Counterparty		Financial instruments	Cash collateral received as guarantee	Net Value
Instituições Financeiras	Financial Insitituions	2,060	-	(2,200)	(140)
Empresas do Grupo	Group Companies	(1,487,320)	-	200,000	(1,287,320)
		(1,485,260)	-	197,800	(1,287,460)

At December 31, 2017 and 2016, the amount of the repos operations, by type of counterparty, is as follows:

		2017			
		Financial liabilities presented in the financial statements	Related amounts not offset in the financial statements		
Contraparte	Counterparty		Financial instruments	Cash collateral received as guarantee	Net Value
Instituições Financeiras	Financial Insitituions	(2,710,621)	2,710,598	24,402	24,379
		(2,710,621)	2,710,598	24,402	24,379

		2016			
		Financial liabilities presented in the financial statements	Related amounts not offset in the financial statements		
Contraparte	Counterparty		Financial instruments	Cash collateral received as guarantee	Net Value
Instituições Financeiras	Financial Insitituions	(1,078,940)	1,078,980	37,734	37,774
		(1,078,940)	1,078,980	37,734	37,774

52. CAPITAL MANAGEMENT

The Group seeks high financial solidity embodied in the maintenance of an own funds adequacy ratio – relationship between Eligible Own Funds and risk-weighted assets – of more than 8%, corresponding to the statutory minimum established in Directive 2013/36/EU (CRD IV) and in Regulation (EU) nº 575/2013 (CRR), both of the European Parliament and of the Council of June 26, 2013 and framed in a new Basel Accord (BIS III).

The profit distribution policy is conditional on the maintenance of capital levels that allow the Bank to sustain the performance of its operations within its risk policy.

The Group uses the mixed method for the credit risk, in particular the advanced method (IRB) for most credit segments and the standard method for leasing, factoring, manual operations and the portfolio of the former Banif and the BAPOP portfolio.

In December 2010, the Group began to use the mixed method for the market risk, in particular internal models for the majority of the trading derivatives (IRB) and the standard method for the rest of the trading portfolio.

(Amounts expressed in thousands of Euros, unless otherwise expressly indicated)

In June 2012 the Group began using the standard method for the determination of the operational risk requirements, having till then used the basic indicator method.

From January 1, 2014, it began to report the capital ratios under the new BIS III regulatory framework, which, though it provides a phasing-in period, is more demanding for the core capital ratio (or Common Equity Tier I CET1), in particular through additional deductions of higher weighting in the calculation of weighted-risk assets (or positions at risk).

The following table summarizes the composition of the Group's regulatory capital and capital ratios at consolidated level in December 2017 and 2016 (both in BIS III – Phasing in):

	Dez17	Dez16
	BIS III Phasing In	BIS III Phasing In
A -BASE OWN FUNDS (TIER I)	3,695	3,477
Sahare Capital	2,571	1,971
Reserves and Retained earnings (excluding Non-controlling interests)	1,257	997
Non-controlling interests	0	600
Deduction to base own funds	-132	-91
B - COMPLEMENTARY OWN FUNDS (TIER II)	12	0
Perpetual subordinated liabilities	12	12
Non-controlling interests	0	0
Other elements/deductions to complementary own funds	0	-12
C-DEDUCTIONS TO OWN FUNDS	0	0
D - TOTAL OWN FUNDS (A+B+C)	3,707	3,477
E- ASSETS WEIGHTED BY RISK	21,935	18,331
CAPITAL RATIOS	**Dez17**	**Dez16**
TIER I (A/E)	16.8%	19.0%
CORE CAPITAL	14.2%	15.8%
TIER II (B/E)	0.1%	0.0%
CAPITAL ADEQUACY RATIO (D/E)	19.0%	19.0%

53. RESOLUTION FUND

As part of its responsibility as supervision and resolution entity of the Portuguese financial sector, on August 3, 2014, the Bank of Portugal decided to apply to Banco Espírito Santo, S.A. ("BES") a resolution measure under article 145-G(5) of the General Credit Institutions and Financial Companies Regime ("RGICSF"), which consisted of the transfer of most of its business to a transition bank called Novo Banco, SA ("Novo Banco") created especially for the purpose. In accordance with Community rules, the capitalisation of Novo Banco was assured by the Resolution Fund, created by Decree-Law 31/2012, of February 10.

To pay up the Novo banco share capital, the Resolution Fund provided €4,900 million. Of this amount €365 million correspond to the own financial resources of the Resolution Fund. A loan was also granted by a banking syndicate to the Resolution Fund in the amount of €635 million, with the participation of each credit institution weighted in the light of several factors, including the respective dimension. The remainder (€3,900 million) consisted of a loan granted by the Portuguese State.

In December 2015, the Portuguese authorities decided to sell the greater part of the assets and liabilities associated with business of Banif – Banco Internacional do Funchal, SA ("Banif") to Banco Santander Totta, SA, for €150 million, also within the framework of application of a resolution measure. This transaction involved public support estimated at €2,255 million that aimed to cover future contingencies, €489 million financed by the Resolution Fund and €1,766 million directly by the Portuguese State, as a result of the options agreed between the Portuguese authorities, the European institutions and Banco Santander Totta, for the delimitation of the perimeter of the assets and liabilities to be sold. Within the context of this resolution measure, the Banif assets identified as problematic were transferred to an asset-management vehicle created for the purpose – Oitante, SA, the Resolution Fund being the sole holder of its share capital, through the issue of bonds representing the debt of the vehicle, in the amount of €746 million, with the guarantee of the Resolution Fund and counter guarantee of the Portuguese State.

The resolution measures applied to BES in 2014 (process that gave rise to the creation of Novo Banco) and in 2015 to Banif created uncertainties related to the risk of litigation involving the Resolution Fund, which is significant, as well as the risk of a possible insufficiency of resources to ensure that the liabilities would be met, in particular repayment of the short-term loans contracted.

It is against this background that, in the second half of 2016, the Portuguese government reached agreement with the European Commission for the alteration of the conditions of the funding granted by the Portuguese State and the participating banks to the Resolution Fund in order to preserve financial stability, by ensuring the conditions that give predictability and stability to the contributory effort made to the Resolution Fund. To this end, an addendum the Resolution Fund funding agreements was formalised, which introduces a number of amendments on repayment plans, remuneration rates and other terms and conditions associated with these loans so that they are suited to the Resolution Fund's ability to fulfil its obligations in full on the basis of its regular revenues, that is, without a need for the banks participating in the Resolution Fund to be charged special contributions or any other type of extraordinary contribution.

According to the announcement of the Resolution Fund of March 31, 2017, the review of the conditions of the funding granted by the Portuguese State and the participating banks aimed to ensure the sustainability and the financial balance of the Resolution Fund, on the basis of a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund assumed that full payment of the Resolution Fund's liabilities is assured, as well as the respective remuneration, with no need for recourse to special contributions or any other type of extraordinary contributions on the part of the banking sector.

Also on March 31, 2017, the Bank of Portugal reported that it had selected the Lone Star Fund for the purchase of Novo Banco, which was completed on October 17, 2017, by injection, by the new shareholder of €750 million, which will be followed a new inflow of share capital in the amount of €250 million, to be implemented over a period of up to three years. The Lone Star Fund now holds 75% of the Novo Banco share capital, the remaining 25% being held by the Resolution Fund. Additionally, the approved conditions include a contingent capitalisation mechanism, pursuant to which the Resolution Fund, as shareholder, may be called upon to make payments in the event of materialisation of certain cumulative conditions related to: (i) the performance of a restricted set of Novo Banco assets and (ii) the evolution of the bank's capitalisation levels. Possible capital injections to be undertaken under this terms of this contingent mechanism are subject to an absolute ceiling of €3,890 million over a period of 8 years.

Notwithstanding the possibility provided for in applicable legislation governing the collection of special contributions, given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate, in which the Bank is included, the public announcements made by the Resolution Fund and the Office of the Minister of Finance state that this possibility will not be used.

In this connection, based on the information currently available, the understanding of the Board of Directors is that there is little risk that additional charges will arise for the Bank regarding the set of liabilities detailed above that are for the account of the Resolution Fund.

54. FINANCIAL STATEMENTS' APPROVAL

These financial statements were approved by the Board of Directors on April 24, 2018.

55. SUBSEQUENT EVENTS

At the date of the approval of these consolidated financial statements by the Board of Directors of the Company, there had been no event subsequent to December 31, 2017, reference date of said financial statements, requiring adjustments or changes in the amounts of assets and liabilities, in accordance with IAS 10 - Events after the reporting date.

In January 2018 the Bank carried out a new securitisation in the amount of €2,266,000 thousand, 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.

56. NOTE ADDED FOR TRANSLATION

These financial statements are a free translation of the financial statements originally issued in the Portuguese language. In the event of discrepancies, the Portuguese language version prevails.

SANTANDER TOTTA , SGPS

DEBT SECURITIES ISSUED AT DECEMBER 31, 2017 (NOTE 25)

(Amounts expressed in thousands of Euros – tEuros)

Securities issued	Currency	Amount of the issue: Total	Amount of the issue: Subscribed by the Group	Amount of the issue: Consolidated Balance Sheet	Accruals	Value adjustments of hedging operations	Total Consolidated Balance Sheet	Interest Rate	Issue Date	Maturity Date	Index
Bonds issued											
Popular 425 Europa Low-Vol	EUR	1,072	-	1,072	29	-	1,101	4.25%	May 13, 2016	May 16, 2019	Basket of stocks
		1,072	**-**	**1,072**	**29**	**-**	**1,101**				
Covered bonds											
Hipotecária XIII - 1ª	EUR	750,000	-	750,000	(2,695)	-	747,305	1.63%	June 11, 2014	June 11, 2019	Fixed Rate
Hipotecária XIV	EUR	750,000	750,000	-	-	-	-	0.75%	March 4, 2015	March 4, 2022	Fixed Rate
Hipotecária XV	EUR	750,000	-	750,000	467	-	750,467	0.88%	October 27, 2015	October 27, 2020	Fixed Rate
Hipotecária XVI	EUR	200,000	200,000	-	-	-	-	0.84%	February 24, 2016	February 24, 2022	Fixed Rate
Hipotecária XVII	EUR	750,000	750,000	-	-	-	-	0.90%	April 15, 2016	April 15, 2023	Fixed Rate
Hipotecária XVIII	EUR	750,000	750,000	-		-	-	0.65%	July 26, 2016	July 26, 2023	Fixed Rate
Hipotecárias XX - 1ª	EUR	750,000	750,000	-		-	-	1.20%	December 7, 2017	December 7, 2027	Fixed Rate
Hipotecárias XXI	EUR	1,000,000	1,000,000	-		-	-	1.48%	April 10, 2017	April 10, 2027	Fixed Rate
Hipotecárias XXII	EUR	1,000,000	-	1,000,000	(3,753)	-	996,247	0.88%	April 25, 2017	April 25, 2024	Fixed Rate
Hipotecárias XXIII	EUR	1,000,000	-	1,000,000	(8,156)	-	991,844	1.25%	September 26, 2017	September 26, 2027	Fixed Rate
		7,700,000	**4,200,000**	**3,500,000**	**(14,137)**	**-**	**3,485,863**				
Bonds issued on securitization operations											
Hipotota 4 - Classe A - Notes	EUR	629,550	404,147	225,402	(583)	-	224,819	Floating	December 9, 2005	December 30, 2048	Euribor 3m+0.12% (until early reimbursement in December 2014); Euribor 3m+0.24% (after early reimbursement date)
Hipotota 4 - Classe B - Notes	EUR	22,903	22,903	-	-	-	-	Floating	December 9, 2005	December 30, 2048	Euribor 3m+0.19% (until early reimbursement in December 2014); Euribor 3m+0.40% (after early reimbursement date)
Hipotota 4 - Classe C - Notes	EUR	72,334	72,334	-	1	-	1	Floating	December 9, 2005	December 30, 2048	Euribor 3m+0.29% (until early reimbursement in December 2014); Euribor 3m+0.58% (after early reimbursement date)
Hipotota 4 - Classe D - Notes	EUR	14,000	14,000	-	-	-	-	Floating	December 9, 2005	December 30, 2048	Residual return generated by securitized portfolio
Hipotota 5 - Classe A2 - Notes	EUR	578,637	399,680	178,957	(223)	-	178,734	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.13% (until early reimbursement in February 2014); Euribor 3m+0.26% (after early reimbursement date)
Hipotota 5 - Classe B - Notes	EUR	26,000	26,000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.17% (until early reimbursement in February 2014); Euribor 3m+0.34% (after early reimbursement date)
Hipotota 5 - Classe C - Notes	EUR	24,000	24,000	-	-	-	-	Floating	March 16, 2007	February 28, 2060	Euribor 3m+0.24% (until early reimbursement in February 2014); Euribor 3m+0.48% (after early reimbursement date)
Hipotota 5 - Classe D - Notes	EUR	26,000	26,000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+0.50% (until early reimbursement in February 2014); Euribor 3m+1.00% (after early reimbursement date)
Hipotota 5 - Classe E - Notes	EUR	31,000	31,000	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Euribor 3m+1.75% (until early reimbursement in February 2014); Euribor 3m+3.50% (after early reimbursement date)
Hipotota 5 - Classe F - Notes	EUR	6,856	6,856	-	-	-	-	Floating	March 22, 2007	February 28, 2060	Residual return generated by securitized portfolio

SANTANDER TOTTA , SGPS

DEBT SECURITIES ISSUED AT DECEMBER 31, 2017 (NOTE 25)

(Amounts expressed in thousands of Euros – tEuros)

Securities issued	Currency	Amount of the issue			Accruals	Value adjustments of hedging operations	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	28,602	4,688	23,914	11	-	23,925	Floating	February 13, 2003	January 17, 2036	Euribor 3m+0.54%;
Atlantes Mortgage PLC - classe B	EUR	22,500	-	22,500	46	-	22,546	Floating	February 13, 2003	January 17, 2036	Euribor 3m+1.30%;
Atlantes Mortgage PLC - classe C	EUR	12,500	-	12,500	60	-	12,560	Floating	February 13, 2003	January 17, 2036	Euribor 3m+2.60%;
Atlantes Mortgage PLC - classe D	EUR	2,500	-	2,500	23	-	2,523	Floating	February 13, 2003	January 17, 2036	Euribor 3m+4.75%;
Atlantes MTG n1 CL E 2036	EUR	15,400	15,400	-	-	-	-	Floating	February 13, 2003	January 17, 2036	Residual return generated by securitized portfolio
Azor Mortgage PLC classe A	EUR	6,747	1,387	5,360	-	-	5,360	Floating	November 25, 2004	September 20, 2047	Euribor 3m + 0.30%
Azor Mortgage PLC classe B	EUR	19,000	500	18,500	-	-	18,500	Floating	November 25, 2004	September 20, 2047	Euribor 3m + 0.76%
Azor Mortgage PLC classe C	EUR	9,000	2,500	6,500	1	-	6,501	Floating	November 25, 2004	September 20, 2047	Euribor 3m + 1.75%
Azor Mortgage PLC classe D	EUR	10,000	10,000	-	-	-	-	Floating	November 25, 2004	September 20, 2047	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 2 - A	EUR	144,679	-	144,679	(19,032)	-	125,647	Floating	March 5, 2008	September 18, 2060	Euribor 3m + 0.33%
Atlantes Mortgage PLC serie 2 - B	EUR	13,817	13,817	-	-	-	-	Floating	March 5, 2008	September 18, 2060	Euribor 3m + 0.95%
Atlantes Mortgage PLC serie 2 - C	EUR	5,632	5,632	-	-	-	-	Floating	March 5, 2008	September 18, 2060	Euribor 3m + 1.65%
Atlantes Mortgage PLC serie 2 - D	EUR	16,125	16,125	-	-	-	-	Floating	March 5, 2008	September 18, 2060	Residual return generated by securitized portfolio
Azor Mortgage PLC serie 2 - A	EUR	114,870	114,870	-	-	-	-	Floating	July 24, 2008	December 14, 2065	Euribor 3m + 0.30%
Azor Mortgage PLC serie 2 - B	EUR	43,080	43,080	-	-	-	-	Floating	July 24, 2008	December 14, 2065	Euribor 3m + 0.8%
Azor Mortgage PLC serie 2 - C	EUR	6,750	6,750	-	-	-	-	Floating	July 24, 2008	December 14, 2065	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 3 - A	EUR	247,747	77,214	170,533	(13,396)	-	157,137	Floating	October 30, 2008	August 20, 2061	Euribor 3m + 0.20%
Atlantes Mortgage PLC serie 3 - B	EUR	34,221	34,221	-	-	-	-	Floating	October 30, 2008	August 20, 2061	Euribor 3m + 0.50%
Atlantes Mortgage PLC serie 3 - C	EUR	57,668	57,668	-	-	-	-	Floating	October 30, 2008	August 20, 2061	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 4 - A	EUR	282,811	-	282,811	(38,444)	-	244,367	Floating	February 16, 2009	December 30, 2064	Euribor 3m + 0.15%
Atlantes Mortgage PLC serie 4 - B	EUR	31,145	31,145	-	-	-	-	Floating	February 16, 2009	December 30, 2064	Euribor 3m + 0.30%
Atlantes Mortgage PLC serie 4 - C	EUR	74,250	74,250	-	-	-	-	Floating	February 16, 2009	December 30, 2064	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 5 - A	EUR	232,370	232,370	-	-	-	-	Floating	December 21, 2009	November 23, 2068	Euribor 3m + 0.15%
Atlantes Mortgage PLC serie 5 - B	EUR	41,174	41,174	-	-	-	-	Floating	December 21, 2009	November 23, 2068	Euribor 3m + 0.30%
Atlantes Mortgage PLC serie 5 - C	EUR	66,250	66,250	-	-	-	-	Floating	December 21, 2009	November 23, 2068	Residual return generated by securitized portfolio
Atlantes Mortgage PLC serie 7 - A	EUR	181,834	181,834	-	-	-	-	Floating	November 19, 2010	August 23, 2066	Euribor 3m + 0.15%
Atlantes Mortgage PLC serie 7 - B	EUR	33,790	33,790	-	-	-	-	Floating	November 19, 2010	August 23, 2066	Euribor 3m + 0.30%
Atlantes Mortgage PLC serie 7 - C	EUR	63,550	63,550	-	-	-	-	Floating	November 19, 2010	August 23, 2066	Residual return generated by securitized portfolio
		3,249,292	**2,155,135**	**1,094,157**	**(71,536)**	**-**	**1,022,621**				
Other											
Banif Sénior Tx Fixa 2015/2018	USD	25,015	-	25,015	222	-	25,237	2.50%	February 26, 2015	February 26, 2018	Fixed Rate
Euro medium Term Note-37ª	EUR	212	-	212	1	-	213	0.75%	August 9, 2016	August 9, 2019	Fixed Rate
Euro medium Term Note-38ª	EUR	517	-	517	1	-	518	0.75%	September 29, 2016	September 29, 2019	Fixed Rate
		25,744	**-**	**25,744**	**224**	**-**	**25,968**				
		10,976,108	**6,355,135**	**4,620,973**	**(85,420)**	**-**	**4,535,553**				

SANTANDER TOTTA - SGPS, S.A.

SUBORDINATED LIABILITIES AT DECEMBER 31, 2017 (NOTE 25)

(Amounts expressed in thousands of Euros – tEuros)

		Amount of the issue			Accrual			Total			
Securities issued	Currency	Total	Subscribed by the Group	Consolidated Balance Sheet	Total	Subscribed by the Group	Consolidated Balance Sheet	Consolidated Balance Sheet	Interest Rate	Maturity date	Early repayment as from:
- Subordinated Perpetual Bonds Totta 2000	EUR	270,447	270,447	-	109	109	-	-	2.14%	Perpetual	June 22, 2010
- Subordinated Perpetual Bonds BSP 2001	EUR	13,818	13,818	-	73	73	-	-	1.48%	Perpetual	February 23, 2011
- Obrigações Perpétuas Subordinadas CPP 2001	EUR	4,275	4,275	-	23	23	-	-	1.48%	Perpetual	February 23, 2011
- Obrigações Banco Santander Totta,SA 7,5% 06/10/2026	EUR	7,599	-	7,599	136	-	136	7,735	7.50%	Perpetual	06-Oct-26
		296,139	**288,540**	**7,599**	**341**	**205**	**136**	**7,735**			

Statutory Audit Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Santander Totta, SGPS, S.A. (the "Group"), which comprise the consolidated balance sheet as at 31 December 2017 (which shows total assets of Euro 53.168.990 thousand and total shareholders' equity of Euro 4.032.232 thousand including a net profit of Euro 436.337 thousand), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Santander Totta, SGPS, S.A. as at 31 December 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis

On 20 December 2015, the Board of Directors of Bank of Portugal ("BdP") deliberated to approve, under articles 145º-M and following and 145º-S and following, of the Regime Geral das Instituições de Crédito e Sociedades Financeiras ("RGICSF"), the application of a resolution measure in the form of partial sale of activity, transferring to Bank Santander Totta, S.A. ("Bank") all rights and obligations related with assets, liabilities, off-balance elements and assets under management of Banif – Banco Internacional do Funchal, SA("Banif"), identified in annex 3 of referred resolution ("transaction"). For the preparation of the consolidated financial statements of the Group on 31 December 2017, the Board of Directors took in consideration the above mentioned resolution, as well as the understandings and additional information, which were communicated by Bank of Portugal and reflected on their deliberation on 4 January 2017. In this respect, as mentioned in Notes 1.3 n) and 18 of the Annex to

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the consolidated financial statements, the Group did not recognize in its consolidated financial statements the deferred tax asset relating to tax losses of Banif transferred to the Bank by virtue of the fact that up to this date the conditions necessary for the recognition of this asset have not been fully assured.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	***Summary of the Audit Approach***
Impairment losses on loans and other accounts receivable	
Measurement and disclosures related to impairment losses on loans and other accounts receivable presented in the annex notes 1.3 c), 2, 11, 26 and 51 of the consolidated financial statements The significant amounts of loans and other accounts receivable, as well as the impairment losses, which calculation requires the application of a set of complex assumptions and judgments on the part of the Bank's Management regarding the identification of both the moment of recognition and the corresponding amount, justify that it has constituted a relevant matter for the purposes of our audit. On 31 December 2017, the gross amount of these items amounted to Euro 41.387.044 thousand and the impairment losses, recorded at that date amounted to Euro 1.740.865 thousand. Impairment losses are determined by the Group's management on an individual basis, through an individual analysis of a significant part of the total loan portfolio and other accounts receivable. For the remaining portfolio, impairment is determined through collective analysis. This process is summarized as follows: • For the corporate credit segment, the Group develops a process of individual analysis of clients that present more significant exposure, assessed in terms of the amount of their liabilities, the existence of signs of default and their risk classification under	The audit procedures we developed include the understanding and review of processes and controls established by the Bank for approval, registration and monitoring of loans and advances to customers and other receivables, as well as the evaluation of methodologies, data and assumptions adopted by management in calculating the corresponding impairment losses. These procedures included, among others, detailed testing of key controls and credit risk management procedures by the Bank, with particular emphasis on underlying internal controls in a timely identification, recording and correct measurement of impairment losses. In this context, we have tested the design and operational effectiveness of key controls instituted by the Bank to identify clients with signs of impairment or in default and to determine the corresponding impairment losses. The key procedures and controls tested include those related to: (i) timely identification of customers with signs of impairment or in default; (ii) the conversion of data from the basic IT systems to the models for calculating impairment and results from these for the Bank's consolidated financial statements; (iii) the actual recalculation of the model of impairment defined by the Bank, including inputs and assumptions of management; (iv) the estimate of the recoverable value of the collaterals; and (v) the internal governance associated with the process of calculating and approving impairment losses.

Key Audit Matter	*Summary of the Audit Approach*
the terms established by the Bank. In these cases, impairment is determined through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimate of cash flows that may in the future be generated by the client for the fulfillment of the responsibilities; (ii) the valuation of the collateral received for the credit concession, whenever anticipation of its recovery through the delivery / execution of these collaterals. • For the remaining segments of the loan portfolio, and for exposures not covered by the individual analysis, the Group developed and applied a collective analysis model to determine impairment losses. When a group of financial assets is valued on a collective basis, the future cash flows of that group are estimated based on the contractual flows of these assets and the historical data related to losses on assets with similar credit risk characteristics. Whenever the Group deems it necessary, historical information is updated based on observable current data, so that it reflects the effects of current conditions. • For credits that default occurred before the end of the year, but not yet identified by the Group ("incurred but not reported"), impairment losses are recognized using models based on probabilities of default and loss, considering an emergent period (6 months in the case of the Group) between the date of occurrence of the default event and its identification under analysis. With the entry into force of IFRS 9 - Financial instruments, for the years beginning on or after 1 January 2018, the Group initiated during 2017 a detailed plan for the implementation of this new standard, bearing in mind that the new rules are applicable retrospectively as of that date, although their comparative balances are not restated. The implementation of IFRS 9 introduces a set of new requirements and it is expected that most of its impacts will be derived from the measurement and recognition of impairment of financial assets to be determined through an expected loss model to the detriment of the model of incurred losses underlying the IAS 39.	Additionally, on a sample basis, we analyzed a number of clients (including some that were not identified by Management as having signs of impairment and / or being in default), with the objective of obtaining our own judgment on the existence of evidence regarding impairment losses, and to assess how impairment losses were identified and recognized by management in a timely manner. Regarding the clients individually analyzed by the Group, for a representative sample of the customer loan portfolio as of 31 December 2017, the procedures developed consist of: (i) reviewing the documentation associated with the credit concession process; (ii) analyze the contractual support and the most relevant collaterals, and confirm the registration of these collaterals in favor of the Group; (iii) question the evaluations of collateral that were available; (iv) assess the evolution of exposures; and (v) understand the views of Group managers regarding the economic and financial situation of the clients and the predictability of expected cash flows of the clients' business, as well as the prospects of collectability of credits. Whenever we conclude from the need to review some input or assumption used by Management, we proceeded to a new calculation of the amount of impairment and compared the results in order to assess the existence of any discrepancies. For the portfolio whose impairment is assessed through the collective analysis model, we tested a sample of inputs from the model implemented by the Group and evaluated the calculation methodology itself. To this end, we have developed a set of specific procedures to evaluate how the assumptions considered by management include all of the risk variables by comparison to the performance history and recoveries of the Group's loan portfolio, macroeconomic conditions to which each client is exposed. In this context, we have developed the following procedures: (i) to assess the information contained in the loan portfolio 31 December 2017 and the historical data considered in the model; (ii) review and test the segmentation and classification of the credits as to the existence of signs of impairment or non-compliance; (iii) review and test the risk parameters used in the calculation of impairment, estimated by the Group for each segment; (iv) analyze the main assumptions and sources of information used in future recoveries incorporated in the determination of the risk

Key Audit Matter	*Summary of the Audit Approach*
	parameters (by sampling); (v) review and test the historical recoveries incorporated in the determination of the risk parameters (by sampling); and (vi) review and analyze if the results of calibration tests performed by the Group are adequate. With regard to the implementation of IFRS 9 - Financial instruments, we have followed and challenged the Group's action plan, with a focus on measuring and recognizing credit impairment. In this sense, we have developed, among others, the following procedures: • Regular meetings with Management and with those responsible for the implementation plan to understand and monitor the timing, scope and depth of the work planned and the progress already achieved; • Understanding the areas where a greater impact from implementation will be expected on 1 January 2018, bearing in mind the accumulated knowledge we have of the Group's activities and practices; • Reading and analyzing the methodological documents for adoption of IFRS 9 prepared by the Group, its adherence to the principles of said standard and preliminary assessment of the estimated impacts. Our auditing procedures also included a review of the disclosures on impairment of customer credit and other receivables as well as on the implementation of IFRS 9 in the explanatory notes, taking into account the applicable accounting standards.
Provisions and contingent liabilities	
Measurement and disclosures related to provisions and contingent liabilities presented in the annex notes 1.3 l), 2 and 26 of the consolidated financial statements On 31 December 2017, the balance of Provisions amounted to Euro 178.273 thousand, and is intended to cover liabilities, in particular to the post-employment benefits specific to some members of the Group's Board of Directors, restructuring plans, tax contingencies, legal proceedings in progress and other specific risks arising from the Group 's activities, as well as situations associated with the acquisition of a significant part of Banif's activity in 2015.	The audit procedures for this matter included the understanding and evaluation of the processes and key controls established by the Group with regard to the approval, registration and monitoring of these matters, as well as the assessment of the methodologies, data and assumptions adopted by the Administration in the assessment and quantification of contingencies and in the eventual recognition of provisions. In this context, we have tested the design and operational effectiveness of key controls established by the Group to enable proper identification, evaluation, provisioning and disclosure of these matters. In view of the relevance of the judgments required of Management, we examined in detail the

Key Audit Matter	*Summary of the Audit Approach*
The determination of these provisions implies that the Group 's Management has to make complex estimates and judgments about the likelihood of materialization and quantification of the amounts of liabilities that may result from the litigation and contingencies to which the Group is a party and to that extent this was a matter considered relevant for the purposes of our audit.	ongoing litigation. In that respect we have confirmed the existence of the litigation and its processual status with the Group's external lawyers, we reviewed the most significant provisions and, where necessary, sought additional audit evidence when deemed necessary. We appreciated the Group's assessment of the nature and status of existing litigation proceedings and the corresponding provisions, where applicable, and discussed with the Group's legal counsel the bases and grounds for setting the most significant provisions. For some of these situations, we have also confirmed the information gathered with the Group's external counsel who accompany each case. We have also analyzed the information available on the developments that occurred after 31 December 2017 on the most relevant litigation. Our audit procedures have also included the revision of the disclosures on provisions and contingent liabilities in the explanatory notes, taking into account the applicable accounting standards.
Financing of the Resolution Fund	
Disclosures related to the Resolution Fund presented in the annex notes 43 and 53 to the consolidated financial statements The resolution measures applied in 2014 to Banco Espírito Santo, SA (process that led to the creation of Novo Banco, S.A. ("Novo Banco") and in 2015, regarding to Banif, created uncertainties related to the possible insufficiency of resources of the Resolution Fund ("Fund") in order to ensure the fulfillment of its responsibilities, in particular the short-term repayment of the financing it has contracted for this purpose. These uncertainties have become more relevant due to the litigation arising from these resolution measures and the recent developments associated with the process of selling Novo Banco to the Lone Star Fund, namely the contingent capitalization mechanism associated with the sale operation, under which the Resolution Fund, as a shareholder of Novo Banco, may be called upon to make capital injections in the event of certain cumulative conditions, related to: (i) the performance of a restricted set of assets of Novo Banco; and (ii) the evolution of its capitalization levels.	The audit procedures include: • Understanding and reviewing the contributions that may be required from participating banks, in light of Decree-Law no. 24/2013, of 19 February, and the clarifications provided by the entities involved; • Consideration of the impact of the restructuring of the financing granted by the Portuguese State and the participating banks to the Resolution Fund, specifically in the debt service by the Resolution Fund, considering for this purpose the significant extension of the maturity periods established in restructuring; • Analysis of the various public announcements made by the Resolution Fund and the Office of the Minister of Finance related to the Resolution Fund and the resolution measures, as well as the process of selling Novo Banco; • Analysis of the evolution of the Group's exposures to the Resolution Fund as well as an understanding of the Group's views on the Fund's economic and financial situation and the predictability of expected cash flows from its regular revenues; and

Key Audit Matter	*Summary of the Audit Approach*
At the beginning of 2017, the Resolution Fund publicly communicated the contractual review of the financing it contracted with the Portuguese State and the participating banks to adjust and match the terms and conditions associated with such financing, in particular the extension of the repayment term, to ability of the Resolution Fund to fully meet its obligations on the basis of its regular revenues, i.e. without charge, to the banks participating in the Resolution Fund, of special contributions or any other extraordinary contribution. The evaluation of this capacity and consequently of the risk of impairment of the Group's financing to the Fund was based on a set of assumptions and estimates whose future evolution requires continuous monitoring. In the context of the review of financing contracted with the Portuguese State and the participating banks, the *pari passu* treatment of the Resolution Fund's obligations arising from these loans was also ensured. In March 2018, Novo Banco informed that the contingent capital mechanism associated with the sale transaction to the Lone Star Fund was activated, which implies an injection by the Resolution Fund of Euro 791.7 million, in order to ensure that Novo Banco remains adequately capitalized. Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by a banking syndicate in which the Group is included, and the public notices made by the Resolution and by the Office of the Minister of Finance which state that this possibility will not be used, the consolidated financial statements as of 31 December 2017 reflect Management's expectation that no special contributions or any other extraordinary contributions will be required from the Group to finance the resolution measures applied to BES and Banif, as well as the contingent capitalization mechanism associated with the sale of Novo Banco to the Lone Star Fund. In these circumstances, the possibility that banks participating in the Resolution Fund will be called upon to make extraordinary contributions to the Fund is a concern for the Group and for the banking sector in general, and to that extent the future evolution of this issue requires close monitoring on our part so	• Holding meetings with the Group's Management to monitor available information on (i) the outcome of legal actions in progress related to said resolution measures; and (ii) the contingent capitalization mechanism associated with the sale of Novo Banco to the Lone Star Fund and the liabilities assumed by the Resolution Fund under this transaction. Our audit procedures also included the review of the disclosures on provisions and contingent liabilities, specifically on the financing of the Resolution Fund, included in the explanatory notes, taking into account the applicable accounting standards.

Key Audit Matter	*Summary of the Audit Approach*
that this was a material considered relevant for the purposes of our audit.	
Employees' post-employment benefits	
Measurement and disclosures related to employees' post-employment benefits presented in annex notes 1.3 m), 2 and 47 of the consolidated financial statements On 31 December 2017, the Group's liabilities related with employees' post-employment benefits plan amounted to Euro 1.313.225 thousand, mainly covering pension and retirement benefits, health care and death benefits, among others in the Acordo Coletivo de Trabalho ("ACT") for the banking sector. These liabilities are estimated based on actuarial valuations performed by an external actuary certified by the Autoridade de Supervisão de Seguros e Fundos de Pensões ("ASF"). These evaluations incorporate a set of financial and actuarial assumptions, namely the discount rate, inflation rate, mortality tables, pension and wages growth rates, among others, which correspond to the characteristics of the employees' benefits, and current and future behavior of these variables. In the specific case of the discount rate used in actuarial studies, it is determined based on the market rates for bonds of entities with high credit risk denominated in the currency in which the benefits will be paid (euros) with maturity similar to the date of expiration regarding the payment of the benefits within the plan. In this context, future changes in the financial and actuarial assumptions used may give rise to material impacts on the net liabilities and assets associated with these benefits, and this issue was considered a relevant matter for the purposes of our audit.	The audit procedures include the identification and appraisal of the processes and key controls established by the Group to ensure the information collected and provided to the independent actuary is correct and complete to calculate the liabilities and financing needs of the plan. In this context, we also tested the key controls instituted by the Group to ensure that the process of assessing the fair value of the fund assets, actuarial assumptions and evaluation is adequate. Our work included meetings with management and the independent actuary in order to identify the methodologies and options considered in the definition of the main financial and actuarial assumptions adopted. In view of the relevance of the judgments required of Management, we proceeded to evaluate the reasonableness of the main assumptions by comparing them with the data that, independently, we were able to obtain. Also in this scope, we review the compliance (i) of information history of employees used for the purposes of calculating responsibilities; (ii) the accounting recognition of plan cuts or settlements, costs related to past services and other changes in assumptions and estimates that occurred during the year; and (iii) the fair value of the fund's assets, calculating it, whenever possible, independently for a sample of assets. Finally, we evaluated the existence of potential new benefits granted to employees that could classify as long-term post-employment benefits. Our audit procedures also included the review of the disclosures on employees' post-employment benefits included in the explanatory notes, taking into account the applicable accounting standards.
Fair value of financial instruments not quoted on an active market	
Measurement and disclosures related to the fair value of financial instruments not quoted on an active market presented in annex notes 1.3 f) and g), 2, 7, 8, 9, 13 and 51 of the consolidated financial statements	The audit procedures include the identification and evaluation of the processes and key controls established by the Group to identify, quantify and monitor market risk, as well as evaluation of the methodologies, data and assumptions used to

Key Audit Matter	*Summary of the Audit Approach*
Due to its relevance in the context of the Group's consolidated financial statements and the associated level of judgment, the fair value measurement of financial instruments not quoted in an active market was a relevant matter for the purposes of our audit. These instruments include securities classified as financial assets held for trading and available for sale, derivatives classified as hedging and trading instruments, assets and liabilities subject to value adjustments for hedge accounting, namely client loan portfolio, deposits and other loans and liabilities represented by securities. On 31 December 2017, the balances in the financial instruments related with levels 2 and 3 of the fair value hierarchy or subject to value adjustments related with hedge accounting amount to Euro 6.684.271 thousand of assets and Euro 5.216.758 thousand of liabilities. When observable market data is not available, fair value determination is made using estimates (levels 2 and 3 of the fair value hierarchy), in particular through the use of discounted cash flow models, which usually involve a high degree of judgment of the Management in the definition of the assumptions and inputs to be used. In addition, the Group recognizes adjustments to own credit risk and counterparties in the measurement of derivatives not fully collateralized ("DVA - Debit Value Adjustments" and "CVA - Credit Value Adjustments"), which are estimated based on projections of potential exposures or on the amount which would be received or paid to settle the contract on the date of analysis, considering the current market conditions, as well as the credit quality of the participants, which is estimated based on quotations published in active markets when available, or, in their absence, calulated internally by the Group through its internal risk rating model. In this context, changes in the assumptions used in the measurement techniques used by Management may give rise to material impacts on the determination of the fair value of the instruments recognized in the consolidated financial statements.	determine fair value. In this context, the processes and key controls tested include (i) the conversion of data from the basic IT systems to the fair value measurement models and their results into the Group's consolidated financial statements; (Ii) recalculation of the fair value measurement models implemented by the Group, including the inputs and assumptions of Management; and (iii) internal governance practices in the approval and fair value determination process. For a sample of instruments whose measurement consisted substantially of unobservable data, our procedures also included the evaluation if the models developed by the Group and the data and assumptions used are adequate, having for that purpose compared the data observable with the information collected from external and independent sources, whenever available. We also evaluated the methodology and data used by Management to determine the adjustments to own credit risk and counterparty risk recorded for the not fully collateralized derivatives operations, and compared the amounts calculated with current market practices also taking into account our experience of the best market practices in this area. Our audit procedures have also included the review of the fair value disclosures of financial instruments not quoted on an active market in the explanatory notes, taking into account the applicable accounting standards.

Key Audit Matter	*Summary of the Audit Approach*
Business acquisition – acquisition and merger of Banco Popular Portugal S.A. ***Measurement and disclosures related to the impact of the acquisition of Banco Popular Portugal S.A. to Banco Popular Español S.A. and subsequent merger with Banco Santander Totta S.A., in annex notes 1.4 and 29 of the consolidated financial statements*** Following the acquisition of Banco Popular Español, SA by Banco Santander, SA, on 7 June 2017, resulting from the application of a resolution measure approved by the Single Resolution Mechanism, the Bank concluded, on 27 December 2017, the acquisition of Banco Popular Portugal SA ("Banco Popular Portugal") to Banco Popular Español SA. Subsequently, and with reference to the same date, the Bank proceeded with the merger by incorporation, under which Banco Popular Portugal was legally incorporated, including all its assets and liabilities. Both operations were, in accounting terms, reflected in the Bank's consolidated financial statements as of 31 December 2017. The purchase price allocation was prepared internally based on the information obtained by the Group's Management up to the date of approval of its consolidated financial statements. Under IFRS 3 - Business combinations, the Bank made a definitive allocation of the purchase price based on the fair value of the assets and liabilities reported at the date of acquisition. The process of allocating the purchase price required a set of judgments, assumptions and estimates from Management and to that extent was a key matter for the purposes of our audit.	The audit procedures we have carried out included: (i) the evaluation and critical analysis of the judgments, assumptions and estimates assumed by the Bank's management in the allocation of the purchase price, as provided for in IFRS 3; (ii) assessing the adequacy of the models used to determine the fair value of assets and liabilities, including the inputs and assumptions used; and (iii) the revision of the main adjustments made to the value of assets acquired and liabilities assumed on 27 December 2017. In this context, we met with the Bank's Management to evaluate the options considered in defining the assumptions relevant to the calculation of the fair value of the assets acquired and liabilities assumed by the Bank and, given the relevance of the judgments required of Management, comparing them with the market information collected from external and independent sources that we were able to obtain. Our audit procedures also included the review of the disclosures on the acquisition and merger of Banco Popular Portugal, S.A., included in the Notes to the financial statements, taking into account the applicable accounting standards.
Risk of insufficient assets to cover contracted liabilities ***Measurement and disclosures related to the risk of insufficient assets to cover contracted liabilities in annex notes 1.3 o), 8, 19, 22 and 51 of the consolidated financial statements*** The mathematical provisions of life insurance presented in the consolidated balance sheet amount to Euro 360.077 thousand and the financial liabilities of the deposit component of insurance contracts and	The audit procedures we carried out include: (i) identification and understanding of the key controls for assessing the adequacy of insurance liabilities, in particular for insurance products with assumed financial guarantees; (ii) verification of the effectiveness of the controls associated with the recognition of mathematical

Key Audit Matter	*Summary of the Audit Approach*
the insurance contracts and operations considered for accounting purposes as investment amounted to Euro 2.451.851 thousand, corresponding to a total of 83% of the liabilities of Santander Totta Seguros - Companhia de Seguros de Vida, SA as of 31 December 2017. The assessment of the adequacy of insurance liabilities inherent to the constitution of mathematical provisions of the life insurance is essentially made based on the projection of the future cash flows associated with each contract. These cash flows include premiums, deaths, maturities, redemptions, cancellations and expenses. This assessment is made product by product or aggregate when the risks of the products are similar or managed together. The curve used to discount the liability is a risk-free interest rate curve. This evaluation involves judgment in relation to the selection of the assumptions underlying the calculation, such as discount rates and redemption rates. The existing risk arises from the possibility of non-satisfaction of the guarantees assumed by the Santander Totta Seguros – Companhia de Seguros de Vida, S.A. for the contracts traded, if the adequate correspondence between assets and liabilities at the level of interest rate and their maturity is not achieved. To that extent, this was a relevant matter for the purposes of our audit. The Group's services periodically carry out benchmarking tests of interest rate commitments and "Asset Liability Management" (ALM) for the various portfolios of insurance contracts. The monitoring carried out did not show the need to establish a provision for rate commitments, in accordance with current accounting standards.	provisions, the provision for interest commitments and financial liabilities of the deposit component of insurance contracts and the insurance contracts and operations considered for accounting purposes as investment contracts; (iii) identification and evaluation of the assumptions used by the Group's services in assessing the adequacy of insurance responsibilities; and (iv) development of independent tests for the portfolios of insurance contracts and investment contracts and comparison of the respective results with those obtained by the Group's services. Our audit procedures also included the review of the disclosures on mathematical provisions of life insurance and the above-mentioned financial liabilities included in the explanatory notes, taking into account the applicable accounting standards.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the consolidated financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

i) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Non-financial information set forth in article No. 508-G of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the entity stated in its Director's report that it will prepare a separate report of the Director's report that will include the non-financial information set forth in article No. 66-B of the Portuguese Company Law, which should be published on its website until the legal deadline.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors of Santander Totta, SGPS, S.A. in the Shareholders' General Meeting of 31 May 2016 for the period from 2016 to 2018.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the consolidated financial statements. Based on the work performed, we have not identified any material misstatement in the consolidated financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of 27 April 2018.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Group in conducting our audit.

27 April 2018

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

Aurélio Adriano Rangel Amado, R.O.C.

ANNUAL REPORT AND OPINION OF THE AUDIT BOARD ON CONSOLIDATED FINANCIAL STATEMENTS

(Free translation from the original in Portuguese)

Year 2017

The present report of the activity developed by the Audit Board in 2017, as well as the Opinion on the management report and other consolidated financial statements for the year ended December 31, 2017 of SANTANDER TOTTA SGPS, SA prepared and presented by the Board of Directors, are issued in compliance with article 420, paragraph 1(g) of the Commercial Companies Code.

ANNUAL REPORT

There were fourteen meetings of the Audit Board in 2017, and seven until the present date in 2018, which were all attended by all its members, and in most of them were also present the Controller, the Heads of Accounting and of Internal Audit and the Statutory Auditors. One meeting was also attended by the Heads of Institutional Affairs and Compliance and of Risk Management Function, as well as the Head of Legal Services. In addition to those meetings, and independently of the work developed by each of the members of the Audit Board regarding the analysis of the available documentation and the follow-up of the financial situation and activity and organizational model of the Group, there were specific contacts whenever required.

The Audit Board attended the Annual General Meeting in which it was analysed and deliberated on the Directors' report, the consolidated financial statements for the year 2016, as well as the meeting of the Board of Directors in which it was analysed and deliberated on the Directors' report, the consolidated financial statements for the year 2017 to be presented for approval by the Annual General Meeting.

The Audit Board met regularly and maintained contacts with the representatives of the Bank's Statutory Auditors (SROC - Sociedade de Revisores Oficiais de Contas) regarding the evolution and results of the audits conducted to the accounts of the Company and its subsidiaries.

In fulfilment of the competences that are legally attributed to it, the Audit Board has developed several activities during the year 2017, of which the following are the most important.

a) The Group's management and business evolution were monitored throughout the year by reading of the minutes of the meetings of Board of Directors, by having access to the quarterly information on activity and results of the Company and its subsidiaries and to other relevant documentation, as well as through the contacts maintained with senior management, having obtained all required clarifications.

b) Within the follow-up of the subsidiaries, the Audit Board of Santander Totta, SGPS kept periodical contacts with the inspection bodies of the dependent entities and attended two meetings of the Audit Board of Banco Santander Totta, SA.

c) Compliance with the applicable legal and statutory rules and instructions issued by the Bank of Portugal were observed, and no non-compliance was detected.

d) Special attencion was given to the Group policies related with the systems of risk management, internal control, internal audit and compliance.

e) The Audit Board analysed the Report on the Internal Control System of the Group, prepared by the Company in 2017, in accordance with Notice 5/2008, dated July 1, of the Bank of Portugal, and implemented the necessary procedures to comply with the requirements set in article 25 of the abovementioned Notice. As a result of the analysis, and considering the work developed by the Internal Audit area and by the Statutory Auditor, the Audit Board issued a detailed opinion on the adequacy and efficiency of the internal control system, in line with the requirements defined in Notice 5/2008 of the Bank of Portugal.

f) In order to evaluate the correctness in the evaluation of the assets and results, the accounting policies and measurement bases used in the preparation of the annual consolidated financial statements were assessed, and the disclosure process was audited.

g) The management report and the consolidated financial statements were analysed and discussed with the Board of Directors and with senior management. The Audit Board is of the opinion that, to its knowledge, the information included in those documents were prepared in accordance with the accounting standards, providing an accurate and appropriate view of the consolidated financial statements and results of the Group.

h) It was also analysed the Corporate Governance Report prepared within the terms set in the Commercial Companies Code, and the Audit Board verified it includes the legal required elements.

i) The fundamental issues associated with the legal certification of the consolidated financial statements were discussed with the representatives of the Statutory Auditors, within the regular follow-up of such process, and the Audit Board considered it was conducted with total independence. The Audit Board reviewed the Additional Report and Legal Certification of Accounts, issued in accordance with applicable law and regulations by the statutory auditor, namely the key audit matters identified as such within the statutory audit process, inherent risks of material distortion and the answer given to them, included in the Legal Certification of Accounts. These documents merited the Board's agreement.

j) The Audit Board, in the year 2017, and within the defined in article 420, paragraph 2(d) of the Commercial Companies Code and in article 3, paragraph 3(e) of Law 148/2015, dated September 9, analysed three processes of audit procedures by the Statutory Auditor, in full destined to its subsidiary Banco Santander Totta, SA, and issued a favourable opinion after verifying that such procedures are not forbidden and that they do not question the independence of the Statutory Auditor.

Within its audit activity, the Board has not encountered any constraints nor has it been reported to it, or observed by it, any irregularities or act detrimental to the interests of the Group, by its shareholders, employees or others.

The Audit Board reiterates the committed collaboration and support from the Board of Directors, the Statutory Auditor and the Group support functions.

OPINION OF THE AUDIT BOARD

In view of the aforementioned, and as a result of the work carried out, the Audit Board considers that the Directors' Annual Report and the consolidated financial statements of SANTANDER TOTTA, SGPS, SA, comprising the Balance Sheet at December 31, 2017, the Income Statement, the Statements of Other Comprehensive Income, the Statements of Changes in Shareholders' and the Statements of Cash-Flows at financial year 2017, as well as the Corporate Governance Report, are in accordance with the legal, accounting and statutory provisions, and are adequate to the assessment of the assets and liabilities and equity of the Group in financial year 2017, as well as of the activity unfolded.

Hence, the Audit Board is of the opinion that the conditions for General Meeting of SANTANDER TOTTA, SGPS, SA to approve the Directors' Report and the Consolidated Financial Statements for the year 2017.

Lisbon, April 27 2018

AUDIT BOARD

President: José Duarte Assunção Dias

Members: Fernando Jorge Marques Vieira

Ricardo Manuel Duarte Vidal Castro